



# United States Department of the Interior

OFFICE OF THE SECRETARY  
Washington, D.C. 20240

APR 4 2002

## Memorandum

To: Competitive Sourcing/Procurement Team

From: Michael M. Del-Colle, Director *Michael M. Del-Colle*  
Competitive Sourcing Center

Subject: **DOI Guide for Conducting An Express Review Competitive Sourcing Study for Functions with 10 and Fewer FTE**

The OMB Program Manager for Competitive Sourcing has confirmed that our guide for Express Review of functions with 10 or few positions is approved. The results of the Express Review studies will count toward the President's Management Objectives for Competitive Sourcing.

Editorial clarifications and changes received from the bureaus and offices were incorporated into the final document, as appropriate. If you have any questions or need clarification regarding the Express Review guide, please contact Helen Bradwell-Lynch, Office of Competitive Sourcing Center of Excellence, 202-219-0727, or Jennings Wong, Office of Acquisition and Property Management, 202-208-6704.

The document will be posted on the DOI Competitive Sourcing web page at [www.doi.gov/pam/competitivesourcing](http://www.doi.gov/pam/competitivesourcing).

## Attachment

cc: Scott Cameron, Deputy Assistant Secretary - Performance & Management

**Department of the Interior**  
**Guide For Conducting An Express Review**  
**Competitive Sourcing Study**  
**For Functions with 10 And Fewer FTE**

**1.1 INTRODUCTION.**

The objective of this guide is to provide a process for studies involving 10 or fewer FTEs that will meet the requirements and intent of *OMB Circular Number A-76 Revised Supplemental Handbook*, give fair consideration to government employees, enable consistent implementation of the policy, and require minimal analytical effort. As a general rule, before initiating a study of a function involving 10 or fewer personnel, the organization should consider consolidating the study of the function with similar functions at other offices in the region, geographical area or with related functions at the same location. Such an approach offers two major benefits:

1. Economies of scale and opportunities for larger savings in the function and its associated overhead in the most efficient organization; and
2. Efficiencies in contract administration if the decision is to convert to contract

On the other hand, no study of 11 or more FTEs should be modified in any way to be able to qualify as a 10 and Fewer Study. This is supported in the *OMB Circular Number A-76 Revised Supplemental Handbook*, Chapter 1, paragraph D.6, which states "In no case, shall any commercial activity be modified, reorganized, divided, or in any way changed for the purpose of circumventing the requirements of this .....Supplement."

Recognizing that consolidation of smaller functions in a regional context or in bureau-wide context may not be feasible in all instances, the Competitive Sourcing Center has developed this supplement to assist in performing cost comparison studies involving functions with 10 or fewer government employees.

The Circular A-76 Revised Supplemental Handbook (hereafter referred to as the Handbook) sets forth government-wide principles and procedures for reviewing commercial activities to determine whether or not the function(s) should continue to be performed by in-house employees or converted to contract or Interservice Support Agreement (ISSA) performance. The process outlined in the Handbook for studying a typical function requires extensive analysis and can last from 18 months for a single function study to 36 months for a multifunction study. From a business point of view, spending this much time and money to make a decision about a function involving a small number of work years and minimal costs would not be cost effective. This fact has been recognized in the Handbook and special provisions have been made to permit an alternate process when the number of employees being studied is not large and does not warrant an expensive time-consuming study. This process outlined in this guide should require no more than 60 days from start to finish.

## **1.2 SMALL STUDY ALTERNATIVES.**

Two separate alternatives are outlined in the Handbook. The first is called the Streamlined Cost Comparison Process and can be used when the number of federal positions being studied is 65 FTE or fewer. Basically, it requires the Government to price its existing organization in accordance with the general rules of the larger studies and allows the Government to develop a range of estimated costs that one could reasonably expect prospective contractors to offer, without issuing a formal solicitation. This process assumes the activity being considered is regularly performed by contract and it requires the government to base its in-house costs on the current organization. Documentation procedures and forms are included in the Handbook. This streamlined process saves time by reducing or eliminating much of the time required developing the MEO, Management Plan and Technical Proposal Plan. If the Government is judged to be the lower cost provider, it also saves the effort required to prepare the solicitation.

