

***Implementing OMB
Circular A-76***

OMB Circular No. A-76

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Preface

The current budgetary environment mandates that the Federal Government make every possible effort to:

- ❑ Maximize the effectiveness of services delivery,
- ❑ Minimize the cost of services, and
- ❑ Free the Government worker to achieve these goals

The President's Fiscal Year 1998 Federal Budget Proposal had only 32% of total outlays allocated to discretionary funding; 15% for Defense, 17% for Other Federal. Only three Departments were recommended for cuts from their FY 1997 budgets: Defense (3.4%), Energy (8%) and Interior (4%). However, the hardest cuts towards a balanced budget are projected for FYs 2000-2002.

The balanced budget agreement follows the general direction of the proposal. It is anticipated in the budget agreement that additional savings can be found in the discretionary budgets to reduce the need to cut mandatory spending. Furthermore, the Defense budget projections are based upon significant savings in operations and management to pay for modernization programs already under way.

The preceding is a polite way of saying that the Federal Government is bankrupt, and short of a war or a depression, total spending will have to be drastically reduced. In DOD, the need for modernization has resulted in an approach to "trade boys for toys."

The response to this fiscal environment requires significant evaluation of missions and performance processes. The Government is heavy with initiatives to reform, downsize and innovate. However, most of these programs require a level of political will and management force that has been hard to muster or sustain.

A safe alternative to large and subjective reform programs is the concept of *managed competition*. This is the concept of using the ever popular market forces to determine the most effective and cost efficient methods to operate missions suitable for commercial or public performance. In the Federal Government, the best tool for *managed competition* is **OMB Circular No. A-76, Performance of Commercial Activities**.

Circular A-76 has been endorsed to some degree by every administration since 1955. The Circular implements the principles of competition between public sector organizations and between the public sector and the private sector. The Circular has a stated policy of reliance on the private sector, when proven to be effective and cost efficient. The underlying market mechanism is that competition enhances quality, economy and productivity. This fact is proven in estimated average cost savings of approximately 30% on reviews completed between 1978 and 1994.

The following implementation process is required:

1. Identify “Commercial Activities (CA)” that are appropriate for competition and “Inherently Governmental Functions” that should be performed only by the Government. A total Government inventory of CA positions is not yet complete, but it is estimated that DOD alone has nearly 640,000 CA positions, **almost** half being uniformed military personnel (source is 1994 inventory figures, not repeated in the 1996 inventory).
2. **Define** the true requirements in terms of outputs/outcome, standards, and workload through development of the Performance Work Statement (**PWS**). Traditionally, we have contracted based on Statements of Work that emphasized inputs and procedures.
3. **Define** the “Most Effective and Efficient Organization (**MEO**)” for Government performance of the PWS requirements. This has traditionally resulted in changes in organizational structure, **staffing** levels and grades, and innovative processes that replaced standardized regulations.
4. Solicit for and evaluate, or estimate, the commercial cost and approaches for **PWS performance**. The A-76 program had focused on the low cost for minimum performance. New rules put more emphasis on quality and price realism.
5. Compare the cost of Government and Commercial performance. The process is simple. The logic that produces the process is filled with compromises to the differences between the Government and commercial accounting systems.
6. Resolve appeals and other questions, and implement the cost comparison decision. The system is designed to hold the performing activity responsible for meeting standards on-time and within budget. The experience has been inconsistent and differs widely between contract and in-house performance.

There is no magic or rocket science required, just good management practices required by numerous other initiatives. As straight forward as these steps appear, they are complicated by the following realities:

- ❑ There is little management or worker incentives to “voluntarily” identify savings and subject yourself to competition, malicious compliance still reigns

- ❑ There is significant incentives to build empires, up-grade positions, and resist all “savings initiatives” for as long as possible
- ❑ The A-76 program is time consuming and expensive to implement
- ❑ Legislation has served as an impediment to competition
- ❑ The A-76 program is too “people” driven and not “process” driven
- ❑ The Government procurement system is still procedural driven and time consuming
- ❑ The differences between Federal and commercial accounting systems still make comparisons difficult in achieving “level playing fields”
- ❑ The review schedules required by some organizations are unrealistic, given current systems
- ❑ The commercial activities selected for review are not packaged in an optimum manner
- ❑ The savings goals are based on old experiences that are not likely in the current environment

The largest single problem is the Government’s continued inability to write true performance based work statements. We continue to hide behind regulations and historical requirements. Many of our regulations were designed to achieve “standardization,” an important war fighting component, but not necessarily required for all support, commercial activities. The result is that we are competing for the low wage payer that complies with questionable regulations. The goal is to compete the technical approaches and innovation to provide performance.

In addition, the contract pricing systems have created problems in the PWS. The Government has realized that it is more cost competitive in Firm-Fixed Price (FFP) requirements, due to the inclusion of costs reflecting the risk of performance to contractors. Given the fact that the Government does not operate in a cost reimbursement program where requirements are negotiated, FFPs do provide a more fair and equitable comparison. As a result, requirements that would normally be procured in a cost type mechanism has been forced into a FFP. This produces significant contract modifications and administrative problems, when a contract is awarded.

Given the potential for savings, the A-76 approach, and the current barriers, managed competition is still a good tool for providing savings. Even with the current rules and systems, A-76 can result in a “win-win’ situation. Competition does assist in bringing innovation to the forefront and identifying antiquated processes and beliefs. The result should be better performance at a lower cost. The following are the keys to achieving the “win-win’ situation:

- ❑ Create an environment where fair and equitable comparisons are achievable (Continue to improve rules, get management support, convince workers and unions this is their best chance to retain at least a large portion of the jobs)
- ❑ Develop true performance based work statements (Use regulations to standardize outputs, not processes)
- ❑ Remove barriers to **efficiencies** inherent in legislation and the personnel, pay, procurement, and **financial** systems

The good news is that there have been some recent improvements through procurement reform, **workforce** restructuring, **GPRA** implementation, and slow acceptance that the old civil service structure is going away. OMB achieved many of the required changes in revising the supplemental handbook in March 1996. The Army has implemented new **A-76** rules designed to make the program less burdensome. The Navy is testing many new initiatives designed to improve **PWSs** and shorten the review times. The Air Force continues to lead the way in large Base Operating Support (**BOS**) contracts that have the most room for efficiencies. DLA is using business case analysis and pre-planning to better implement the program.

Many organizations are also identifying qualified resources to form teams to go from study to study. This assists in providing the required skills and removing some of the implementation requirements from “the people with the most to lose.” However, the use of dedicated teams should never remove local management and personnel from the fact that they are ultimately responsible for the review and implementation of the comparison decision.

This training manual was developed to assist you in learning about the A-76 process, not convert you into a disciple of its methods. We understand that after three days of this material you will ask to be excused because your brain is full (thank you Gary Larson). The extent of the materials is intended for reference later during reviews. Please feel free to call upon any instructor during your experiences with A-76. We will gladly clarify the contents of this manual in exchange for your war stories.

As a student in this A-76 course, you may be called upon to implement the program requirements. We encourage you to do so with open eyes and realistic expectations. Do not worship the process, but use the process to make good management decisions. A bad review is performed in an “us versus them” mentality. A good review defines true requirements and searches for efficient and effective performance. As taxpayers and recipients of Government services, we wish you the best of luck.

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