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STATEMENT OF
ROBERT M. GILROY, SENIOR ASSOCIATE DIRECTOR
PROCUREMENT, LOGISTICS AND READINESS DIVISION
BEFORE THE
SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS
HOUSE COMMITTEE ON VETERANS' AFFAIRS
ON
OMB
~~OFFICE OF MANAGEMENT AND BUDGET~~
CIRCULAR A-76



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Mr. Chairman and Members of the Subcommittee:

We are here at your request to assist you in your oversight review of Office of Management and Budget (OMB) Circular A-76. It is our understanding that the Subcommittee is interested in any new information we may have on the current status of OMB Circular A-76 cost comparison studies within the Veterans Administration (VA) and its Department of Medicine and Surgery. Because GAO has not done any work at VA regarding Circular A-76, the Subcommittee has requested GAO to cite examples of reviews it has made at other agencies, and the results obtained, in two related areas of interest. These areas concern:

--The implementation of Circular A-76

--The adequacy of agency actions to ensure good contractor performance of A-76-type activities.

The Department of Defense (DOD) has devoted considerable time and effort over the years to implementing the A-76 policy. Consequently, most of our reports concern that agency. These reports involve a wide assortment of functions, ranging from individual types of services to total installation support for a number of services.

IMPLEMENTATION OF CIRCULAR A-76--

EXAMPLES OF GAO REVIEWS AND RESULTS

Generally, our more recent reviews concerning the Circular's implementation have involved either (1) an evaluation of the propriety of a specific contracting-out decision at a given location or (2) a more comprehensive evaluation of an agency-wide or Government-wide nature. Our work in the first category is almost exclusively the result of constituency requests from individual members of the Congress and generally involve a detailed evaluation of an agency-prepared cost comparison.

Several examples of this type of work are as follows:

--We reviewed the contracting-out decision for laundry services at Wright-Patterson Air Force Base, Ohio. We agreed that contracting out was more economical than in-house performance and estimated a substantially higher savings than the Air Force primarily because it had

understated the number of in-house employees needed.
(PSAD-80-17, December 7, 1979.)

--We reviewed the contracting out of 19 installation support functions at Fort Gordon, Georgia. The functions included, among others, maintenance, supply and service, transportation, and housing. We again agreed that contracting was more economical but estimated a reduced savings generally because the Army had overstated the number of cooks needed in the dining facilities. (PLRD-81-9, April 1, 1981.)

Our more comprehensive evaluations are typically reviews of broad issues surrounding the A-76 program or reviews of major functions of a commercial or industrial nature.

A few examples of this type of work are as follows:

--We reviewed 12 DOD conversions to contractor performance to find out how much contracting out was taking place because of personnel ceilings, wage differentials between Federal blue-collar and contractor employees, and other significant influences. This work was done in response to concerns expressed by the Senate and House Committees

on Armed Services. The functions we reviewed covered such activities as laundry and drycleaning, motor vehicle maintenance, aircraft maintenance, and total installation support of an ammunition plant.

We found that (a) the most significant reason for contracting out was that contractor costs were lower than in-house costs, (b) contractors' costs were lower because they planned to use fewer employees and pay lower wages, (c) although civilian personnel ceilings did not appear to be the primary reason for contracting out, the military services did use the A-76 program to reduce their work force, and (d) questionable cost comparison practices influenced some decisions to contract out. (PLRD-81-19, April 22, 1981.)

--At the request of the Subcommittee on Defense, House Committee on Appropriations, we reviewed a sample of 18 conversions by DOD of a variety of activities covered by Circular A-76. One of our primary objectives was to determine whether decisions to contract out might have been different if subsequent contractor price increases and performance shortfalls were known before the contract awards were made.

Most of the conversions did not result in performance shortfalls, but we did find unsatisfactory contractor performance was experienced on 5 of the 18 conversions. However, where contract price increases occurred, they seemed to be justified. In addition to the five unsatisfactory performance cases, we found that one conversion decision was based on an incomplete statement of work which was used as the basis for the cost comparison. While it is possible that if the information we found after the fact had been known before the contract awards were made, different decisions might have been made on these six cases, however, history doesn't provide alternatives. Unsatisfactory contractor performance was generally attributed to one or more of the following factors: high personnel turnover rate; unreasonably low staffing level resulting from a buy-in; untimely, improper, and/or poor quality work; too few skilled technicians; and inadequate training (PLRD-81-58, August 26, 1981.)