The second alternative can be applied if the function under study includes 10 FTEs or fewer. The Handbook states, "Commercial activities involving 10 or fewer FTEs may be performed by in-house, contract or Interservice Support Agreements (ISSAs) performance without cost comparison, if the contracting officer determines that offerors will provide required levels of service quality at fair and reasonable prices." No further guidance or suggested documentation is provided in the Handbook for this second alternative. Differing interpretations of this statement have resulted in inconsistent application of the policy.

## **1.3 STUDY PROCESS FOR 10 AND FEWER FTEs**

This section of the guide outlines a five step process to perform the 10 and under studies (refer to Figure 1 for the flow diagram). This process should require no more than 40 to 80 hours of effort and provides a means to compare commercial and in-house costs at a reasonable level of accuracy which meets the cost comparison process of the Handbook.

Before the process can begin, a lead person should be assigned to conduct and oversee the study. The study lead shall be assigned all responsibilities associated with the completion of all study activities. The study lead shall be responsible for ensuring adequate documentation of requirements, cost analysis, timelines, etc. Analytical skills and being organizationally positioned so that he/she can conduct the study without strong bias or influence is essential. The lead person or group conducting this study process should not be in the immediate chain of command for the activity being studied. A contractor may be used to complete the study of an activity with 10 or fewer FTE's as long as the contractor is not a prospective bidder or subcontractor of the work. The contractor may accomplish such duties as the preparation of the requirements, documentation, costs, etc.

The first step in the process is to gather product and/or service workload requirements much like that required in developing a Performance Work Statement (PWS) in a full

cost comparison. The purpose of this step is to define what the product or service is and how much of it is required.

The second step involves conducting a market analysis (the cost of existing contracts may be used) to determine the commercial price and availability to provide the product or service. The step provides a suggested process for obtaining information on existing contracts (including GSA/FSS) or, if not available, conducting interviews with local area suppliers.

The third step describes a process for estimating both the Government's cost and that of private industry to produce the product or service. This abbreviated cost method relies on assumptions contained in Chapter 5 of the Circular when describing 65 FTEs and fewer studies. Specifically, these assumptions are:

- Competition will focus largely on a labor and material basis,
- Significant capital asset purchases will not be required or equipment requirements will be Government Furnished/Contractor Operated, and
- The Government and/or private industry commonly contracts the function and reasonably grouped price comparisons are possible.

Finally, the cost comparison is performed by the study manager or his/her designee using existing market costs to determine whether the function should stay in-house, be contracted or be performed by ISSA. This cost comparison should be approved by no less than the first level SES program manager. The individuals responsible for the cost comparison will fully document every step of the cost comparison process to ensure accurate data is available for review. Before collecting costs, however, decision criteria should be developed for either retaining the function in-house or converting to contract or ISSA if the results of the cost comparison reveal there is no significant cost difference. The Head of Contracting Activity will make these decisions if the cost is estimated to be above \$2.5 million. The Bureau Procurement Chief will make these decisions if the cost is estimated to be below \$2.5 million. Then costs are collected/developed and a comparison is made.

Three outcomes are possible:

- If the comparison shows the estimated Government cost to be below the comparable range, the function should remain in-house.
- If the estimated Government cost is above the comparable range the function should be contracted.
- If the estimated Government cost falls within the comparable range, the decision to remain in-house or convert to contract is made by the Head of Contracting Activity or Bureau Procurement Chief based upon the non-cost decision factors established earlier in this step.

#### **1.4 STEP 1: Determine the Requirements.**

The first step of the process is to firmly establish what the product or service is and how much of it is required. This step is critical as properly defining the product or service is essential in order to obtain estimates of contract price, and quantities are essential in order to compare the private sector/ISSA cost to the in-house cost.

The product or service definition and requirements shall be established by meeting with the program managers, employees, and customers of the service. The study lead should document and provide copies of documents to the attendees for their review. The study lead shall obtain a final review and concurrence by the applicable activity program manager of all identified work products and/or service requirements. During this meeting or meetings, the group should:

- Establish and list the products and services,
- Define the unit of performance (or standard) measurement (i.e. per square foot, per hour, etc.) that is used to determine volume of the product or service (contacting local commercial suppliers to determine how they price or measure is a supportable business practice),
- Determine what records (automated reports, workload, logs, etc.) will provide detail on the volume required per year, and
- Establish timelines and identify roles and responsibilities.

