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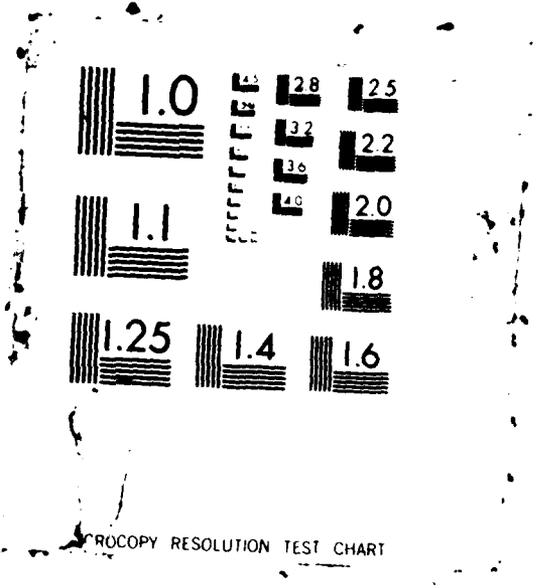
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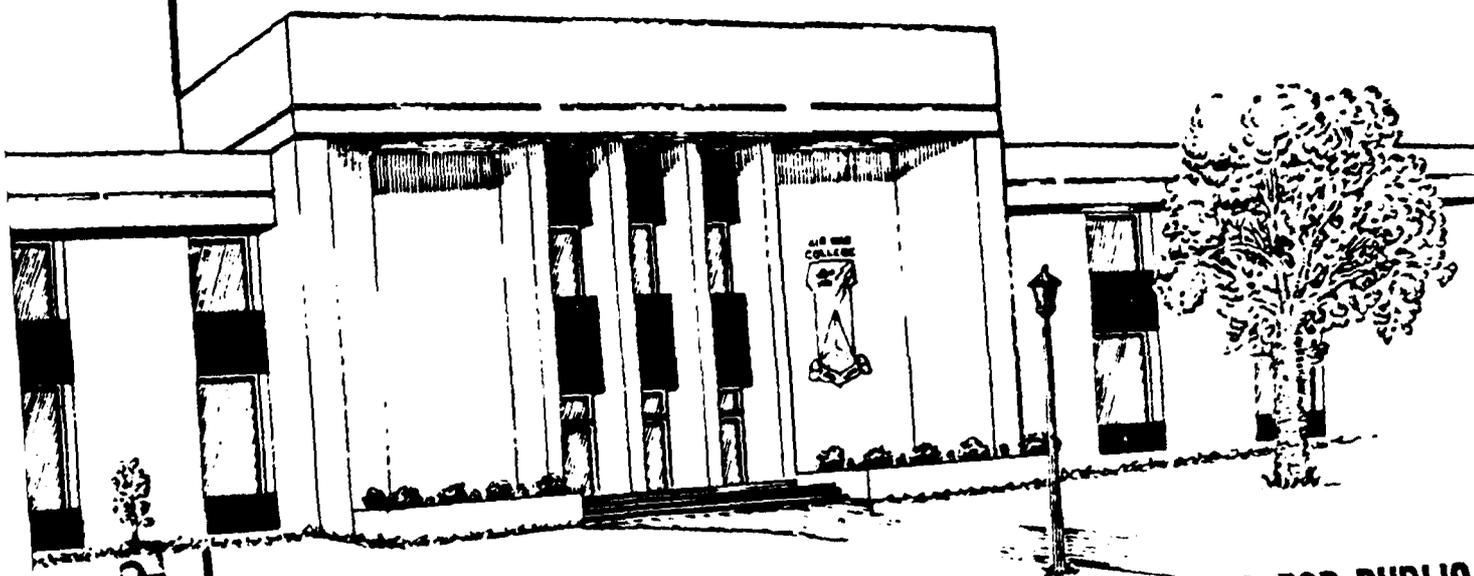
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ORGANIZING TO MANAGE BASE-LEVEL
SERVICE CONTRACTS IN THE 1990s

