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United States General Accounting Office
Washington, DC 20548

June 16, 2005

The Honorable Duncan Hunter
Chairman
Committee on Armed Services
House of Representatives
(Staff Member: Ms. Mary Ellen Fraser)

Subject: GAO Work Mandated by Conference Report 108-767 on the National
Defense Authorization Act for Fiscal Year 2005 (Defense Competitive
Sourcing)

Dear Mr. Chairman:

This letter confirms our commitment to study the U.S. Department of Defense's (DOD) implementation of Section 8014(a)(3) of the fiscal year 2005 Defense Appropriations Act pertaining to DOD's competitive sourcing studies in fiscal year 2005. In our February 8, 2005, letter to you, we outlined our approach to designing this study. Based on that design and as agreed in recent discussions with your staff and staff of the congressional defense committees we will complete our work and issue a report to you by December 9, 2005. Please see enclosure I for the list of requesters with whom we will be coordinating. Enclosure II sets forth the understanding reached with your staff on the key aspects of the study.

We look forward to working with you and your staff on this assignment. Should you have any questions, please contact me on (202) 512-8214 or, Carolyn Kirby, Assistant Director, on (202) 512-9843.

Sincerely yours,

William T. Woods
Director, Acquisition and Sourcing Management

Enclosures - 2

cc: Ms. Mary Ellen Fraser

LIST OF REQUESTERS

The Honorable John Warner
Chairman,
Committee on Armed Services
United States Senate
(Staff Member: Mr. Bill Greenwalt)

The Honorable Duncan Hunter
Chairman,
Committee on Armed Services
House of Representatives
(Staff Member: Ms. Mary Ellen Fraser)

The Honorable Carl Levin
Ranking Minority Member,
Committee on Armed Services
United States Senate
(Staff Member: Mr. Peter Levine)

The Honorable Ike Skelton
Ranking Minority Member,
Committee on Armed Services
House of Representatives
(Staff Member: Mr. Paul Arcangeli)

The Honorable Ted Stevens
Chairman,
Subcommittee on Defense
Committee on Appropriations
United States Senate
(Staff Member: Mr. Brian Wilson)

The Honorable C.W. Bill Young
Chairman,
Subcommittee on Defense
Committee on Appropriations
House of Representatives
(Staff Member: Ms. Betsy Phillips)

The Honorable Daniel Inouye
Ranking Minority Member,
Subcommittee on Defense
Committee on Appropriations
United States Senate
(Staff Member: Ms. Nicole DiResta)

The Honorable John P. Murtha
Ranking Minority Member,
Subcommittee on Defense
Committee on Appropriations
House of Representatives
(Staff Member: Mr. David Morrison)

Terms of the Work

Objectives/Key Questions

Section 8014(a)(3) of the fiscal year 2005 Defense Appropriations Act (P.L. 108-287), requires that offerors bidding on Department of Defense (DOD) competitive sourcing projects in fiscal year 2005 not receive an advantage for a proposal that would reduce costs for DOD by not making an employer-sponsored health insurance plan available to workers to be employed in the activity or function under the contract or contributing less for health benefits than the amount paid by DOD for health benefits for civilian employees under the Federal Employees Health Benefit (FEHB) program. Conference Report 108-767 to the National Defense Authorization Act for fiscal year 2005 directs GAO to report to the congressional defense committees on DOD's implementation of Section 8014(a)(3) of the fiscal year 2005 defense appropriations act.

The overall objective of this engagement is to review DOD's implementation and impact of Section 8014(a)(3) and our study will address the following key questions:

1. What actions has DOD taken to implement the Section 8014(a)(3) health benefit cost provision in its competitive sourcing program?
2. What impact is the Section 8014(a)(3) health benefit cost provision having on DOD's competitive sourcing process?

In addition, as requested, we plan to review prior GAO reports and other publicly available sources and provide summary information describing the health care benefits generally available to federal and private sector employees.

Scope

We will conduct our work primarily at DOD and on its fiscal year 2005 competitive sourcing studies decided through June 30, 2005. Our analysis of DOD competitive sourcing private offerors' health benefit costs will focus on specific competitions active in fiscal year 2005 where DOD components collected health benefit cost data.

Methodology

To describe DOD's actions to implement the Section 8014(a)(3) health benefit cost provision, we will (1) interview DOD-Office of Secretary of Defense (OSD) and major DOD component competitive sourcing program, contract, and legal officials; (2) interview Office of Management and Budget officials with whom DOD consulted to identify the associated health benefit cost factor to implement the

provision, and (3) obtain and review relevant DOD competitive sourcing regulations, policies, procedures, and implementation documents.

To describe the impact of the Section 8014(a)(3) health benefit cost provision on DOD's competitive sourcing process, we will use information collected through structured interviews with OSD and DOD component's competitive sourcing program, contract office, and legal officials; and affected private offerors where DOD obtained health benefit cost data to implement Section 8014(a)(3), and our analysis of DOD competition sourcing source selection documents to determine (1) the administrative steps followed by DOD to apply the provision; (2) whether health benefit costs were a deciding factor in any fiscal year 2005 source selection decisions; and (3) any efforts required by private offerors to provide requested health benefits cost data to DOD.

Since DOD has considered Section 8014(a)(3) health benefit costs in a small number of competitions, our ability to generalize the impacts of this provision across DOD's entire competitive sourcing program will be limited. Our work will be done in accordance with generally accepted government auditing standards.

Product Type

We will issue the results of this study in a report. We will obtain comments from DOD on a draft of this report prior to issuance. We will notify your staff before the draft is sent to the agency and offer to provide them a copy of the draft for informational purposes.

Product Delivery Date

Our final report will be issued by December 9, 2005.

Reporting on Job Status

We will maintain periodic contact with your staff and be prepared to give interim briefings as requested.