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GUIDE FOR INDEPENDENT REVIEW OF
COMMERCIAL ACTIVITY STUDIES
(PREPARED UNDER OMB CIRCULAR A-76)

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PART I: GENERAL BACKGROUND

1. Purpose. This guide provides instructions and a consistent approach for performing the independent review of competitive sourcing studies.

Competitive sourcing is the basis for the Army's decision to acquire a product or service by contract, Inter-Service Support Agreement (ISSA), or government in-house resources.

2. Background.

a. Since 1955 the Executive Branch has maintained a general policy that the government will rely on commercially available sources to provide commercial products and services--when economical and proper. The 1983 Office of Management and Budget (OMB) Circular No. A-76 (Performance of Commercial Activities) and its March 1996 revised Supplemental Handbook establish Federal policy regarding the performance of commercial activities. Implementing guidance is in DOD Directive 4100.15 (Commercial Activities Program); DOD Instruction 4100.33 (Commercial Activities Program and Procedures; and AR 5-20 (Commercial Activities Program). DA Pamphlet 5-20 provides detailed procedures for conducting a commercial activity study.

b. In essence--for commercial activities--the guidance requires Agencies to:

- Solicit bids or proposals from private firms.
- Streamline the in-house organization into a MEO (MEO).
- Develop an "in-house bid" based on the MEO and detailed costing rules.
- Have the MEO and Cost Comparison Form (CCF) reviewed by an independent review officer.
- Select the lowest bid or best-value proposal and add the lessor of 10 percent of in-house personnel costs or \$10 million over the entire performance period to account for intangible transition costs.
- Convert to contract if the result is lower than the "in-house bid."
- Reorganize into the MEO if the result is lower than the private offer.

OMB Circular and DOD Instruction 4100.33 require an independent review of the cost analysis preparation; and AR 5-20 (Commercial Activities Program) requires that U.S. Army Audit Agency (USAAA) be the independent reviewer of commercial activities' in-house cost estimates involving more than 65 full-time equivalent civilian and military positions. Our review of cost competitions, therefore, is normally limited to those studies involving more than 65 positions. Written request for conducting studies of 65 or fewer positions should be

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submitted by installation commanders to the Program Director for Installation Studies of U.S. Army Audit Agency.

3. Scope and Methodology.

During the 1980's, we made our review of the critical documents—performance work statement, solicitation, management study, and cost comparison—only after the key documents were finalized. When we identified significant errors, omissions or revisions; the amount of time command needed to take corrective actions often resulted in material milestone slippages. We have revised our approach to help prevent milestone slippage to the extent possible. We are involved in the process early on. For example, we will attend kick-offs and in-process reviews (IPRs) and review key documents as they become final and available for our review. This approach allows the review team to point out problem areas as the study progresses instead of waiting until the end. This approach improves the timeliness of the study, promotes consistency, and assists the Army in meeting its goals. However, preparing study documents is a management responsibility and as such management must take ownership of and defend its documentation.

As part of our review of each commercial activity study, the Assistant Chief of Staff for Installation Management (ACSIM) recently requested that we review the support for and accuracy of the studies' baseline costs. Installations develop the baseline cost as a starting point for measuring savings generated by the commercial activity program. The Assistant Chief of Staff has also requested that we perform post award review to ensure that either the MEO or the winning contractor is satisfying the requirements of the PWS. This circular contains guidance on how to review the baseline cost. Guidance on how to perform post award reviews will be published at a later date.

The independent review requirement doesn't necessarily mean that we must review the performance work statement (PWS) for accuracy. But, command has the option of requesting a review of the PWS on a consulting basis. We offer this service to evaluate the reasonableness of the workload data and task statements. We perform this review in accordance with USAAA Regulation 36-68, Engagement Types; and AICPA Standards for Consulting Services.

(1) In a consulting engagement, command determines what they want reviewed. Audit managers are responsible for preparing the engagement letter that documents the initial understanding of the scope of the work. The engagement letter should be signed by the audit manager and the Garrison Commander, or a person at an equivalent level, of the activity that initiated the study. A sample engagement letter is at Annex A.

(2) To the extent possible, we will review the PWS at auditors' home duty stations to minimize travel costs. To facilitate this approach, close coordination is required. The activity should send draft copies (electronic

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versions) of the PWS to auditors so that the auditors can verify that documentation is reasonably complete and can develop a focused and efficient approach for the review before they arrive on site. Informal advice and consulting can be provided by auditors at any time during the PWS review process, but our formal consulting work will normally begin when the final draft of the PWS is received from the activity. We will conduct this review in coordination with and at the request of the activity commander.

Our review of the management study and the in-house cost estimate on the CCF will be made in accordance with general accepted government auditing standards, and accordingly, include the procedures we consider necessary under the circumstances. These reviews will fulfill the requirement in OMB Circular that "The Independent Review Officer (IRO) should be a qualified person from an impartial activity that is organizationally independent of the commercial activity being studied and the activity preparing the cost comparison." To ensure independence, auditors must not participate in the preparation of cost estimates or supporting documentation. Although it may be appropriate to provide informal opinions on acceptable approaches and estimating methods, auditors should not be involved in collecting or preparing supporting data.

(1) Our review objective for the management study is to determine whether the management study reasonably establishes the Government's ability to perform the PWS requirements within the resources provided in its MEO (MEO). As part of the review, it will be necessary to review the entire solicitation, including amendments. Our review will focus on the commander's certification of the MEO, the crosswalk in the management study to the PWS, and the consistency and reasonableness of the methodology presented in the management study. We will also review the technical performance plan (TPP) when it is required.

(2) Our review objective for the CCF is to determine whether costs entered on the CCF to arrive at the in-house cost estimate are fully justified and calculated in accordance with the procedures described in Part II of the Revised Supplemental Handbook and other appropriate guidance, such as the DOD Costing Handbook (being developed) and DA PAM 5-20. Review work will consist of reviewing the assumptions, methodology, rationale and applicable historical records, budget and authorization documents, and other official records used to support cost estimates. The review generally will not include evaluation of the accuracy of accountable records, other reports and official records used to support the estimate, or underlying internal controls.

As with all areas and elements of cost, the auditor should temper the review steps and scope of review to the risk involved. Our goal is to help ensure the amounts are reasonable and computed in accordance with proper guidance. Therefore, supervisors should stress the concepts of reasonableness and risk assessment to their review staffs so that resources can be devoted to areas in

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proportion to the risks. Statistical sampling and other advanced analytical analysis techniques should be used, when appropriate. To the extent feasible, review work should be done at auditors' duty stations.

4. Reporting Requirements.

a. We will issue memorandum or consulting reports as we complete each phase of our review. Problems identified during our review of the PWS (to include other parts of the solicitation) will be addressed separately and issued to the requesting activity as a consulting report (see Annex F for sample format). Opinion reports will be issued for our review of the MEO (sample format at Annex G-2) and CCF (sample format at Annex H-1). Memorandum or consulting reports do not require an official command reply. The idea is to get the information to management in time to resolve problems. Lessons learned and best practices identified during our reviews will be captured in the frequently asked questions section under IMT on the [USAAA](#) and [ACSIM](#) web pages.

b. Throughout the review process, all recommended adjustments to the PWS, MEO, and CCF will be discussed with appropriate management personnel (command group, CA coordinator, and functional personnel) so that corrections can be made before the study team submits the CCF to the contracting officer. Efforts will be made to obtain command comments, especially if there are disagreements, so that the issues can be resolved at higher levels. Information papers should be used as a vehicle to report potential problems so that management can make adjustments and get higher level guidance, if necessary, as the review progresses. Information papers also document what areas we question and help lessen misunderstandings. If there are disagreements, the information papers provide background and facts on which higher levels can base their decisions. If the CCF was prepared by a contractor, the installation CA coordinator will remain the auditors' primary point of contact for resolving discrepancies. Therefore, the CA coordinator, or other designated official, should have primary responsibility for ensuring that the contractor-prepared CCF is reasonable and adequately supported.

c. The principal reason for our review of commercial activity studies is to provide an independent opinion certifying that we have reviewed the PWS (including other relevant parts of the solicitation), MEO, CCF and supporting documentation available prior to bid opening and, to the best of our knowledge and ability, have determined: (i) that the ability of the in-house MEO to perform the work contained in the PWS at the estimated costs included in the CCF is **reasonably** established and, (ii) that costs entered on the CCF have been prepared in accordance with the requirements of OMB Circular A-76, its Supplement and other appropriate guidance.

d. We will provide the results of the independent review to the installation coordinator in a report addressed to the installation commander.

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(See Annex H-1 for report format.) The revised CCF presented in the Handbook provides space for the independent reviewer's signature, date, and title. The level 2 supervisor should sign the CCF in this space. Adjustments identified during our review should be recorded in a separate exhibit showing the adjusted amount by cost element and explanatory footnotes. An example of the Schedule of Adjustments is at Annex H-3. The purpose of the schedule is to provide command personnel "lessons learned" data for use in future commercial activity reviews and to provide trend data for USAAA's internal use in reviewing commercial activities.

5. Procurement Sensitive Data

a. Throughout the review, care must be taken to keep the management study, MEO and CCF confidential. These documents, related USAAA working papers, computer disks, and reports contain "FOUO/procurement sensitive" information. Premature disclosure of information could compromise independent estimates and create an unfair advantage to competing parties. The USAAA working papers, computer disks, reports and related correspondence must be kept in secured containers until bid opening. This information is to be treated in a "For Official Use Only (FOUO)" manner and should be handled in accordance with USAAAR 36-72 (Audit Working Papers), paragraph 17 and AR 25-55, chapter IV (The Department of the Army Freedom of Information Act Program). It is possible that during the appeal and protest process, U.S General Accounting Office (GAO) may want to review our working papers. Any requests from GAO to review working papers should be referred to SAAG-IMT for proper clearance before release.

b. Our reports addressing the management study or the in-house cost calculations contain "procurement sensitive" information. The reports should be addressed to the commander of the installation. The original and all copies of the reports and related working papers must be marked "For Official Use Only" and "Procurement Sensitive" and be controlled to prevent unauthorized release. Restrictive markings should be at the bottom center of each page.

c. Only four copies marked "Copy 1," "Copy 2," "Copy 3" and "Copy 4" will be made of each USAAA report dealing with CCFs for commercial activity studies. Copy numbers should be in the lower left corner of each page of the report. Copies 1 and 2 will be provided to the CA coordinator of the installation or activity. Copy 3 will be retained by SAAG-IMT, and Copy 4 will be retained with the working papers. Copies will be retained in a secured container until the contracting officer announces the results of the comparative cost analysis. Restrictive markings will be removed from the report and working papers when SAAG-IMT notifies the auditors of the final decision on the cost comparison.

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d. Consulting reports on the PWS should not be labeled procurement sensitive if the solicitation is out for industry comments and command has determined that the PWS is not procurement sensitive.

6. COMPARE System. U.S. Air Force designed a commercial activities software system to develop, document, and compare the cost of in-house operations with contract operations. The system is called COMPARE and is currently a DOS program. A [WINDOWS version of COMPARE](#) has been developed and is available. The review steps outlined in Part IV of this circular are based on the DOS version. These steps will be updated for winCOMPARE² within the next 45 days. DA Pamphlet 5-20 requires use of this software for all cost comparison studies.

7. Review Control Points. Control points have been established to provide technical assistance when performing CA reviews. The staff consists of Mr. James Andrews at the Operations Center (DSN 761-8383); Mr. Peter Swan at the TRADOC Field Office (DSN 680-2308); Mr. Robert Richardson at the Atlanta Field Office (DSN 367-0516); Mr. Thomas Robertson at the Fort Meade Field Office (DSN 923-2220); Mr. Timothy Bixby at the Fort Lewis Field Office (DSN 357-5366); and Ms. Lillian Szczuka at the St. Louis Field Office (DSN 490-3234).

8. Suggested Changes. This review guide is a living document. As such, revisions are anticipated as we gain experience with each phase of the process. Any suggestions for changes in approach, methodology, review steps, and procedures are welcomed and appreciated. Submit your suggested changes to Mr. Peter Swan at the TRADOC Field Office (DSN 680-2308). We will use the suggestions to update this review guide.

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PART II: PERFORMANCE WORK STATEMENT

1. Background.

a. The performance work statement (PWS) is the basic document in a commercial activity study. It is used to develop the MEO (MEO) and the MEO is used to develop the in-house cost estimate. Both the government's and contractor's cost estimates must be comprehensive enough to ensure that performance by either method will satisfy the government requirement. The PWS must include the scope of work to be performed, standards of performance, and the minimum acceptable levels of quality. Guidance for preparing a PWS is in DA Pamphlet 5-20 (Chapter 3) and Office of Federal Procurement Policy Guide to Best Practices for Performance-Based Service Contracting. The work statement should be performance-oriented and identify the work that needs to be done, but not how it should be done.

b. The PWS review is a consulting engagement performed in accordance with USAAA Regulation 36-68, Engagement Types and AICPA Standards for Consulting Services. AICPA Standards for Consulting Services require auditors to obtain "sufficient relevant data" to afford a basis for conclusions or recommendations.

c. We offer our consulting services to evaluate the reasonableness of workload in the PWS. We aren't obligated to review the PWS for accuracy in order to complete our review of the MEO and CCF and we don't attest to the accuracy of the PWS. During the planning stages of the CA study, we will meet with the command representative responsible for requesting our consulting services and determine if they want us to review the PWS.

d. If command decides that Agency services aren't needed for reviewing the PWS, **STOP THE REVIEW** and wait until command provides the final draft of the management study and MEO. We will use the PWS as support during our review of the MEO and CCF. Our reviews of the MEO and CCF are conducted under audit standards. We attest to the **reasonableness** of the MEO and the accuracy of the cost comparison. Our review of the MEO is based on our assumption that command has provided reliable workload data in the PWS.

e. If command decides that Agency services are needed, command and the audit manager should decide on the ground rules of the review. As a consulting engagement, command determines what they want us to review. Auditors should adjust the review steps, as appropriate, based on the scope of review that command requested. However, if the PWS is reviewed, all relevant information from the other sections of the solicitation must also be reviewed for consistency. This guide establishes a baseline for a level of effort on a PWS consulting review.

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2. Review Objective. To determine if the Performance Work Statement reasonably presents the work to be performed.

3. Methodology of Review. In the following review steps, we outline the approach that the independent review team should use in reviewing the PWS. These steps are not meant to be all-encompassing. The steps involved in the review of the PWS are fairly general and require a great deal of auditor judgement in selecting and reviewing samples of workload data and performance standards. Consequently, it is vital that, for each step in the review, the auditor document the specifics of each analyses. Therefore, we must document WHY we did what we did. For example, we must explain:

- Why we selected the functional areas we reviewed.
- Why we selected the workload task areas we reviewed.
- Why we selected the performance standards we reviewed.
- Why we performed any other steps we deemed necessary to give reasonable assurance of the accuracy of the PWS.

4. Optional Methodology--Risk Assessment. An optional method for sampling workload data is to use a risk assessment. Annex D-1 of this guide describes the procedures for performing the risk assessment in reviewing the PWS. Auditors can use risk assessment techniques to identify the functional areas and workload tasks to review. In the planning stage of the review, risk assessment identifies the areas of the study which are significant (i.e. they pose the most risk if there are errors). This allows audit managers to focus resources in the right direction. An efficient risk assessment can save time because team resources are focused on the important areas of the review. Risk assessment is not precise and it doesn't replace auditor judgement; auditors still need to make adjustments and decisions during the review based on actual circumstances.

5. Review Steps

a. Preplanning. The preplanning phase is an orientation and introduction to the CA study. During this phase information is received that will assist in developing a risk assessment. These steps should be performed by the AIC and/or above.

(1) Attend Kickoff Meeting.

(a) Provide kickoff presentation using standard charts in (Annex B).

(b) Make initial contact with the Garrison Commander, Deputy Garrison Commander, the CA POC and study team members. Obtain names, addresses, telephone numbers and email addresses.

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(c) Provide Command the PWS Checklist and Document List (Annex C-1, C-2, and G-1).

(d) Provide Command with the address of the Agency web site for assistance in preparing the study.

(e) Determine if Command wants a consulting effort and identify issues or areas they want reviewed. Meet with the requestor of the review, discuss the Agency's role in the PWS review, and come to agreement on the scope of the review.

(2) Coordination.

(a) Audit Managers should designate a review team member as the primary POC (normally the auditor responsible for executing the engagement) for the installation study if this wasn't done when the study was announced.

(b) The primary POC should continuously monitor the CA Team progress to know when to schedule the entrance conference based on receiving the final draft of the PWS.

(c) If appropriate, an auditor or POC should attend some PWS scrubs. The PWS scrubs allow the auditor to gain information that may be very useful during the review. Command should be informed that our involvement in the scrub **does not mean we accept or agree with the reasonableness of the PWS**; our PWS review is completely separate from our presence at the scrub.

(d) If Command wants a consulting effort, complete the preliminary review of the PWS. With the technology available, most if not all of the preliminary review can be accomplished at the home station using email, regular mail, fax, and telephone. Most workpapers should be in the form of electronic annotation to the PWS and the other relevant parts of the solicitation.

(e) If Command doesn't want a consulting effort, do not continue work on the PWS. Instead, continue the necessary coordination required for the upcoming reviews of the management study and MEO.

b. Preliminary Review. The purpose of the preliminary review is to familiarize the review team leader with the CA function and obtain previously requested documents and the final draft PWS in order to complete the initial assessment of the PWS. The PWS will be reviewed to determine if it consistently and reasonably presents services and workload, appears complete, and doesn't contain material errors or misstatements.

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(1) Obtain the final draft PWS, completed PWS checklist, and requested documents from the document list. **If the PWS isn't complete, return the PWS to command.** Don't continue the review until you receive a complete PWS. [If resources are available, we can review draft PWS' to assist Command in the development of the final PWS.] If the PWS is complete, schedule the entrance conference.

(2) If practical, obtain copies of other installations work statements for similar functions to determine if there are significant tasks or workload data missing from the PWS. Also, use these other PWS's when completing step 5c. below (Reviewing the PWS).

(3) Familiarize yourself with the mission of the CA activity. If appropriate, perform a walk-through of the function under study to obtain an understanding of the work performed, and personnel and facilities used. [This may be done at the kickoff meeting or during the review of the management study.]

(4) Make a preliminary assessment of the PWS using the following steps:

(a) Determine which individual functional areas and/or workload tasks command considers important or critical.

(b) Assess the political sensitivity of the CA area for this study by talking with Command personnel. (This step is the culmination of conversations with Command personnel that have taken place since the kickoff.) Has Command taken ownership/accountability? Is top management involved and supporting the effort?

(c) Determine the number of authorized TDA positions by functional areas. The TDA used should be the one supplied to the support contractor or used in the PWS study. Generally, installations provide the contractor with the TDA used in the study. [At this time, we should also identify the TDA or related information needed to perform the baseline reviews.]

(5) Complete the initial assessment of the final draft PWS using the completed checklist, requested documents, and information obtained in steps 5b(1). through 5b(3). above.

(6) Conduct an entrance conference with installation commander (normally the Garrison Commander), CA Team Chief and work team members. Agree upon the nature and scope of the engagement and sign the engagement letter (Annex A). [This is a suggested time for the entrance conference and situations may vary depending on the engagement circumstances.]

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c. Reviewing the PWS. These steps set out the methodology for reviewing the PWS. In most reviews, data can be collected at the site and reviewed at your home station. Request automated data from Command and the contractor in order to accomplish as much of the review as possible at the home station. Consider the following issues when reviewing the PWS.

(1) Reviewing the Wording. Review the verbiage of the PWS to identify any improvements that could be made in the clarity and consistency. It's important that you document your concerns and furnish command with copies of the documents. (This will likely be an electronic file with your annotations to the PWS and other relevant parts of the solicitation.)

(a) Read the PWS.

(b) Identify areas in the PWS that Command would need to address, such as: (i) requirements that could be misinterpreted, (ii) inconsistent statements or requirements, or (iii) lack of common tasks that would be expected in the type of work covered by the PWS.

(c) Depending on the significance of your concerns, either continue with your review of the workload tasks or wait for an updated version of the PWS. [Suspend the review while waiting for an updated PWS, if necessary.]

(2) Reviewing the Workload. Review workload data to ensure that it is reasonable and doesn't contain material errors. [Note: There is no set standard for "material" errors. This will be an auditor judgment. However, as a guide, it is proposed that if more than 20% of the sample items are in error it is material.] This guide discusses selecting workload judgmentally. An optional way to select workload is via a risk assessment process. That process is described in Annex D-1.

(a) Select the functional areas that should be reviewed. In deciding which functional areas to review, consider: (i) linking the TDA to the functional areas and selecting the areas that encompass a majority of the authorized personnel spaces, (ii) selecting functional areas that Command considers critical (see step 5b(4).), or (iii) selecting all functional areas. Ensure that this selection process is documented and contains the reasons why certain areas were selected and other were not selected.

(b) From the functional areas selected above, select workload tasks to review. The review should focus on tasks that: (i) include inconsistencies found in reviewing the functional areas, (ii) appear questionable, (iii) would affect the PWS significantly if they were incorrect, or (iv) encompass a majority of the workload for that functional area. Select

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enough tasks to obtain reasonable assurance that command's workload is accurate. Ensure that this selection process is documented.

(c) Provide command with the selected workload tasks and request they provide support. If available, request data from automated systems to allow using automated tools for analyses. [Note: we are reviewing the reasonableness of the PWS, not auditing the automated systems. It isn't necessary to trace automated records to supporting hardcopy documentation unless they appear grossly inaccurate.]