By LT COL C. RICHARD PORTH

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ORGANIZING TO MANAGE BASE-LEVEL
SERVICE CONTRACTS IN THE 1990s

by

C. Richard Porth
Lieutenant Colonel, USAF

A RESEARCH REPORT SUBMITTED TO THE FACULTY

IN

FULFILLMENT OF THE RESEARCH

REQUIREMENT

Research Advisor: Lieutenant Colonel Donald W. Bishop

MAXWELL AIR FORCE BASE, ALABAMA

April 1986

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AIR WAR COLLEGE RESEARCH REPORT ABSTRACT

TITLE: Organizing to Manage Base-Level Service Contracts in the 1990s

AUTHOR: C. Richard Porth, Lieutenant Colonel, USAF

Service contracting at Air Force bases will increase dramatically in the 1990s. The Air Force organizational structure at our bases is not properly established to manage this increased and complex workload. The author explains what is happening in contracting for services, shows problems in contract administration, and offers a structure to manage base level service contracts at Air Force bases in the future.

Keywords: contracting out.

BIOGRAPHICAL SKETCH

Lieutenant Colonel C. Richard "Dick" Porth received his commission in 1967 through the Air Force ROTC program at the University of Southwestern Louisiana. He began his career in the contracting career field at Charleston AFB and served as contracting officer and contract administrator in the Military Airlift Command for over eight years. He spent three years as DOD Contracting Officer at the Defense Personnel Support Center and three years as Chief, Base Contracting Division, 1st Tactical Fighter Wing. His most recent assignment was at the Air Force Logistics Management Center. There, he was the Director of Contracting.

Lieutenant Colonel Porth holds a B.S. in Business Administration and an M.B.A. He is a graduate of Squadron Officer School and also the Air Command and Staff College nonresident program. Lieutenant Colonel Porth has conducted numerous research efforts in the base contracting area. He is the author of a major research effort entitled Copper 90-- A Plan for Air Force Base-Level Contracting in the 1990s. He is a graduate of the Air War College.

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CHAPTER I

INTRODUCTION

In fiscal year (FY) 1982 over \$5.7 billion was contracted by Air Force base-level contracting offices. Of that dollar value over \$1.03 billion was spent on service contracts. In FY 1984 base-level contracting purchased over \$6.2 billion for local base needs at over 120 bases in the Air Force and it is estimated that the dollar value of service contracts exceeded \$1.3 billion. From figures obtained from an Air Force Logistics Management Center report, the dollar value of an estimated 21,000 service contracts at base-level could exceed \$2.7 billion by 1995 or an average of \$20 million at each Air Force base. (9:A1-A4)

In FY 85 over 78,000 contractor personnel, about 9 percent of the total Air Force manpower mix, worked for the Air Force through service contracts. (13) These personnel performed basic and traditional functions such as custodial service, food service, and refuse collection as well as newer services such as transient aircraft maintenance, vehicle operations and maintenance, and flight simulator operations and maintenance.

All of these contracts are managed at bases by three principal parties: the base contracting officer, the functional area chief, and the quality assurance evaluator. Each of these individuals has certain responsibilities to make sure the contractor does the service correctly and the Government gets what it is paying for.

Problems pervade the administration of service contracts as proven by the recent Air Force Inspector General report. The problems are in part related to the proliferation of service contracts on bases and in part on the fragmentation of efforts between the contracting officer, the functional area chief, and the quality assurance evaluator.

Yet the principal reason for the breakdown in the management of service contracts is the present day organizational structure. The structure is flawed and violates basic principles of management. Until the organizational structure to manage base service contracts is changed, problems will continue to occur with no abatement in sight.

In this paper I want to look at what is happening at our Air Force bases in contracting out base-level services, how we got where we are, and the future of service contracting. I then want to look at some of the more basic problems inherent in contracting for services. Then I want to turn to how the management of service contracts actually works and review the relationships that are created under a contractual relationship. And finally, I want to offer what I think we should be doing in the 1990s to manage this obvious proliferation of service contracts at our Air Force bases.

CHAPTER II

BACKGROUND OF SERVICE CONTRACTS

There are various camps about contracting out for services within the Air Force as well as within the Department of Defense. One camp goes to the extreme saying we have gone too far and we are now contracting out functions that will affect the military's capability to wage war. On the other hand there are those who say we have not contracted out enough and the military must look at more work units on the base that can be contracted out. This battle will continue to be waged for years to come. My basic assumption in this paper is the Air Force will continue to contract for more services that were traditionally performed by the military or by civil service employees. And because of that assumption, coupled with the numerous problems of managing service contracts, we must look to another organizational structure to administer these vital base level contracted out needs.

