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REPORT TO THE CONGRESS

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Better Controls Needed In Reviewing Selection Of In-House Or Contract Performance Of Support Activities

B-158685

Department of Defense

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BY THE COMPTROLLER GENERAL OF THE UNITED STATES

MARCH 17, 1972

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COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON, D.C. 20548

B-158685

To the President of the Senate and the  
Speaker of the House of Representatives

This is our report on better controls needed in reviewing selection of in-house or contract performance of support activities in the Department of Defense.

Our review was made pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

Copies of this report are being sent to the Director, Office of Management and Budget; the Secretary of Defense; and the Secretaries of the Army, Navy, and Air Force.

Comptroller General  
of the United States

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ABBREVIATIONS

DOD	Department of Defense
GAO	General Accounting Office
NAVMIRO	Naval Material and Industrial Resources Office
OSD	Office of the Secretary of Defense

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BETTER CONTROLS NEEDED IN REVIEWING SELECTION OF  
IN-HOUSE OR CONTRACT PERFORMANCE OF SUPPORT  
ACTIVITIES  
Department of Defense B-158685

I G E S T

BY THE REVIEW WAS MADE

The Department of Defense (DOD) spends about \$6.3 billion annually to provide its installations with commercial and industrial services and products. Such services and products include grounds and building maintenance, food service, transportation, and ammunition. These products and services are required to be provided by private contractors, unless Government performance is necessitated by economy, military readiness, or several other exceptions explained in Office of Management and Budget Circular No. A-76. About 82 percent of DOD's expenditures for these products and services are for in-house activities.

Each Government agency is required to maintain an inventory of these commercial and industrial activities and to review each activity at least once every 3 years to ensure that its in-house performance is justified. These reviews should include cost studies whenever in-house performance is based on economy.

The General Accounting Office (GAO) review was conducted to determine (1) whether reviews were performed as required, (2) the extent to which DOD was achieving the indicated savings or other benefits, and (3) whether the military services were monitoring the costs of carrying out their program for implementing the policy.

FINDINGS AND CONCLUSIONS

The management of the military departments' reviews of commercial and industrial activities has not been effective. The following paragraphs outline the deficiencies that GAO found.

Unsupported justifications

Except in a few cases where cost studies had been made, there were no explanations supporting local recommendations that in-house performance of activities be continued. Recommendations often were based on the reviewer's personal knowledge, and there was no evidence of the factors that had been considered. (See p. 7.)

Significant functions not reviewed

Although the Air Force and the Navy spent \$1.7 billion for in-house, depot-level maintenance in fiscal year 1969, they did not review these activities as required by Circular A-76. (See p. 8.)

### Reviews not completed on schedule

Although the military departments should have completed the first 3-year cycle of reviews by June 30, 1968, they were all far behind schedule. As of June 1971 many activities had not been reviewed for the first time.

The reviews were not completed because (1) implementing instructions were issued late, (2) too few staff members, many of them inexperienced, were assigned to make the reviews, and (3) too much time was taken for higher echelon evaluation and approval.

--Air Force reviews of activities costing \$466 million annually had not been approved by headquarters because of staff shortages. Many of these reviews are now outdated and cannot be used.

--The Navy frequently took more than a year to process installation reviews because of limited staff. (See pp. 9 to 11.)

### Areas of significant potential savings not reviewed

The few cost studies made showed that savings could be realized by converting activities either to in-house or to contract performance. GAO believes that these studies are indicative of significant potential savings available in activities not yet reviewed. (See p. 12.)

### Activities included not required by Circular A-76

DOD has included in its inventory and 3-year review certain activities already being performed under contract. DOD regulations strongly suggest that decisions to contract out new activities and those presently being performed in-house be supported by cost comparisons to ensure that the most economical course is adopted. Since the philosophy of Circular A-76 favors contracting over in-house performance, it would appear desirable for DOD to maintain records of the costs incurred in making these studies so that these costs can be compared with the benefits of the program. (See p. 13.)

### Activities not included in the program

GAO reviewed the program at six military installations. Because there were no definitive guidelines as to the commercial and industrial activities to be included, some significant activities were omitted from the inventories of such activities. These omissions could result in failure to provide services in the best or most economical way. Individual activities which should be reviewed separately were combined in broad aggregations, such as "aircraft depot maintenance." (See p. 15.)

The Army installations visited had started new in-house activities which had not been subjected to the analysis required under Circular A-76 nor included in the inventory as required. Installation officials were not aware of the requirement for new-start approval. The military departments should have a system to ensure that new starts are submitted for approval. (See pp. 16 and 17.)

## RECOMMENDATIONS OR SUGGESTIONS

The Secretary of Defense should:

- Promptly reconsider the many unsupported statements made in justifying in-house performance. Special attention should be directed to those unsupported justifications stating that contracting would delay programs or that commercial sources were not available. (See p. 14.)
- Review the depot maintenance function at all installations before other less significant functions are reviewed a second time. (See p. 14.)
- Commit sufficient trained manpower to avoid delays in the review and approval process. (See p. 14.)
- Promote cost studies of in-house and contract support activities to ensure that the most economical alternative is utilized. (See p. 14.)
- Establish controls to ensure that (1) the activities selected for inventory and review are those that are significant in terms of total cost and (2) the costs of in-depth studies are warranted by the potential savings available. (See p. 14.)
- Issue standard guidelines to ensure that all commercial, industrial, and significant contract support activities are included in the inventories and that individual activities are reviewed separately and not included in such broad categories as depot maintenance. (See p. 17.)
- Institute a system for enforcing the DOD requirement that all new starts be submitted to the Assistant Secretary of Defense (Installations and Logistics) for approval as required by Circular A-76. (See p. 18.)