(d) Review command's support and determine if it is adequate. Do the task statements and related support: (i) realistically describe duties and tasks, the frequency of performance, and required facilities and materials? (ii) Include historical workload data based on at least one-year of data? (iii) Use consistent time periods for reporting workload data? (iv) Show annualized workload? (v) Show a change in workload when appropriate (due to change in facilities, mission, or efficiencies)? (vi) Address only workload to be performed by the MEO or contractor? (vii) Include work performed by personnel not assigned to the function, such as contractors, borrowed, or inmate labor.

(For Directorate of Public Works reviews, the likelihood of errors occurring is higher if the analysis contains numerous service orders or individual job orders conversions. See Steps for Validating Service Order and Individual Job Order Workload Data--Annex D-6).

(e) Document your concerns and furnish them to command for their actions. As appropriate, suggest command: (i) Correct any material errors identified. (ii) Reduce or eliminate workload that shouldn't be included (for example, a mission that will no longer be done). (iii) Adjust workload data or task statements to ensure consistency of the PWS.

(f) Depending on the significance of your concerns, either continue with your review of the performance standards or wait for an updated version of the PWS. [Suspend the review while waiting for an updated PWS, if necessary.]

(3) Reviewing Performance Standards. AR 5-20 requires outcome-based performance standards for the significant tasks in the work statement. The government uses performance standards to measure the level of performance and evaluate the performance of those (government or contractor) personnel performing the workload. The standards also assist the activity in developing its MEO. The performance standards are contained Section C.5 of the PWS, the technical exhibits, or can be included in the Performance Requirement Summary of the solicitation. Examples of outcome-based performance standards are:

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- Repair cycle times for service orders. (The performance standard might be “complete a priority 2 service order in 5 days”.)
- Readiness levels for equipment end items. (The performance standard might be “maintain a backlog of 21 days or less for equipment end items”.)
- Response times for computer equipment maintenance. (The performance standard might be “respond to priority 1 service requests for computer equipment malfunctions within 24 hours of notification”.)

(a) Determine if the solicitation includes outcome-based performance standards for the major tasks in the PWS. If not, determine why no standards were included in the solicitation. Show the CA managers examples of other solicitations where performance standards were included in the solicitation.

(b) If performance standards were included, ensure that the standards are consistent among the task statements, work exhibits, and the Performance Requirements Summary. For example, a task statement may have a performance standard in the Performance Requirements Summary, but no workload shown in the technical exhibit. Or there may be workload with no task statement or standard. If this is a problem, inform command of the inconsistencies.

(c) Select a sample of performance standards for review. The review should focus on standards that appear questionable or unreasonable (i.e. 100% accuracy), would affect the PWS significantly if they were incorrect, or encompass a majority of the workload for that functional area. Select enough standards to obtain reasonable assurance that performance standards are accurate. Ensure that this selection process is documented.

(d) Compare the standards in the PWS to current performance of the in-house workforce to ensure the workforce is meeting the standards set forth in the solicitation. For example, if the PWS specifies that priority 1 service orders must be completed within 1 day, determine if the current workforce is meeting this standard. Sources for identifying current performance include observation, performance reports, scorecards, audit reports, and review and analyses reports.

(e) If the workforce is not meeting these standards, provide command with your concerns. Determine if the CA management team plans on making adjustments to the MEO or revising the PWS to standards

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that the MEO can meet. Document any changes that the team makes to the standard in the PWS.

(f) Depending on the significance of your concerns, either complete your review of the PWS or wait for an updated version. [Suspend the review while waiting for an updated PWS, if necessary.]

d. Reporting Our Results. During the review, stay in contact with command personnel and provide command with any concerns that are raised. When our work is complete on the PWS, provide command with a memorandum report on the results, signed by the Audit Manager. Include in the report any significant issues that command agreed to address in the solicitation.

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Part III: MANAGEMENT STUDY AND TECHNICAL PERFORMANCE PLAN

1. Background. The management study provides the basis for identifying changes in organizational structure, work methods, number and skills of employees needed to accomplish the work in the solicitation in the most efficient and economical manner. Position descriptions, staffing guides, prior experience, actual work measurement, and informed judgement may be used to determine the staffing estimate. The most efficient organization (MEO) describes the staffing and position structure required to accomplish the work in the solicitation and is a major portion of the basis for the in-house cost estimate.

As part of the management study process, DA Pamphlet 5-20 (Commercial Activities Study Guide) requires that a technical performance plan be developed along with the management study. According to DA Pam 5-20, the plan will contain a description of management capabilities, personnel qualifications, performance history, delivery schedule compliance, and technical capability. Draft guidance issued by DOD requires the independent reviewer to ensure that the plan is written in accordance with Section L (Instructions, Conditions and Notices to Offerors) of the solicitation. The plan reflects the MEO and is sealed prior to the receipt of contractor bids.

2. Review Objectives. Our objectives are to determine whether:

- The management study reasonably establishes the Government's ability to perform work requirements in the solicitation with the resources in the MEO.
- The technical performance plan is consistent with the information in the management study and meets the requirements of Section L of the solicitation.

3. Review Steps for the Management Study. The independent reviewer of the management study and MEO should review Command's "final" documents. Therefore, before starting the review, you should receive the final management study/MEO containing command's certification. (This is documented on the CCF)¹.

a. Management Assurance. Determine if top level managers are comfortable with and believe that the MEO can perform the work in the solicitation. As a result of several Comptroller General Decisions,

¹ In some cases, command may provide (and ask us to review) the management study without the certification. This is acceptable IF the auditor is comfortable that command is close to a final document and obtaining certification. Reminder—the independent review is not done to provide support for Command's certification.

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management's assurance is a significant factor in our determination of the reasonableness of the MEO.

(1) Certification. Determine if the MEO (MEO) was certified by a technically competent individual who is organizationally independent of the function under study or at least two levels above the most senior position reviewed as part of the study, including governmental in nature (GIN) positions. The installation or garrison commander is typically the certifying official. The certifying official's signature on the CCF reaffirms management's commitment to the resource provisions necessary to perform the work required by the performance work statement (PWS). Also, it represents the opinion that the MEO is fully capable of performing the work in the solicitation. We normally should not start the review until we have a certified MEO. However, there will be cases where this situation is unavoidable. If command hasn't certified the MEO, then you should explain to command that a certified MEO is a very important factor in our determination of the reasonableness of the MEO. To avoid this potential situation, make command aware of our requirement at the kick-off meeting and remind them prior to the completion of the management study. The management review cannot be completed without a certified MEO.

(2) Management Interviews. Discuss the proposed MEO with the CA team chief and key upper-level managers who have authority to review the MEO. (Keep in mind that very few people on the installation are aware of the total MEO because the document is highly sensitive and has very limited distribution) Determine if they agree with the proposed MEO. Are they comfortable in the knowledge that the MEO can perform the solicitation? (Note: If the MEO had been certified by the Installation/Garrison Commander, you could assume that the managers would have already bought-in to the MEO. However, we should at least speak with the managers to make sure they are comfortable with the MEO.)

b. Crosswalk. Determine if the crosswalk from the MEO to the solicitation is adequate. Use the PWS to determine if all of the key tasks were covered. The crosswalk should include by PWS paragraph number and description, the frequency of occurrence per year, hours per occurrence, and the hours per task (see the back pages of DA PAM 5-20 for DA Form 7196-R). Evaluate some of the key paragraphs and determine if the proposed hours are reasonable. Do the total hours equate to the total number of proposed MEO positions? (Note: It is important that the GIN or residual work force is not performing the tasks included in the solicitation unless the cost associated with the level of effort is included in the proposal.)

We found that in previous management studies the crosswalk wasn't included. Explain to command the benefits of the crosswalk during the kick-off meeting or some time prior to the development of the management study. It is an important tool for verifying staffing requirements and identifying tasks that are unnecessary or were omitted from the solicitation. Without an adequate

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crosswalk, we will not and cannot conclude that the MEO can meet the requirements of the solicitation.

c. Rationale. Determine if the rationale for the identified efficiency is reasonable.

(1) Read over the management study (particularly the portion that deals with efficiencies and proposed MEO). Do the rationales make sense? Was the methodology used to arrive at the efficiencies reasonable? Determine if the support for the rationales was adequate. (Is there an audit trail? Are the calculations accurate, or are there observations to support the potential savings?) Select key efficiencies that are material and review the support. It's not necessary to perform a 100 percent review of the support. However, at a minimum, document the reasoning for how key efficiencies were selected and why others were not considered key.

(2) When the MEO includes a mix of in-house labor and subcontract support, ensure the organization also contains the required number of contract administrators to administer the support contracts.

Note: Be aware that when reviewing a MEO that was developed using the delta method--the delta method is current full-time equivalent (FTE) positions in the TDA less efficiencies (FTE savings) equals MEO)--the current organization may have used borrowed military manpower or prison labor to supplement its workforce. If the workload associated with these personnel is in the solicitation, make sure the documentation explains how the MEO will accomplish that workload.

d. Internal Consistency. Determine if the management study is internally consistent. For example, if the management study states that it can perform quality assurance functions with 5 positions does the MEO reflect the 5 quality assurance positions? Or if the management study states that 2 functions should be combined, then were the functions combined in the MEO? Do the numbers and computations track throughout the study? Is the management study and MEO consistent with the crosswalk?

e. Job Classifications. Determine if a civilian personnel office has approved the new job classifications and/or positions descriptions in the MEO. This step will furnish reasonable assurance that the proposed grade levels can accomplish the new or realigned responsibilities.

(1) Review a representative sample of job/position descriptions to ensure the descriptions reflect the key tasks contained in the solicitation. Also, obtain descriptions for positions that are part of the residual organization (GIN positions and positions not studied). Review a representative sample—especially those related to the MEO workforce—of the descriptions to ensure that the descriptions don't contain work that is included in the solicitation.

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(2) Evaluate the indirect support to the MEO (those positions above the 1st line of supervision that provide some oversight and supervision). Ensure that command includes appropriate amounts of FTE's for these positions. (For example, a GS-13 position that spends 20 percent of his or her time counseling or appraising the most senior employees in the organization should be included as 20 percent of an FTE in the MEO.)

4. Review Steps for the Technical Performance Plan. Before beginning the review of the technical performance plan, the independent reviewer should become familiar with Section L of the solicitation. Determine who prepared Section L. Has the study team compared the requirements in Section L and the requirements in Section C (the solicitation) of the solicitation to ensure consistency? (For example at one installation, Section L contained a requirement for dedicated key personnel. Section C did not require dedicated personnel. As a result, the contractor costed these personnel as full-time positions while the installation considered the duties to be only part-time.) If the installation has not made such a comparison, discontinue the review of the performance plan until the comparison is done.

a. Compare the performance plan with the management study and solicitation requirements (Sections C and L, and any other sections that may contain pertinent information) to determine if the plan is tailored to the solicitation requirements and consistent with the information in the management study. **(Note: Some studies may not require a technical performance plan. In those instances, step 4a needs to be completed to ensure the management study meets the solicitation requirements.)**

(1) When the solicitation requires a full-time on-site project manager and other key personnel, does the management study and technical performance plan adequately address the requirement?

(2) When the solicitation requires an independent Quality Control entity, does the management study and plan show this independent entity?

b. Is the performance plan written in accordance with Section L of the solicitation?

(1) Review the plan for the key elements (such as technical approach, technical resources, and quality control structure and procedures). Evaluate the rationale for the MEO, and how the MEO will interface with the residual organization.

(2) Is the plan specific and detailed, and does it coincide with the solicitation requirements?

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(3) Does the plan avoid ambiguous phrases such as “standard procedures will be employed” or “well known techniques will be used”?

(4) If Section L requires submission of plans or procedures, does the plan contain a summary or overview, and a table of contents?

(5) Does the plan include job classifications with specific job descriptions for all positions in the MEO?

(6) Does the plan contain a quality control section? Does it describe the concepts and principles governing the quality control system for the operation?

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PART IV: COST COMPARISON FORM

1. Background. This guide provides instructions for reviewing A-76 cost comparisons developed with winCOMPARE. Within DA, activities will develop in-house cost estimates using the winCOMPARE software program. Consequently, in addition to OMB, DOD, and Army guidance, auditors need to obtain the winCOMPARE software and User's Manual to facilitate their review. The references to line numbers in this audit guide correspond to the generic Cost Comparison Form (CCF) generated by winCOMPARE.

We have included audit steps for some items we will rarely, if ever see on the CCFs. For example, activities normally furnish all facilities and equipment to be used by either the MEO or the winning contractor. Consequently, we anticipate minimal review requirements concerning depreciation and gain on assets. Therefore, throughout this guide, we have highlighted the audit steps that we do not anticipate using on a regular basis by placing them in italics.

2. Review Objective. The overall objective is to ensure all costs entered on the CCF are fully justified and calculated in accordance with the procedures described in Part II of OMB Circular No. A-76, the Revised Supplemental Handbook. Specific objectives are to:

- Evaluate the adequacy of audit trails and availability of supporting documentation.
- Evaluate the reasonableness of assumptions used in making cost estimates.
- Ensure the in-house cost estimate is current, complete, reasonable, and in compliance with OMB Circular A-76 and related DOD and Army guidance.
- Identify issues which management has to resolve to develop a reasonable cost estimate and permit timely completion of the study.

3. Preliminary Review Steps

a. Ensure that command has provided the following documents before proceeding with your review:

(1) Final Performance Work Statement (PWS).

(2) Management Study to include final MEO documentation, printed CCF with signature page (which also includes command's MEO certification), and Technical Performance Plan (TPP) when the solicitation is for a negotiated best value procurement.

(3) Printed copies of:

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- Supporting documentation for all cost estimates, calculations, common costs, etc., that require explanation.
 - WinCOMPARE individual input records.
 - WinCOMPARE worksheets.
 - WinCOMPARE Study Tables (not the Master Tables).
 - COMPARE Error list.
- (4) Automated copy of the WinCOMPARE Study File (with password).
- (5) Access to a copy of the solicitation package.

b. Determine whether an adequate audit trail exists between entries on the CCF and supporting documents. Verify whether all assumptions, data sources, estimates, and methods of cost accumulation are documented, cross-referenced to the CCF, and available for review. Pay special attention to cost elements that must be calculated outside of COMPARE. Some examples include premium pay (i.e., overtime, night differential, shift differential, environmental differential, holiday pay and Sunday pay) and one-time conversion costs. **Ensure that the supporting documentation is sufficient enough that it allows for the cost package to stand on its own without further explanation.** However, do not at this time evaluate the reasonableness of command's rationale. At this point of our review, we are only interested in determining whether command has adequately documented how it arrived at its estimates.

Regardless of form, our only concern should be whether command's supporting documentation adequately explains how all elements of the in-house cost estimate were developed.

c. Verify that the in-house cost estimate and request for bids or proposals are based on the same performance periods. When the first period of performance is less than a full year, determine whether all in-house cost elements, except one-time conversion costs, have been prorated over the number of months in the first performance period.

d. Obtain historical data concerning premium pay such as Sunday, holiday, night differential, night shift differential, environmental, hazardous, and overtime pay from the budget or personnel office. Compare this information with the in-house cost estimate to determine whether appropriate types of premium pay are included in the cost estimate. Once again, at this stage of our review, we are not evaluating the reasonableness of estimates of premium pay but are only interested in determining whether the estimates appear to be complete.

e. If you note significant inconsistencies, errors or omissions in accomplishing the preliminary review steps, bring them to the immediate

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attention of management personnel so that they can take timely corrective actions.

4. COMPARE Study Table Review Steps. COMPARE performs calculations based on cost factors downloaded and entered into study tables. Current cost factors must be obtained from the ACSIM website and the study tables must be updated correctly in order for the in-house cost estimates to be correct. Auditors can obtain current cost factors, as well as copies of GS and FWS pay schedules, via the [Installation Studies \(IMT\)](#) portion of the USAAA website. **Be sure that you obtain pay schedules containing the correct locality pay for the installation you are reviewing.** Appendix B of the COMPARE Users Manual provides detailed instructions on how to update COMPARE study tables. In addition, you should use the COMPARE Error List, which is described in Appendix D of the Users Manual to assist you in reviewing the study tables and CCF.

COMPARE requires its users to maintain a current set of master tables. Army activities keep their master tables up-to-date by downloading copies of the current tables from ACSIM. When activities create cost studies, the master tables become study tables. Changes are made to the study tables as required by the circumstances related to each individual cost study. Most of the cost factors contained in the study tables will be correct as long as the activities obtained the current cost factors from ACSIM. However, some of the cost factors require manual entries (Tables 2, 3 and 8). Consequently, we will use the following approach to accomplish our review of the study tables.

a. Download the master tables into the COMPARE program on your computer. Use the link on the IMT portion of the USAAA website to obtain the current factors. Follow the instructions in Appendix B of the User's Manual to update your **master tables** and then print the master tables.

b. Trace the current cost factors from this audit guide to the appropriate tables.

c. Trace the current cost factors from the latest OMB Transmittal Memorandum and Appendix C of Circular A-94 to Table 8.

d. For those factors not included in the audit guide or OMB guidance (e.g., fuels inflation factors in Table 8), trace the factors from your master tables to the study tables provided by management.

Make sure that management provided you with copies of the study tables for the cost comparison, not copies of the master tables. You can verify which tables you have by reading the heading at the top of each table.

e. **Review Steps**

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(1) **Table 2 – GS Salary Factors.** Obtain the current GS pay schedule for the activity being studied. Trace the annual rates in the pay schedule to Study Table 2 to determine whether it has been properly updated. Ensure that the **From** date is 01/01/XX and that the **To** date is 12/31/XX for each line entry shown in this table (substitute the actual effective year of the GS pay schedule for XX). Ensure the annual salaries in this table were in effect as of the **as of date of the base year**, which you can find on the Study Characteristics Record. COMPARE uses this date to calculate inflation costs. For example, if your GS salaries went into effect on 1 January 1999, you must use a base year date of 1 January 1999 or later. Here is what will happen if you tell COMPARE to use an earlier base year date such as 1 October 1998:

In effect, you are telling COMPARE that you have loaded a 1998 GS pay schedule into Table 2. Consequently, although you have actually loaded 1999 GS salaries, the program thinks that it needs to apply 1999 inflation factors against 1998 salaries in order to bring them up to date. As a result, your personnel costs will be overstated.

(2) **Table 3 – FWS Hourly Wage Factors.** Obtain the current FWS pay schedule for the activity being studied. Trace the hourly rates in the pay schedule to Study Table 3 to determine whether it has been properly updated. Ensure that the effective day, month and year of the **From** and **To** dates in the table are correct. You can obtain the effective date of the current hourly wage rates from the FWS pay schedule. All dates must be the same for every line entry shown in this table. Ensure the hourly wages in this table were in effect as of the **as of date of the base year** shown in the study.

(3) **Table 4 – NAF Inflation Relational Table.** If NAF positions are included in the cost study, ensure Table 4 indicates that salaried positions are inflated using General Schedule (GS) inflation factors and hourly rate positions are inflated using the Federal Wage System (FWS) inflation factors.

(4) **Table 7 – Fringe/Medicare Factors.** Determine whether the factors contained in Table 7 match the values established by OMB. In general, the Supplemental Handbook provides these factors. However, from time to time, OMB may update the factors with supplemental guidance. For example, OMB A-76 Transmittal Memorandum No. 19 has revised several of the factors. Army activities download these factors from the ACSIM website. However, there will always be a lag between the time OMB revises its factors and the time ASCIM revises its data. Nonetheless, activities must use the current OMB factors when doing their cost studies. In the past, OMB has made a practice of including new Transmittal Memorandums in Updates to the A-76 Circular. Here are the current OMB factors:

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Retirement	24.00 %
Health and Life Insurance	5.70 %
Other Benefits	<u>1.70 %</u>
Total	31.40 %
Medicare	1.45 %
Old Age and Survivors Insurance	6.20 %

(5) **Table 8 – Inflation Cost Factors/Rates.** Obtain the latest OMB Transmittal Memorandum for updating pay raise assumptions and inflation factors via the IMT portion of the USAAA website. Also, obtain the latest Appendix C to OMB Circular A-94 for updating the cost of capital rate. Review the values in Table 8 to ensure they match the current values issued by ACSIM. Again, there may be a lag between the time OMB revises these factors and the time when ACSIM changes the factors on its website. Always ensure that the activity used the current OMB factors. Here are the current factors:

- Casualty Insurance Rate - 0.5 %.
- Conversion Differential Factor – 10 %.
- Liability Insurance Rate - 0.7 %.
- Overhead Cost Factor – 12 %.
- Packing, Crating, and Handling Rate – 3.5 %.
- Transportation – 3.75 %.
- Severance Pay Rate – 4 %.

You must pay special attention to the following factors to ensure that the factors were updated correctly:

(a) Civilian Pay (FWS & GS), Military Pay, Fuels, and Operations and Maintenance. Ensure that each set of inflation factors is preceded by a zero base factor that begins with October 1, 1950 and extends to a date immediately before that period containing an inflation factor greater than zero.

(b) Cost of Capital. Trace the cost of capital rate contained in Appendix C of OMB Circular A-94 to Table 8 to ensure it matches. The cost of capital rate is the **Nominal Interest Rate on Treasury Notes and Bonds**. Ensure the study table contains the rate corresponding to the number of performance periods in the study. For example, if the study contains 5 performance periods, management should use the 5-year rate.

(c) Fuels Inflation Factor. Trace the fuels inflation factors from your Master Table 8 to Study Table 8.