The study lead must then ensure all actions are completed and appropriate documentation is provided. All data should be summarized by product or service and filed into a folder that references backup materials and provides an audit trail. Any performance objectives for improvements in the organization being studied may be documented for future improvements; however, no changes may be made to the current organization once this study process begins. The current organization is the basis for the cost of the "as is" organization. A Quality Assurance Surveillance Plan (QASP) is developed to track the work performance process whether the decision is to remain in-house or issue a contract.

## **1.5 STEP 2: Conduct a Local Market Review.**

Conducting a market review of current or recently expired (within the previous six months) contracts/ISSAs in the local area will provide insight into the type of services available commercially. The review must be based on comparable wage rates within the locality being studied; however, if necessary, data from other comparable areas may be used with adjustments made based on established wage determinations. Any adjustments shall be thoroughly documented. The Handbook requires a minimum of no fewer than four comparable contracts or ISSAs to develop contract estimates for functions involving 11 or more civilians. For Competitive Sourcing studies for functions with 10 and fewer FTE, obtain a minimum of four private sector or ISSA suppliers after adjustments for A-76 costing. The review will provide essential costing information. This will aid in doing the cost comparison/analysis. There are two types of market reviews that can be performed:

- Collecting existing or recently expired contracts or ISSAs

- "Interview" local area suppliers

The best approach is to determine if there are any existing or expired contracts or ISSAs that provide the same or comparable types of products or services. Besides looking at DOI contracts, consider other governmental agencies, such as non-DOI federal agencies, quasi-federal agencies such as the Smithsonian, State, County, City, Municipalities, etc. The Contracting Officer is a major player in this action and has the expertise to provide guidance and assistance in gathering this information. When reviewing the contracts and ISSAs, determine if the pricing is consistent with or can be converted to workload units defined in the first step.

All personnel involved in the collection and analysis of data for this process must exercise confidentiality throughout the process. Information is to be considered procurement sensitive and shall only be released on a "need to know" basis only.

If existing or expired contracts or ISSAs are not available, document all sources investigated and meet with the Contracting Officer and/or functional personnel to identify potential commercial or other ISSA suppliers. Use a mileage radius that is within a reasonable business commuting distance so pricing information is representative of the area. As an alternative, if existing or recently expired contracts or ISSA's are available from another comparable area and reasonable wage adjustments can be made based on established wage determinations, these contracts/agreements are acceptable for the cost comparison. At this juncture, after all in-house (non-MEO) costs are sealed; the Contracting Officer may issue a "Sources Sought" synopsis (FAR 5.205 and 5.207(b)(4) cover A-76 specifically) in the FedBizOpps if sources of potential suppliers are not readily apparent. (We need this kind of check to ensure we test the market and to keep wishful thinkers (that no one can or wants to perform their function) honest. While this step involves a little more time and expense, these are relatively minimal investments.)

Some sources of information on commercial suppliers would be the newspapers, phone books, yellow pages, libraries, the Internet, and other similar studies. Planners and estimators within the organization are also a good source for information on rates and units for measure. Regardless of the sources used, validate and document the process and basis for your choice of commercial suppliers who will be used as comparable suppliers of the services under study.

Once the potential sources have been chosen, conduct an interview with the private sector or ISSA source to gather facts. The interview can be via phone or in person. Prior to the interview process, formulation of the questions is important to be assured the necessary information is collected. Determine who within the organization will be interviewed. Interviews with managers or supervisors are often the best approach. If conducting interviews, arrangements for the time and place of the interview should also be made. This will also provide the opportunity for the person to be interviewed to have an idea of the subject matter to be discussed. The following are examples of questions to ask the commercial sources or other ISSAs during the interview process:

- How is the product or service typically priced (i.e., square feet, per page, per pound, per hour, etc.)?
- Do you have a standard rate? If so, what is it and is it negotiable?
- How long have you been in business? (This question will assist in determining if they are reputable. A supplier that has been in business five years or more can be considered "established" in the community.)
- Can you provide reference information, e.g., experience in the type/volume of work requirements, names/phone numbers and amount of dollars associated with the contract, etc.

There may be additional questions that are specific to the study. Add these questions to the ones above.