## POLICY ACTIONS AND UNRESOLVED ISSUES

DOD informed GAO that it had initiated action on most of GAO's recommendations for improving the management of the inventory and review program by revising DOD Instruction 4100.33 and DOD Directive 4100.15, dated July 16, 1971, and July 8, 1971, respectively. These revisions recognize

- unsupported in-house justifications,
- the importance of depot maintenance reviews,
- the need for guidelines to ensure complete inventories, and
- the requirement for new-start approval.

DOD stated that it had taken steps to develop a special training course for personnel engaged in the program to eliminate delays in the review and approval process. (See p. 19.)

Although DOD also has stated that it would maintain some management control records, it has pointed out that the objective of the program is to provide economies in the procurement of products and services and that, where cost

is the pivotal element, the cost and benefits are revealed. This approach does not appear to take into consideration the substantial efforts required to perform the cost studies. (See p. 20.)

Because most of DOD's corrective actions are contained in a revised instruction and directive, GAO plans to maintain surveillance over the program to ensure that DOD components properly implement this action. GAO plans also to monitor the effectiveness of the special training course to ensure that installation personnel complete reviews on a timely basis. (See p. 20.)

MATTERS FOR CONSIDERATION BY THE CONGRESS

This report outlines actions to be taken by DOD to improve its procedures for selecting in-house or contract performance for certain products and services. It is being submitted because of the current widespread interest in these procedures expressed by members of Congress, other Government officials, and leaders in the private sector of the country.

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## CHAPTER 1

### PROVIDING COMMERCIAL AND INDUSTRIAL PRODUCTS

#### AND SERVICES FOR THE DEPARTMENT OF DEFENSE

The Department of Defense needs many different products and services to meet its military requirements. Certain services are normal management activities and must be performed by military or civil service personnel (in-house) to retain control over defense programs. Many other services and most of the products are commercial or industrial in nature and may be provided by in-house or contract manpower.

The Government's policy for obtaining commercial or industrial products and services is to rely on the private enterprise system unless the national interest requires a Government agency to fulfill certain needs by operating in-house service or manufacturing activities. In-house operation is permitted when

- procurement from a commercial source would disrupt or materially delay an agency's program;
- it is necessary for combat support, military personnel retraining, or mobilization readiness;
- a commercial source is not available and could not be developed in time to provide the product or service when needed;
- the product or service is available from another Government agency; or
- procurement from a commercial source would be substantially more costly to the Government.

The Government's policy is stated by the Executive Office of the President in Office of Management and Budget Circular No. A-76, originally issued March 3, 1966, and revised August 30, 1967. The circular requires each Government agency to:

- Issue implementing instructions and provide management support to ensure that the policy is followed.
- Compile and maintain an inventory of its commercial and industrial activities.
- Review its activities every 3 years to determine whether in-house performance should be continued.

The policies and requirements of Circular A-76 were implemented by DOD in a July 9, 1966, revision to its Directive 4100.15 and a July 22, 1966, revision to its Instruction 4100.33. The directive and instruction were revised again in April 1969 to recognize the revision to Circular A-76. In addition to implementing the requirements of Circular A-76, DOD has required its installations to include in their inventories and 3-year reviews those commercial and industrial support functions already being obtained by contract.

The Assistant Secretary of Defense (Installations and Logistics) was given the responsibility for implementing the policy and ensuring that its provisions are followed by Secretaries of the military departments and the directors of defense agencies. Designated officials are authorized to make decisions needed to continue, discontinue, or curtail activities within their departments or agencies. Starting new activities requires the approval of the Assistant Secretary of Defense (Installations and Logistics).

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## CHAPTER 2

### MANAGEMENT OF DOD REVIEWS NOT EFFECTIVE

The management of the military departments' reviews of commercial and industrial activities has not been effective in that (1) justifications for in-house performance have not been supported, (2) significant functions have not been reviewed, (3) reviews have been untimely, (4) sources of significant potential savings have not been reviewed, and (5) program costs from including activities not required by Circular A-76 have not been related to program benefits. Details of these findings are presented in the following sections of this chapter. A summary of the problems identified at each installation visited is included as appendix I.

#### UNSUPPORTED JUSTIFICATIONS

Contrary to the requirements of Circular A-76, local recommendations for continuing in-house performance of functions were not supported by explanations of how the decisions were reached except in a few instances where cost studies had been made. The recommendations often were based on the reviewer's personal knowledge of the function, and there was no evidence of the factors that were considered. Appendix II shows the local recommendations on functions reviewed at the installations that we visited.

In many instances in-house performance of a similar function was justified by differing, contradicting, and unsupported reasons at various installations. For example, the Army reviewed and justified in-house performance of building maintenance and repair at 102 installations--77 because officials believed programs would be delayed by changing to contract performance, 20 because commercial sources were not available, four because of lower costs, and one because of readiness requirements. At the installations we visited, this function was coded either A (program delay) or C (commercial source unavailable). Frequent justifications that contracting would cause program delays or that commercial sources were not available were made because, according to local officials, there often was not time to look for commercial sources and to perform cost studies. In the

absence of the required supporting information, the propriety of most of the decisions cannot be determined.

In view of the lack of documented support for justifications of in-house performance, the military departments should reconsider these justifications, particularly those which state that contracting would delay programs or that commercial sources were not available.

A summary showing the numbers and costs of in-house activities reviewed by the Army, Navy, and Air Force as of January 1, 1970, and the circumstance codes showing the reason justifying in-house performance is included as appendix III.

#### SIGNIFICANT FUNCTIONS NOT REVIEWED

Depot maintenance involves repair, overhaul, and modification of equipment beyond the capability of operational units. This work is done at about 75 Army, Navy, and Air Force installations and at numerous contractor plants. In fiscal year 1969 depot maintenance cost about \$2.6 billion; \$2 billion worth of maintenance was performed at military installations and \$600 million worth by contractors. The review of this function required by Circular A-76 was not made by the Air Force and Navy although they spent \$1.7 billion in-house for such activities during that fiscal year. Similarly the review of the contracted out portion of depot maintenance, required by DOD implementing instructions, was not made by the two departments although they spent \$552 million on contract for these activities during the same fiscal year.