(d) FWS Pay Factors. Trace the pay raise inflation factors from the latest OMB Transmittal Memorandum to Table 8 to ensure they match. Ensure the effective **From Month** for these factors has been changed to match the effective **From Month** shown in Study Table 3. Ensure that no changes

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have been made to the day and year. For example, if the FWS pay raise in your cost study takes effect on July 19, each year the **From Date** should read 07/01/XX. Also, ensure for each FWS line entry that the **To Date** has been changed so that the dates for each line run consecutively. Continuing with our example above, each line should have a **To Date** of 06/30/XX.

(e) GS Pay Factors. Trace the pay raise inflation factors from the latest OMB Transmittal Memorandum to Table 8 to ensure they match. Ensure the **From Date** is 01/01/XX and the **To Date** is 12/31/XX for each year (substitute the appropriate year for XX).

(f) Military Pay Inflation Factors. When there are military personnel included in the cost study, trace the pay raise inflation factors from the latest OMB Transmittal Memorandum to Table 8 to ensure they match. Ensure the **From Date** is 01/01/XX and the **To Date** is 12/31/XX for each year.

(g) Operations and Maintenance Inflation Factors. Trace the non-pay inflation factors from the latest OMB Transmittal Memorandum to Table 8 to ensure they match. Ensure the **From Date** is 10/01/XX and the **To Date** is 09/30/XX for each year.

(6) **Table 9 – Material/Supply Mark-Up Rates**. Ensure that there are not any mark-up rates in Table 9. Department of the Army activities **do not** use mark-up rates in A-76 cost competitions.

(7) **Table 10 – FTE Available Work Hours and Pay Conversion Hours**. Ensure all table values match the current values issued by ACSIM. The current factors are:

- Intermittent Employees – 2,007.
- Full or Part-time Employees – 1,776.
- Conversion Hours (Hourly to Annual Pay) – 2,087.

(8) **Table 12 – Useful Life and Disposal Values**. Download the current cost factors from ACSIM and create a set of master tables. Select several federal stock classes for review, and compare the useful lives and disposal values in your Table 12 to the values shown in Table 12 of the activity's cost study.

(9) **Table 13 – Tax Rates**. Determine whether the table value selected for the activity being studied is appropriate and matches the value issued by ACSIM. You will need to review the Contract/ISSA Price and Federal Income Taxes worksheet to determine which **Industry Code** was entered into the cost study. Compare this code to the list of codes and industry descriptions contained in Table 13 to determine whether the proper code was used in the cost study. This decision is not always clear cut and sometimes requires the application of best judgement. Consequently, you may need to

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discuss which code best relates to the types of services being studied with the activity's functional area experts. Verify that the tax rate for the industry code used in the cost study matches the tax rate for that code in your set of master tables.

(10) **Table 14 – Military Composite Rates.** If there are any military personnel in the MEO you are reviewing, verify that the annual rates contained in Table 14 match the rates provided by ACSIM. Also, verify that the rates in this table were in effect as of the **as of date of the base year** shown in the study and ensure that the **Effective** date is correct.

IN-HOUSE PERFORMANCE COSTS

Before beginning the review of the CCF, become thoroughly familiar with Part II of the Revised Supplemental Handbook and the A-76 Costing Manual (DOD 4100.XX-M)

Keep in mind that there will be times where you can continue your review while management is simultaneously correcting portions of the cost estimate, such as the one-time conversion costs contained in Line 12. However, there will be other times where you will need to stop your review and give the cost study back to management. **Use your judgement to determine how significant the problems are.**

Also, ensure that the costs on the CCF are based on the most current amendment to the solicitation (stay current with all amendments throughout the study, even after the CCF has been sealed).

5. Cost Comparison Form Line 1 – Personnel Costs

a. **Background.** CAs are generally labor-intensive. The personnel costs for accomplishing the requirements specified in the PWS are included in this line. Line 1 includes the cost of all direct in-house labor and supervision, including quality control and project management personnel resources necessary to accomplish the requirements contained in the solicitation. For in-house cost estimates that assume a mix of in-house labor and subcontract support that will not be offered to potential winning contractors, it also includes the cost of labor for administration of subcontract support. In addition, indirect support of the MEO must be considered on Line 1. For example, if a GS-13 position spends 20% of its time performing management oversight of the MEO (writing appraisals, counseling, etc.), the prorated cost of this position should be included in the in-house cost estimate as .20 FTEs.

b. **In-House Staffing Estimate.** Productive workhours can be converted to fulltime equivalents (FTEs) by dividing the estimated total hours required by skill by 1,776 hours to determine the number of positions required.

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For intermittent positions to be expressed in FTEs, divide the estimated total hours required by skill by 2,007 annual available hours. The annual available hours exclude annual leave, sick leave, administrative leave, training, and other non-productive hours. As a general rule, GS salary is expressed as an annual rate of pay and the FWS salary is expressed as an hourly rate. For positions used on a prearranged, regularly scheduled tour of duty, this hourly rate is multiplied by 2,087 hours to obtain yearly pay.

Wages and salaries for civilian personnel will be developed based on the position structure developed in the management study. Current pay rates based on the government-wide representative rate of Step 5 for GS and Step 4 for FWS employees should be used to develop the in-house cost estimate.

c. **Civilian Fringe Benefits.** The Supplemental Handbook provides government-wide standard factors for fringe benefits. However, OMB A-76 Transmittal Memorandum No. 19 has revised some of the factors. Moreover, in the future, OMB may issue supplemental guidance that revises these factors again. Here are the current factors:

(1) The following standard fringe benefit factors are applied to labor costs of employees under either the Civil Service Retirement or the Federal Employees Retirement Systems:

- Retirement – 24 %.
- Health and life insurance – 5.7 %.
- Medicare – 1.45 %.
- Other benefits (including workmen’s compensation, unemployment programs, bonuses and awards – 1.7 percent. The bonuses and awards included in this factor are for quality step increases and annual performance awards only. Other cash awards must be included as Other Pay based on historical data.

(2) For civilian employees not covered by either of the two retirement systems (normally intermittent or temporary employees), the Federal Insurance Contribution Act (FICA) cost factor applied to salary or wages is the employer contribution rate. The FICA rate must be applied only to wages and salaries subject to the tax. The current rate is 7.65 percent.

d. **Other Pay and Other Entitlements.** Entitlements that don’t earn fringe benefits are classified as **Other Pay**. Some examples are night differential pay for GS employees, hazardous pay, overtime, holiday, cash awards (other than quality step increases, and annual performance awards), and uniform allowances. Conversely, **Other Entitlements** are entitlements that earn fringe benefits. Some examples are night differential pay for FWS employees, environmental differential pay, and premium pay for civilian fire fighters and law enforcement officers.

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Information needed to ensure that all other pay and other entitlements have been considered and calculated correctly can be obtained from the personnel or payroll office. Other pay and other entitlements are calculated outside of the winCOMPARE program. Consequently, these computations should be shown on separate worksheets and included as support for the winCOMPARE personnel costs worksheets.

e. **Inflation.** Contractor positions that are subject to an economic price adjustment clause (positions subject to the Service Contract or Davis-Bacon Acts) are not inflated beyond the first performance period. These positions are subject to future wage determination adjustments performed by the Department of Labor. Government positions equivalent to these contractor positions must be identified. Activities can obtain this information from their personnel offices. To maintain a level playing field, personnel costs for equivalent government positions are **not** inflated beyond the first performance period. Salaries for the remaining positions are inflated through all of the performance periods, using the inflation factors provided by OMB.

Labor escalation is determined by the application of the Service Contract and Davis Bacon Acts **and** the contract type. The simple inclusion of these acts does not tell the analyst how to inflate labor costs.

- When a **fixed price** contract is used for a service acquisition, the cost analyst should inflate the MEO positions equivalent to labor categories found on the DOL wage determination through the first performance period only by coding these positions Economic Price Adjustment (EPA) “Yes” in winCOMPARE. All other positions should be inflated throughout the life of the contract.
- If the acquisition uses a cost reimbursement type contract, the cost analyst should inflate all labor costs throughout the life of the contract by coding all of the MEO positions as EPA “NO” in winCOMPARE.
- Finally, for any MEO labor categories that perform construction type work, the cost analyst should only inflate these positions through the first performance period, regardless of contract type.

f. **Review Steps**

(1) Determine whether the cost estimate agrees with the staffing structure that was included in the management study. Trace the personnel identified in the MEO to the cost study documents to ensure that the proper numbers of personnel and grade levels were captured in the cost estimate.

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Pay particular attention that the costed staffing structure includes appropriate costs for:

- Project management and quality control if required by the solicitation. Also, make sure the personnel costs are consistent with the transition period requirements included in the solicitation.
- The labor costs associated with the administration of support contracts that will be in place in the case of a MEO win but will not be offered to a winning contractor.

(2) Ensure that command has obtained a listing of MEO personnel who are **not** subject to an EPA clause from its supporting contracting office. Identify the subject matter expert in contracting who is responsible for determining the EPA classification and request that that person provide a signed report identifying the EPA classification for each of the positions. As a general rule, personnel not subject to EPA will be supervisors and professionals, such as accountants, lawyers and engineers. An entry of “Y” or “N” in the **EPA** Field on each Civilian Personnel Requirements and Costs input record lets COMPARE know whether personnel are subject to an EPA clause. Based on these entries, the software program will inflate personnel costs subject to an EPA clause through the first performance period only. It will inflate all remaining personnel costs through all performance periods. Trace the personnel that are not subject to an EPA clause from the listing provided by DOC to the Base Year Personnel Costs worksheet to ensure that these are the only personnel inflated in the out years. COMPARE identifies each of these positions with an asterisk on this worksheet.

(3) Determine whether command has included appropriate amounts of **Other Pay** in the cost estimate. Use the historical data you obtained during the preliminary review of the in-house cost estimate (preliminary review step 3d.) to assess the completeness of the estimate of other pay. Ensure that the MEO identifies which employees by grade level will receive each category of other pay. Ensure there is supporting documentation that shows how each element of other pay was calculated. Verify whether each category of other pay was calculated correctly and then trace the entries to the Civilian Personnel Requirements and Costs input records. As you do this review, note that the top half of each input record is concerned with the costs for one position (i.e., 1 GS-12 Auditor). However, the bottom half is concerned with the costs for all of the FTEs entered on each particular input record (i.e., 500 GS-12 Auditors). **Make sure you verify that the costs entered for other pay were for one position (not the total for all like positions) in the Other Added Pay Field of each appropriate input record.** You can obtain guidance on how to compute overtime, holiday pay, etc. from the Internet, Federal Employees Almanac, DFAS, and the personnel office.

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(4) Determine whether command has included appropriate amounts of **Other Entitlements** in the cost estimate. Use the historical data you obtained during the preliminary review of the in-house cost estimate (preliminary review step 3d.) to assess the completeness of the estimate of other entitlements. Ensure that the MEO identifies which employees by grade will receive each category of other entitlements. Ensure there is supporting documentation that shows how each element of other entitlements was calculated. Verify whether each category of other entitlements was calculated correctly and then trace the entries to the Civilian Personnel Requirements and Costs input records. As you do this review, note that the top half of each input record is concerned with the costs for one position (i.e., 1 GS-12 Auditor). However, the bottom half is concerned with the costs for all of the FTEs entered on each particular input record (i.e., 500 GS-12 Auditors). **Make sure you verify that the costs entered for other entitlements were for one position (not the total for all like positions) in the Other Entitlements Field of each appropriate input record.**

(5) Once you have completed the above steps and ensured that all discrepancies have been corrected, COMPARE should have calculated Line 1 correctly. However, because the Tables can be somewhat tricky, as a final check, calculate the personnel costs for one FWS and one GS position (1 EPA “Y” and 1 EPA “N”) and compare your calculations with the calculations on the input records. **The costs should be identical.** If they are not, in all likelihood, you missed something when you verified that the study tables had been correctly updated. An example of how to do the manual calculations is included in the COMPARE Lessons Learned, which can be downloaded from the IMT portion of the USAAA website.

(6) If the cost estimate you are reviewing includes NAF employees, also complete the steps shown at (to be published).

6. Cost Comparison Form Line 2 – Material and Supply Costs

a. **Background.** Material and supplies include items such as raw materials, parts, subassemblies, components, and office supplies. The costs of materials, which will be used by the MEO and also furnished to the contractor are common costs and therefore excluded from the cost comparison. **Material and supply costs are computed only if the materials and supplies to be used by the MEO will not also be provided to the contractor. In some cases, Schedule B of the solicitation may contain a predetermined material and supply cost that the contracting officer wants included in both the contract offers and the in-house cost estimate. To determine whether an EPA provision applies to materials and supplies you must check the instructions contained in Schedule B and the rest of the solicitation. When the solicitation makes the offeror responsible for providing any of the materials and supplies and directs the offeror not to**

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inflate these costs, the MEO must also not inflate its materials and supplies by coding the EPA provision as “No” in winCOMPARE.

b. **Review Steps.** Review the solicitation to determine which materials and supplies, if any, should be included in the cost study. Government Furnished Materials (GFM) should be excluded from the cost comparison since these costs are common. When these are common costs, ensure there are no costs included on Line 2 of the CCF.

When Materials and Supplies are not common costs:

(1) Evaluate the basis used to estimate material quantities (historical, budgeted, engineering performance standards, etc.). Determine whether the estimates are reasonable. Determine whether appropriate adjustments have been made for changes in workload that have been incorporated into the PWS and management study.

(2) Ensure that the materials and supplies listed in the MEO and cost study supporting documentation agree with the verbiage contained in the solicitation concerning materials and supplies. Trace the total from the supporting documentation to the Material and Supply Costs input record.

(3) Determine whether or not the solicitation calls for economic price adjustments of material costs in the out years. If so, ensure that a “Y” was entered in the **EPA** Field on the Material and Supply Costs input records. An entry of “Y” tells COMPARE to inflate Materials and Supplies only through the first performance period. An entry of “N” inflates the costs through all performance periods. Note that unless the solicitation includes special instructions directing the offeror to not inflate material and supply costs, these costs are escalated.

(4) Ensure that the cost estimate does not apply markup rates to the costs of materials and supplies. Verify that the **Material Mark-up Factor** Field on the Material and Supply Costs input record shows a value of zero.

7. Cost Comparison Form Line 3 – Other Specifically Attributable Costs

a. **Background.** Personnel and materials are normally the primary sources of Government costs. However, there are other elements of costs attributable to the activity being studied. These costs include depreciation, rent, maintenance and repair, utilities, insurance, travel, and MEO subcontracts.

b. **Depreciation.** Depreciation is a means of allocating the costs of tangible capital assets, less residual value, over their useful lives. Examples of capital assets are buildings, machinery, equipment and land improvements such as roads and parking lots. Costs to be depreciated include acquisition

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costs and the costs of any capital improvements, which extend the useful life of an asset. The Supplemental Handbook states that capital assets only include items with an acquisition cost of \$5,000 or more. It also prescribes the straight-line basis for allocating depreciation costs. Depreciation is a common cost when the assets to be used by the MEO will also be provided to the winning contractor. **Depreciation is included in the in-house cost estimate for those assets that will be used by the MEO but not provided to the contractor.** When an in-house activity shares an asset that will not be provided to the contractor with another activity, depreciation is allocated to the MEO on the basis of use or other appropriate method. The following terms are explained for clarification:

- **Acquisition Cost.** Acquisition cost includes the purchase price of an asset plus any related transportation and installation costs. Most Army units and organizations are required to maintain property books to account for all non-expendable property. A property book record should be maintained for each line item indicating the stock number, reportable line item number, description, quantity, unit price, and date acquired. Asset values should be recorded at cost; however, costs are frequently unrecorded and unknown. In these cases, acquisition costs must be based on engineering estimates, cost of similar items acquired about the same time, current invoice costs or published prices for similar items adjusted for inflation.
- **Useful Life.** Useful life is the estimated period of economic usefulness of an asset. Appendix 3 of the Supplemental Handbook (COMPARE Table 12) provides a representative useful life table for various classes of equipment. **When an asset is fully depreciated or will become fully depreciated before the end of the performance period, the useful life of the asset must be extended through the end of the performance period. Depreciation is then recalculated, using the extended useful life and original acquisition cost.**
- Facilities are generally categorized as permanent, semi-permanent or temporary. Here are the useful lives for facilities:

Facility Category	Useful Life
Permanent (P)	75 years
Semi-Permanent (S)	50 years
Temporary (T)	25 years

- **Residual Value.** The residual value of an asset is the value at disposition (less cost of disposal) estimated at the time of acquisition. DOD components should use the disposal values listed in Appendix 3 of the Supplemental Handbook when calculating depreciation.
- **Capital Improvements.** Capital improvements are the costs of major overhauls and modifications, which add value or prolong the life of a

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capital asset. These costs should be treated as capital expenditures and depreciated over the remaining useful life of the asset.

Review Steps. Review the solicitation and Management Study to verify that there are no assets that will be used by the MEO but not be provided to the contractor. If so, ensure that depreciation costs were not included on Line 3. You can verify whether depreciation has been included in the cost study by reviewing the Other Specifically Attributable Costs Summary Worksheet.

When depreciation is not a common cost.

(1) Considering the parameters of the cost study under review, to develop a methodology for statistically or judgmentally sampling capital equipment and facilities. For the items selected, perform these additional audit steps.

(2) Verify that a Capital Equipment Asset or a Capital Facility Asset input record was created for each item selected for review.

(3) Evaluate the basis used for establishing acquisition costs. Selectively review property books and other records to verify that depreciation was based on recorded acquisition costs, and acquisition and construction dates. Where acquisition costs are not recorded, evaluate the basis used to develop estimates of the costs. Trace the acquisition and construction dates, and acquisition costs to the Capital Equipment Assets and Capital Facility Assets input records.

- For equipment, ensure that the correct federal stock class was entered on the input records. Ensure that a “Y” was entered in the **Apply Costs of Depreciation** field. Also, ensure that a “Y” was entered in the **Apply Table 12** field. This last entry tells COMPARE to use OMB standard useful life and disposal values when calculating depreciation. For any useful life or disposal value deviations, ensure that the rationale is reasonable and documented in the COMPARE Line Rationale.
- For facilities, ensure that the proper facility code (P – Permanent, S – Semi-permanent, or T – Temporary) was entered on the input records. Evaluate the reasonableness of the estimated residual value – in this case, instead of being based on Table 12, this will be a local estimate. Ensure that a “Y” was entered in the **Apply Costs of Depreciation** field. Ensure that a “Y” was entered in the **Apply Standard Useful Life Factors** field. For any useful life deviations, ensure that the rationale is reasonable and documented in the COMPARE Line Rationale.

(4) For any asset that has already exceeded or will exceed the useful life standards before the end of the performance period, ensure that the asset’s useful life was extended. Here is what you are looking for:

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- Ensure that an “N” was entered in the **Apply Standard Useful Life Factors** field.
- Ensure that the useful life was properly extended. Compare the value in the **Expected Useful Life** field to the sum of the value in the **Age of Asset** field plus the number of performance periods in the cost comparison. For example, if you have a truck (Federal Stock Class of 2320A), the standard useful life found in Table 12 is 6 years. If the age of the asset value is 3.41 years and you have 3 performance periods, your useful life will be less than the sum of the age of the asset plus the number of performance periods—in this case, 6.41 years. Consequently, the useful life should be extended to 7 years and the reason why should be documented in the COMPARE line rationale.

(5) For shared assets, evaluate the basis used to allocate depreciation between the in-house activity and other activities sharing the assets. In COMPARE, the percentage of in-house usage of shared assets is entered in decimal format in the **% Shared Asset Usage** Field on Capital Equipment Assets and Capital Facility Assets input records. For example, 1.00 is entered for assets used 100 percent by the in-house activity. And .75 is entered for assets used 75 percent of the time in support of the MEO.

(6) Verify that COMPARE is computing depreciation correctly by checking the calculations on 1 or 2 assets. Here is an example of the steps you will need to follow:

- Look up the standard useful life and residual value factor in Table 12. For example, a truck in the Federal Supply Class of 2320C has a useful life of 9 years and a residual value factor of .1796.
- Calculate the residual value by multiplying the factor times the original acquisition cost of the asset. Assuming that our truck cost \$25,000, the residual value would be \$4,490 ($25,000 * .1796$).
- Calculate the depreciable basis by subtracting the residual value from the original acquisition costs ($25,000 - 4,490 = 20,510$).
- Calculate annual depreciation by dividing the depreciable basis by the useful life of the asset ($20,510 \text{ divided by } 9 = 2,278.89$).
- Determine the age of the asset as of the **base year**, which you can obtain from the Study Characteristics Record. For our example, we will assume that the base year is 1 June 1999 and that our truck was purchased on 1 December 1998. Therefore, our truck is .5 years old (6 months divided by 12 months).
- Calculate accumulated depreciation by multiplying the age of the asset times annual depreciation ($2,278.89 * .5 = 1,139.45$).

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- Calculate the net book value by subtracting accumulated depreciation from the original acquisition costs of the asset (25,000 – 1,139.45 = 23,860.45).

c. **Cost of Capital.** Cost of Capital is included as part of Line 3 on the generic CCF contained in the Supplemental Handbook. The cost of capital is an imputed charge on the investment in capital assets necessary for the activity to provide its product or services. The cost of capital is an opportunity cost. If the capital had been devoted to another use, it could have provided other income or avoided interest expense.

The cost of capital must be included in the in-house cost estimate when **both** of the following conditions are met:

- The capital assets will **not** be provided to the contractor.
- The assets were purchased less than two years prior to the contract start date or will be purchased within the performance period.

The cost of capital will not be included in most of the in-house cost estimates because most activities will provide all of their equipment and facilities to the contractor in the event of a contractor win. To estimate the annual cost of capital, it is necessary to identify the acquisition cost of new assets. For assets acquired by transfer, forfeiture, or seizure, an engineering appraisal may be used to establish the market value of the assets when the original acquisition cost cannot be determined.