THE WHAT'S AND WHY'S

A service contract as defined by the Federal Acquisition Regulation is a contract calling for a contractor's time and effort rather than a concrete end item. Service contracting as most of us would be familiar with include audiovisual, bus service, full food service, grounds maintenance, refuse collection and disposal services, commissary stocking, and family housing maintenance.

And service contracting in the Federal Government as well as the Department of the Air Force is big business. The Federal Government in

1984 employed nearly 400,000 people at an estimated annual cost of \$20 billion to operate its in-house commercial activities. (7:1) It is estimated the Air Force employed 74,000 contractor employees at an annual cost of approximately \$3.5 billion in FY 1984. (13)

Of course, service contracting is obviously not new to governments or to the military. In fact its roots go back as far as Louis XIV in the 17th and 18th century. And the United States used service contracting in the Civil War as well as World War I. (12:9) Congress held its first hearing on the subject of service contracting as early as 1932.

In his first budget message to Congress in 1954, President Eisenhower stated the following which set the stage for "modern day" service contracting in the Federal Government:

. . . this budget marks the beginning of a movement to shift to . . . private enterprise Federal activities which can be more appropriately and more efficiently carried out that way. (12:9)

From this statement came the unfolding of a major philosophy within the United States Government. This philosophy held that the Federal Government as this nation's largest, single consumer will not compete with the private sector. The philosophy went on to say the Government would rely on its private citizens and its businesses to provide needed goods, services, and construction. This philosophy was most clearly stated in an executive directive dated 15 January 1955:

[the] Federal Government will not start or carry on any commercial activity to provide a product or service for its own use if such can be procured from private enterprise unless it is clearly demonstrated in each case that it is not in the public interest to procure such . . . from private enterprise. (10:2)

Since this executive directive there has been much legislation to guide the process of contracting out. The most recent is the Office of Management and Budget (OMB) Circular A-76, dated 4 August 1983, which states it is the policy of the U.S. Government to:

- (1) Achieve economy and enhance productivity by comparing the cost of contracting and the cost of in-house performance
- (2) Retain government functions in-house that are inherently governmental and are vital to public interest and
- (3) Rely on the commercial sector to provide commercial products and services. (10:2)

So relying on the private sector to provide not only goods and construction but also services is imbedded in public law. Let's look at some other aspects of service contracting.

SAVE MONEY

Many people are very sensitive when the question arises as to whether a contractor operation is less expensive than an operation previously performed by DOD personnel. And the sensitivity is most apparent after a contractor wins a bid over an in-house operation. Many say the contracted out function is as costly and will probably be more costly after a couple of years of contractor operation. Notwithstanding this rhetoric, the figures seem to bear out that a contractor operation is less expensive to operate in the long run.

For example, in the FY 85 Manpower Requirements Report to Congress, the Air Force showed it was saving \$93 million annually through contracted functions. The figures compared annual costs of in-house operations before contract study with reduced in-house bid costs and with actual contract prices. (11:7)

Also in DODs FY 84 report to Congress entitled "Report to Congress on the Commercial Activities Program," Dr. Lawrence J. Korb, Assistant Secretary of Defense for Manpower, Reserve Affairs, and Logistics, stated the following:

The A-76 Commercial Activities Program is making a significant contribution to supporting our national defense. Competition under this program reduces costs while still providing the services our commanders need. . . . The evidence presented here is further supported by a recent Air Force Audit Agency Report (Project #3050111 of January 1984) which states: "A-76 cost comparisons have been fairly accurate predictions of savings experienced one, two, or three years after the decision to contract."

Although some contract costs increased, the costs of the functions if they had remained in-house would have increased for the same reasons; wage rate increases and mission changes. (4:4)

One can readily see from available information contracting for services has had a positive effect and is ostensibly saving the Air Force money.

EQUAL PERFORMANCE

In a recent study four Air Command and Staff College students were concerned about whether contractors were providing effective service to commanders in family housing maintenance, transient aircraft maintenance, and vehicle operations and maintenance contracts. In this study, these students collected data from wing commanders, functional area chiefs, quality assurance evaluators, contracting officers, and contractors at 74 bases in MAC, TAC, SAC, ATC, and AFLC.

