

SUCCEEDING AT COMPETITION

Guide to Conducting Commercial Activities Studies

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INTRODUCTION

The U.S. Navy is operating in an environment of reduced budgets while being required to maintain high levels of readiness to meet operational commitments. One method to help meet this challenge is to conduct a comparison of the cost of performing commercial activities by government organizations to the cost of performing these services by the private sector. The Office of Management and Budget Circular Number A-76 (Circular A-76) and its related Supplemental Handbook, and OPNAVINST 4860.7B provide guidance and policy for conducting this cost comparison. Although it is not intended to provide policy, *Succeeding at Competition: Guide to Conducting Commercial Activities Studies*, is intended to provide additional guidance to enable A-76 studies to be completed within a 12-month time frame. This guide is intended to be used by both the Commanding Officer and the team conducting the A-76 study.

This guide organizes the A-76 study process into 15 steps and identifies milestones throughout the process. Each step comprises a significant number of actions and issues that must be resolved in a timely manner. To expedite the process some of the critical steps can be conducted simultaneously. However, a significant number of actions involving procurement and contracting issues must be performed consecutively. To complete an A-76 study within the 12-month time frame requires the concentrated effort of dedicated resources and proactive leadership.

During the development of this guide, the Outsourcing Support Office (OSO) conducted a simulated A-76 study to test the

guide and to incorporate the lessons learned from the simulation into the guide. The OSO provided hypothetical data for a transportation maintenance and repair function at a typical naval activity. The guide uses this hypothetical data to illustrate certain critical steps (Steps 1, 2, 5, and 7) and provides illustrative samples of documents developed using the simulation materials. *It is important to note that these simulated deliverables are based on hypothetical data and do not represent the quantity or quality of the analyses or documentation required for an actual A-76 study.*

This guide identifies each significant step and the associated documentation required for assessing, evaluating and implementing the A-76 study. Checklists and templates are provided for each of the major steps in the process to assist the Commanding Officer and his or her management team. Suggestions on data collection, analysis, and overall management of the study effort are included in the guide. Also included is information on addressing the rights of affected employees, communication with affected employees and the possible participation of affected employees in an A-76 study.

EXECUTIVE SUMMARY

The purpose of this document, *Succeeding at Competition: Guide to Conducting Commercial Activity Studies*, is to provide Commanding Officers and Commercial Activity (CA) study teams with tools to assist them in successfully completing the competition for a commercial activity within a 12-month time frame.

The Challenge

The Navy is faced with declining budgets and an increasing share of the available budget going to support, as opposed to acquisition. To maintain the current size of the fleet and to sustain a modernization program into the next century, the Navy must fund acquisitions by reducing operating costs. One way to reduce infrastructure costs is to use the A-76 study process to determine the most efficient means of providing services (i.e., services considered to be commercial activities). The cost comparison and the competition itself compel both the government and industry to become more efficient. Recent studies by the Center for Naval Analysis and the Defense Science Board suggest that cost savings of 30 percent are possible. Consequently, the Navy is actively pursuing cost savings using competition and the A-76 process. Savings that result from this policy will be applied to fleet modernization.

The Chief of Naval Operations (CNO) has directed that the performance of commercial activities involving 80,000 positions—50,000 civilian and 30,000 military—be competed through the A-76 process over the next 5 years. These competitions will result in savings of an estimated \$1.4 billion—

savings that have already been programmed into the Navy's budget cycle.

Commanding Officers face an enormous challenge in conducting A-76 studies, achieving significant savings, and maintaining operations at current or improved levels of performance. All this must be accomplished in light of considerable and understandable resistance from employees affected by the results of the A-76 process. Further, the process itself must be completed within 12 months, which pushes the limits of the contracting process and the personnel assigned to complete the study.

Methodology

The CNO established the Outsourcing Support Office (OSO), not to set policy, but to provide guidance and support to Commanding Officers tasked with performing A-76 studies. The OSO divided the A-76 process into 15 discrete steps and developed a schedule for completing the 15-steps within a 12-month time frame. The A-76 timeline is illustrated in Exhibit 1. Exhibit 2 illustrates the A-76 Study Milestones. Exhibit 3, The Process, provides the Commanding Officer with a one-page overview that highlights the major issues associated with each step of the process.

The OSO has developed this guide in cooperation with a team experienced in A-76 studies, contracting, specific functional backgrounds, and command. The team developed a working draft of the guide, tested the guide in a simulation of the A-76 process, and issued this guide as a “living” document. As more lessons are learned

through conducting actual A-76 studies, this guide will be updated.

Step 1 provides guidance on how to develop a plan—the Action Plan—for conducting the A-76 study. Step 2 is one of the two critical steps in the 15-step process (Step 7 is the other critical step). Step 2 is the development of the Performance Work Statement (PWS) and Quality Assurance Surveillance Plan (QASP). The PWS describes the work to be performed, including results or outputs. Contractors and the government in-house organization will develop their respective offers to perform the work requirements during the course of the A-76 study based on the PWS. The QASP describes procedures the government will use to ensure that the actual performance of a successful contractor's proposal meets the requirements of the Performance Work Statement, if a contractor is selected to perform the work as a result of the cost comparison. Similarly, the QASP also forms the basis for the Post-Most Efficient Organization Performance Review, which is an evaluation of the in-house organization's performance if it is selected to perform the work as a result of the cost comparison.