The total cost of a new asset is the sum of the purchase price, transportation costs, and any installation costs incurred to place the asset in operation. Activities may also modify existing assets (capital improvements) to make them operationally ready for the MEO to use in performing the tasks contained in the PWS. The costs for these modifications are considered capital costs. The cost of capital is computed by applying the nominal cost of capital rate against the estimated total cost of the asset for each performance period. The in-house cost estimate must be based on the capital rate that corresponds to the total number of years included in the performance periods. For example, if the first and last performance periods are six months in length and there are three twelve month periods between them, there are a total of four years of performance. Therefore, the in-house cost estimate must be based on the four year capital rate. OMB Circular A-94 provides the nominal interest rate.

COMPARE calculates the cost of capital based on the entries made on Capital Equipment Assets and Capital Facility Assets input records. COMPARE calculates cost of capital, when a “Y” is entered in either the **Item (Facility) is New Purchase, Item (Facility) is Transfer, or Item (Facility) is Existing CA Asset** Field.

COMPARE calculates the cost of capital using the following formula:

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Cost Basis * Cost of Capital Rate * % of MEO Share of Asset Usage

For a new purchase, the cost basis is the acquisition cost. For a transfer, the cost basis is the sum of the net book value, transportation, installation and other costs. And the cost basis for an existing asset is the total modification costs required to make the equipment or facility operationally ready.

Review Steps. Review the solicitation and MEO to verify whether there are any capital assets that were or will be purchased less than two years prior to the contract start date or that will be purchased within the performance period but not provided to the contractor. If **not**, ensure that cost of capital costs are not included on the CCF.

When the cost of capital should be included in the in-house cost estimate:

Review the solicitation, MEO and property book records to identify assets purchased less than two years prior to the cost comparison date. Also, determine whether the activity plans on purchasing new capital assets within the performance period. You should be able to obtain this information from the activity or installation resource management office.

For new assets:

(1) Evaluate the basis for determining acquisition costs (plus transportation and installation costs, if any). Trace the acquisition costs from the supporting documentation to the appropriate Capital Equipment Assets and Capital Facility Assets input records. Ensure that a “Y” was entered in the **Cost of Capital New Purchase** field.

(2) If the assets are shared and weren’t included in your review of depreciation, evaluate the basis for establishing the MEO share of asset usage.

(3) Verify that the cost of capital was determined by applying the nominal rate provided by OMB Circular A-94 to the total acquisition cost of the asset. Use the Capital Equipment Assets and Capital Facility Assets input records to do this analysis. Your formula is:

Cost Basis (Orig. Acq. Costs) * Capital Rate (from Table 8) = Cost of Capital

For transferred assets:

(1) Evaluate the reasonableness of the net book value by performing the following steps:

- Evaluate the basis used for establishing acquisition costs. Review property books and other records to verify that depreciation was based on recorded acquisition

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costs and acquisition and construction dates. Where acquisition costs are not recorded, evaluate the basis used. Trace the acquisition and construction dates, and cost entries to the Capital Equipment Assets and Capital Facility Assets input records.

- For equipment, ensure that the correct federal stock class was entered on the Capital Equipment Asset input records. Also, ensure that a “Y” was entered in the **Apply Cost of Depreciation** and **Apply Table 12** fields. For any useful life or disposal value deviations, ensure that the rationale is reasonable and documented in the COMPARE Line Rationale.
- For facilities, ensure that the proper facility code (P – Permanent, S – Semi-permanent, or T – Temporary) was entered on the Capital Facility Asset input records. Evaluate the reasonableness of the estimated disposal value – in this case, instead of being based on Table 12, this will be a local estimate. Ensure that a “Y” was entered in the **Apply Cost of Depreciation** and the **Apply Standard Useful Life Factors** fields. For any useful life deviations, ensure that the rationale is reasonable and documented in the COMPARE Line Rationale.

(2) Evaluate the basis used to establish transportation, installation and other costs. Trace transportation, installation and other costs from the supporting documentation to the Capital Equipment Assets and Capital Facility Assets input records.

(3) If the assets are shared and weren't included in your review of depreciation, evaluate the basis for establishing the MEO share of asset usage.

(4) Verify that the cost of capital was determined by applying the nominal rate provided by OMB Circular A-94 to the sum of the net book value plus transportation, installation, and other costs. Use the Capital Equipment Assets and Capital Facility Assets input records to do this analysis. Your formula is:

Cost Basis (Net Book Value + Trans. + Inst. + Other Costs) * Capital Rate = Cost of Capital

For existing assets:

(1) Evaluate the basis for determining other costs (modification costs required to make an existing asset operationally ready). Trace the other costs from the supporting documentation to the appropriate Capital Equipment Assets and Capital Facility Assets input records.

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(2) If the assets are shared and weren't included in your review of depreciation, evaluate the basis for establishing the MEO share of asset usage.

(3) Verify that the cost of capital was determined by applying the nominal rate provided by OMB Circular A-94 to the other costs for the asset. Use the Capital Equipment Assets and Capital Facility Assets input records to do this analysis. Your formula is:

$$\text{Cost Basis (Other Costs) * Capital Rate} = \text{Cost of Capital}$$

d. **Rent.** Rent is the allocated cost incurred by the function under study for the use of non-government owned assets. When the actual rental charge can't be determined, where possible, use the General Services Administration standard level user charge to determine rental costs. COMPARE automatically inflates rental costs using the standard inflation factors contained in Table 8. The program will also automatically prorate rental costs for performance periods less than 12 months. **Only those rental costs that will be incurred in the event of a MEO win, but not incurred in the event of a contractor win should be included in the in-house cost estimate.**

Review Steps Review the MEO and solicitation to determine whether rental costs should be included in the in-house cost estimate. If not, this is a common cost.

When rental costs are not common costs:

(1) Evaluate the basis used for establishing rental costs to determine whether the cost estimates are reasonable. Trace the rental costs for each rented item from the supporting documentation to the **Base Year Costs** field for the 1st performance period on the appropriate Rental Costs input record.

(2) Ensure that rental costs were not inflated or prorated before they were entered into COMPARE since the program will automatically take care of these considerations.

e. **Maintenance and Repair.** Maintenance and repair costs are incurred to keep buildings and equipment in normal operating condition. Maintenance and repair does not include capital improvements, which prolong the useful lives of assets and therefore are accounted for under depreciation. **Maintenance and repair costs should be included in the cost estimate only for those assets that will not be furnished to the contractor, but are needed for in-house performance and are not covered by rental fees. These costs must also be included in the cost estimate when assets are government furnished, but will be maintained by the contractor.**

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Review Steps. Review the MEO and solicitation to determine whether maintenance and repair costs should be included in the in-house cost estimate. If not, this is a common cost.

When maintenance and repair costs are not common costs:

(1) Evaluate the basis used for establishing maintenance and repair costs to determine whether the cost estimates are reasonable. Trace the maintenance and repair costs from the supporting documentation to the **Base Year Costs** Field for the 1st performance period on the appropriate Maintenance and Repair Costs input record. Ensure that capital expenditures for major improvements or asset enhancements are not included as maintenance and repair costs. Ensure that maintenance and repair costs for assets covered by rental fees are not included in the in-house cost estimate.

(2) Ensure that maintenance and repair costs were not inflated or prorated before they were entered into COMPARE since the program will automatically take care of these considerations.

f. **Utilities.** Normally, utilities provided to the MEO are offered to the contractor. Thus, utility costs are usually common costs. Usually the DPW can provide the cost factors (cost per allocation unit) and the number of cost allocation units assigned to the activity undergoing a CA review. Utility costs can then be determined by multiplying the factors.

Review Steps. Review the MEO and solicitation to determine whether the utilities needed for in-house performance will also be provided to the contractor. If so, utility costs are common costs and you only need to verify that they are not included in the in-house cost estimate.

When utility costs are not common costs:

(1) If utility costs are included in the cost estimate, evaluate the reasonableness of the basis (metered or allocated) to determine utility costs. Trace the utility costs from the supporting documentation to the **Base Year Costs** field for the 1st performance period on the appropriate Utilities Costs input record.

(2) Ensure that utility costs were not inflated or prorated before they were entered into COMPARE since the program will automatically take care of these considerations.

g. **Insurance.** The operation of any activity involves risks and potential costs from casualty losses such as fire, flood and liability claims.

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Since the government is primarily self-insured, it must pay for each loss incurred.

h. **Casualty Insurance.** Insurance computations on assets will depend on the requirements contained in the PWS:

- If the solicitation requires the contractor to provide casualty insurance on government furnished assets, insurance costs should be computed for all assets used by the activity under study.
- If the solicitation is silent concerning casualty insurance , insurance costs should only be computed on those assets that will be used by the MEO but not provided to the contractor.

Casualty losses are computed by multiplying .005 times the sum of the net book value (depreciable basis less accumulated depreciation) of government equipment and or facilities, plus the average value of material and supplies).

COMPARE calculates property insurance costs based on the entries on the following input records:

- Capital Equipment Assets.
- Capital Facility Assets.
- Minor Items.
- Material and Supply Costs.

On all capital asset and minor item records, a “Y” must be entered in the **Apply Cost of Casualty Insurance** field if the asset will either: be used solely for an in-house operation, but not furnished to a winning contractor; or furnished, but insured by the contractor. Based on these entries, COMPARE will automatically generate the necessary casualty insurance worksheets and transfer the proper cost totals to the Other Specifically Attributable Costs Worksheets.

In most cost studies, the government will provide all of its assets to the contractor. Consequently, all costs related to capital assets will be common costs, and there will be no need to create capital asset or minor-item records to be included as supporting documentation for the in-house cost estimate. An exception occurs when assets will be government furnished but contractor insured. **When the solicitation calls for assets to be government furnished but insured by the winning contractor, separate capital equipment, capital facility, and minor-item records must be created for all of the assets to let COMPARE know that it needs to calculate casualty insurance on these items.**

For materials and supplies, winCOMPARE first calculates a one-month average stockage value. It then computes casualty insurance based on this one-month average. As long as a Materials and Supply Costs input record was created,

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COMPARE will automatically do this calculation and create all of the necessary worksheets.

i. **Liability Insurance.** Personnel liability losses will be computed by multiplying .007 times the total personnel costs on Line 1. COMPARE automatically does this calculation and prepares all of the necessary worksheets based on the personnel input records previously created for Line 1.

Additional liabilities assigned to the contractor by the PWS that aren't associated with personnel will be computed by applying the standard .007 factor against the estimated liability ceiling identified in the PWS and included in the in-house cost estimate. The additional insurance costs must be calculated outside of COMPARE and entered as an **Other Costs** under this line.

Review Steps. Review the MEO, and solicitation to determine whether casualty insurance is a common cost. Verify that the government is going to provide all assets used by the MEO to the contractor and that the solicitation **doesn't** require the contractor to provide casualty insurance on government furnished assets.

When casualty insurance costs are not common costs:

(1) Develop a methodology for statistically or judgmentally sampling capital equipment, capital facilities, materials and supplies, and minor-item input records. In some cases, it may be appropriate to use the same sample that was used to evaluate depreciation. For the items selected, complete the following additional audit steps.

(2) If the winning contractor has to provide casualty insurance on government furnished assets, determine whether all assets used by the activity under study have been included in the casualty insurance calculation. Alternatively, if casualty insurance is not required but the government is not going to provide all assets used by the MEO to the winning contractor, verify that the assets that will not be provided were used to calculate insurance costs. Ensure that a Capital Equipment Asset or a Capital Facility Asset input record was created for each item selected for review. Verify that a "Y" was entered in the **Apply Cost of Casualty Insurance** field on each input record.

(3) There is a possibility that you already reviewed these input records when you completed your review of depreciation. However, it is also possible that you didn't review these records because depreciation was a common cost. Since casualty insurance is computed based on net book values, if you haven't already done so, you need to complete audit steps 7.b.(3)-(6) discussed in the depreciation section of this audit guide.

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(4) If the contractor is required to carry casualty insurance on minor items, ensure that a Minor Items input record has been created for each minor item and that a “Y” was entered in the **Apply Expense of Casualty Insurance** field.

(5) If the contractor is required to carry casualty insurance on materials and supplies, ensure that a Material and Supply Costs input record has been created for each category of materials and supplies.

(6) Use the Casualty and Liability Insurance Computations Worksheet to verify that casualty insurance was calculated at .005 times the total amount to be insured.

(7) Use the Casualty and Liability Insurance Computations Worksheet to verify that liability insurance was calculated at .007 times the total of personnel costs for each performance period. If additional liabilities have been assigned to the contractor that aren't associated with personnel, determine whether this cost was obtained by multiplying .007 times the estimated liability ceiling identified in the PWS. Trace this amount to the Other Costs input record.

j. **Travel.** This category covers the expected cost of travel to be incurred by positions in the MEO, which **would not** continue in the event of a contract award. These costs should be readily available from budgeted amounts of per diem and transportation costs for the function under study.

Review Steps

(1) Review the MEO, and solicitation to determine whether there will be any travel costs incurred by positions in the MEO that will not continue in the event of a contract award. If not, travel will be a common cost.

(2) If so, determine whether travel costs were based on budgeted or historical amounts. Evaluate the reasonableness of the estimates. Trace the travel costs from supporting documentation to the **Base Year Costs** field for the 1st performance period on the Travel input record.

(3) Ensure that travel costs were not inflated or prorated before they were entered into COMPARE since the program will automatically perform these calculations.

k. **Other Costs.** This is a general category of specifically attributable costs that do not properly fit into another cost element, but would change in the event of contractor performance. Examples include transportation costs, packing and crating, royalties, and additional insurance if required of the contractor in the solicitation. When a solicitation requires the contractor to carry additional insurance that the in-house cost estimate must also include

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an estimate of the premiums necessary to purchase the insurance up to the amount stated in the solicitation as part of other costs.

Review Steps

(1) If any of these costs are included in the in-house cost estimate, evaluate the reasonableness of the cost estimates. Ensure that they are not also included as part of another CCF line, such as Line 2 (Materials and Supplies). Trace the other costs from the supporting documentation to the **Base Year Costs** field for 1st performance period on the Other Costs input record

(2) Ensure that other costs were not inflated or prorated before they were entered into COMPARE since the program will automatically perform these calculations.

1. **MEO Subcontracts.** Management studies that include work currently performed by the in-house workforce and work performed by contract should include the MEO cost of labor for contract administration and inspection as part of Line 1. Table 3-1 in the Supplemental Handbook is used to determine how many additional FTEs to add to personnel costs in Line 1. Additional FTE's are based on the number of contract employees. The cost of the support contracts, including the cost of equipment and facilities **not provided** to the contractor should be entered on Line 3.

The costs of the support contracts should be adjusted for inflation in each performance period. However, when purchased services contain labor costs subject to an economic price adjustment clause, the applicable labor portion is not escalated beyond the first year of performance. Also the cost of services purchased using the IMPAC credit card should be recorded on Line 3. The costs of each support contract should also be adjusted downward to offset for potential federal income tax revenue to the government by applying the appropriate tax rate contained in Appendix 4 of the Supplemental Handbook (COMPARE Table 13) to the total cost of the support contract.

The cost of MEO subcontracts are common costs when: (1) existing contracts will be made available to a perspective contractor, or (2) existing MEO subcontracts are being resolicited as part of the solicitation on the basis of an "any or all" bid or offer, and separate line item bids are being requested for the workloads performed by the in-house workforce and the MEO subcontracts.

Review Steps. Review the MEO, and solicitation to determine whether existing subcontracts will be made available to perspective contractors. If so, MEO subcontracts are common costs.

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When MEO subcontracts are not common costs:

(1) Ensure that the costs related to contract administration and inspection of the support contracts have been added to Line 1 (Personnel Costs). Use Table 3-1 of the Supplemental Handbook to determine how many additional FTEs should be added to Line 1. These FTEs are in addition to the personnel included in the MEO. Also, ensure that the grade levels are reasonable. Trace the contract administration personnel and grade levels to the Civilian Personnel Requirements and Costs input records. Ensure that a “N” was entered in the **EPA** field on the input records for all of the additional contract administration positions added to Line 1.

(2) Ensure that the cost of the support contracts, including equipment and facilities **not provided** to the contractor are included in Line 3. Ensure that the estimated future IMPAC credit card purchases of services are also included on this line. Ensure that the subcontract costs have been adjusted downward to offset for federal income tax. Use Table 13 to verify that the right tax rate was used to make this adjustment for each subcontract. Trace the cost of each MEO subcontract from the supporting documents to the appropriate Other Costs input record. Ensure that a code of “O” (inflate using operation and maintenance inflation factors) was entered in the **Inflation Factors to Apply** field.

(3) Determine whether the support contracts contain labor costs subject to an EPA clause. You can obtain this information from contracting personnel. If so, ensure that this portion of the costs was only inflated through the first performance period. In this case, you need to verify that an “N” was entered in the **Costs Remain Unchanged For All Periods** field. Ensure that the supporting documents show how much of the total MEO subcontract cost is subject to an EPA clause. Trace the costs of the MEO subcontract from the supporting documentation to the **Base Year Costs** for the 1st performance period on the Other Costs input record. Then verify that the inflation related to the personnel costs that are subject to an EPA clause was deducted from the **Base Year Costs** entered in the out years. In this way, when COMPARE applies the inflation factor, it will bring the costs up to the correct amount. Use the appropriate inflation factor from Table 8 to calculate how much the deduction should be.

m. **Minor Items.** Minor items are assets costing less than \$5,000. Minor items that will be used by the MEO but not provided to the contractor are included in the in-house cost estimate. Examples of minor items include overhead projectors, office equipment, tools, chairs, desks, cabinets, etc. When the MEO will acquire new minor items that will not be government furnished in order to meet the requirements of the PWS the total new acquisition costs must be included on line 3. For existing minor items that will not be government furnished 10 percent of the total estimated replacement costs (unit prices) will be allocated to each performance period. The costs get added to **Other Costs**

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within this line. Shared minor items are **not** allocated to the in-house cost estimate.

Review Steps

(1) Review the MEO and solicitation to determine whether minor items will be provided to the contractor. If so, these are common costs.

When minor items are not a common cost:

(2) For existing assets, ensure that 10 percent of the unit price is allocated to each performance period. For new assets, ensure that the total acquisition cost is included in the period of purchase. Evaluate the basis used to establish the cost of the minor items. Trace the minor items from the supporting documentation to the Minor Items input records and verify that a “Y” was entered in the **Apply Expense of 10 % Annual Cost** field.

After you have completed the above steps, you need to do one additional audit step.

8. Cost Comparison Form Line 4 – Overhead

a. **Background.** This line includes two categories of overhead: operations overhead, and general and administrative overhead. OMB dictates that a standard factor of 12 percent times the total cost of Line 1 (personnel costs), including fringe benefits is used to calculate overhead. When military personnel are included in Line 1, they are excluded from this calculation because the military composite rate already includes overhead. COMPARE automatically does this calculation based on the personnel entries and the overhead factor included in Table 8.

b. **Review Steps.** Review the CCF and verify that Line 4 is 12 percent of Line 1. Remember that if there are any military personnel in the cost estimate, back their costs out of Line 1 before calculating Line 4.

9. Cost Comparison Form Line 5 – Additional Costs.

a. **Background.** The cost of contract performance includes expenses such as relocation and retraining costs for civilian employees assigned to the MEO who would be adversely affected in the event of a contract decision. These costs are entered on Line 10 of the COMPARE CCF. To ensure a level playing field, the cost of in-house performance must similarly include one-time conversion costs related to filling vacant MEO positions in the event of an in-house decision. Accordingly, this line includes the transition or phase-in costs associated with converting the current organization to the MEO, unless the

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first performance period has been designated as the phase-in period. When the first performance period is designated as the phase-in period, lines 1 through 5 are used to document these costs as discussed in this guide. Examples of additional costs include office and plant rearrangements, employee recruitment, training and relocation expenses.

b. **Review Steps.** Review the solicitation, MEO and supporting documents to determine if any additional costs should be included in the in-house cost estimate. **If not**, ensure that the in-house cost estimate does not include any costs on Line 5.

When Additional Costs should be included in the in-house cost estimate:

(2) Ensure that management has included appropriate additional costs in the in-house cost estimate. Ensure that the underlying assumptions and methods of computation are reasonable and adequately documented. Verify that all computations are mathematically correct.

(3) Trace the total for additional costs from supporting documents to the entry on the One-Time Conversion Costs input record. Ensure that this line does not include the government's investments in new capital equipment and facilities. These costs are captured on Line 3, as previously discussed.

10. Cost Comparison Form Line 6 – Total In-House Costs.

Review Step. COMPARE will sum the amounts of Lines 1 through 5 and enter the total on Line 6. Verify the mathematical accuracy of the amount shown on Line 6 by manually adding the total values of Lines 1 through 5 on the CCF.

CONTRACT PERFORMANCE COSTS

11. CCF Line 7 – Contract Price. There will be no entry on this line at the time of our review.

12. CCF Line 8 – Contract Administration. Contract administration costs are those costs incurred in administering a contract. They include the cost of reviewing compliance with the terms of the contract, processing payments, negotiating change orders, and monitoring the cost of contract closeout. Table 3-1 in the Supplemental Handbook represents contract administration staffing requirements based on the number of positions shown in the MEO. Contract administration costs are computed by selecting the appropriate factor from Table 3-1 based on the size of the MEO and any MEO subcontracts that will not be made available in the event of a contract decision. When the solicitation includes MEO subcontracts that will not be made available to potential contractors, the contract manpower equivalents associated with the subcontracts are added to the number of positions in the MEO to determine

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the number of contract administration positions required. Personnel costs for contract administration are limited to the number of personnel identified in Table 3-1. According to OMB Update XIV, Table 3-1 represents the total allowed contract administration costs, to include allowances for additional equipment and supplies needed by contract administration personnel. Therefore, only the total number of personnel identified by Table 3-1 should be included in the in-house cost estimate. .