Although the military departments consider which depot maintenance work should be done in-house and by contractor in annual conferences on depot maintenance work loads, they do not use the information supporting those decisions to fulfill the requirements for review of depot maintenance activities under Circular A-76 and DOD implementing instructions.

If these conferences were coordinated with the required reviews of commercial or industrial activities, the objectives of both programs could be furthered. It appears evident that the depot maintenance functions, on which billions of dollars are spent annually, should be reviewed before less significant functions are reviewed again.

## REVIEWS BEHIND SCHEDULE

Circular A-76 required that the reviews of activities be made before June 30, 1968, and that at least one follow-up review of each activity in the inventory be scheduled in each following 3-year period.

Reviews made at the installations must be submitted to departmental levels for approval. At June 30, 1968, all military departments were far behind schedule, and as of January 1, 1970, many activities had not been reviewed for the first time.

The following schedule shows the Army, Navy, and Air Force progress in completing reviews of in-house activities as of June 30, 1968, and January 1, 1970.

	<u>Total for review</u>		<u>Total reviewed</u>		<u>Percent of activities reviewed</u>
	<u>Number of activities</u>	<u>Annual cost (millions)</u>	<u>Number of activities</u>	<u>Annual cost (millions)</u>	
Army:					
6-30-68	1,538	\$1,349.4	1,211	\$1,204.9	78.7
1-1 -70	1,580	1,359.6	1,487	1,321.8	94.1
Navy:					
6-30-68	1,624	2,360.1	194	66.6	11.9
1-1 -70	1,673	2,529.5	751	399.0	44.9
Air Force:					
6-30-68	2,583	1,729.5	201	54.6	7.8
1-1 -70	2,168	1,266.7	424	100.9	19.6
Total:					
6-30-68	5,745	\$5,439.0	1,606	\$1,326.1	28.0
1-1 -70	5,421	\$5,155.8	2,662	\$1,821.7	49.1

The military departments did not complete the reviews as scheduled because:

-- Instructions implementing Circular A-76 were issued so late that less than 2 years were available for the first 3-year cycle; in one major command there were only 6 months to perform all reviews by June 30, 1968.

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--An inadequate number of personnel, many of whom lacked experience or training, were assigned to perform installation reviews and command-level evaluation.

--Excessive time was taken for higher echelon evaluation and approval.

Delays in evaluation and approval

The number of Air Force reviews was limited to those requested by headquarters. As of January 1968, headquarters had requested reviews of only 17 of the 30 functions inventoried. Additional reviews had not been requested by June 1971 because the headquarters had accumulated a large backlog of reviews being prepared for approval by the Secretary of the Air Force. Due to a headquarters staff shortage, about 1,060 installation reviews involving production costs of about \$466 million had not been approved as of January 1970. Many of these installation reviews will not be processed for approval because they are more than 18 months old and, for the most part, are considered outdated.

The Naval Material and Industrial Resources Office (NAVMIRO) summarizes reviews performed at naval installations and forwards them through the chain of command to the Secretary of the Navy for approval. Excessive time is required for this process. For example, it took 414 days to process and approve a submission of six reviews by one installation, as follows:

<u>From</u>	<u>To</u>	<u>Elapsed time (days)</u>
Whidbey Island Naval Air Station	Commander, Fleet Air	1
Commander, Fleet Air	Commander, Naval Air Force, Pacific Fleet	21
Commander, Naval Air Force, Pacific Fleet	Commander in Chief, U.S. Pacific Fleet	36
Commander in Chief, U.S. Pacific Fleet	NAVMIRO	6
NAVMIRO	Naval Material Command Headquarters	243
Naval Material Command Headquarters	Assistant Secretary of the Navy	69
Assistant Secretary of the Navy	Naval Material Command Headquarters	9
Naval Material Command Headquarters	NAVMIRO	9
NAVMIRO	Whidbey Island Naval Air Station	<u>20</u>
Total		414

Of 10 reviews by the Puget Sound Naval Shipyard that were processed through a similar chain of command, eight averaged 443 days for approval and, after 624 days, two had not been approved.

NAVMIRO retained the reviews much longer than any other command because only two people were assigned to process all Navy reviews for approval and at times this work was interrupted by other higher priority assignments. We conclude that the various commands took an inordinate amount of time to evaluate and approve installation reviews. From our observations of the program in the field and our review of correspondence at the service's headquarters, it was evident that much of the delay was due to a lack of experienced or trained personnel. If the military departments committed an adequate number of trained personnel to the program, delays in evaluation and approval could be avoided.

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SOURCES OF SIGNIFICANT POTENTIAL SAVINGS  
NOT REVIEWED

At January 1, 1970, about 2,750 in-house activities, costing about \$3.3 billion annually, had not been reviewed and, in our opinion, represented a source of potential savings. Reviews of the many contract services not scheduled for review by the military departments should identify additional potential savings.

Cost studies should be made (1) when functions are to be performed in-house on the basis that it would be less costly to the Government and (2) on contract services if the contract cost is considered unreasonable. The studies are made to determine whether in-house or contract manpower could provide products and services at less cost.

The potential for savings is illustrated by the results of the military departments' cost studies of 18 functions summarized below.

<u>Military department</u>	<u>Number of functions</u>	<u>Recommended conversion to</u>	<u>Annual savings (note a)</u>
Army	7	Contract	\$ 768,000
	1	In-house	157,000
Navy	6	Contract	960,000
	1	In-house	58,000
Air Force	3	In-house	<u>127,000</u>
			<u>\$2,070,000</u>

<sup>a</sup> Although other conversions were identified in each of the services, information was not available on the potential savings.