**Decision Factor:** After conducting Steps 1 and 2, if the product or service is NOT available either from existing contracts or ISSAs or from inquiries initiated through the CBD, document the efforts and proceed to "Step 5: Announce Decision". If the product or service IS available, continue with "Step 3: Execute The Cost Analysis".

## **1.6 STEP 3: Government's In-House Cost Analysis.**

The costs associated with the performance of the in-house function need to be calculated. Conducting a streamlined cost analysis will assist in determining if the in-house function is competitive with or comparable to outside contractors or other ISSAs. The cost data to be collected is personnel costs, direct materials cost, direct overhead costs, and existing support contracts over \$500.

The steps outlined below provide a guide to develop the simplified cost analysis. Figure 2 provides a simplified cost comparison form for recording the estimated costs.

### **1.6.1 In-House Personnel (Labor) Costs.**

Personnel costs are the costs for personnel to accomplish the requirements for the function. The current costs of all direct in-house labor and supervision that are necessary to perform the service or provide the product should be documented. According to the Handbook all federal positions will be costed using current pay rates based on the Government-wide representative rate of step 5 for General Schedule (GS) and step 4 for Federal Wage Salary (FWS) employees. Multiply that pay rate by the number of FTE, except for intermittent positions where actual hours are used. As a rule, GS salary is expressed as an annual rate of pay and the FWS salary is expressed as an hourly rate. See *Part II, Chapter 2*, of the Handbook for detailed guidance for developing the cost of Government performance.

The personnel costs in the cost analysis will include salaries and wages, and fringe benefits. Also, established OMB inflation factors for computing the government's in-house personnel costs will be applied. Other entitlements such as shift differential for Federal Wage System employees, and other pay such as overtime, shift differential for

GS employees, or Sunday premium pay should be included where applicable. The duration of the contract is a management decision but normal time span is three to five years. (These are not difficult computations. Also, the situations where they apply should be readily apparent.)

When applying the inflation factors, ensure current inflation factors are used. For additional costing information on personnel costs, refer to the Handbook, *Part II, Chapter 2, Section B*.

The costs used in this cost comparison process for competitive sourcing cannot be used as the basis for actual budget allocations. Whether a decision is made to maintain the in-house workforce or to go direct to contract, the program manager must track the cost to perform the function for future studies.

### **1.6.2 In-House Material and Supply Costs.**

Material costs will be determined by obtaining historical records from the past year. Obtain any automated reports that indicate the cost of materials for the function. Obtain and record the sources of the material information for any future questions regarding the material costs. This does not include cost of equipment that will be provided for contractor use or in-house use regardless of the outcome of the study process.

### **1.6.3 In-House Overhead.**

Upon completing the calculations of the personnel and materials costs, the overhead costs will be applied. The overhead costs included two major categories: operations overhead and general and administrative overhead. Operations overhead is defined as those costs that are not 100 percent attributable to the activity under study, but are generally associated with the recurring management or support of the activity. General and administrative overhead includes salaries, equipment, space and other activities related to management, accounting, personnel, legal support, data processing management and similar common services performed outside the function, but in direct support of the function.

Apply the overhead rate of 12% of the labor costs as referenced in *Part II, Chapter 2, Section E*, of the Handbook.

The next step is to estimate the contract/ISSA costs.

### **1.6.4 Contract/ISSA Costing**

After completing the Market Review process, a comparable range of costs shall be established to use for the cost comparison. If there are current comparable contracts/ISSAs in place, use the bids for the estimated costs. If not, the rates, unit of measure and other information gathered from interviewing local suppliers will provide



the necessary information to estimate the range of contract costs for the products and/or services.

### 1.6.5 Contract Administration Costs

If the function goes to contract/ISSA, the costs associated with administering the contract should also be calculated. The Handbook, *Part II, Chapter 3, Section C* authorizes one-half (.5 man-year) administrative position for a 10 and Fewer Study. The personnel office can provide guidance for the classification for the authorized position based on duties and responsibilities appropriate to the function.

Upon conclusion of the above steps, in-house and contractor estimated costs have been captured. The next section will discuss the decision-making process.

### 1.7 STEP 4: Perform Cost Comparison.

Formulation of decision factors will assist in establishing the criteria for determining the future provider of the function under study.