Personnel Costs are calculated in the same manner as for Line 1 and are inflated by applying the inflation factors contained in Table 8. Economic price adjustment clauses do not apply to the personnel costs included on Line 10. Consequently, personnel costs for contract administration are inflated through all performance periods.

COMPARE includes a separate set of input records for Contract Administration Costs. The Contract Administration input records are identical to the input records used to enter the costs for Line 1. The program also automatically codes all contract administration personnel as EPA "N".

Review Steps

(1) Determine whether command used Table 3-1 correctly to determine contract administration staffing requirements.

(2) Determine whether the mix of contract administration personnel and grade levels are reasonable. Are the personnel consistent with the mix and grade levels used for comparable contracts on the installation?

(3) Trace the contract administration personnel included in the MEO to the Contract Administration Civilian Personnel Requirements and Costs input records to ensure that the proper number of personnel and grade levels were captured in the cost estimate.

(4) Make sure that only personnel and related liability insurance costs are included on this line. **No other additive costs are allowed.**

13. Cost Comparison Form Line 9 – Additional Costs. Line 9 includes any additional costs to the government, such as transportation or purchased services resulting from unusual or special circumstances. Supporting documents for the costs entered on Line 9 should describe the nature of the cost, method of computation and justification for inclusion. Moreover, the supporting documents must explain why these costs **would not** be incurred if the work is performed with in-house resources. The cost of maintaining MEO equipment and facilities on standby to maintain performance capability in case of contractor failure **cannot be charged** to the cost of contract performance.

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These costs are entered into COMPARE on Contract Additional Costs input records, which are identical to the Additional Costs input records used to enter Line 7 costs.

It is unlikely that Additional Costs will be included as part of the cost of contract performance in the cost studies that we will be reviewing.

Review Steps. Review the solicitation and MEO to determine if any additional costs should be included in the cost of contract performance.

When additional costs should be included:

(1) Ensure that appropriate additional costs are included in the cost of contract performance. Ensure that the underlying assumptions and methods of computation are reasonable and adequately documented. Verify that all computations are mathematically correct.

(2) Trace the total for additional costs from supporting documents to the entry on the Contract Additional Costs input record.

(3) When it is appropriate to apply inflation, verify that the proper code was entered in the **Inflation Factor To Apply** field.

14. Cost Comparison Form Line 10 – One-Time Conversion Costs. When the Army converts from in-house to contract performance, there are usually one-time conversion costs incurred as a result of the conversion. Supporting documents should clearly state the type of cost anticipated, justification for inclusion and method of computation. COMPARE allocates one-time conversion costs to each performance period by dividing the total one-time costs by the number of periods in the cost comparison. One-time conversion costs **are not** inflated. One-time conversion costs can include material related, labor related and other costs.

a. **Material Related Costs.** DOD has concluded that there should be no material related conversion costs included as one-time conversion costs in the CCF. A conversion may result in certain items of government material or equipment that would otherwise have been used by the MEO, becoming excess and available for transfer to another in-house activity or to a winning contractor. However, when the activity is going to transfer material or equipment to a contractor, it is not appropriate to include the cost of conducting a joint inventory on Line 12. DOD has concluded that conducting an inventory is a wash cost.

b. **Labor-Related Costs.** Labor related costs could include health benefit costs, severance pay, homeowner assistance, relocation and retraining expenses. (Initial contractor security clearance requirements are no longer allowed per DOD guidance). In order to claim these costs at installations not

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located in geographic regions where there are historically high placement rates for Government employees, a mock reduction-in-force (RIF) is required. The appropriate human resource office should certify the mock RIF. Terminal leave costs, such as lump sum payment of accrued annual leave, costs related to incentive pay for early release or retirement, and unemployment compensation should not be added to the cost of contract performance. The Supplemental Handbook requires severance pay to be calculated at four percent of annual basic pay (first performance period only—must be 12 months) entered on Line 1, without fringe benefits. (Personnel costs related to the personnel that the mock RIF identified as receiving retraining, relocation, and health benefits should be excluded from the severance pay calculation.) Temporary continuation of health benefits is available for 18 months and is calculated based on the government's share of the insurance premium using the type of coverage (plan and option) carried by the affected employees plus a 2 percent surcharge.

c. **Other Costs.** A conversion may require an activity to take certain actions that would not be necessary if the work remained in-house. For example, it may not be possible to terminate a rent or lease agreement without a penalty fee, or it may be necessary to move materials that are not associated with the activity under study to another location in order to facilitate conversion. However, activities have an obligation to mitigate these costs and to justify why such costs are necessary.

COMPARE calculates severance pay when a Contract One-Time Conversion Costs – Severance Pay input record is created. You may encounter a situation where the number of civilian employees currently assigned to the in-house activity is less than the number of civilian positions included in the MEO. In this case, it is not correct to calculate severance pay based on the MEO personnel costs included in Line 1. To handle this situation, the number of currently assigned civilian employees is entered in the **Assigned Employees** field. COMPARE then reduces the costs of severance pay by the ratio of currently assigned employees over the number of civilian positions in the MEO. **COMPARE allows users to overwrite the standard severance pay computation and enter their own estimates for severance pay. However, activities should use the standard calculation unless they have obtained a waiver from OMB.**

One-time conversion costs other than severance pay are entered in the **Total Estimated Cost** field on the Contract One-Time Conversion Costs input record.

Review Steps

(1) If materials and equipment will be transferred to the contractor, make sure physical inventory costs are not included as one-time conversion costs.

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(2) Evaluate the reasonableness, assumptions, and mathematical computations for any labor related one-time conversion costs such as health benefits, relocation and retraining costs that have been calculated outside of COMPARE and included as part of one-time conversion costs. In order to include personnel related costs (other than severance pay) a mock RIF should have been performed and certified by the supporting human resources office. Make sure both severance pay and other personnel related costs (retraining, relocation, health benefits) are not included for the same employees. Ensure that security clearance costs **are not** included.

(3) Evaluate the reasonableness, assumptions, and mathematical computations for any other costs that have been calculated outside of COMPARE and included as part of one-time conversion costs.

(4) Trace the costs computed in steps 1, 2, and 3 to the **Total Estimated Cost** field on the Contract One-Time Conversion Costs input records.

(5) Review the Contract One-Time Conversion Costs – Severance Pay input record to verify that the standard four percent severance pay factor was used to calculate severance pay. When the number of civilian employees currently assigned to the in-house activity is less than the number of civilian positions included in the MEO, verify that the correct number of assigned civilian employees was entered in the **Assigned Employees** field.

15. Cost Comparison Form Line 11 – Gain on Assets. When an activity develops its MEO, it may find that it no longer needs certain assets. These assets may be disposed of or transferred to another government activity or organization without consideration in the cost comparison. **Only those assets that will be used by the MEO but not provided to a winning contractor are considered on Line 13.**

When the cost of disposal or transfer exceeds the value of an asset, the resulting net loss **does not** get charged against the contractor. In this case, management has made a decision not to make assets available to the contractor regardless of the economic costs to the government.

However, gains on asset transfers or disposals are a cost benefit to the government and represent a reduction to the cost of contracting. Accordingly, these gains are deducted from the cost of contract performance to maintain a level playing field. The net gain as a result of a transfer is equal to the net book value of the asset less any costs incurred to transfer the asset. The net gain as a result of a disposal is equal to the disposal value of the asset less any costs incurred to dispose of the asset. Gains **are not** computed on assets shared with other in-house activities.

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COMPARE calculates gains on assets when Gain on Assets input records are created. The program allows users to automatically retrieve acquisition costs and net book values from the capital equipment, capital facility and minor item records created for Line 3. For each asset, an entry is made to tell COMPARE whether the item is being transferred or disposed of. Entries are also made to tell COMPARE whether to use standard disposal, transportation, and packing, crating and handling factors. Command can enter its own estimates for these costs when it doesn't want COMPARE to use the standard cost factors.

Review Steps. CCFs will contain costs for Line 11 only when costs associated with capital equipment, capital facilities, and minor items were developed for Lines 3. Consequently, for Line 11, we will review the same items that we reviewed for Line 3. For the items selected, perform the following steps using the Gain on Assets input records as the source documents.

(1) Review the PWS, MEO and supporting documents to determine which items will be disposed of and which items will be transferred.

(2) Determine whether the standard factors for transportation, and packing, crating and handling were used. Was a "Y" entered in the **Apply 3.50% PCH Factor** and **Apply 3.75% Transportation Factor** fields? If not, determine whether the estimates for these costs are reasonable.

(3) For assets that will be discarded, determine whether the standard disposal factor was used to arrive at the disposal value. These are the assets found on input records where an "N" was entered in the **Is Item Being Transferred** Field. Determine whether a "Y" was entered in the **Apply Table 12 Disposal Value Factor** field. If not, determine whether the estimate of the disposal value is reasonable. Select one or two assets to verify that COMPARE accurately calculated gain on assets. Here is the formula:

$$\text{Disposal Value} - (\text{PCH} + \text{Transportation Costs}) = \text{Gain on Asset}$$

(4) For assets that will be transferred, verify that the acquisition cost and net book value listed on the Gain on Assets input record matches the values computed for Line 3. Note that it is possible for a COMPARE user to chose not to use the automatic retrieval feature built into the program. These are the assets found on input records where a "Y" was entered in the **Is Item Being Transferred** field. Since minor items are not depreciated, unit prices are used to calculate the gain on these assets. Select one or two assets to verify that COMPARE accurately calculated gain on assets. Here is the formula:

$$\text{Net Book Value} - (\text{PCH} + \text{Transportation Costs}) = \text{Gain on Asset}$$

(5) Determine whether each capital asset was disposed of or transferred only one time during the performance period. Was a "1" entered for only one performance period in the **Quantity Scheduled** field? Minor items

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can include a quantity greater than 1 for more than one performance period. Ensure that the total quantity of minor items disposed of or transferred is equal to the total quantity of minor items included on Line 3.

16. Cost Comparison Form Line 12. – Federal Income Taxes. Line 12 can't be completed until bid opening and should be blank at the time of our review.

17. Cost Comparison Form Line 13 – Total Contract Costs. Line 13 can't be completed until bid opening and should be blank at the time of our review.

18. Cost Comparison Form Line 14 – Minimum Conversion Differential.

a. **Background.** A minimum conversion differential has been established to ensure the government will not complete a conversion for marginal savings. The differential must be exceeded before converting to or from in-house or contract performance. The minimum conversion differential is the lessor of: (1) 10 percent of the total personnel costs contained on Line 1 or (2) \$10 million dollars over the performance period.

When a cost comparison involves a mix of existing in-house, contract, new, or expanded requirements, each portion should be addressed individually and the total minimum conversion differential calculated accordingly. Ten percent of the Line 1 costs related to new requirements and conversions from contract to in-house performance are added to the cost of in-house performance. Ten percent of the Line 1 costs related to conversions from in-house to contract performance are added to the cost of contract performance. COMPARE calculates the differential correctly for these types of cost comparisons only when the cost study is properly coded as an expansion. COMPARE nets the two differentials and either adds the result to the total cost of contract performance or subtracts the result from the total in-house cost of performance, depending on whether the result is positive or negative. This is explained in detail in Chapter 3 of the COMPARE User's Manual.

COMPARE determines how to treat the minimum conversion differential calculation based on the **Method of Operation** code entered on the Study Characteristics Record.

b. **Code I** is used when the activity under study is government operated and is not also competing for the right to perform currently contracted work. Based on this entry, COMPARE calculates the minimum conversion differential as the lessor of 10 percent of total Line 1 costs or \$10 million dollars.

c. **Code E** is used when the activity is competing for the right to perform the work it now does as well as currently contracted work. In this case, COMPARE requires that the following additional steps be completed:

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(1) Create Line 1 personnel input records related to expansions, new requirements and conversions from contract to in-house.

(2) Print the CCF.

(3) Create the remaining Line 1 personnel input records – those records not related to expansions, new requirements and conversions from contract to in-house.

(4) Reprint the CCF.

(5) Calculate a “Ratio of Added Personnel Costs” using the total values for Line 1 from each CCF. (Total value from Step 2/Total value from Step 4).

(6) Enter the ratio into the **Ratio of Added Personnel Costs** field on the Study Characteristics Record.

d. **Code N** is used when the activity under study is (to be published).

Review Steps

(1) Review the PWS and MEO to determine whether the cost comparison assumes a mix of in-house, contract, new, or expanded requirements. **If not**, use the CCF to verify that the minimum conversion differential is the lessor of 10 percent of total personnel costs or \$10 million dollars.

(2) When the cost comparison involves a mix, ensure that the procedures discussed above and in the Study Characteristics Record section in Chapter 3 of the COMPARE User’s Manual were followed. Use the illustration presented in Appendix F of the User’s Manual to verify the accuracy and presentation of the minimum conversion differential on the CCF.

19. Cost Comparison Form Line 15 – Adjusted Total Cost of In-House Performance. The entry for this line is dependent upon the type of cost comparison being performed.

a. **In-house to Contract Cost Comparisons.** For cost comparisons that do not involve a mix of existing in-house, contract, new, or expanded requirements, this entry will be the same as the value of Line 6 (Total In-House Costs).

b. **Expansions, New Requirements, and Conversions From Contract to In-House Performance.** For these types of cost comparisons, this entry will be the sum of Line 6 (Total In-House Costs) and Line 14 (Minimum

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Conversion Differential). Note that the minimum conversion differential will be a negative number in this situation.

c. **Review Step.** Verify that Line 15 is the same as Line 6 or the sum of Line 6 and Line 14, taking into consideration the characteristics of the study you are reviewing.

20. Cost Comparison Form Line 16 – Adjusted Total Cost of Contract Performance. Line 16 can't be completed until bid opening and will be blank at the time of our review.

21. Cost Comparison Forms Lines 17 and 18 – Cost Comparison Decision. Lines 17 and 18 can't be completed until bid opening and will be blank at the time of our review.

PART V: BASELINE REVIEW

1. Background. Before beginning the review of the baseline, the independent reviewer should become familiar with the requirements for the final decision report in AR 5-20 and the guidance in DA Pam 5-20 on determining the baseline numbers on the Commercial Activities Proposed Action Summary (CPAS) and Initial Decision Reports (the CPAS and Initial Decision Report guidance will be in the revised Army Regulation and Pamphlet on Commercial Activities). Generally, the baseline is the effort (cost) required to perform the PWS during the 12 months prior to the CPAS announcement. It is used to calculate the savings that get reported to Congress as a result of the CA study. (The revised AR and DA Pamphlet will include more emphasis on reporting the baseline in terms of the definition and in the timing for calculating the baseline numbers. Prior to the revised AR, installations aren't required to calculate the baseline until they prepare the final decision report at the end of the CA study. Therefore, the baseline estimates haven't been very accurate because good historical data wasn't available). The existing guidance on calculating the baseline number requires installations to determine the workyears to accomplish the PWS during the year prior to CPAS, but doesn't establish procedures. Hence some installations have used TDA or other strength reports, labor distribution reports, or just estimates to support the baseline numbers.

2. Review Objective. The objective of the review is to determine if the baseline workyear data reported in the final decision report is reasonable and supported.

3. Review Steps.

a. At the earliest opportunity in the review (preferably at the kick-off briefing), determine if the CA study team is familiar with the requirement for calculating the baseline on the final decision report. If not, emphasize the importance of a good baseline and ask that the study team include the baseline determination during the study. Also, emphasize retention of an audit trail to the supporting documentation. The best time for finalizing the baseline number is during the management study process, after the PWS is finalized. This will facilitate a more accurate number and will ease the process of filling out the final decision report later. (Note: The revised AR and DA Pamphlet will instruct installations to calculate their baseline numbers early enough so that they will be ready during our IRO review of the MEO/CCF).

b. Once the study team calculates the baseline numbers, review the supporting documentation and evaluate whether the source of the baseline numbers and process the CA team used to determine the three components (military, civilian, and CME) of the baseline is in accordance with the guidance.

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If not, have the study team recompute the baseline numbers before continuing the review.

c. Review the supporting documentation to determine if the calculation for civilian, military, and CME baseline workyears were correctly computed. The calculations should reflect the effort used (during the year prior to CPAS) to accomplish the work identified in the PWS.

(1) Civilian calculations should be determined by using workyears or FTE's. Some areas to review are:

- GIN and exempted baseline workyears should be identified and included under the "Governmental (GIN & Exempt)" columns on the DA Form 7379-R. They should not be included under the "Commercial (Reviewable)" columns. This will include functions that were originally included in the CPAS announcement but were subsequently removed from the study.
- Part-time and intermittent employee workyears should be identified and captured in the baseline if they supported the work in the PWS.
- Overtime used during the baseline period to perform work in the PWS needs to be included in the baseline workyears calculation.
- Workyears performed by personnel loaned from other organizations to perform PWS work needs to be identified and included.
- Workyears that were no longer required because of mission changes or one-time events need to be identified and excluded from the calculations.
- New or additional missions requirements workyears, that did not exist one year prior to the CPAS, should be identified in the workyears if the new work is included in the PWS.
- In some cases, the baseline should include NAF workyears. For example, one installation that competed its billeting function had NAF employees that performed some of the work included in the PWS.

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- If on-hand strength numbers were used, were appropriate adjustments made to convert the on-hand quantity to workyears? For example, if on-hand strength numbers were used, there should be some analysis to ensure they are representative throughout the year.
- One good source for evaluating the reasonableness of the baseline number also could be the technical performance plan. The TPP and related transition plans for some studies have included excellent staffing matrixes showing on-hand MEO and GIN personnel at CPAS and at final MEO. (Adjust for overtime, part time, intermittent, seasonal workers, etc, and for the one year prior to CPAS timing issue).

(2) Military baseline workyears should be calculated by using workyears or FTE's. Areas to review are:

- Military GIN and exempted work should be identified and excluded from the "Commercial (Reviewable)" columns. They should be identified and included under the "Governmental (GIN & Exempt)" columns on the DA Form 7379-R.
- Borrowed military manpower should be identified and included in the calculations. Were correct conversion factors used? For example, borrowed military personnel sometimes are only assigned to a functional area during part of the workday, and therefore, their annual workhours are less than the conversion rate of 1740 hours per workyear.
- Prison military labor should be identified and used in the calculations if the workyears supported the PWS.

(3) Contract Manyear Equivalent (CME) workyears is the amount of contracted workyears used to accomplish work in the PWS during the baseline year. Normally, labor distribution breakdown vouchers obtained from the contract office can be used to support the estimate. Also, the subcontracting proposal section of the technical performance plan may contain some good workyear data for subcontracts that can be used to evaluate the reasonableness of the CME workyears.

d. Review supporting documentation to determine if the calculation for civilian, military, and CME MEO workyears were correctly computed (the line below the baseline numbers on the final decision report). The entries should include all workyears. (Some final decision reports we have reviewed have erroneously excluded CME and overtime from these entries). (The MEO workyears doesn't affect the reported baseline numbers, but if it is wrong, it will affect the accuracy of the savings reported on the Final Decision Report.

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Therefore, if the MEO workyears number needs to be corrected, include your results in an “Other Matters” section of the report.)

Engagement Letter

SAAG-IMT (36-5e)

XX Month 2001

MEMORANDUM FOR Commander, U.S. Army (Name and address of installation)

SUBJECT: Independent Review Services for the (Name of Commercial Activity), U.S. Army (Installation name and location) (Assignment Code T9-XXXX)

1. This memorandum confirms our mutual understanding of the objectives, scope and responsibilities of (installation name) and the U.S. Army Audit Agency during our review of the (name of commercial activity) commercial activity study.
2. Army Audit Agency will conduct the review as required by AR 5-20 and in accordance with Office of Management and Budget Circular A-76. Our review of the performance work statement is a consulting effort; and reviews of the management study and the cost comparison are audits. The Agency's objectives are to determine if the:
 - Performance work statement reasonably presents the work to be performed.
 - Data contained in the management study reasonably establishes the Government's ability to perform work requirements stated in the performance work statement.
 - Costs entered on the Cost Comparison Form are fully justified, supported, and calculated in accordance with the procedures described in Part II of the Revised Supplemental Handbook.
3. Army Audit Agency will provide:
 - Periodic updates to the commercial activities team leader.
 - In-process reviews and interim reports (as needed or as requested) to the commander or command representative.
 - A consulting report on our review of the reasonableness of the performance work statement.

- A report attesting to whether the management study reasonably establishes the Government's ability to perform work requirements in the performance work statement with the resources in the most efficient organization.
 - A report attesting to whether costs entered on the cost comparison were prepared in accordance with the requirements in the Revised Supplemental Handbook to Circular No. A-76.
4. (Name of installation) will provide:
- A completed performance work statement, including all workload data and technical exhibits.
 - A completed management study and cost comparison form at least 60 days before it is due to be submitted to the contracting officer.
 - Adequate supporting documentation, including sampling methodology.
 - Access to knowledgeable personnel and records in the (name of commercial activity) (a sample list of records is in the attachment).
 - Workspace and access to fax and copy machines. Two telephone lines, one for voice and one for dialup network access.
 - Locking file cabinet(s) to secure the team's working papers and reports.
5. Army Audit Agency will provide the necessary personnel and resources to complete the review in accordance with the installation's milestones. If the commercial activities study documents are materially incomplete or substantially unsupported, the Agency may temporarily suspend its review of the study. If suspended, the installation may need to extend its milestones.