At the installations we visited, cost studies also had been made on 18 DOD functions, or about 20 percent of the 92 in-house functions reviewed. The annual cost of the 18 functions was \$7.3 million. The reviews showed that performance of seven functions with \$3.9 million annual cost would be \$862,000 cheaper by contract. Only one function, however, was converted to contract, which resulted in \$31,000 potential annual savings. No conversions were made on the



other functions because one involved military readiness and decisions on five had not been made. Because of the savings that have been realized on functions for which cost studies have been performed, we believe that significant potential savings may be identified if cost studies are performed on many in-house activities.

ACTIVITIES INCLUDED NOT REQUIRED BY CIRCULAR A-76

In implementing Circular A-76, DOD has exceeded the minimum requirements of the circular by requiring that support-type services being obtained by contract from commercial sources be included in the program.

The policy expressed in Circular A-76 is that the Government should rely on the private enterprise system to supply its needs for commercial or industrial products or services. Consequently, except under certain circumstances, Government agencies were not required to include in their programs for implementing Circular A-76 those activities already under contract.

DOD in its implementing directive and instruction required that contract support services be inventoried and included in the 3-year reviews. The policy expressed therein is that all contract support services are to be provided in the most efficient and economical manner possible. The instruction strongly suggests that cost comparisons be made before decisions are made to contract out for such services to ensure that the most economical course is adopted. Since the program focuses on obtaining commercial or industrial products from the private sector, and not on a comparison of program costs to benefits, no records of program costs or savings were required or kept at headquarters, command, or installation levels.

Inasmuch as the philosophy of Circular A-76 favors contracting over in-house performance, it would appear desirable for DOD to maintain records of the costs incurred in making cost studies so that these costs can be compared with the benefits of the program.

## RECOMMENDATIONS

The Secretary of Defense should:

- Promptly reconsider the many unsupported statements made in justifying in-house performance. Special attention should be directed to those unsupported justifications stating that contracting would delay programs or that commercial sources were not available.
- Review the depot maintenance function at all installations before other less important functions are reviewed a second time.
- Commit sufficient trained manpower to avoid delays in the review and approval process.
- Promote cost studies of in-house and contract support activities to ensure that the most economical alternative is utilized.
- Establish controls to ensure that (1) the activities selected for inventory and review are those that are significant in terms of total cost and that (2) the costs of in-depth studies are warranted by the potential savings available.

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## CHAPTER 3

### NEED FOR COMPLETE INVENTORIES OF ACTIVITIES

The inventories of commercial and industrial activities as required by Circular A-76 should provide the military departments with complete and accurate information for directing and controlling reviews to determine whether in-house or contract performance is best for the Government. The inventories must include all existing commercial and industrial activities at each installation with \$50,000 or more in annual output in products or services or a capital investment of \$25,000 or more. The inventories show the number and annual cost of personnel, the cost of supplies, the Government's capital investment, and the basis for continuing the activity.

Assistant Secretary of Defense (Installations and Logistics) approval is required before beginning new starts involving additional capital investment of \$25,000 or more or annual production costs of \$50,000 or more. Reactivation, expansion, modernization, or replacement of an activity is treated as a new start only if it requires \$50,000 or more additional capital investment or \$100,000 or more additional production costs. Construction, replacement, or reactivation of bakery, laundry and dry-cleaning, and scrap-metal facilities are new starts regardless of cost or investment.

At the installations we visited, inventories did not include all required functions and new starts were not submitted for the required approval by the Assistant Secretary.

### INCOMPLETE INVENTORIES

Omissions from the inventories at the installations visited seriously weakened the military departments' control over attainment of the objectives of Circular A-76 and could result in failure to provide the services in the best or most economical way.

In the fiscal year 1969 inventory, 15 activities were omitted at Rock Island Arsenal and five at Fort Sheridan. These activities cost about \$58.9 million a year and involved

\$63 million for investments in plant and equipment. We also identified two Air Force and four Navy activities that were not inventoried for fiscal year 1969. The annual cost of these activities was \$5.3 million for the Air Force and \$1.5 million for the Navy. A lack of definitive guidelines for preparing the inventories was the main reason for omitting activities from the inventories.

Need for definitive guidelines  
for preparing inventories

Departmental, command, and local regulations did not specify the activities to be included under each functional area. The Air Force experienced difficulty in relating Air Force functional codes with certain DOD codes because several Air Force codes were common to more than one DOD code. For example, Air Force codes 4210, vehicle operations, and 4240, vehicle maintenance, were common to DOD codes S-706, bus services, and S-721, motor pool operations and maintenance. This led to confusion and conflict in categorizing activities to be inventoried.

Although inventory data were provided for depot-level maintenance, all maintenance requirements, which consisted of a large number of individual tasks, were combined and reported by the installations to departmental headquarters under only nine DOD functional codes. This prevented headquarters from identifying the many tasks under each DOD functional code that should be reviewed separately.

Standard guidelines, including a more detailed breakdown of depot-level maintenance, should be furnished to the installations to clear up these problems.

FAILURE TO REPORT NEW STARTS

Despite the DOD requirement that the secretaries of the military departments are responsible for obtaining the approval from the Assistant Secretary of Defense (Installations and Logistics) prior to initiating new in-house starts, the Army installations that we visited had new starts that were not approved or included in the inventory.

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Rock Island Arsenal submitted to the Assistant Secretary of the Army for approval as a part of its production base support program, a \$3.8 million project to replace metalworking and nonmetalworking equipment. Although Circular A-76 required new-start approval for modernization projects of this size, no approval had been requested or received from the Assistant Secretary of Defense. In another instance the arsenal did not request new-start approval or include in its inventory a scrap-metal facility for processing demilitarized small arms and components, which had annual production costs of about \$178,000 and a Government investment of about \$46,000.