Steps 3 and 4 involve review and approval of the PWS and QASP. Step 5 identifies methods of conducting interaction with private industry and potential offerors in preparation for issuance of a solicitation for performance of the commercial activity. Step 6 covers the issuance of the solicitation. Step 7 is the other critical step in the process and involves the development of the Management Plan. The Management Plan is the in-house organization's proposal for how it will perform the commercial activity. It describes how the current organization will be structured (or restructured), staffed and

the operating procedures to be followed in performing the requirements of the PWS.

CO Tip: It is important for the Commanding Officer to be mindful throughout the process that documents related to the government's proposal—the Management Plan—should be considered procurement sensitive information until the announcement of the tentative decision.

Step 8 is industry's preparation of offers in response to the solicitation issued in Step 6 and the government's receipt and handling of these offers. An independent review of the government Management Plan takes place in Step 9. The purpose of this review is to certify that the in-house organization's performance and cost comparison estimates have been prepared in accordance with the requirements of Circular A-76 and the Supplemental Handbook. The goal of the review is assure equity in the process of comparing the in-house organization's offer to the private industry offer. The independent review must be completed before the private industry offers are opened.

CO Tip: Throughout this guide there are references to the "contracting officer" performing certain actions or fulfilling certain roles. Depending on the organization and the particular situation, these actions may be performed by a contracting officer or by a representative of the contracts organization. The local contracts organization can provide guidance in determining the appropriate contracting representative to perform a particular action or fulfill a particular role.

Steps 10 through 13 involve those actions necessary to evaluate the contractor proposals and determine the "winning" contractor offer which will be compared to the in-house offer. The process of comparing the government offer with the private industry offer is conducted in Step 14. In Step 14, if the source selection authority (SSA) determines that the government proposal will not offer the same

level of performance as the contractor offer, the government proposal is revised and the cost is recalculated. The purpose of this provision is to ensure that when the government and contractor cost proposals are compared, the respective cost estimates reflect the same level of work.

CO Tip: If the SSA determines that the Management Plan must be revised (Step 14), the SSA and contracting officer should consult with legal counsel to ensure that FAR restrictions on disclosure of information in contractor offers are not violated (e.g., FAR 3.104). This meeting must take place *before* the CA team is notified of the revisions to be made to the Management Plan.

The A-76 process described in this guide concludes with the announcement of the tentative decision in Step 15.

CO Tip: Choosing whom will perform the role of source selection authority will have an important impact on the conduct of the A-76 study. The A-76 Supplemental Handbook provides that the SSA should not review or have access to the in-house cost estimate (the in-house organization's cost proposal). Therefore, if the Commanding Officer wishes to perform the role of source selection authority, the Commanding Officer should not participate in any element of the development or review of the in-house cost estimate. Conversely, if the Commanding Officer

CO Tip continued: participates in the development or review of the in-house cost estimate, then the Commanding Officer cannot perform the role of source selection authority. In either case, however, it should be noted that the Commanding Officer plays a major role in the A-76 study process.

Appendix A contains a discussion of streamlined cost comparison procedures for situations in which a full cost comparison may not be required. Appendix B contains a combined glossary of terms and a list of acronyms used in this guide. Appendix C is a table of contract types describing situations in which each type may be appropriate. Appendix D is a diagram showing the critical path of the 15-step timeline. The purpose of this diagram is to display the dependencies and interrelationships of the 15 steps. Appendix E contains information on the Outsourcing Support Office.

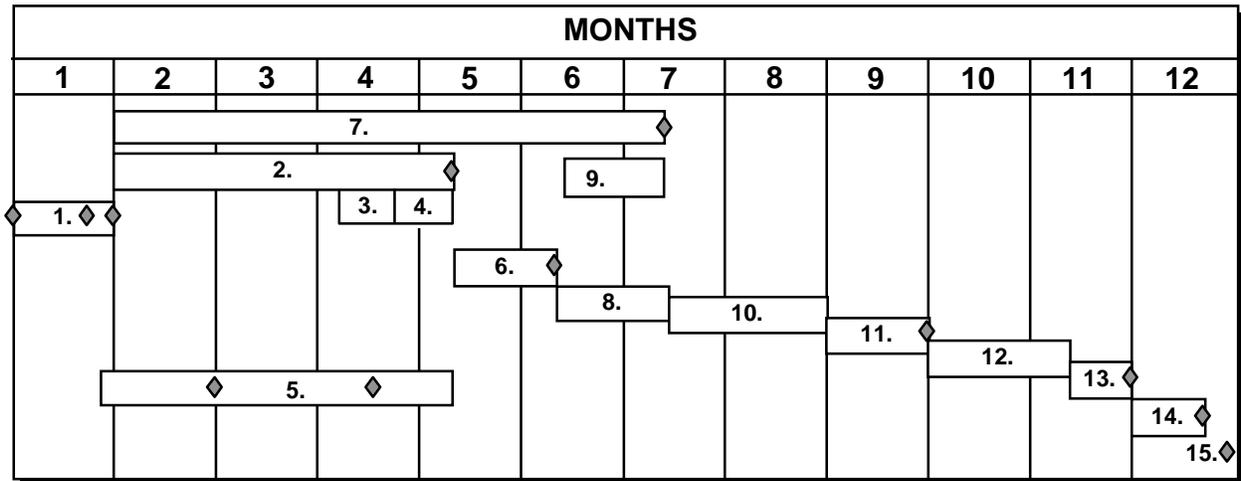
CO Tip: The Commanding Officer's leadership throughout the entire process directly affects the quality of the tentative decision announced in Step 15. By taking ownership of the process from Step 1, the Commanding Officer leads the CA team to a tentative decision that is based on merit and fairness.