Name of Installation

U.S. Army Audit Agency

 Name of Individual
 COL,
 Garrison Commander

 Name of Individual
 Audit Manager

(Date)

(Date)

Standard Briefing Charts



Army Audit Agency

**REVIEW OF A-76
COST COMPETITION**

xx XXX 2001



Agency Mission For A-76 Studies

- OMB Circular A-76 requires that all cost comparisons be reviewed by an impartial activity that is organizationally independent of the commercial activity being studied and the activity preparing the cost comparison.
- Army Regulations 5-20 states that the Army Audit Agency will be the independent reviewer for studies exceeding 65 full-time equivalent employees.
- Independent reviewer provides an opinion:
 - Certifying that the management study reasonably establishes the government’s ability to perform the PWS within the resources provided by the MEO.
 - Costs in the Cost Comparison Form were justified and calculated in accordance with the procedures described in the OMB circular.



Review Approach

- Involvement in the process early on. Available to attend Kick-off, IPRs, and review documents as they become final and available for review.
- On a requested basis, perform PWS review as a consulting effort.
- As the independent reviewer, conduct MEO review and certify the Cost Comparison Form.
- Identify lessons learned and point out problem areas as the study progresses.



Scope and Objectives

We offer our consulting services to evaluate the reasonableness of workload in the PWS. These services can provide:

- Quick reaction engagement to command’s specific request.
- Assurance the PWS reasonably describes the essential tasks and technical requirements for services required.
- Assess the clarity and completeness of the PWS.



Scope and Objectives

As the independent reviewer, determine if the:

- Management study reasonably establishes the Government’s ability to perform the PWS within the resources provided by the MEO.
- Costs entered on the Cost Comparison Form are fully justified and calculated in accordance with the procedures described in Part II of the Handbook.



Reporting Requirements

Issue at least two separate reports:

- A consulting report for services requested on the PWS.
- Memorandum report(s) on the Management Study and/or Cost Comparison Form.
- Provide information to the installation commander in time to resolve matters. Comments are requested, especially when there is disagreement.
- Issue Flash Reports to identify lessons learned.



Information Requirements

PWS

Requested information before starting our consulting review:

- Performance Work Statement (diskette/electronic version).
- Understanding of the data collection process.
- Workload data supporting the technical exhibits (electronic or manual).
- Current Table of Distribution and Allowances (TDA) and Commercial Activities Proposed Action Summary (CPAS).
- Interviews with managers, CA team, and other affected personnel.



Information Requirements

Management Study

- Management Study.
- Command's certified Most Efficient Organization.
- Crosswalk (DA form 7196-R).
- Management supporting documentation and the Technical Performance Plan.



Information Requirements

Cost Comparison Form (CCF)

- Final PWS.
- Command's certified Most Efficient Organization, printed CCF with signature page.
- COMPARE printed copies:
 - Line rationale documentation.
 - Common costs documentation.
 - Individual input records, worksheets, study tables, and error list.
- Automated copy of COMPARE study file (with password).
- Solicitation package.
- Audit trail of supporting figures entered on the cost comparison form.



Lessons Learned

General Observations

- Differing expectations between installations and contractors.
- Availability and accuracy of workload data.
- Supporting documentation not readily available or maintained.
- Command must assume ownership of key documents prepared by contractors.
- Frequent slippages in milestones. Could impact on implementation dates.
- Need mechanism for sharing installation/contractor lessons learned, especially for repetitive functions.
- Studying only part of an activity and having separate studies/solicitations could lead to inefficiencies in MEO and in remaining governmental organization.



Lessons Learned

PWS Reviews

- Required tasks not included in PWS.
- Tasks included that weren't being performed.
- Associated workload data missing, incomplete or irrelevant.
- Different time-periods used when gathering workload data.
- Incomplete or missing technical exhibits.
- Outdated and superceded directives in the listing of publications.

Note: We issued a lessons-learned report based on our completed reviews of several Performance Work Statements (AA 98-340 dated 22 September 1998). We may issue a lessons-learned report--if appropriate--for the Management Study and Cost phases.



Lessons Learned

MEO Reviews

- Relationship of residual organization and GIN positions to MEO need to be clarified.
- Sampling plan and other analyses need to be documented and clarified to provide assurance of valid workload and personnel projections for the MEO.
- Need to address any overhead positions affected.
- Technical performance plan should clearly support that the MEO can perform the same level of work and quality described in the PWS.



Lessons Learned

Cost Comparison Form

- Correct tables (pay, fringe benefits, inflation rates) need to be applied.
- OMB adjustments to table factors weren't updated and entered properly.
- Pay differentials for night, environment, and overtime must be addressed and supported.
- Proper use of the Method of Operation Code (code identifies if the activity is competing for work it does now **plus** current contracted work or if the activity isn't competing to perform work contracted).
- Use historical data to support overtime hours and consistently apply those hours through the management study and the cost comparison form.



Review Team

- Jim Andrews - Program Director Commercial Activities Audits, DSN 761-4296, andrewsj@aaa.army.mil
- Pete Swan - Associate Program Director, DSN 680-2308, swanp@aaa.army.mil

Performance Work Statement Checklist

To assist activities in completing their A-76 studies and to reduce delays, we provide a checklist for the performance work statements. This checklist is optional for activities to finish, but it is a good management tool to ensure the draft performance work statements are complete and supportable before our review starts. Installations should retain documents and references used to answer the checklist.

<p style="text-align: center;">√ when completed</p>	<p style="text-align: center;">Performance Work Statement Requirements</p>
	<p>1. Have representatives from the contracting office, legal counsel, and MACOM participated in the development and review of the performance work statement?</p>
	<p>2. Is the information referenced in AR 5-20, paragraph 4-6.b.(4)(a) through 4-6.b.(4)(d) available, including: past and current Table of Distribution and Allowances documents and staffing information, past and current operating procedures, past budget execution reports or other historical reports on resource consumption and the total cost of operations? Is a copy of the current mission and functions statement available?</p>
	<p>3. In accordance with AR 5-20, paragraph 4-7, does the performance work statement describe all functional and performance requirements of the work, the location of the work, the units of work, the quantity of work units, and the quality and timeliness of work units, available?</p>
	<p>4. Are key task statements capable of being verified with supporting workload data? Is the workload data current and reflect the workload that is expected during the period of performance? (In accordance with DA Pam 5-20, paragraph 3-7.f.(1), at least 9 months of historical workload data should be provided. And, there must be a method to replace the oldest month of historical data with current data when 12 months of current workload has been gathered.) Has an analysis of the workload been performed to reflect the impacts of changing conditions?</p>
	<p>5. Does the performance work statement only include work that is required? Is the required work currently being performed by the in-house work force (or capable of being performed by the most efficient organization work force) to the standard listed in the performance work statement?</p>

√ when completed	Performance Work Statement Requirements
	6. Is a list of all organizations and activities excluded from the study available? Does the list include all governmental in nature and residual organization spaces, the rationale for each determination, and the garrison commander's approval? Does the performance work statement exclude tasks and activities performed by the governmental in nature and residual organization staffs?
	7. Does the performance work statement include workload currently being performed by personnel not officially assigned to the function, including borrowed military manpower, volunteers and prison labor? If so, will this workload be performed by the most efficient organization?
	8. Does the performance work statement include a technical exhibit listing all contracts for work that will not be done by the most efficient organization?
	9. Are all Technical Exhibits and required documents ready for review? Is there an audit trail, including supporting documentation for all Technical Exhibits and required documents, which includes: the source of the data used, the name of the author and responsible office, the date produced and the method used to incorporate updates and changes?
	10. Are work outputs and performance measures available for all tasks included in the performance work statement? Are performance standards (quality, quantity and timeliness) tied to the performance requirements? Is DA Form 5473-R (Performance Requirements Summary), DD Form 1423 (Contract Data Requirements List) and DD Form 1664 (Data Item Description) complete and available?
	11. If a decision has been made not to offer facilities and equipment to prospective contractors, is a documented analysis available of the costs and benefits of not offering facilities and equipment to prospective contractors versus reprogramming the facilities and equipment, in accordance with AR 5-20?

√ when completed	Performance Work Statement Requirements
	12. Are references to regulations and other directives in Section C.5 of the performance work statement limited to the applicable portion of the directive (as opposed to referencing the entire directive)?
	13. Are all regulations and guidance listed in Section C.6 of the performance work statement the current versions? Do the regulations and guidance listed in Section C.6 have a corresponding task referenced in the performance work statement?

Document List for PWS Consulting Review

1. The following documents should be made available to the Army Audit Agency team. The list is only a starting point and is not meant to be all-inclusive.
2. Electronic version of final draft performance work statement (PWS). (Note: we request that this document be provided before the team arrives on site.)
3. Supporting methodology for workload exhibits.
4. The contractor's analysis of workload data in electronic format.
5. Copy of the Commercial Activities Proposed Action Summary (CPAS).
6. Copy of the baseline table of distribution and allowances (TDA) and current TDA (if there are major changes) for functions in the PWS (should include names of personnel currently occupying positions). Include any reconciliation of the CPAS to the TDA performed.
7. Mission and function statements for the functions in the study.
8. Any performance measures prepared under the Government Performance and Results Act for functions in the study.
9. Any activity-based costing information and other studies that may be applicable to the commercial activities study.
10. List of all current contracts performing functions included in the study (if not included in the PWS).
11. Identification of tasks/functions in the study that are currently being performed by personnel not in the TDA (such as inmate labor, borrowed military personnel and volunteers).
12. List of study team members and other key personnel—including phone number and e-mail—within the organization who helped prepare the PWS.

RISK ASSESSMENT

1. **Purpose of Risk Assessment.** An optional method for sampling workload data is to use a risk assessment. This Annex describes the procedures for performing the risk assessment in reviewing the PWS. Reviewers can use risk assessment techniques to identify the functional areas and workload tasks to review. In the planning stage of the review, risk assessment identifies the areas of the study which are significant (i.e. they pose the most risk if there are errors). This allows managers to focus resources in the right direction. An efficient risk assessment can save time. Risk assessment is not precise and it doesn't replace good judgement. Reviewers still need to make adjustments and decisions during the review based on actual circumstances.

2. **Process of Assessing Risk.** The process of assessing risk in commercial activity studies is two-fold. First, a risk assessment is done to determine which technical exhibits (workload tasks) to review. Second, a risk assessment is done to determine which functional areas to review. Once this is done, the reviewer can review the items selected as described in the review guide Part II: Performance Work Statement. The review steps below describe the process for performing these risk assessments.

3. Review Steps.

a. **Technical Exhibit Risk Analysis.** The purpose of the Technical Exhibit (TE) risk analysis is to select an appropriate sample of TEs to review. In this section, we will identify and categorize the TEs according to the risk/importance of each and select a sample of TEs to review based on their risk/importance.

(1) Using the Technical Exhibit Information spreadsheet (see Annex D-2), enter each TE into the spreadsheet.

(2) For each TE, identify which category it belongs in and enter the corresponding category code into the spreadsheet. [The categories are defined in Annex D-3.] After all the TEs are entered, sort the Technical Exhibit Information spreadsheet by category code.

(3) Select a sample of TEs to review based on the spreadsheet sort from step b. above. Ideally, the TEs reviewed should be a balance from workload, scheduled tasks and facilities (category codes 1-3). When deciding which and how many TEs to review, consider:

(a) The extent of manual data and granularity² of the TEs. If the data is manually generated, the review process can be significant in terms of time. The same is true when different and significant amounts of data (granularity) are included in one TE.

(b) The process management used to gather workload data. A strong process gives the impression risk is minimized. An adequate audit trail from workload to source documents lowers the probability that workload data is in error. With an established systematic process, the PWS can be more reliable and consistent. However, a poor process of workload collection gives a perception the workload isn't reasonable and that the likelihood of errors or mistakes exist.

(4) Obtain supervisor's approval of the TE risk assessment results and TEs selected for review. Agreement should be made on what will be reviewed and how it will be reviewed.

(5) Coordinate with Command for necessary electronic/manual data from installation and contractor personnel for the TEs selected for review. Electronic data includes the methodology and analysis which may include spreadsheets, charts, regression data, etc.

b. **Risk Assessment.** The purpose of the PWS risk assessment is to establish the level of risk in the PWS and identify the functional areas³ to be reviewed—the “what” and “how much” the auditor should review.

(1) Review the PWS and TEs⁴ for risk assessment issues. Also, consider general information gathered to date. Complete the Risk Measurement Matrix electronic spreadsheet (see Annex D-3) by giving a “judgmental” score to each of the identified areas. The completed matrix will assist the reviewer in determining those areas/concerns that should be reviewed and the order of the review.

(2) Establish an overall risk level of Low, Medium or High for the PWS document. Consider (1) preliminary review, (2) TE risk assessment, and (3) the Risk Measurement Matrix.

(3) Establish low, medium or high-risk levels to each functional area using the risk assessment steps in this section to select functional areas

¹ Granularity refers to the number of, or level of detail within, TEs. For example, at one installation a functional area had some 35 TEs with one part each and at another installation the same type of functional area had one TE with about 35 parts.

³ A functional area is, for example, Supply and Services or Materiel Maintenance, and which may contain more than one TE. The selection of TEs doesn't automatically result in the selection of functional areas.

⁴ Note: Risk assessment of the TEs was completed in Section I. TEs won't be risk assessed again in this section. This section simply uses information gained in the TE risk assessment with new steps to perform the PWS risk assessment.

to review. Note: The risk assessment may show it's not necessary to review selected functional areas (i.e., risk may be very low).

(4) Select a sample of the functional areas based on the results of the PWS risk assessment in step c. above. The risk assessment methods below provide reviewers with a choice. The selection of the method to use will depend on the circumstances. Reviewers should have different tools to use in different situations to determine the sample size. Methods that can be used are:

(a) Judgmental—this relies on reviewer judgment—what is your opinion of the functional area/TEs and the final draft PWS?

(b) Relative Ranking Method—ranks each element based on an anchor (see Annex D-4 for an example and instructions.)

(c) TDA positions by functional area—absent other negative information, the number of authorized TDA positions may serve in determining primary functional areas to review.

(5) Obtain supervisor's approval of the risk assessment results and functional areas selected for review. Agreement should be made on what will be reviewed and how it will be reviewed.

(6) Coordinate with management for necessary electronic/manual data from installation and contractor personnel for the functional areas selected for review. Electronic data includes the methodology and analysis which may include spreadsheets, charts, regression data, and other supporting documents.

Risk Measurement Matrix

1. Assign a number from 1 to 9 (1 is low, 9 is high) to the following factors based on the importance/risk to the review.
2. Place your score in the clear boxes on chart 1. The spreadsheet will automatically put the numbers in chart 2.

Chart 1	Red flags	Extent of manual workload data	Automated data systems	Granularity of TEs	Number of FAs	Competence of command personnel	Number of TDA positions by FA	Complexity of operations	Competence of contractor personnel	Political pressure	Pressure to meet objectives

Chart 2	Final Score	Final Rank
Red flags		
Extent of manual workload data		
Automated data systems		
Granularity of TEs		
Number of FAs		
Competence of command personnel		
Number of TDA positions by FA		
Complexity of operations		
Competence of contractor personnel		
Political pressure		
Pressure to meet objectives		

Note: The final rank (1 through 11) is a measure of the risk factor and assists the auditor in assigning an overall risk level to the PWS. **Example:** the factor 1 contributes most significantly to the overall risk of the PWS.

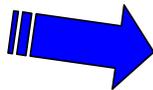
Relative Ranking Method

The Relative Ranking Method is easy to setup and use. However, establishing the relative rankings requires auditor judgment. The steps outlined below will guide you through the process. We've used an Excel spreadsheet to work through our example, but it can also be completed using a word table or pen and paper. The number of factors you select depends on your situation.

Note: The risk factors used in this example aren't meant to be applied in all of your situations. Consider the your functional area and select appropriate risk factors. You may select some factors from Annex G and add others as appropriate to the situation.

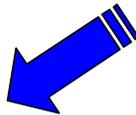
Step 1: Select the risk factors

Risk Factor
Automated data systems
TDA's by functional area
Complexity of operations
Red flags



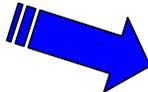
Step 2: Select the anchor and its weight

Risk Factor	Weight
Automated data systems	
TDA's by functional area	
Complexity of operations	300
Red flags	



Step 3: Rank the remaining factors according to their relative importance to the anchor.

Risk Factor	Weight
Automated data systems	250
TDA's by functional area	600
Complexity of operations	300
Red flags	800



Step 4: Normalize the weights and rank the risk factors.

Risk Factor	Weight	Normal**	Rank
Automated data systems	250	12.8	4
TDA's by functional area	600	30.8	2
Complexity of operations	300	15.4	3
Red flags	800	41.0	1
Totals	1950	100.0	

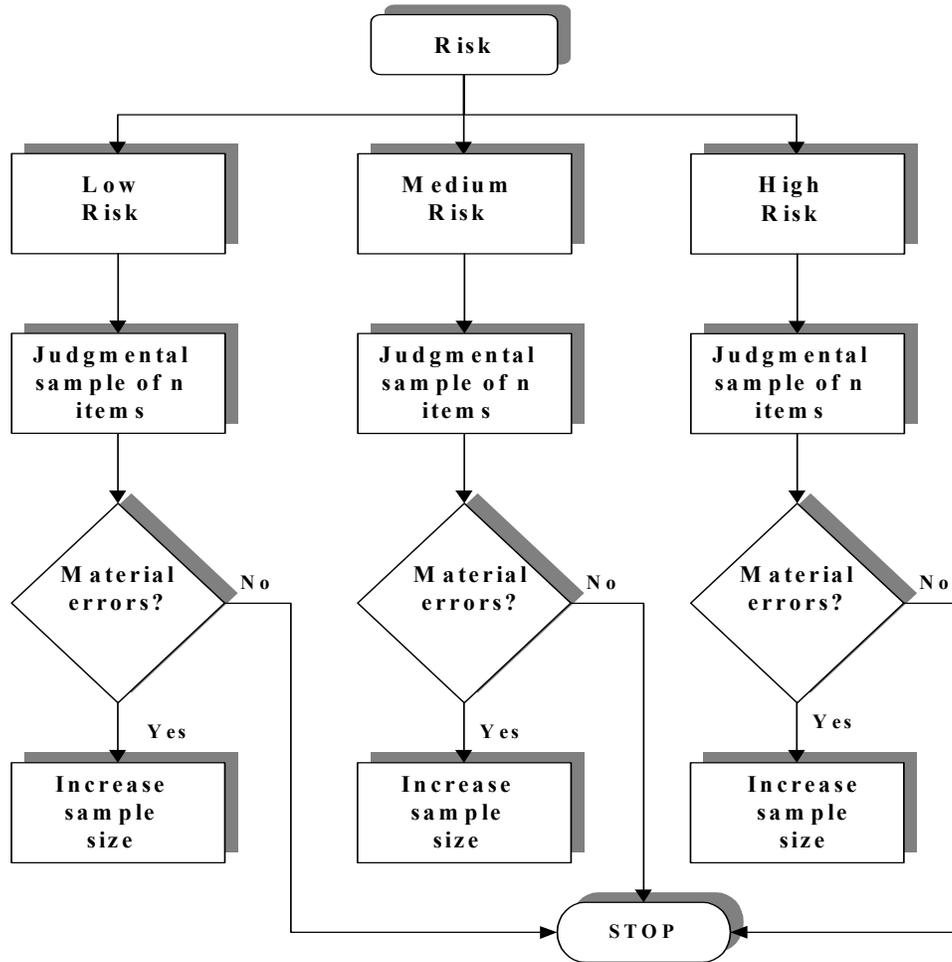
** Weights are normalized by dividing each factor by the total and multiplying by 100 to normalize the score based on 100 points.

Risk Assessment Flowchart

The Risk Assessment Flowchart is designed to provide “stop and go” sampling in the PWS review. The flowchart is especially suited for manual data but can be used for large quantities of electronic data. Remember—we are reviewing the reasonableness of data not the accuracy. If the designated PWS risk is low, use that branch of the flowchart. If the designated PWS risk is high, use that branch.

Auditors need to use judgement in determining the “n” number of sample items to review and obtain approval of the AIC. If the sample is small and not difficult to review, the entire sample may be reviewed. If the sample is large, review “n” items—if no material errors are found—**STOP** reviewing that sample and repeat this process with the next review item.

Risk Assessment Flowchart for Manual Records Supporting Technical Exhibits



Steps for Validating Service Order (SO) and Individual Job Order (IJO) Workload Data

Service Orders (SO)

There are four major items to review for service orders:

- Inappropriate dates
- Total Number of Service Orders
- Craft Distributions
- Service Order Priority

1. Determine if the population and sample contain inappropriate dates. We found that the population and sample contained inappropriate dates. The CWS date is the “Current Work Status” date and CMP is “Completed”, so we can assume that the SO was completed on the CWS date.

a. Using the CWS date, determine if any SOs were completed prior to the year in the study.

b. Using the date received, determine if any SOs were completed after the year in the study.

c. If the date errors exceed 5% of the population or sample, the population or sample contains material errors.

2. Determine if the number of service orders reported in the PWS is properly supported. We found that the service orders are usually computed by taking the total amount of service orders reported in IFSM and adding additional SOs by converting SOOs, IJOs, and M documents.

a. Determine if IJOs were converted to SOs properly. The installations will define the scope of work for IJOs and SOs. For example at one installation, SOs were defined as repair work performed with less than 24 hours of labor or 1,000 in material. Otherwise it was IJO work. We found that the contractor didn’t always properly convert the IJOs to SOs properly.

b. Determine if the conversion of M documents to Sos were supported. We found that a contractor used an arbitrary percentage, for example 50 percent, without any proper support to show how they arrived at the percentage.