At this point all of the in-house estimated costs have been calculated. The contract/ISSA estimated costs should be arrayed into a comparable range. Adjustments for differences in scope may be necessary. The minimum conversion differential of 10% will be calculated and subtracted from the in-house cost estimate.

**Decision Factor:** If the in-house costs fall below the comparable range of private sector or ISSA source costs the function should remain in-house.

**Decision Factor:** If the in-house costs fall above the comparable range of private sector or ISSA source costs the function should be converted to contract/ISSA.

If the in-house costs fall within the comparable range, the answers to the following questions should be the basis for determining between keeping the function in-house or going outside via contract or ISSA.

Has the in-house function historically provided quality service or a quality product to its customers?

**Decision Factor:** If the in-house function consistently provided a quality product or service to the customers, then consideration should be made to keep the function in-house.

Has the in-house function historically had problems maintaining personnel?

**Decision Factor:** If the in-house function has a rather frequent turnover of employees, or the quality of the product/service provided has been poor, consider contracting the function.

Has the in-house function historically had problems providing the service or product?

**Decision Factor:** If the service or product is not efficiently being provided to the customer, consider contracting the function.

### **1.8 STEP 5: Announce Decision.**

The SES Program Manager or the Bureau Procurement Chief announces the decision to remain in-house or to award a contract/ISSA. If the decision is to convert to contract or ISSA, the solicitation process as it pertains to commercial activity studies is started.

If the decision is to use an ISSA, the Memorandum of Understanding (MOU) or Memorandum of Agreement (MOA) implementing the ISSA will be completed as appropriate.

### **1.9 Summary of Express Review.**

Upon the completion of the 10 and Fewer Study process, management will be able to formulate an informed decision about the function remaining in-house or going outside via contract or ISSA. If a Request for Proposals (RFP) is issued and the results of the RFP show costs more than 10% of the in-house actual cost, the government reserves the right to cancel solicitation and continue in-house performance.

### **1.10 Possible Follow on Actions.**

After the decision announcement, managers must consult with their Personnel Office to obtain assistance on placement alternatives available to all employees. Reduction-in-Force (RIF) will only be used after all other alternatives have been exhausted.

Alternatives such as early outs, buyouts, reassignments, modified qualifications with training, hiring freezes, attrition, selective appointments (temps, terms) to retain future flexibility, and aggressive transition plus in-and out-placement programs may help managers deal with employee placement.