Rock Island officials did not appear to be informed on the requirement for new-start approval. They told us that the arsenal often procured production equipment in large quantities but did not request new-start approval.

Fort Sheridan failed to obtain new-start approval of five activities that were expanded or modernized from July 1967 through June 1969. These activities involved \$480,000 in increased annual production costs and another \$480,000 in additional investment. Approvals were not requested because Fort Sheridan had no system for identifying new starts. Fort Sheridan officials believed that new-start approval was unnecessary because approvals on modernization projects were obtained from Headquarters, 5th Army, through budget channels.

All new starts were not being submitted to the Assistant Secretary of Defense (Installations and Logistics) for approval as required by Circular A-76 and DOD implementing instructions. Hence we conclude that the military departments need a system for ensuring that the required approval be obtained before initiating the new starts.

### RECOMMENDATIONS

The Secretary of Defense should:

- Issue standard guidelines to ensure that all commercial, industrial, and significant contract support activities are included in the inventories and that individual activities are reviewed separately and not included in such broad categories as depot maintenance.

--Institute a system for enforcing the DOD requirement that all new starts be submitted to the Assistant Secretary of Defense (Installations and Logistics) for approval as required by Circular A-76.

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## CHAPTER 4

### AGENCY COMMENTS AND GAO EVALUATION

#### AGENCY COMMENTS

We brought our recommendations to the attention of DOD in a draft report dated June 7, 1971. DOD, in a letter dated August 17, 1971, commenting on our draft report (see app. IV), stated that the Assistant Secretary of Defense (Installations and Logistics) expressed his concern to the military departments and defense agencies, by memorandum of April 8, 1971, that initial reviews had not been completed and advised them to provide increased management attention to the administration of the program to ensure timely completion of initial reviews.

As shown in the attachment to the letter from DOD, The Office of the Secretary of Defense (OSD) has initiated corrective action in most of the areas in which we made our recommendations by revising DOD Instruction 4100.33 and DOD Directive 4100.15 on July 16, 1971, and July 8, 1971, respectively. These revisions recognize

- unsupported in-house justifications,
- the importance of depot maintenance reviews,
- the need for standard guidelines to ensure complete inventories with sufficient breakdowns to permit meaningful reviews, and
- the requirement for new-start approval.

In regard to our recommendation to maintain records comparing program costs to savings, the DOD reply indicated that some management evaluation and control records would be maintained by OSD.

The reply indicated also that OSD had taken steps to develop a special training course for personnel engaged in the commercial and industrial activities program to eliminate unnecessary delays in the evaluation and approval process.

## GAO EVALUATION

We feel that proper implementation of the corrective action that OSD has initiated should result in an improvement in DOD's program for inventory and review of commercial and industrial activities. Inasmuch as most of OSD's corrective actions are contained in a revised instruction and directive, we plan to maintain continuous surveillance over the program to ensure that DOD components properly implement this action at the installation and other appropriate levels to improve program performance.

Although DOD has stated that it would maintain some management control records, it has pointed out that the objective of the program is to provide economies in the procurement of products and services and that, where cost is the pivotal element, the cost and benefits are revealed. This approach does not appear to take into consideration the substantial efforts required to perform the cost studies.

We also plan to monitor the effectiveness of the special training course to ensure that installation personnel complete reviews on a timely basis.

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## CHAPTER 5

### SCOPE OF REVIEW

Our review was made to determine whether DOD was following the Government's policy in providing the commercial and industrial products and services that it needed.

We reviewed Circular A-76, DOD Directive 4100.15, and DOD Instruction 4100.33; obtained copies of all local implementing regulations; and held discussions with agency personnel to determine the effectiveness of program administration.

We examined inventories, reviews, and related cost studies to determine whether the Army, Navy, and Air Force had met the requirements of the program.

Our review was performed during the period January through October 1970 at the following six military installations.

- Fort Sheridan, Illinois
- Rock Island Arsenal, Rock Island, Illinois
- Whidbey Island Naval Air Station, Oak Harbor, Washington
- Puget Sound Naval Shipyard, Bremerton, Washington
- Ogden Air Materiel Area, Hill Air Force Base, Utah
- Lowry Technical Training Center, Lowry Air Force Base, Colorado

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SUMMARY OF PROBLEMS IN MANAGING THE  
REVIEW PROGRAM AT INSTALLATIONS VISITED

ARMY

<u>INSTALLATION</u>	<u>PROBLEM</u>
Rock Island Arsenal	<p>Significant functions not reported in fiscal year 1969 inventory.</p> <p>Personnel not fully aware of program requirements.</p> <p>Personnel preparing inventories have not received sufficient guidance to ensure accurate preparation of inventories.</p> <p>Agency officials unaware of requirements for reporting new starts.</p> <p>No cost studies performed although their use seemed appropriate in some instances.</p> <p>Lack of documentation to justify continued in-house operations.</p>
Fort Sheridan	<p>Interpretation of implementing regulation AR 235-5 has caused confusion and conflict in categorizing activities.</p> <p>Inconsistencies in amounts reported for contract support services.</p> <p>No internal control over the reporting of new starts.</p> <p>Lack of documentation to justify continued in-house operations.</p>

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APPENDIX I

ARMY (continued)

INSTALLATION

PROBLEM

Fort Sheridan  
(continued)

Lack of staff necessary to perform cost comparisons.

Significant functions not reported in fiscal year 1969 inventory.

Cost studies not performed on in-house functions that should have been justified on cost.

NAVY

Whidbey Island  
Naval Air Station

Significant functions not reviewed.

Review approval process untimely.

Cost studies made but not related to the program.

Puget Sound Naval  
Shipyard

Significant functions not inventoried or reviewed.

Lack of definitive guidelines for preparing inventory data.

Review approval process untimely.

AIR FORCE

Hill Air Force Base

Headquarters, USAF, did not direct reviews on all functions.