3. Determine if the craft distributions for SO were properly computed. We found that in some instances that a contractor didn’t properly capture the type and number of tasks performed in each SO. For this step we reviewed the contractor’s supporting data for accuracy.

4. Determine if the SO priority distribution was computed accurately. Review the support provided by the contractor. If it isn't available or if it is inadequate, then you could pull a sample from IFSM. IFSM lists the priority code for each SO.

5. Determine if the installation is meeting the required service order completion times as required by the PWS. For example, at one installation, priority 2 service orders must be completed within 48 hours. However, we found that it was taking on average of about 38 days. To validate the completion times, pull a sample from IFSM. IFSM list the SO reception date and completion date.

Individual Job Orders (IJO)

For IJOs there are two major items to review:

- Total IJO hours
- Craft Distribution

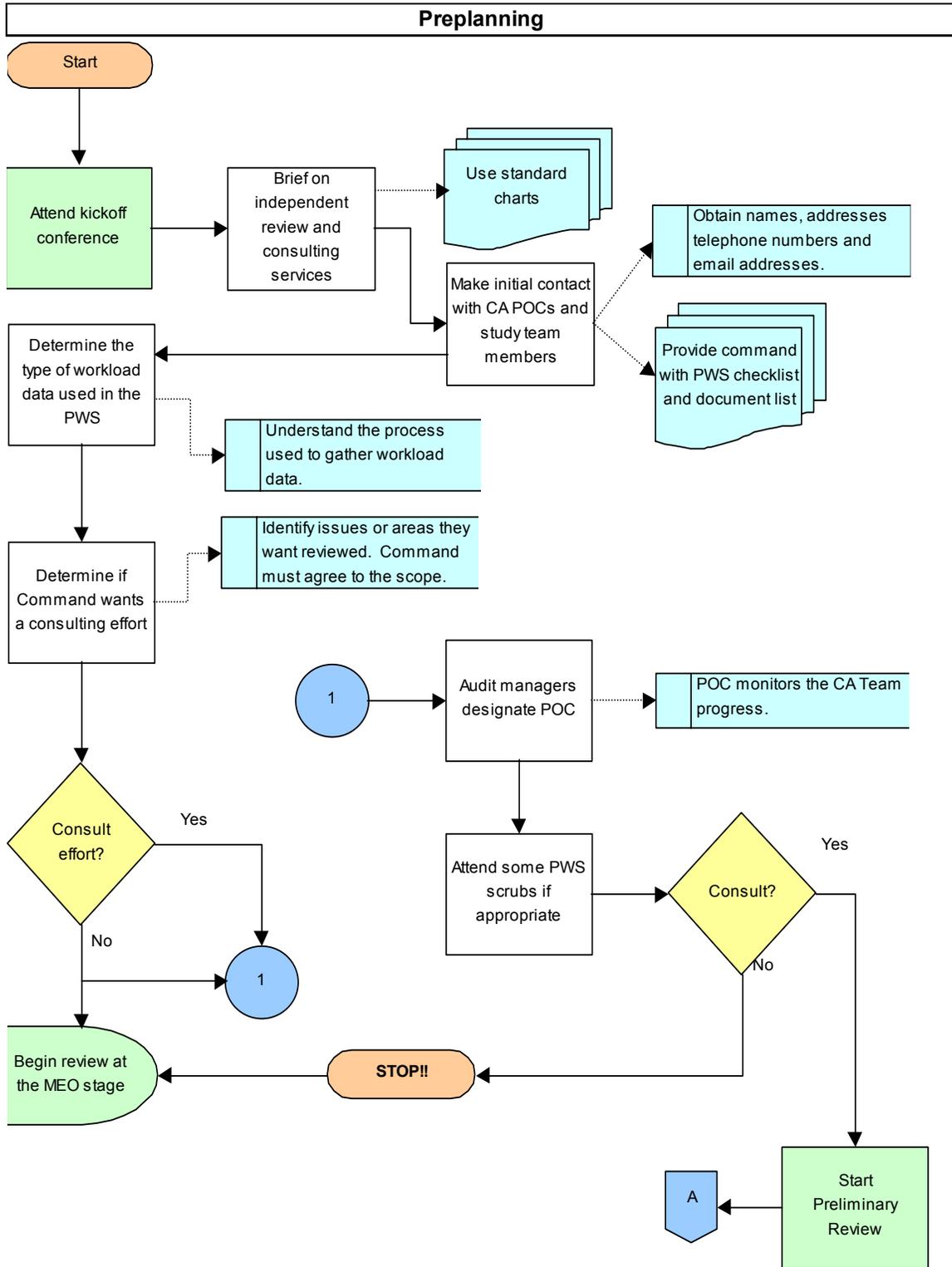
1. Determine if the total number of IJO hours were properly computed. We found that IJO hours are computed by taking the total IJO hours reported in IFSM and adding converted SOs and P documents.

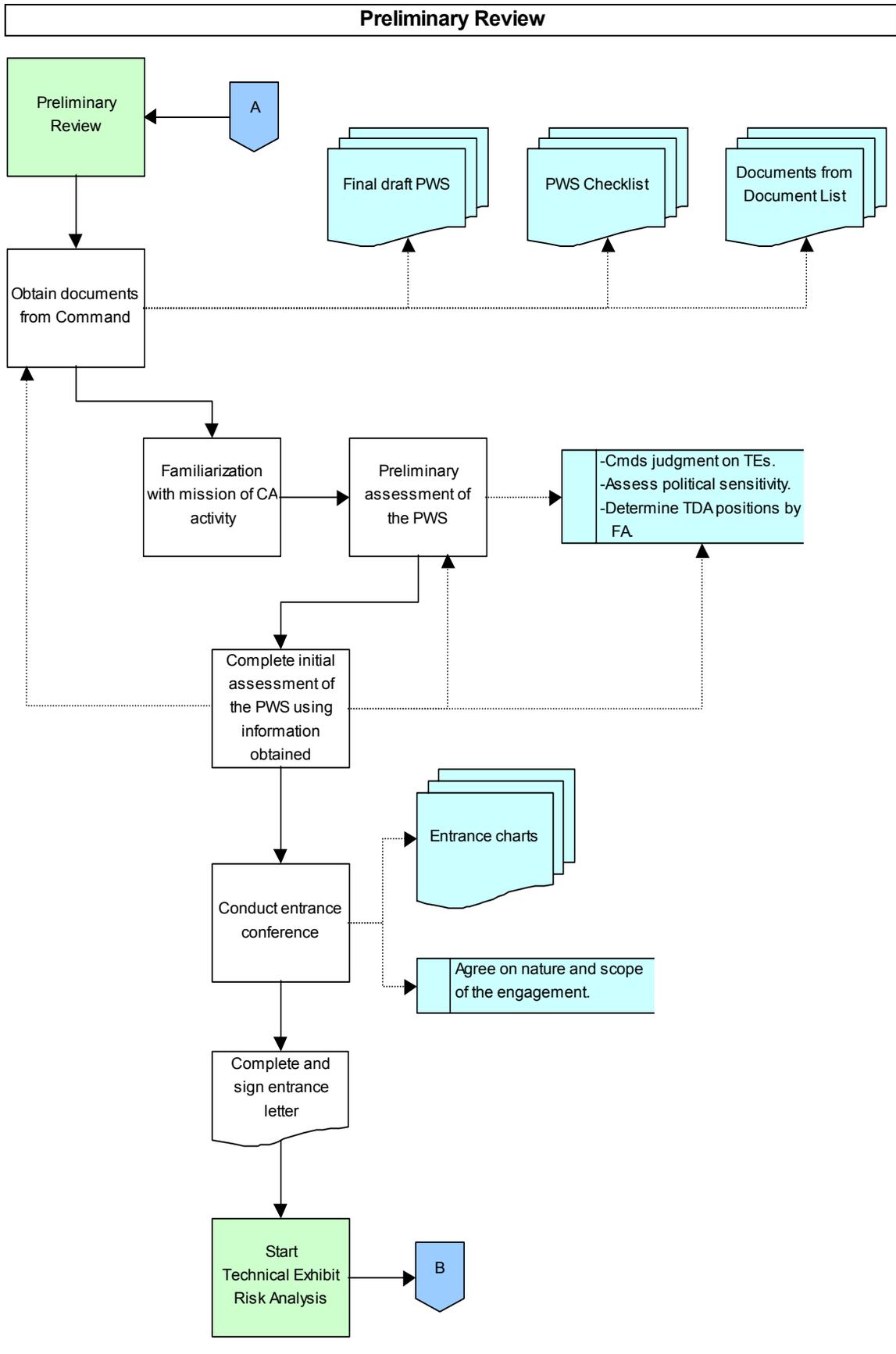
a. Determine if the hours extracted from IFSM to compute IJO hours was correct.

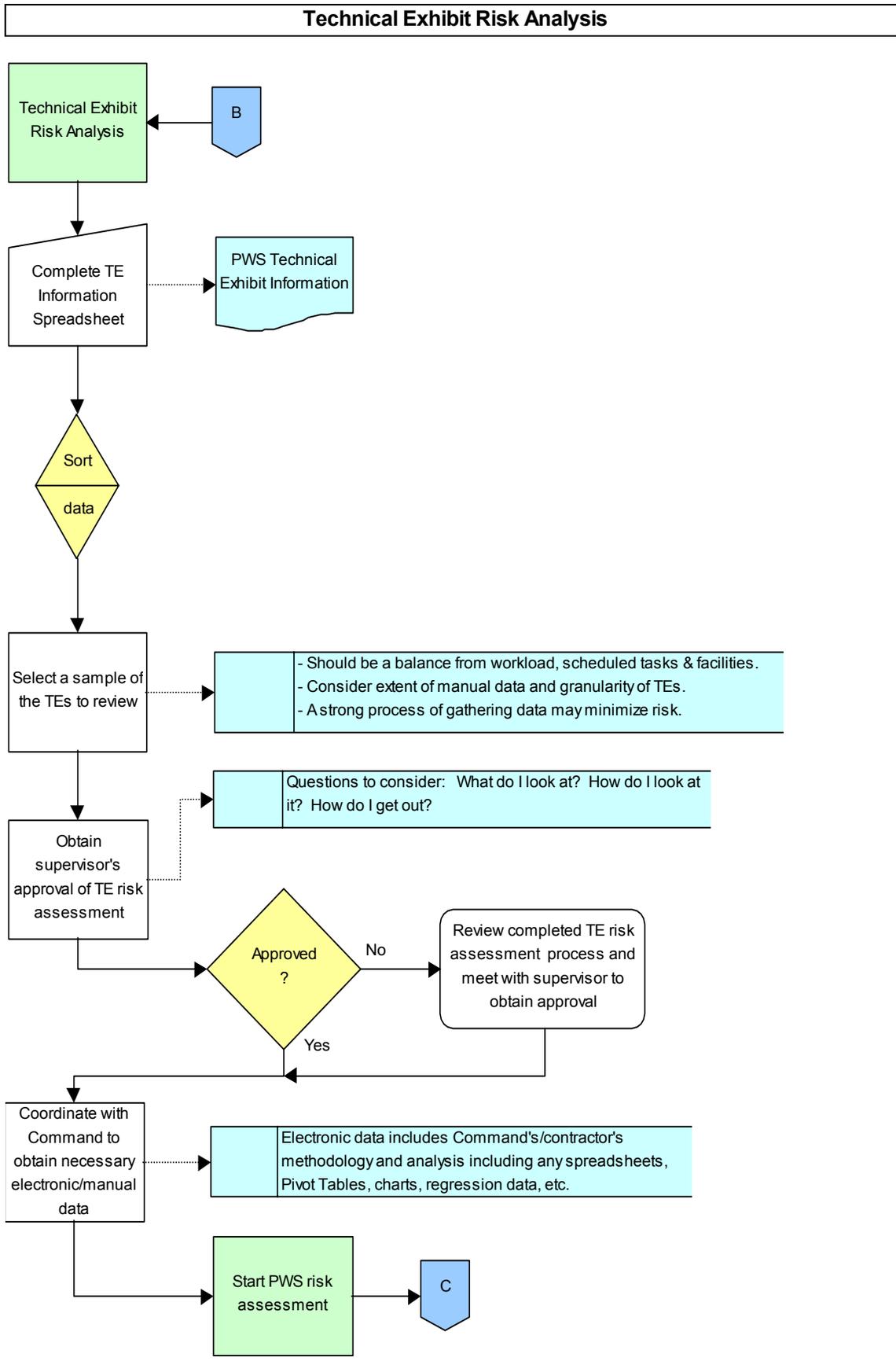
b. Determine if SO's and P documents were properly converted to IJOs. We found instances where a contractor didn't properly convert SOs and P documents to IJOs.

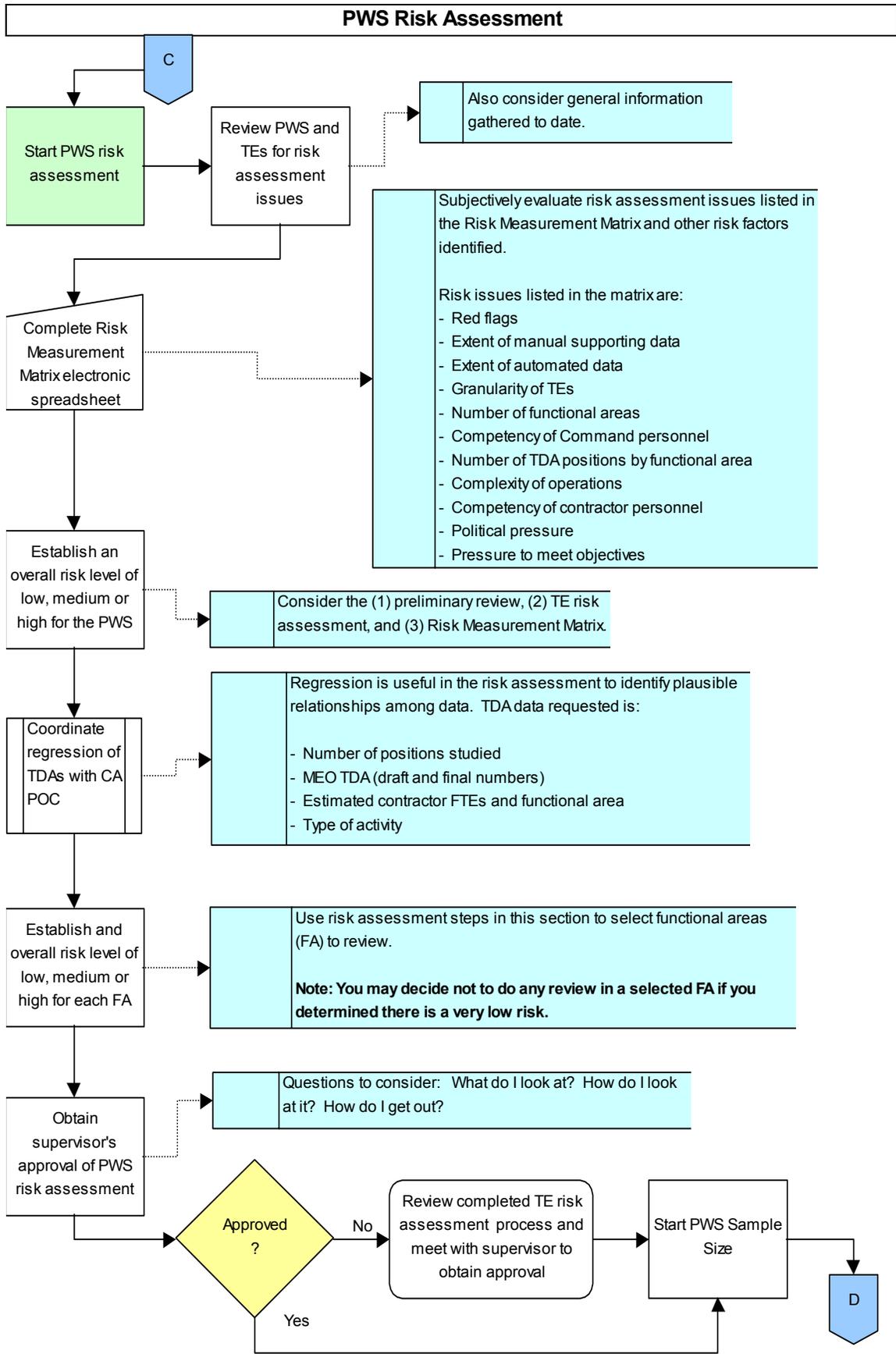
2. Determine if the craft distributions were properly computed. Review the support for the craft distributions and validate that the craft selection and computation were correct.