The study concluded service contractors were rated at least satisfactory for their performance. They also concluded key base personnel agreed that contractors were adequately supporting the base mission. (10:52)

In a USAF Project Rand study, base operation support functions at Reese AFB, an in-house operation, were compared with Vance AFB, a contractor performed base support operation. This report stated "the contractor's operation at Vance is as good as a standard Air Force operation at Reese." (10:51)

So we can conclude contractor performance has been satisfactory for contracted out functions.

THE FUTURE

The question in many people's minds is "will there be more contracting out in the future?" However, a better question in my opinion is "how much more contracting out will there be in the future?"

We have seen contracting out saves money and contractors are providing equal performance to in-house operations. Also, a recent article stated that agencies will probably contract out services in the future without cost comparison studies. Obviously, there is no need to do a cost comparison study if contractors have been winning the bid in almost all instances. (14:1) So it would seem logical the Air Force is going to contract for more services that are not inherently governmental and do not infringe upon the Air Force's capability to prosecute war.

The future also offers the possibility of umbrella contracting. Under this concept a group of functions on a base are consolidated into one potential contract package. For example, this happened at Vance AFB, Oklahoma, and the Army contracted out its installation support at Fort Gordon, Georgia. Further, the Air Force Reserves are in the throes of contracting out entire base functions. (11:9)

We can also see that if we have more contracting out the complexity of the contracts will increase. We are looking at contracting out simulator maintenance, aircraft maintenance, telephone switchboard, energy monitoring and control systems, and others. These contractor operations are not as easy to administer as a custodial contract.

We can also see there will be more quality assurance evaluators (QAEs) working at each base. The QAE as the inspector on service contracts will be in every operations and support function on each Air Force base. Virtually, every Air Force commander will be affected by service contractor and Government inspectors.

So we can see in the future more contracting out on each base. Additionally, we see more complex services being contracted out and every area on the base will be affected. The next chapter addresses problems frequently encountered in administering service contracts at Air Force bases.

CHAPTER III

PROBLEMS IN ADMINISTERING SERVICE CONTRACTS

In a service contract relationship it is imperative the purchaser, in this case the Government, inspect by the service being performed by the contractor. This is especially critical in a service contract relationship since the service, whether performed and performed properly, is in many instances not easily discernible. For example, if a contractor is required to clean a floor in a building early in the day, let's say before 8 a.m. every morning, the inspector must come immediately after the floor is supposed to be cleaned. If the inspector looks at the floor at 3 p.m. of the same day, it is virtually impossible to determine if the floor was cleaned or cleaned properly in the morning since the work area could have become dirty between 8 a.m. and 3 p.m.

Service contracting therefore requires constant and persistent surveillance by an inspector. And timing in many instances is critical for the contracting officer to be assured the Government is getting what it is paying for. To do this vitally important function on a continuing basis the Air Force relies upon a Quality Assurance Evaluator (QAE). I will discuss the QAE's duties later.

Prior to 1979 the Air Force had what could be termed an exceedingly haphazard and unstructured inspection system. This program was called the Technical Representative of the Contracting Officer (TRCO) program. This program was fraught with numerous problems. Some of these problems were:

- (1) Services contracted and paid for were not always received.
- (2) Inspectors did not always report substandard performance.
- (3) Contracting officers were not always taking appropriate corrective action when they were apprised of substandard performance.
- (4) Inspectors and contracting people were not sufficiently familiar with contracts to adequately monitor contractor performance.
(5:2)

Yet even with the introduction in 1979 of a more structured and more disciplined method of inspection called the quality assurance evaluation program, the same problems apparently continue to exist. This new method is described in AFR 400-28, Base Level Service Contracts. With the use of this regulation, of which I will go into greater detail later, the Air Force uses performance work statements, quality assurance surveillance plans, and surveillance procedures to assure we get what we are paying for. Under this method the QAE is charged with measuring contractor performance against established standards.

In 1983, after four years of AFR 400-28, an Air Force IG report was released on the adequacy of the quality assurance evaluation program for base-level service contracts. Although new problems existed because of the new and not entirely understood AFR 400-28 requirements, many of the same problems existed that had existed prior to the new regulation.