Difficulty in aligning DOD functional codes with Air Force codes.

Lack of money and manpower to perform in-house depot maintenance activities.

AIR FORCE (continued)

<u>INSTALLATION</u>	<u>PROBLEM</u>
Hill Air Force Base (continued)	Delay in Headquarters, USAF, approval of reviews.
	Incremental concept not applied to overhead, indirect, and contract administration costs in cost studies.
	No evidence shows that follow-up reviews were performed.
Lowry Technical Training Center	Several Air Force codes were common to more than one DOD code.
	Headquarters, USAF, did not direct reviews on all significant functions.
	Few reviews have received Headquarters, USAF, approval.
	Incremental concept not applied to overhead, indirect, and contract administration costs.

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# APPENDIX II

## RECOMMENDATIONS BY DEFENSE INSTALLATIONS VISITED FOR PROVIDING COMMERCIAL AND INDUSTRIAL ACTIVITIES

Functional code	Fort Sheridan (note a)			Rock Island Arsenal			Whidbey Island Naval Air Station			Puget Sound Naval Shipyard			Hill Air Force Base			Lowry Air Force Base			
	IH	CC	C	IH	CC	C	IH	CC	C	IH	CC	C	IH	CC	C	IH	CC	C	
J-505 Combat vehicles				X															
J-519 Other equipment				X															
S-705 Government utilities	X			X			X		X			X				X			
S-706 Bus service							X		X			X				X			
S-708 Laundry services	X	X												X					X
S-709 Janitorial service	X	X	X				X		X				X			X			
S-710 Insect, rodent control												X				X			
S-712 Garbage collection	X	X			X	X			X			X				X			
S-713 Food services							X		X			X				X			
S-714 Fueling service												X							
S-715 Office equipment, etc.	X	X					X							X					X
S-717 Building maintenance	X	X	X				X		X			X				X	X		
S-718 Grounds maintenance						X			X			X				X			
S-719 Alteration of property						X			X			X				X			
S-720 Landscaping service												X							
S-721 Motor pool use	X	X	X				X						X			X			
S-724 Guard service						X		X		X		X				X			
S-799 Other maintenance						X		X				X							
T-801 Packing and crating	X	X					X					X				X			
T-803 Warehouse operation						X		X		X									
T-805 Commercial instruction									X										
T-806 Bulk liquid storage							X												
T-807 Printing						X			X										
T-808 Photography services						X		X											
T-810 Communications	X					X		X		X									
T-811 Transportation						X		X											
T-819 Other nonmanufacturing						X													
W-822 Systems design						X													
W-823 Computer programming						X													
W-824 Automatic data processing operations						X													
W-829 Other automatic data processing services						X													
X-931 Ordnance						X													
X-933 Paper products						X													

<sup>a</sup>IH = Continued in-house  
CC = Convert to contract  
C = Continue contract

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APPENDIX III

SUMMARY OF IN-HOUSE ACTIVITIES REVIEWED BY  
THE ARMY, NAVY, AND AIR FORCE AS OF  
JANUARY 1, 1970

Circumstance code (note a)	Army		Navy		Air Force	
	Cost (000 omitted)	Activities	Cost (000 omitted)	Activities	Cost (000 omitted)	Activities
A	\$ 800,947	945	\$254,483	406	\$ 50,387	153
B	248,160	113	36,018	97	46,960	259
C	187,559	294	86,342	193	-	-
D	34,755	64	22,150	55	-	-
Combined codes	50,420	71	-	-	3,572	12
Total	\$1,321,841	1,487	\$398,993	751	\$100,919	424

- <sup>a</sup>A - Contracting delays programs  
B - Readiness and support  
C - Commercial source unavailable  
D - Cost

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APPENDIX IV



HD

INSTALLATIONS AND LOGISTICS

ASSISTANT SECRETARY OF DEFENSE  
WASHINGTON, D.C. 20301

17 AUG 1971

Mr. Forrest R. Browne  
Associate Director  
U. S. General Accounting Office  
Washington, D. C. 20548

Dear Mr. Browne:

This is in response to your draft report of June 7, 1971 concerning the "Improvement Needed in Program for Selecting In-House or Contract Performance of Certain Activities." (OSD Case #3288).

The report indicated there were (a) unsupported justifications, (b) significant depot maintenance functions not reviewed, (c) reviews behind schedule, (d) delays in review and approval, (e) sources of significant potential savings not reviewed, (f) insufficient trained manpower, (g) no records to evaluate program costs versus savings, (h) failures to report new starts, and (i) definitive guidelines needed for preparing inventories.

Specific recommendations made by the GAO are addressed in the attached comments. The problems identified in the report (GAO review performed January through October 1970) include areas where the DOD has conducted special studies. These studies have been conducted to get first-hand knowledge of the operating conditions and problems being encountered in the field, both in relation to "new starts" and in making and justifying the annual inventory decisions. Also extensive experience has been gained in the last five years in managing the program and in collecting and recording program data.

By memorandum of 8 April 1971, the ASD(I&L) indicated his concern to the Military Departments and the Defense Agencies that the inventory reviews had not been completed. They were advised to give increased management attention to the administration of our commercial program to insure that all initial reviews are accomplished with speed, and for each to review the status of their accomplishments. The results will be reflected in the next inventory report due in November.

Considerable effort and attention has been directed in 1971 to improve the quality and tighten the management of the program. Based on the findings and lessons learned, we have just completed comprehensive revisions of DOD Directive 4100.15 and DOD Instruction 4100.33. We shall provide copies of the revised documents to your office when published. These detailed guidelines plus other contemplated positive actions will in our opinion effect improvement in the management of the program.

We appreciate the opportunity to comment on your draft report.