Conclusions and Recommendations

1. The A-76 study process is a competition to provide services between the existing government workforce and private industry. The process is designed to allow a fair and equitable comparison of the government and contractor offers. The offeror that provides the best value to the government will ultimately prevail.
2. This guide organizes the A-76 study process into 15 steps to assist in completing the study within a 12-month time frame. Careful monitoring of the schedule established during the planning

- of the study (Step 1) by the Commanding Officer and the CA team leader is *essential* for the timely completion of the study.
3. The 12-month, A-76 timeline begins upon the announcement of the study, and ends with the announcement of the tentative decision resulting from the comparison of the government and contractor offers.
 4. Completing the A-76 study in a 12-month period is challenging. To be successful, the CA team will need the active support of the Commanding Officer and the command's senior management.
 5. The Commanding Officer is the "owner" of the A-76 study process. The decisions made regarding functional descriptions, service level expectations, quality assurance methods and choice of contract type will have a direct impact on the success of the effort.
 6. The complexity of the contracting process may cause delays in the timely completion of the A-76 study. Recent initiatives in acquisition reform and best value contracting may be useful in minimizing these delays. The contracting officer should be consulted to determine how these initiatives and reforms may be incorporated into the A-76 study. The process also entails many complex legal issues. This guide suggests appropriate times that legal counsel should be involved. However, legal counsel should be consulted early in the process to determine the appropriate timing and level of their participation.
 7. Under certain circumstances a waiver from the requirement to conduct a cost comparison may be available. Under the waiver provision in the A-76 Supplemental Handbook, a designated official may authorize a cost comparison waiver and/or the direct conversion to or from in-house, contract or interservice support agreement (ISSA) performance. However, the waiver provision is beyond the scope of this guide.
- Incorporated within the 15 steps are 10 major milestone events that should be monitored by the Commanding Officer and the CA team to ensure the A-76 study is completed on time. Exhibits 1 and 2 present a graphical overview of the 12-month timeline and these major milestones.

Exhibit 1. A-76 Timeline



◆ Major Milestone Event

DESCRIPTION OF STEPS ON THE A-76 TIMELINE	
Step 1: Plan for Commercial Activities Study	Step 9: Perform Independent Review
Step 2: Develop PWS and QASP	Step 10: Evaluate Proposals
Step 3: Review and Revise PWS and QASP	Step 11: Obtain Prenegotiation Clearance Approval
Step 4: Obtain High Level Approval of PWS and QASP	Step 12: Conduct Discussions with Offerors
Step 5: Conduct Presolicitation Actions	Step 13: Obtain Final Clearance Approval for Selecting Best Value Contractor Proposal
Step 6: Prepare and Issue Solicitation	Step 14: Compare Government and Contractor Proposals
Step 7: Develop the Management Plan	Step 15: Announce Tentative Decision
Step 8: Respond to Solicitation	

Exhibit 2. A-76 Study Milestones

MAJOR MILESTONE EVENT		OCCURS DURING	DUE NO LATER THAN THE END OF MONTH
1a.	Receive CNO announcement of A-76 study.	Step 1	--
1b.	Conduct business unit definition.	Step 1	1
1c.	Complete Action Plan.	Step 1	1
2.	Complete Performance Work Statement (PWS) and Quality Assurance Surveillance Plan (QASP).	Step 2	4.5
3.	Issue <i>Commerce Business Daily</i> (CBD) announcement for presolicitation meeting.	Step 5	2
4.	Issue <i>Commerce Business Daily</i> (CBD) announcement for issuance of solicitation.	Step 5	3.5
5.	Issue solicitation.	Step 6	5.5
6.	Complete the Management Plan (consisting of the Most Efficient Organization (MEO) document, Technical, Performance Plan (TPP), Transition Plan (TP), and In-House Cost Estimate (IHCE).	Step 7	6.5
7.	Issue Prenegotiation Clearance Memorandum (if necessary).	Step 11	9
8.	Issue Final Clearance Approval Memorandum (if necessary).	Step 13	11
9.	Complete Cost Comparison Form (CCF).	Step 14	12
10.	Announce tentative decision	Step 15	12

Exhibit 3. "The Process"