Some of the problems noted in the inspection were the following:

- QAEs were not accomplishing randomly selected evaluations of contractor performance.
- QAE evaluations were not being accomplished against contractually established standards.
- QAEs were advising contractors of deficiencies and permitting them to correct the deficiencies.
- Functional area chiefs (FAC) were not evaluating QAE performance to preclude these improper actions by QAEs.

- Contracting officers were not taking actions to ensure that QAEs were providing the proper support. Further, they were not taking the required deductions for unsatisfactory or not-performed services.
- Commanders were not taking an active interest in their Quality Assurance Evaluation Program. As a result of these failures, operation and maintenance funds could have been or were, misspent for unsatisfactory services. (6:12)

The report also went into several other areas. One of particular interest was the fact manpower standards did not give either base contracting or the functional areas adequate personnel to administer contracts using the new regulatory procedures. Therefore, it could be assumed that many of the problems inherent with the administration of services contracts were a by-product of insufficient personnel. It is a valid argument for without sufficient people the program cannot be effective, much less efficient.

Another area of the report showed that the training program was also deficient. The training at the bases, done by base contracting personnel, was characterized as the root of the problem and not the training provided by the Lowry Technical Training Center (L TTC). In fact the L TTC was rated excellent.

As a result of the poor training the IG stated it found many noncompliance items. These included inadequate monthly surveillance schedules, incomplete surveillance documentation, and a reluctance to issue contract discrepancy reports.

There are two final problem areas that need to be addressed in managing service contracts at base level. These areas are (1) authority and responsibility and (2) dual role of QAEs. Major Randal Kirchner

did the basic research in these two areas and I have borrowed from him greatly.

Authority and responsibility are classic principles of management. To state the principle I will quote Ernest Dale: "Authority should be commensurate with responsibility. That is, when anyone is made responsible for achieving a given objective, he should have enough authority to take steps necessary to reach it." (1:165) In the administration of service contracts it is readily apparent these classical principles are violated.

For example, when a service is contracted out, the functional area chief who has the responsibility for the service does not have the authority to direct the contractor who is performing the service. To illustrate this point I quote AFR 400-28:

- (1) When a given function is performed in-house, with Air Force personnel, the lines of authority flows from the commander, to the functional area chief, and then to the function. However, when authority is delegated in the contract environment, the local contracting office (and especially, the contracting officer) become a part of the authority line.
- (2) By law, only a contracting officer may make a contract and may direct a contractor. Hence, the functional area chief must act through the contracting officer to obtain and manage a service contract.
- (3) In a contract function, responsibility does not follow the line of authority. Rather the functional area chief has overall responsibility to see that the service is provided to the base but works through the contracting officer's authority. (2:1-5)

The last issue is the problem of the dual role of the QAE. The problem centers around the hypothesis the QAE will give priority to functional area duties rather than contract surveillance duties if both are assigned. Of course this is a matter of common sense that an individual will subordinate the secondary function.

In many instances this is the case. The QAE will have assigned duties which the QAE considers more important than QAE duties. The QAE will do these duties the QAE considers the most important. In many instances this is the case and QAE duties are submerged resulting in degraded quality assurance. (8:56-64) As a result, contractor performance may not be properly inspected or performed and the Government may not receive the services it is paying for. With these problems of administering service contracts in mind, the following chapter highlights current methods used to manage service contracts.

CHAPTER IV

HOW DO WE MANAGE SERVICE CONTRACTS TODAY

Although there are some exceptions, AFR 400-28 states any contract for the acquisition of operations and maintenance services at base level expected to exceed \$100,000 annually will be purchased using a performance work statement (PWS). A PWS is a document describing the essential and technical requirements for items, materials, or services, including the standards used to determine whether the requirements have been met.

The performance work statement is the essence of contracting for services in the Air Force. Under this concept the PWS reflects the minimum needs of the Government and facilitates the use of random sampling procedures to measure the contractor's output. Most important under this concept the Air Force is not interested in how the contractor produces an acceptable service but is interested only in a final output service that is measurable and is within standards.

Using this concept the Government develops a quality assurance surveillance plan (QASP). The QASP is used by the QAE (the inspector) and it tells how and when surveillance is to be accomplished in order to measure the acceptability or nonacceptability of the contractor's performance. If the contractor's performance meets contract standards, the contractor receives full payment for his work. If the contractor's performance does not meet contract standards, a deduction is taken as agreed to in the contract.