Sincerely,



Glenn V. Gibson  
Deputy Assistant Secretary of Defense

1 Attachment  
As stated

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## APPENDIX IV

OSD Case #3285

### Comments on GAO Recommendations

General. In our continuing efforts to improve the management of this program, we have established a Steering Group composed of departmental representatives knowledgeable in this area. One of the major efforts of the Steering Group has been to develop improved policy guidance for carrying out this program.

The DOD Instruction 4100.33 has been revised and is in the process of publication at this time. We believe that the guidance contained in this extensive revision will materially assist in improving the management of this program. Our comments on each recommendation in the draft report are set forth below.

Recommendation 1. Page 3 - "Promptly reconsider the many unsupported justifications for in-house performance. Special attention should be given to those unsupported justifications stating that contracting would be more economical than programs or commercial sources were not available."

Comment. Revised DOD Instruction 4100.33 IV, C(3) requires the components to "document each review so as to clearly show the rationale and the data upon which the decision was reached to continue, discontinue or curtail each activity." By memorandum of 8 April 1971 to the Secretary of Defense, the ASD(I&L) requested that management attention be given to both the quality and timeliness of reviews being performed. Under the revised guidance in DOD Instruction 4100.33 emphasis will be given to insuring the adequacy of the justification for decisions to support in-house performance.

Recommendation 2. Page 4 - "Review the depot maintenance functions at all installations before other less significant functions are reviewed at the same time."

Comment. In the revised DOD Instruction 4100.33, recognition is given to the importance of the depot maintenance functions. Reviews of these functions have been increased from a triennial to an annual frequency for certain functional categories involving high-dollar expenditures. For example, DOD Directive 4151.1 "Use of Contractor and Government Resources for the Maintenance of Materiel, dated June 20, 1970" has been revised to require that contemplated shifts of non-mission essential workloads

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depots must be specifically justified under the "new start" criteria of DOD Instruction 4100.33. Hence the guidance in both the maintenance policy area as well as in the commercial industrial program is now synchronized to insure improved management attention to the depot maintenance workload function.

Recommendation 3. Page 4 - "Commit sufficient trained manpower to avoid delays in the review and approval process."

Comment. We have taken steps to develop a special training course for personnel engaged in the commercial industrial activities program. This training is planned to begin this fall at the US Army Logistics Training Center, Fort Lee, Virginia. It is contemplated that representatives of DOD components will be trained and then return to their respective organizations to conduct appropriate training for their work force. Every effort will be made to insure that the increased management attention which we are giving to the commercial industrial program eliminates unnecessary delays in the review and approval process.

Recommendation 4. Page 4 - "Promote cost studies of in-house and contract support activities to ensure that the Departments achieve available savings."

Comment. Revised DOD Instruction 4100.33 IV. requires the following review procedures:

"A. General.

- "1. A wide range of services, as listed in Enclosure 1, are provided by DOD commercial or industrial activities and by contract support services. Significant savings can be achieved by a systematic cost effectiveness review of these services to determine whether their best and most economical method of performance is by contract or by Government employees. In making this determination, strict limitations (as cited in Subsection IV.B) are imposed on the type and scope of in-house services that may be performed, and specific guidelines for cost comparisons are provided. Contract is the preferred method of performance, unless excess cost from commercial sources of other circumstances (as cited in Subsection IV.B) necessitate in-house performance. A systematic review of service functions will be conducted on a time-phased basis and will cover the specific services listed in Enclosure 1.

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"2. Some DOD commercial or industrial activities are engaged in the output of products, as distinguished from services. A systematic cost-effectiveness review of these in-house DOD production activities will also be carried out covering the production items listed in Enclosure 1 under Codes X931 through X945."

The program authorizes accomplishment of functions in-house on one or more of five bases, only one of which is cost. Although most reviews are justified on a basis other than cost, those which are approved are considered to have met the requirements for in-house retention. DOD will make every effort to promote the use of cost comparison studies, as appropriate, in arriving at decisions.

Recommendation 5. Page 4 - "Maintain records to show whether the program costs are justified by the benefits."

Comment. Some management evaluation and control records (DOD Instruction 4100.33 V.) will be maintained by DOD. Revised DOD Directive 4100.15 IV.A. (Policy) states "Office of Management and Budget Circular No. A-76 (reference (a)) outlines the principle that: (1) Government Departments and Agencies will rely on the private enterprise system for the provision of required products or services to the maximum extent consistent with effective and efficient accomplishment of their programs and (2) in some circumstances, it is in the national interest for the Government to provide directly the products and services it uses, and that only under those circumstances will a Department or Agency conduct the operation of a Government commercial or industrial activity, or initiate a 'new start.'" GAO recognizes the program focuses on other products and services from the private sector and not on a comparison of program costs to benefits.

The program, however, is based on the concept of making, where appropriate, cost effectiveness reviews of activities to determine the best and most economical method of performance. An objective of the program is to achieve economies in DOD procurement of products and services. DOD reviews are so structured that for decisions where cost is the pivotal element, cost benefits are revealed. Our immediate concern therefore is the timely completion of these reviews so that the relevant cost benefits of these decisions will be available for proper management use.

Recommendation 6. Page 4 - "Issue standard definitive guidelines that all commercial or industrial and contract support activities be included in the inventories, with sufficient breakdown of the depot maintenance items to permit meaningful reviews."

## APPENDIX IV

Comment. The comprehensive revision made to DOD Instruction 4100.33 (Encl. 1 and Att. 1 to Encl. 1) provides standard definitive guidelines for each functional area covered by the program. Functional areas are being increased from 53 to 101 to ensure that all commercial or industrial and contract support activities are included in the inventories with sufficient breakdowns to permit meaningful reviews. The DOD components will implement this basic guidance.

Recommendation 7. Page 4 - "Institute a system for enforcing the DOD requirement that all new starts be submitted to the Assistant Secretary of Defense (Installations and Logistics) for approval as required by BOB Circular No. A-76."