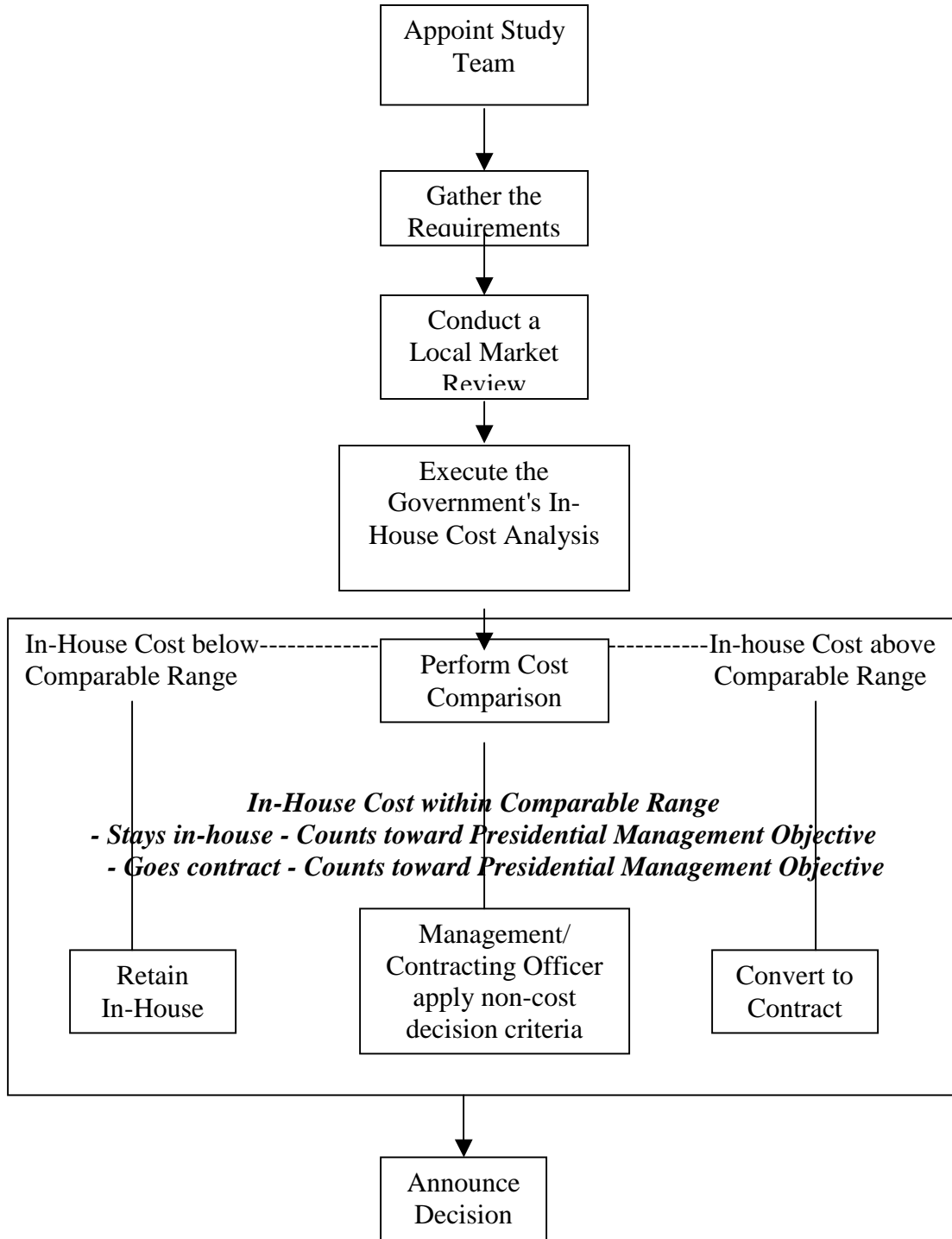
If RIF becomes a necessity after other alternatives are considered and used, managers should be aware that competitive areas must be in place 90 calendar days before the Reduction-in-Force (RIF) effective date. (In very rare, emergency situations, the bureaus can request PPM and OPM approval of a shorter timeframe.) At least 30 calendar days before RIF notices are issued, the bureau must get the bona fides of the RIF approved by the DOI Office of the Solicitor. After this approval is received, the bureaus need to notify their Congressional Liaison offices who will then inform the necessary political officials.

The minimum RIF notification period is 60 calendar days. (In very rare, emergency situations, the bureaus can request PPM and OPM approval for a shorter timeframe.) Notification to outside parties of RIFs affecting more than 50 employees must be coordinated with PPM.

***NOTE:*** The FAR requires that the Right of First Refusal of Employment clause be included in the solicitation. This also applies to a 10 and Fewer Study, which is performed by federal employees and/or existing federal support contract employees who are adversely affected by a study being converted to contract or ISSA performance.

# Guide For Conducting A Competitive Sourcing Study For Functions with 10 And Fewer FTE

*Figure 1*  
**Simplified Cost Analysis for  
10 and Fewer Study Competition Process**



**FIGURE 2  
EXPRESS REVIEW COMPETITIVE SOURCING  
COST COMPARISON FOR A 10 AND FEWER  
STUDY**

IN-HOUSE PERFORMANCE	In-house	Commercial/ISSA Estimates		
		1st	2nd	3rd
Personnel				
Inflation Factor: NN%				
Material				
Overhead-G&A 12%				
<b>Total</b>				
<b>CONTRACT OR ISSA PERFORMANCE</b>				
Contract and ISSA Price				
Contract Administration				
<b>Total Contract and/or ISSA</b>				
<b>ADJUSTMENTS</b>				
<b>DECISION FACTORS (Circle One)</b>				
Minimum Conversion Differential				
Adjusted Total Cost of In-house Performance				
Adjusted Total Cost of Contract or ISSA Performance				
<b>COMPARABLE RANGE</b>				
	<b>High</b>		<b>Low</b>	
Government Estimate Below Comparable Range	Keep In-House			
Government Estimate Above Comparable Range	Convert to Contract/ISSA			
Government Estimate Within Comparable Range	Management/Contracting Officer Decision			