It is not my intent to go into a detailed discussion of performance work statements. However, I do want to state the Air Force has taken giant steps to write service contract specifications that have measurable outputs. With these measurable outputs, more objectivity can be used to determine acceptability of services provided by contractors. Now I would like to turn to how we purchase services and the major players in this process.

To discuss how this system of service contract buying works, I think it would be helpful to use an example that most of us would be familiar with. I have chosen a service contract for custodial services.

The base civil engineer as the functional area chief (FAC) is responsible for custodial services on every Air Force base. The FAC is responsible for the actual performance of the services whether it is provided by in-house personnel or whether it is done by contract. In this example the civil engineer as the FAC cannot provide this service in-house so we will discuss the FAC's responsibilities in the contracting process.

As the FAC, the civil engineer has certain responsibilities. The major functions to be done are as follows: (1) write a performance work statement, (2) determine the level of quality assurance evaluation required, (3) define QAE responsibilities, (4) participate in surveys to determine acceptable contractors, (5) help evaluate the contractor's quality control plan, (6) functionally train QAEs, (7) check the QAE's performance, and (8) notify the contracting officer if the contractor's performance is acceptable or unsatisfactory. (3:2)

The FAC is responsible for making sure the contractor performs in accordance with the PWS. The FAC's principal agent to assure acceptable performance of the custodial contract is the quality assurance evaluator (QAE).

The QAE works for the FAC. Principal duties include the following: (1) maintain technical competency in the functional area to be surveyed, (2) be proficient in contract surveillance techniques, (3) help write the performance work statement and surveillance plan, (4) do contract surveillance, (5) evaluate and document contractor performance and (6) certify acceptance of satisfactory services. (3:3)

The QAE therefore inspects the custodial contractor's performance through the use of random sampling techniques from established standards in the contract. The QAE reports discrepancies of performance to the FAC and the contracting officer.

The final major party is the contracting officer, the Government agent who awards and administers the custodial contract. By law the contracting officer is the only person authorized to contractually obligate the Government. Principal duties include: (1) assist the FAC in preparing the PWS and surveillance plan, (2) train QAEs in contract surveillance, (3) conduct preaward surveys to determine acceptable contractors, (4) award the contract, (5) review with the FAC the contractor's quality control plan, (6) document contractor performance, and (7) take corrective action when performance does not meet standards. (3:3)

With these three principal parties--the functional area chief, the quality assurance evaluator and the contracting officer--contract administration of base level services contracts is done at base level. With the introduction of AFR 400-28 this process can become quite complicated for all parties especially with a complex contractual requirement. The degree to which these parties communicate with each other will in great measure determine the success or failure of the contract. It is a team effort.

CHAPTER V

WHAT NEEDS TO BE DONE

As we can readily see the nature of service contracting in the Air Force has changed and will continue to change. We are contracting out more base level services and the indicators are we will be contracting out more in the future. We can also see that the dollar value of these contracts will become larger and the potential exists for more umbrella type contracts. And as we saw with the introduction of AFR 400-28, service contracting is becoming more complex to purchase, administer and manage. We also saw that administration of service contracts has not significantly improved with the introduction of AFR 400-28 as indicated by the most recent functional management inspection. So what is the problem?

To me there are two serious problems that create this dysfunctionality. First, we are not organized properly. Second, we have not placed enough attention to quality assurance on the base. Until these two areas are mended we will continue to have problems with quality assurance on service contracts.

To rectify this problem, we need to develop and organize a separate function on the base to administer service contracts. The function would be called the Base Quality Assurance Office.

CENTRALIZED QUALITY ASSURANCE

We need to establish the centralized quality assurance function at our bases for the future. This function would be under the Deputy Commander for Resource Management and would be composed of the base

quality assurance officer, a contracting officer, and quality assurance evaluators. The organization would be as shown in Figure 1.