Comment. Delegation of authority to approve "new starts" has been placed at the Assistant Secretary level of the Military Departments by the revised DOD Directive 4100.15 dated 8 July 1971. This authority has been provided by a waiver to the requirements of OMB Circular No. A-76 granted by Director Shultz in a letter to SecDef dated June 7, 1971. Controls will be established at the DOD component headquarters level to monitor the procedure. Emphasis will be made through field visits and through the audit and inspection programs. DOD components will emphasize the requirement for "new start" approval through these means and through appropriate supplemental guidance.

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APPENDIX V

PRINCIPAL OFFICIALS OF  
 THE DEPARTMENT OF DEFENSE  
 AND THE DEPARTMENTS OF THE ARMY, NAVY, AND AIR FORCE  
 RESPONSIBLE FOR ADMINISTRATION OF ACTIVITIES  
 DISCUSSED IN THIS REPORT

DEPARTMENT OF DEFENSE

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
SECRETARY OF DEFENSE:		
Melvin R. Laird	Jan. 1969	Present
Clark M. Clifford	Mar. 1968	Jan. 1969
Robert S. McNamara	Jan. 1961	Feb. 1968
ASSISTANT SECRETARY OF DEFENSE (INSTALLATIONS AND LOGISTICS):		
Barry J. Shillito	Jan. 1969	Present
Thomas D. Morris	Sept. 1967	Jan. 1969
Paul R. Ignatius	Dec. 1964	Aug. 1967
DEPUTY ASSISTANT SECRETARY OF DE- FENSE (PROCUREMENT):		
John M. Malloy	Apr. 1965	Present
DIRECTORATE FOR CONTRACT SUPPORT SERVICES:		
Veron J. Dwyer	July 1970	Present
Owen P. McDonald (acting)	Mar. 1970	July 1971
George G. Mullins	Jan. 1967	Mar. 1971
Allen W. Fore	Jan. 1966	Jan. 1967

DEPARTMENT OF THE ARMY

SECRETARY OF THE ARMY:		
Robert F. Froehlke	July 1971	Present
Stanley R. Resor	July 1965	June 1971

<u>Tenure of office</u>		
<u>From</u>		<u>To</u>

DEPARTMENT OF THE ARMY (continued)ASSISTANT SECRETARY OF THE ARMY  
(INSTALLATIONS AND LOGISTICS):

Vincent P. Huggard (acting)	June 1971	Present
J. Ronald Fox	June 1969	June 1971
Dr. Robert A. Brooks	Oct. 1965	June 1969

## CHIEF OF STAFF:

Gen. William C. Westmoreland	July 1968	Present
Gen. Harold K. Johnson	July 1964	July 1968

DEPUTY CHIEF OF STAFF FOR LOGIS-  
TICS:

Lt. Gen. Joseph M. Heiser, Jr.	Sept. 1969	Present
Lt. Gen. Jean E. Engler	July 1967	Aug. 1969
Lt. Gen. Lawrence J. Lincoln	Aug. 1964	June 1967

DEPARTMENT OF THE NAVY

## SECRETARY OF THE NAVY:

John H. Chafee	Jan. 1969	Present
Paul R. Ignatius	Aug. 1967	Jan. 1969
Paul H. Nitze	Nov. 1963	June 1967

ASSISTANT SECRETARY OF THE NAVY  
(INSTALLATIONS AND LOGISTICS):

Frank Sanders	Feb. 1969	Present
Barry J. Shillito	Apr. 1968	Feb. 1969
Graeme C. Bannerman	Feb. 1965	Feb. 1968

## CHIEF OF NAVAL MATERIAL:

Adm. Jackson D. Arnold	July 1970	Present
Vice Adm. Ignatius J. Galantin	Mar. 1965	June 1970

DEPUTY CHIEF OF NAVAL MATERIAL  
(LOGISTICS SUPPORT):

Rear Adm. Lewis A. Hopkins	Mar. 1971	Present
Capt. Alex F. Hancock	Oct. 1970	Mar. 1971

## APPENDIX V

Tenure of office	
From	To

DEPARTMENT OF THE NAVY (continued)DEPUTY CHIEF OF NAVAL MATERIAL  
(LOGISTICS SUPPORT):

Rear Adm. George E. Moore, II	July 1969	Oct. 1970
Rear Adm. Nathan Sonenstein	Aug. 1967	July 1969
Rear Adm. Jackson D. Arnold	Sept. 1966	Aug. 1967
Rear Adm. Frank C. Jones	July 1966	Sept. 1967
Capt. William F. Farrell	July 1966	July 1967

DEPARTMENT OF THE AIR FORCE

## SECRETARY OF THE AIR FORCE:

Dr. Robert C. Seamans, Jr.	Jan. 1969	Present
Dr. Harold Brown	Oct. 1965	Jan. 1969

ASSISTANT SECRETARY OF THE AIR  
FORCE (INSTALLATIONS AND LOGIS-  
TICS):

Philip N. Whittaker	May 1969	Present
Robert H. Charles	Nov. 1963	May 1969

## CHIEF OF STAFF:

Gen. John D. Ryan	Aug. 1969	Present
Gen. John P. McConnell	Feb. 1965	Aug. 1969

DEPUTY CHIEF OF STAFF, PROGRAMS  
AND RESOURCES:

Lt. Gen. George S. Boylan, Jr.	Aug. 1969	Present
Lt. Gen. Lucius D. Clay, Jr.	July 1968	Aug. 1969
Lt. Gen. Jack J. Catton	Aug. 1967	July 1968
Lt. Gen. Robert J. Friedman	Feb. 1965	July 1967

DIRECTOR OF MANPOWER AND ORGANI-  
ZATION:

Maj. Gen. William W. Berg	Aug. 1968	Present
Maj. Gen. William B. Campbell	June 1968	Aug. 1968
Maj. Gen. Bertram C. Harrison	1966	June 1968

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