



DEFENSE FINANCE AND ACCOUNTING SERVICE
ARLINGTON
1851 SOUTH BELL STREET
ARLINGTON, VA 22240-5291

APR 5 2005

The Honorable Joel Hefley
Chairman, Subcommittee on Readiness
Committee on Armed Services
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

Pursuant to Office of Management and Budget Circular A-76, the Defense Finance and Accounting Service (DFAS) has implemented the government's Most Efficient Organization (MEO) to perform Security Assistance Accounting operations. As stipulated in Title 10, U.S.C. Section 2461(c) of the United States Code, the enclosed report is submitted and the following certifications are made:

a. The analysis of the function for possible change to private sector included the estimated cost to the Government for performance in the most effective manner by DoD civilian employees, the estimated cost to the Government for performance by the private sector, and the additional estimated costs to be incurred by the Government because of the award of such a contract. Further, the analysis did not include any predetermined personnel constraint or limitation in terms of man-years, end strength, full-time equivalent positions, or maximum number of employees.

b. The entire analysis is available for examination and demonstrates that the performance of the function by the government MEO will result in savings to the Government over the life of the MEO performance periods.

c. The performance of this function by the MEO will have no adverse effect on military missions.

A similar letter has been sent to the Speaker of the House, President of the Senate, the Chairmen and ranking minority members of the Armed Services, Homeland Security and Governmental Affairs, Appropriations and Government Reform Committees.

Sincerely,

A handwritten signature in black ink that reads "Zack E. Gaddy".

Zack E. Gaddy
Director

Enclosure:
As stated

cc: The Honorable Solomon P. Ortiz
Ranking Member

REPORT ON CONVERSION OF DEPARTMENT OF DEFENSE COMMERCIAL ACTIVITY TO A GOVERNMENT MOST EFFICIENT ORGANIZATION

On September 10, 2004, the Defense Finance and Accounting Service (DFAS) made a final decision to implement the government's Most Efficient Organization (MEO), resulting from an Office of Management and Budget (OMB) Circular A-76 cost comparison for Security Assistance Accounting (SAA) operations. This decision followed the public review period and administrative appeals process.

DFAS initiated this competition on March 31, 2000. Conversion to MEO operations began with the start of the four-month transition period in November 2004. The MEO began full operations in February 2005. It is projected to operate for up to five, one-year performance periods.

The A-76 cost comparison between the government's MEO and the private sector offer by Deloitte Consulting in August 2004 resulted in a finding that the government MEO was more cost-effective. Results of the cost comparison were as follows:

Proposed cost to perform by DoD civilian employees:	\$94,252,399
Amount of the private contractor's offer (including OMB A-76 required adjustments):	\$98,607,274
Government MEO cost advantage:	\$ 4,354,875

The announced number of DoD civilians performing the SAA function when the competition started was 460. During the course of the study, 231 positions were eliminated through reassignments, retirements, implementation of internal efficiencies and restructuring. The original MEO contained 249 positions for the first annual performance period. However, because of additional improvements and economies that are now available, the MEO will instead accomplish SAA operations with 214 employees at the following DFAS sites: 164 at Denver, Colorado; 27 at Dayton, Ohio; 19 at St. Louis, Missouri; 3 at Limestone, Maine; and 1 at Omaha, Nebraska. The decrease in personnel has reduced the total MEO cost from \$94.3 to \$89.7 million. The Continuing Government Activity (CGA) established to oversee the MEO and perform the inherently governmental functions associated with SAA operations contains an additional 28 employees. Implementation of the MEO and CGA required some restructuring of the workforce at Denver, Colorado. The changes were accomplished by reassigning personnel and offering Voluntary Early Retirement and Voluntary Separation Incentives. A reduction-in-force was not required.