



ACQUISITION AND
TECHNOLOGY

**THE UNDER SECRETARY OF DEFENSE
3010 DEFENSE PENTAGON
WASHINGTON, D.C. 20301-3010**



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MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS
DIRECTOR, DEFENSE CONTRACT AUDIT AGENCY
DEPUTY UNDER SECRETARY OF DEFENSE (LOGISTICS)

SUBJECT-Competition Between Public Sector (Organic) Maintenance Depots and Private Sector Commercial Firms

It is DoD policy to maintain adequate organic core depot maintenance capabilities to provide an effective and timely response to surge demands, ensure competitive capabilities, and sustain institutional expertise. Such core capabilities ensure a ready and controlled source of technical competence to sustain day-to-day readiness and meet the Joint Chiefs of Staff's contingency scenarios.

Our goal is to obtain the best value for our depot maintenance dollars while still satisfying core depot maintenance capability requirements. Subjecting depot maintenance workloads that are not required to sustain core capabilities to the forces of competition can lower costs and improve readiness, irrespective of whether the outcome is to outsource or not. In accordance with 10 USC 2470, DoD depot-level maintenance activities shall be eligible to participate in public-private competitions (PPCs) for depot-level maintenance and repair workload.

The attachment provides policy guidance governing PPCs to which 10 USC 2469 applies. This guidance is effective immediately. The Deputy Under Secretary of Defense (Logistics) will incorporate this guidance into DoD Directive 4151.18. The Military Departments will incorporate this guidance into implementing regulations prior to initiating any PPCs for which this policy applies. The Defense Contract Audit agency will issue supplemental implementing guidance as required.

Depot Maintenance Public-Private Competition Guidance

PPC Workload Determination

Only depot-level maintenance and repair workloads not necessary to sustain core capabilities shall be available for public-private competition. These non-core-related workloads will be requantified biennially as an adjunct to the core redetermination process. Any existing workload, currently being accomplished in a DoD organic depot-level maintenance activity, that is redesignated as unnecessary to sustain core capabilities as a result of such requantification shall be considered to be eligible for performance by either organic depots or the private sector.

Eligible newly designated workload shall undergo a market analysis to determine if viable public and private sector sources exist. A formal public-private competition (PPC) will be conducted for any competition-viable workload package valued at \$3 million or more.

Existing eligible workloads not needed to sustain core DoD capabilities shall be reviewed periodically to ascertain if such work should undergo a PPC. However, such reviews may not occur more frequently than once every five years, or the period of performance on which a previous PPC was evaluated, whichever is the longer period.

Each DoD Component having depot maintenance requirements shall publish specific procedures for conducting a market analysis. These procedures shall provide for continuing market surveillance in order to assess the relevant commercial sector capability.

Competition Formulation Proposal Evaluation and Source Selection

A market investigation will be conducted prior to finalization of the solicitation. Commercial practices will be used when specifying work content, wherever practical.

Each Military DoD Component shall publish Source Selection Guidelines that, as a minimum, ensure:

- Source Selection Authority does not have direct management involvement with any competing public depots.
- The contracting organization has an “arms length” relationship with all competing depots.
- Government communications regarding work requirements, or bearing on the competitive process, are shared equally with private and public offerors.
- Customers [i.e., user organizations] are given ample opportunity to participate in or contribute to, as appropriate, source selection considerations.
- Procedures provide processes for internal resolution of issues raised by public depots.

Section 1091 of the Federal Acquisition Streamlining Act (P.L. 103-355) amended sections 2 and 6 of the Office of Federal Procurement Policy Act to identify past performance as one of the relevant factors to be considered in awarding a contract. The DDMC shall undertake to establish a past performance data collection and reporting system for public sector depots that is compatible with criteria established in Federal Acquisition Regulation (FAR) subpart 42.15, or that may be established in the Defense FAR Supplement for evaluation of past performance.

Competitions shall be conducted so as to attain maximal cost comparability in proposals from offerors. Cost elements specified in the March 1996, Office of Management and Budget Circular A-76 Revised Supplemental Handbook will be considered in PPC evaluations. At a minimum, the DDMC shall ensure the development of guidelines concerning the treatment of Federal Income Taxes and Cost of Facilities Capital for inclusion in appropriate DoD publications. Until this is accomplished, each Military Department shall prescribe procedures for treatment of these cost elements for use in any forthcoming PPC evaluations.

Non-recurring costs associated with changing the source of repair can be a significant evaluation consideration. Therefore, the DDMC shall ensure the development of guidelines regarding the estimation and consideration of transition costs in PPC evaluations for inclusion in appropriate DoD publications.

Cost-Estimation and Accounting

Reliable cost information is crucial to the effective management of Government operations as well as the evaluation of competitions between public and private sector offerors. Furthermore, in order for PPCs to be regarded by both DoD customers and industry competitors as an effective, fair, means of minimizing costs, and choosing repair sources, public and private sector depot maintenance activities must be able to demonstrate that their offers identify accurately the total costs of performing the workload, and that actual costs are charged properly.

Each public sector depot maintenance activity shall have well documented accounting procedures for handling direct and indirect costs. This documentation shall be submitted to the Defense Contract Audit Agency (DCAA) for audit in a format prescribed by DCAA. Amended documentation shall be submitted to DCAA whenever significant changes in accounting methods are implemented. Additionally, each public sector depot maintenance activity shall utilize a cost estimating system that has been audited by DCAA.

Each Military Department will designate an appropriate authority to resolve inadequate disclosures, and ensure that depot estimating and accounting systems are acceptable to DCAA. The DDMC shall ensure that each Military Department's depot's cost estimation and accounting systems are in compliance in a timely manner.

Each Military Department shall make provisions for a periodic DCAA evaluation of its maintenance depots' cost estimating and accounting systems, including an assessment of the accuracy and completeness of incurred costs on depot awards. DCAA will establish the evaluation procedures and determine the frequency of review.

Each Military Department shall also continue to improve the reporting of depot Maintenance costs and production metrics, especially depot maintenance supported by private sector commercial firms. Chapter 14, *Depot Maintenance Reporting*, in Volume 6, Reporting Policy and Procedures, of DoD 7000.14-R, "DoD Financial Management Regulation," outlines mandatory reporting of all depot maintenance costs and production efforts, regardless of source of support or type of funding. Each Military Department shall ensure compliance with the full range of Chapter 14 visibility and reporting requirements.



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cc: Under Secretary of Defense (Comptroller)
Commander-in-Chief, Special Operations Command
Directors of Defense Agencies