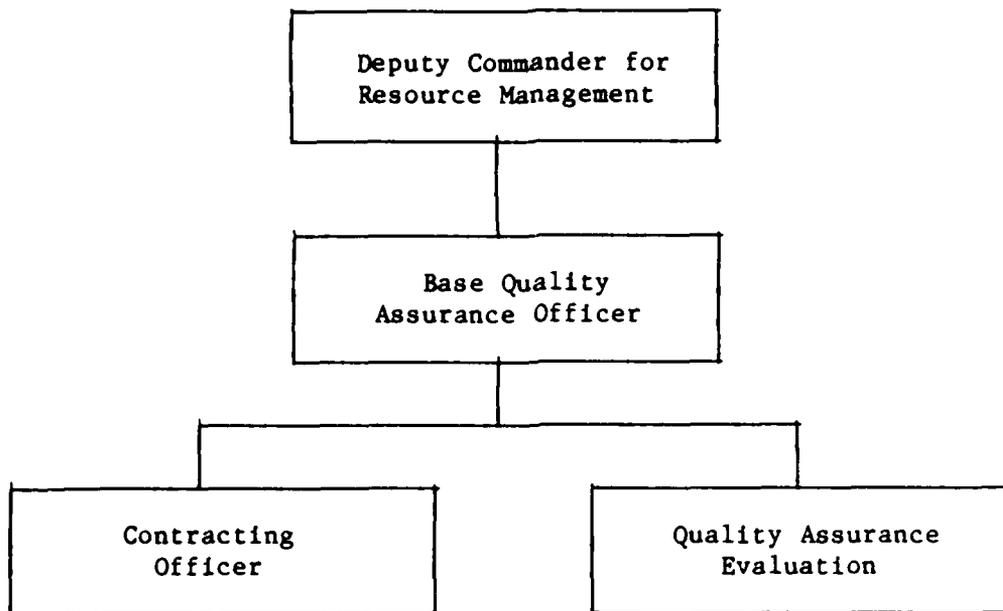


Figure 1

Numerous advantages would be realized by creating this new and separate function under the DCR. Those advantages are as follows:

- Consolidates contracting and quality assurance of service contracts under one office.
- Creates the potential for all service contracts to be administered by this one office.
- Eliminates the dual role of QAEs since they would be strictly devoted to surveillance of service contracts.
- Would emphasize the importance of quality and seriousness of Air Force's position to get what we have paid the contractor for.
- Would create opportunities for obtaining economies of scale for inspection of smaller-less than \$100,000 contracts.
- Would upgrade the stature of quality assurance evaluators.
- Would allow the base to develop more performance oriented statements of work for smaller contracts.
- As more expertise is gained over time, better contracts can be written for base level services.
- Training of all QAEs would be done by the centralized office.
- Would increase the effectiveness of quality assurance therefore enhancing the possibility of better contractor performance.

There are some disadvantages but I do not see them outweighing the advantages. The disadvantages are as follows:

- The central quality assurance office would further diminish the authority of the functional area chief.
- Functional area chiefs would lose personnel to the quality assurance office creating some friction and resistance.
- Creates a potential problem for military QAEs to advance in their career field.
- Functional area chief may abdicate all responsibility to the quality assurance office including special duties assigned to him.

I have been thinking about a centralized quality assurance function for years. Major Kirchner visualized this possibility years ago too. It is now time to do something. And someone has done something.

AN OFFICE ALREADY ESTABLISHED

At Fairchild Air Force Base a central quality assurance function exists today. From conversations with the people at Fairchild it seems to be working and many of the advantages I have listed were stated by Fairchild. (15)

The approval to organize was done through the model installation program. The people are excited about this new way of managing service contracts. It seems to be the wave of the future. I implore commanders, functional area chiefs, contracting officers, and quality assurance evaluators to access this new possibility. I think it will work and we will be able to achieve greater productivity through this new way of organizing to manage service contracts.

CHAPTER VI

CONCLUSIONS

The Air Force will probably spend almost \$3 billion for service contracts at our bases in the mid 1990s. As we contract out more we can expect these services to be more vital to the mission accomplishment of the base.

The Air Force has placed a lot of emphasis on service contract administration and surveillance in the past few years. And a new regulation, built on the creation of a performance work statement, was created for this very important contractual situation.

Now we need to look to the organizational structure that we are depending on to do this function. Can it do the job? I think it cannot.

We need to centralize the quality assurance function in the future if we are to cope. Without it I think we will have the same or worse problems in the future.

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