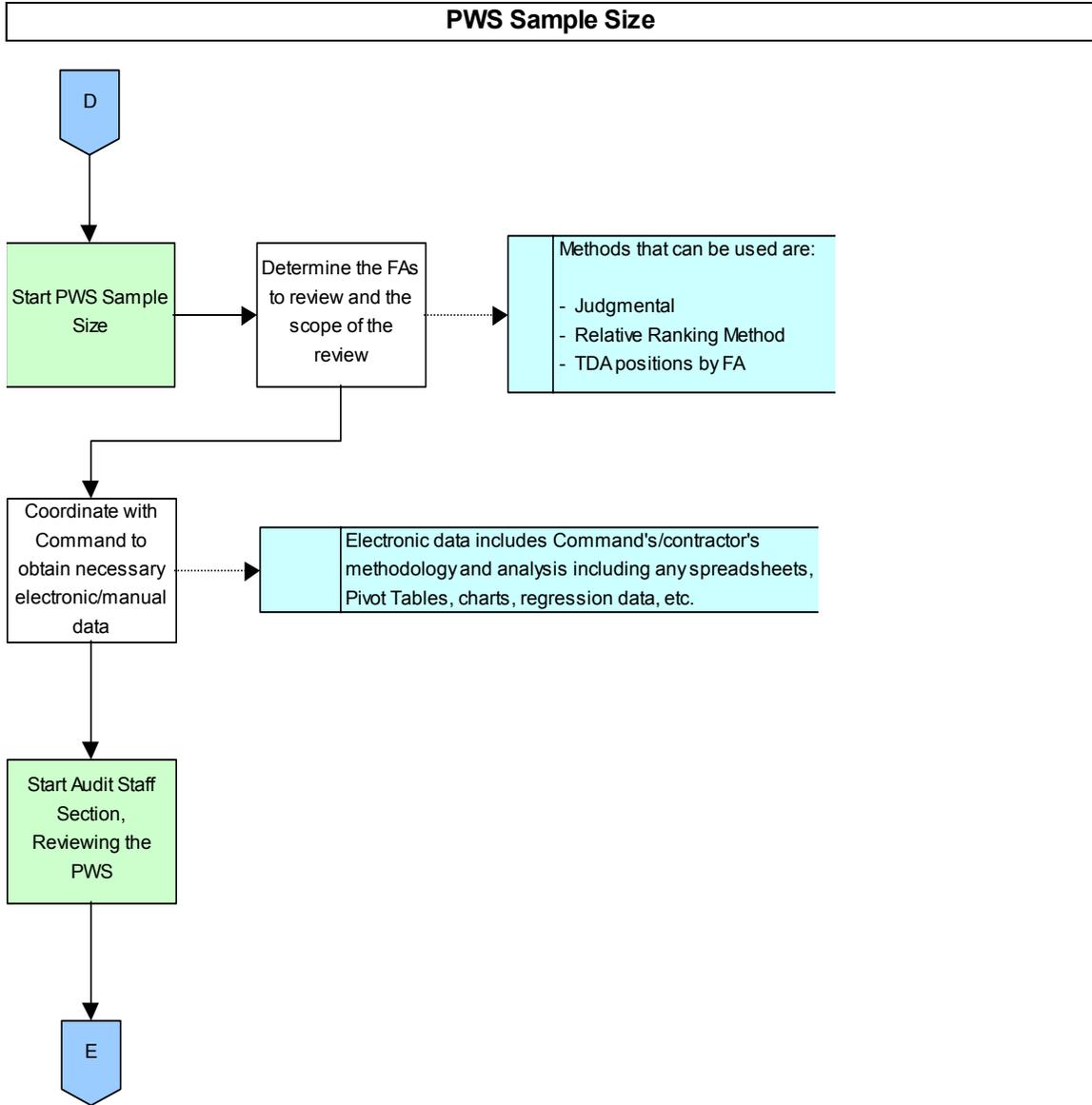
Performance Work Statement Flowchart

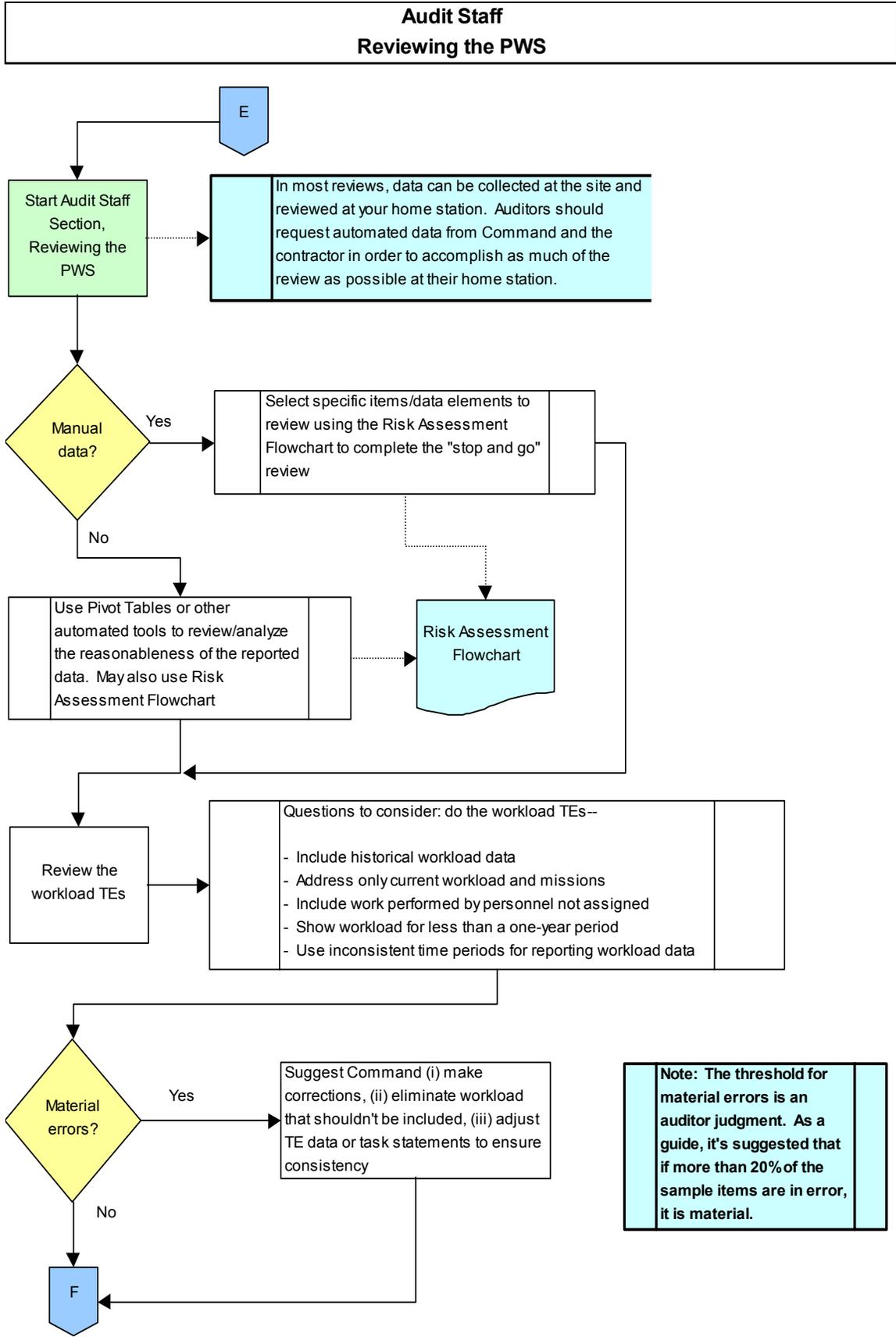


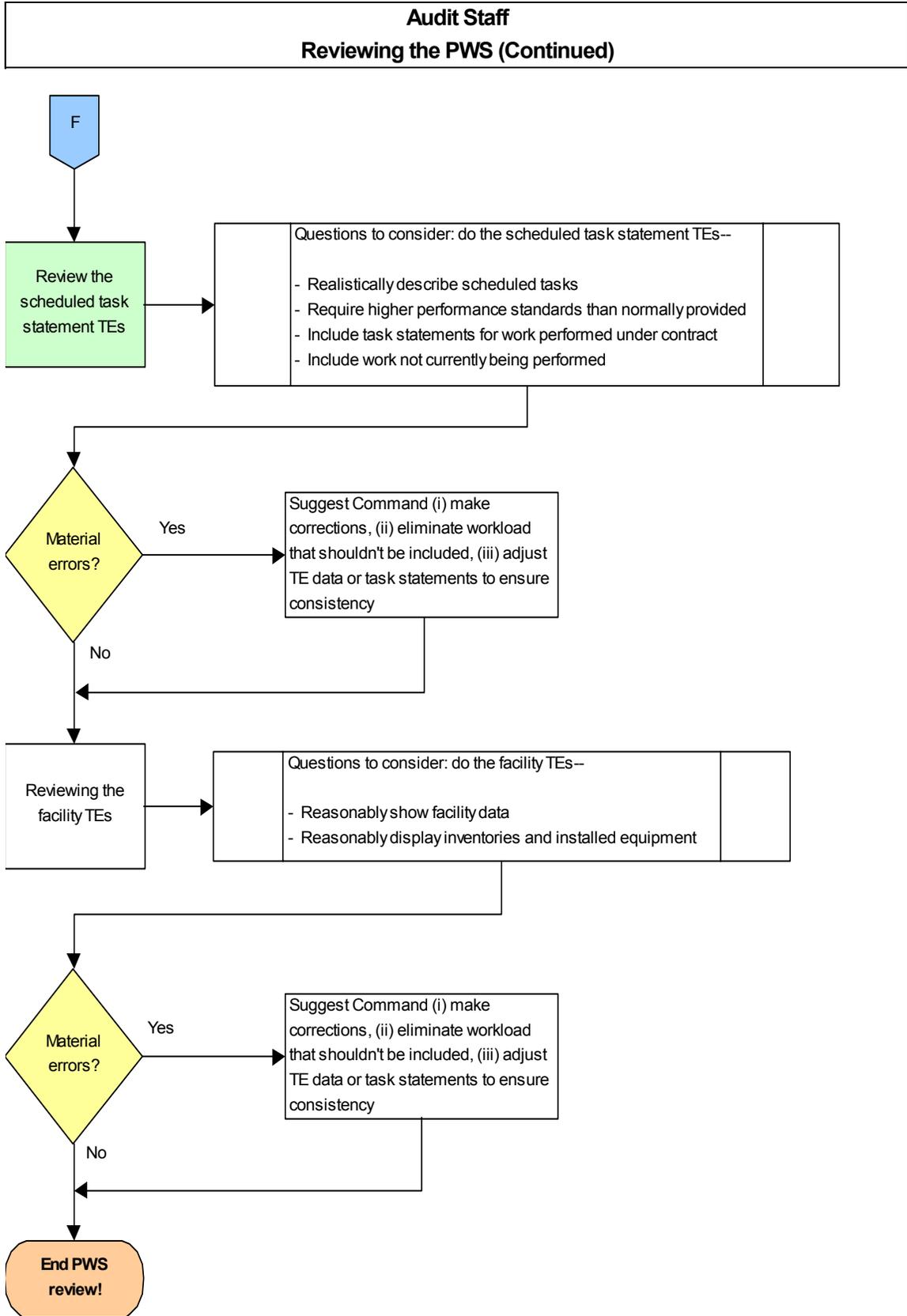












Performance Work Statement Report Format

SAAG-IMT

XX Month 2001

MEMORANDUM FOR Commander, U.S. Army (Name and address of installation)

SUBJECT: U.S. Army Audit Agency Review of the Draft Performance Work Statement, (date of PWS), (Assignment Code T9-XXX), Audit Report: AAXX-XXX

1. **Introduction.** At your request, we completed our consulting review of the performance work statement in accordance with consulting standards issued by The Auditor General. The nature and scope of this engagement were outlined in the engagement letter signed by the agency and your command.
2. **Scope and Methodology.** We reviewed draft versions of the performance work statement for clarity, completeness and reasonableness. We interviewed key command personnel on issues concerning task requirements and workload data. We obtained a basic understanding of the processes used by the work statement team to develop workload data. Based on our risk assessment, we also tested workload data by sampling and reviewing supporting documents. Our review began on (date) and was completed on (date).
3. **Objective and Conclusion.** Our objective was to determine if the performance work statement reasonably presents the work to be performed. We concluded that the performance work statement (dated) and Command's changes to that work statement reasonably represented work requirements for the (name of commercial activity).

During our review, however, we identified problems in the performance work statement related to erroneous task requirements, and inadequate performance-based work descriptions. We provided Command representatives suggested actions to correct these problems.

4. **Audit Results.** The next two sections describe the problems we identified during our review.
 - a. **Task Requirements.** Task requirements in the performance work statement, dated (date of PWS), and Command's planned changes to the work statement were reasonably comprehensive and not too restrictive. AR 5-20 and DA Pamphlet 5-20 require the work statement to:

- Describe the work to be accomplished to successfully deliver the required levels of services.
- List required tasks without specifying the method of performance.

Initially, we found that some task requirements were omitted and some tasks were included that are/will be no longer performed. However, Command personnel took action to correct the deficiencies we identified.

- Omission of Task Requirements. The work statement didn't include some tasks that installation personnel were currently performing and would continue to perform. For example, it didn't include tasks for maintaining and managing the temporary loan warehouse. The (name of commercial activity) currently manages a \$X,XXX inventory of temporary loan items for authorized units to use and intends to continue this mission in the future. Therefore, the work statement should have included tasks related to the loan warehouse. Command personnel stated the omission of the temporary loan warehouse was an oversight and took action to include these tasks in the work statement.
- Erroneous Task Requirements. The work statement included task requirements that installation personnel shouldn't have been performing and didn't intend to perform in the future. The work statement shouldn't include these tasks because the installation can't require a contractor to perform tasks that installation personnel don't intend to perform.

b. **Work Descriptions.** It is the policy of the Federal Government that agencies use performance-based contracting methods to the maximum practical extent. The Directorate of Logistics planned to develop a "Performance-Based Performance Work Statement". A performance-based statement of work is a description of the tasks to be performed by the contractor in terms of required outcomes or results. Key components of a performance-based work statement are:

- Specific and clearly defined contract goals.
- Technical and schedule requirements stated in terms of desired results.
- Methods of performance measurement.
- Clearly established deliverables and other reporting requirements.

- Mandatory requirements that are limited to the Government's actual needs.

However, preliminary work statements provided by the contractor and the (name of commercial activity) didn't address several of the key components of a performance-based statement. The preliminary documents didn't; i) clearly define contract goals, ii) describe tasks in terms of required results, iii) identify deliverables and other reporting requirements, or iv) provide a basis for performance measurement. The preliminary documents only provided potential contractors with broad categories of operations and gave regulatory references as policy. This raised significant questions over the contractability of the preliminary documents. We consulted with contracting personnel, and they agreed that the preliminary work statements may not have been performance based. Command personnel took action to provide an adequate performance-based work statement.

5. **Discussion of Results.** We discussed our results on (date) with the (name of commercial activity) and with the work statement team. They were generally receptive to our conclusions and took corrective actions to fix these problems. This report is not subject to the official command-reply process described in AR 36-2 and further distribution of the report is solely at your discretion.

6. If you have any questions, please contact (AIC) at (xxx) xxx-xxxx or DSN xxx-xxxx or myself at (xxx) xxx-xxxx or DSN xxx-xxxx.

FOR THE DEPUTY AUDITOR GENERAL:

JAMES M. ANDREWS
Program Director
Installation Studies

Pre-Audit Independent Reviewer Checklist

To complete the independent review in a timely manner, installations will attach this checklist to the management study and to the cost comparison form before our audit starts. This checklist request information and documents needed to complete our review. Installations will retain documents and references used to answer the checklist.

√ when completed	I. Management Study Requirements
	1. Has the solicitation been issued and are copies of the solicitation package and performance work statement accessible for our review?
	2. Does the management study identify current government in nature spaces, authorized spaces, most efficient organization (MEO), and contractible positions?
	3. Is the MEO certified by a technically competent individual who is organizationally independent of the function under study or at least two levels above the most senior official included in the in-house cost estimate?
	4. Does a crosswalk exist from the MEO to the performance work statement (PWS)? Does the crosswalk identify key tasks reported in the PWS? The crosswalk should include by PWS paragraph number and description, the frequency of occurrence per year, hours per occurrence, and the hours per task (see the back pages of DA PAM 5-20 for DA Form 7196-R)?
	5. Is the methodology used to arrive at the efficiencies reasonable and the management efficiency study internally consistent?
	6. Does an audit trail exist to support the rationale used for potential savings and efficiencies?
	7. Does civilian personnel office agree with the new job classifications and grade level in the MEO?

<p>√ when completed</p>	<p>II. Cost Compare Form Requirements</p>
	<p>1. Is the solicitation package and performance work statement easily accessible for our review?</p>
	<p>2. Does the management study include the final MEO documentation, printed cost comparison form (CCF) with signature page (which also includes command's MEO certification), and Technical Performance Plan (TPP)?</p>
	<p>3. Does the CCF include the following printed copies:</p> <ul style="list-style-type: none"> • COMPARE line rationale documentation. • Common costs documentation (this may be included as part of the line rationale or as a separate attachment). • COMPARE individual input records. • COMPARE worksheets. • COMPARE Study Tables. • COMPARE Error list.
	<p>4. Is a copy on a floppy disk of the COMPARE study file included (with password)?</p>
	<p>5. Does an adequate audit trail exist between entries on the CCF and supporting documents? All assumptions, data sources, estimates, and methods of cost accumulation need to be documented, cross-referenced to the cost comparison form, and available for review. Documentation should adequately explain how all elements of the in-house cost estimate were developed.</p>
	<p>6. Does pay documentation adequately support how premium pay was calculated? For instance, line rationale should explain which positions receive differential pay (overtime, Sunday pay, holiday pay, and environmental), quantity of hours, and rationale used to determine how each element of pay was computed?</p>
	<p>7. Does supporting documentation list the MEO positions not subject to an economic price adjustment identified by the civilian personnel office?</p>
	<p>8. Does the cost comparison package identify subcontracts that will continue once the contract is awarded?</p>
	<p>9. Is a list of personnel responsible for preparing the management study and cost compare form included?</p>

Commercial Activities Study Manager

Management Efficiency Study Report Format

SAAG-IMT (36-05e)

XX Month 2001

MEMORANDUM FOR Commander, U.S. Army (Name and address of installation)

SUBJECT: U. S. Army Audit Agency Review of the Management Study of (name of commercial activity), (date of MES), Audit Report: AAXX-XXX

We have completed our examination of the subject management study. The management study is the responsibility of the (name of installation). Our responsibility is to independently review and attest to the reasonableness of the management study.

Our examination was made in accordance with generally accepted government auditing standards, and accordingly, included the procedures we considered necessary under the circumstances. Those procedures were designed to evaluate the reasonableness of the management study. As part of our examination, we interviewed Command representatives, evaluated the rationale for proposed efficiencies, and reviewed the consistency of the management study. We also evaluated the reasonableness of the management study when compared to the staffing level in the most efficient organization. Our examination was predicated on the Commander's certification of the most efficient organization.

During our review, we made recommendations to improve the management study, and (name of commercial activity) made the changes during our examination.

In our opinion, the management study reasonably establishes the Government's ability to perform work requirements of the performance work statement with the resources in the most efficient organization.

I appreciate the courtesies and cooperation extended to us during the audit.

FOR THE DEPUTY AUDITOR GENERAL:

JAMES M. ANDREWS
Program Director
Installation Studies

Cost Comparison Form Report Format

SAAG-IMT (36-5e)

XX Month 2001

MEMORANDUM FOR Commander, U.S. Army (Name and address of installation)

SUBJECT: U.S. Army Audit Agency Review of the Cost Comparison Form for the (name of commercial activity), (date of CCF), (Assignment Code TX-XXXX), Audit Report: AA 01-XXX

1. We have completed our review of the subject cost comparison form for solicitation number (#) through amendment number (# dated). The cost comparison form is the responsibility of (name of installation). Our responsibility is to attest that all costs entered on the cost comparison form are fully justified and calculated in accordance with the procedures described in OMB Circular A-76 and its supplement.
2. Our review was made in accordance with generally accepted government auditing standards and, accordingly, included the procedures we considered necessary under the circumstances. As part of our review, we traced cost estimates to accounting records and other supporting documentation for the most significant cost elements. Our procedures were designed to evaluate whether the cost comparison form was completed in compliance with OMB Circular A-76, its supplement and related DOD and Army guidance. The procedures were not designed, however, to evaluate management controls or the accuracy of the accounting records or the support for every cost element, and we do not express an opinion or any other assurance thereon.
3. During our review, we found that some in-house costs required adjustments. (Installation/activity) agreed and made the appropriate changes during our review.
4. In our opinion, the revised cost comparison form (enclosure) provides a reasonable estimate of government costs and has been completed in compliance with OMB Circular A-76, its supplement, and related DOD and Army guidance.

5. I appreciate the courtesies and cooperation extended to us during the audit.

FOR THE DEPUTY AUDITOR GENERAL:

JAMES M. ANDREWS
Program Director
Installation Studies

FOR OFFICIAL USE ONLY – PROCUREMENT SENSITIVE
Restricted Marking Will Be Canceled Upon Announcement To
Continue In-House Performance Or Convert To Contract Operations

Cost Comparison Form Review Report Cover Format

SAAG-IMT (36-2c)

XX XXXX 2001

MEMORANDUM FOR Garrison Commander, XXXX (ATTN: XXXX-GC), Fort
XXXX, (STATE) XXXX-XXX

SUBJECT: U.S. Army Audit Agency Review of the Cost Comparison Form for
the Fort XXXX (function) (Assignment Code TX-XXXX), Audit Report:
AA XX-XXX

1. The enclosed sealed envelope contains copies 1 and 2 of the subject audit report and cost comparison form.
2. This envelope should be submitted **UNOPENED** to the appropriate contracting officer as the in-house bid.

FOR THE DEPUTY AUDITOR GENERAL:

JAMES M. ANDREWS
Program Director
Installation Studies

Copy  of 4

Schedule of Adjustments

(Note: This schedule is handled separately from the audit report in annex H-1. The signed original goes to the installation CA point of contact as lessons-learned for use in future commercial activities.)

SAAG-IMT (36-5e)

XX Month 2001

MEMORANDUM FOR Commander, U.S. Army (installation), ATTN: (CA POC),
(Location, State, Zip)

SUBJECT: Schedule of Adjustments From the Review of the Cost Comparison Form, (Functions), U.S. Army (installation), (Location, State), Audit Report: AA 9X-XXX

1. Enclosed are the schedule of adjustments made to the cost comparison form and related explanatory notes for the subject commercial activities review.
2. The schedule and notes are being furnished to assist you in preparing future cost estimates for commercial activities reviews and are also being provided to our Operations Center for compilation of data to identify trends.

FOR THE DEPUTY AUDITOR GENERAL

Encls

JAMES M. ANDREWS
Program Director
Installation Studies

**(Name of CA Activities)
(Installation Name)**

Schedule of Adjustments

<u>Line</u>	<u>Cost Elements</u>	<u>Adjustments</u>	<u>Notes</u>
<u>In-House Performance Costs</u>			
1.	Personnel Costs	\$0	a
2.	Material & Supply Costs	0	
3.	Other Specifically Attributable Costs	0	b
4.	Overhead Costs	0	c
5.	Cost of Capital	0	
6.	One-Time Conversion Costs	0	
7.	Additional Costs	0	
8.	Total In-House Costs	\$0	d
<u>Contract Performance Costs</u>			
10.	Contract Administration	\$0	e
11.	Additional Costs	0	
12.	One-Time Conversion Costs	0	f
13.	Gain or Loss on Disposal/Transfer of Assets	0	
14.	Federal Income Tax (Deduct)	0	
15.	Total Contract or ISSA Costs	\$0	
<u>Decision</u>			
16.	Conversion Differential	\$0	g

* As submitted by command on (date) for the 5-year performance period.

(Name of) Activities

(Name of Installation)

Notes to Schedule of Adjustments

a. **Personnel Costs.** The initial cost estimate for line 1 was adjusted for a net increase/decrease of \$XXX,XXX because:

- The most efficient organization was increased/decreased by XX.XX full-time equivalent positions to adjust for a mathematical error and to include/reduce XX additional positions in (name of function) staffing. These changes resulted in an increase/decrease of \$XXX,XXX for all periods of performance.
- Night differential pay was added for XX full-time equivalent positions, increasing costs \$XX,XXX for all periods of performance.
- The staffing was increased/decreased XX.XX full-time equivalent positions using revised standards based on historical workload data. These changes result in an increase/decrease of \$XXX,XXX for all periods of performance.
- The cost comparison was increased to include 1999 General Schedule and Federal Wage System pay scales.
- Analytical and mathematical errors were corrected.
- Premium pay that was initially omitted was added.

b. **Other Specifically Attributable Costs.** Line 3 was increased/decreased by \$XX,XXX because of the adjustments to Line 1.

c. **Overhead Costs.** Line 4 was increased/decreased by \$XXX,XXX because of the changes to Line 1.

d. **Total In-House Cost.** The total in-house cost was increased/decreased by \$X,XXX,XXX because of the changes to Lines 1, 3, and 4.

e. **Contract Administration.** Contract administration cost was increased/decreased by \$XX,XXX after applying the 1999 general schedule pay scale.

f. **One-Time Conversion Costs.** One-time conversion costs, Line 12, increased/decreased by \$XX,XXX based on a number of adjustments to the various cost elements within this line.

g. **Conversion Differential Costs.** The conversion differential cost, Line 16, was increased/decreased by \$XX,XXX because of changes in personnel costs in Lines 1 and 3.

Transmittal of Report Package to Operation Center

SAAG-IMT (36-5e)

XX Month 2001

MEMORANDUM FOR Program Director, Installation Studies, ATTN: SAAG-IMT

SUBJECT: Review of Commercial Activities, (name of CA study), U.S. Army (installation), (Location and State), Audit Report: AA XX-XXX

1. Enclosed is copy 4 of subject audit report. We discussed the results of our review with command personnel on (date of exit briefing).
2. This report contains data that is FOR OFFICIAL USE ONLY/ PROCUREMENT SENSITIVE. Contents of the report should not be disclosed before bid opening currently scheduled for (date).

FOR THE DEPUTY AUDITOR GENERAL:

Encl

NAME OF AUDIT MANAGER
Audit Manager