--We performed a review which shows that the General Services Administration (GSA) is spending several million dollars more per year than is necessary to clean office buildings. Because of high wages and low productivity, GSA spent, in four regions studied, over 50

percent more to clean offices with its own custodians than with contractors, and almost twice what GSA landlords paid to clean Federal leased space. GSA is slowly converting to contract cleaning, but at the present rate this will take about 15 years. During this time, GSA may spend about \$250 million more than necessary to provide cleaning services with its more costly, less productive custodians.

We recommended that GSA make the comparative cost studies required by Circular A-76 to determine whether cleaning services should be provided by its in-house staff or by contract personnel, and implement the results. We also recommended that GSA take specific actions to foster greater productivity and reduce costs of contract cleaning (AFMD-81-78, August 24, 1981.)

ADEQUACY OF AGENCY ACTIONS TO ENSURE
CONTRACTOR PERFORMANCE--EXAMPLES OF
GAO REVIEWS AND RESULTS

Agencies should take several important actions both before and after a contract is awarded to better ensure good contractor performance of an A-76-type activity. Before award, an agency

should make sure that the statement of work used to solicit contractor bids or proposals (1) accurately describes what is to be done, and (2) includes performance standards for later determining how well the contractor has met the work requirements. Also, it should adequately evaluate the responsibility of the potential contractor. After award, an agency should effectively administer the contract to ensure that the contractor furnishes the item or service of an acceptable quality, on time, at the agreed price.

I would like to address now some recent reviews which have primarily focused on the adequacy of contract administration--what is done to ensure that the Government gets what it pays for and that work set out in contracts is actually performed. These reviews, therefore, were not started because of considerations involving Circular A-76, but to evaluate the adequacy of contract administration.

A few examples of this type of work are as follows:

--DOD accomplishes over half of its \$1.9 billion annual real property maintenance, repair, and minor construction workload through contracts that are generally awarded and

administered locally. At 10 Army, Navy, and Air Force installations visited, we found that contract administration was not adequate to prevent intentional or unintentional overcharges.

Several installations paid for much more work than was done; some ordered unnecessary work and accepted inferior work; and lower prices were not obtained at some because requirements forecasts were unrealistic, work specifications were inappropriate or poorly written, and price proposals were not properly analyzed.

We recommended that DOD strengthen various controls over the procurement of these services. DOD generally concurred in our findings and recommendations. It conceded that the deficiencies were, in general, a result of a failure to follow existing policy and guidance (PSAD-80-14, January 9, 1980.)

--In our review of food service contracts at 17 military installations, we found common contract units of measure and services were not used for contract bids and proposals and for making payments to contractors. This impeded evaluations of contractor bids and proposals and precluded

meaningful comparisons to determine the reasonableness of contract costs. The contract administration system for assuring satisfactory contractor performance lacked uniformity and was ineffective because contracts did not contain specific, measurable performance standards, tolerances allowed, and deduction rates for unacceptable performance; inspections and their frequency and documentation were inadequate; and inspectors were inadequately trained. As a result, some military installations paid for marginal or unacceptable performance, performed some of the contract work with military personnel, or terminated the contract and reawarded the contract--a costly process. Government meal estimates, which formed the basis of contractor bids and proposals, were inaccurate, and inadequate Government evaluations of contractor bids and proposals resulted in the award of some contracts to contractors that could not meet contract requirements. DOD concurred, in general, with our recommendations and indicated corrective actions have been initiated.

(PLRD-82-3, October 20, 1981.)

--Our report on military contractor-operated parts stores (COPARS) and contractor-operated civil engineer supply stores (COCESS) showed that these contracts are unsound,

unmanageable, and exposed the Government to potential fraud and abuse. The stores provide the kinds of products found in neighborhood auto parts and hardware stores. The unsound buying practices and abuses we found were traceable to defects in the contracts and breakdowns in internal controls. Under the COPARS and COCESS contracts we reviewed, the Government's management control frequently broke down under the complexity of contract ordering and pricing, the sheer volume of transactions, and disorganized contract administration. We recommended that as each COPARS and COCESS contract expires, it should not be renewed. Instead, DOD should explore other means to buy these supplies. Government-operated stores purchasing from local commercial wholesale distributors at prevailing market prices is an alternative.

The fundamental concept of the COPARS and COCESS contracts makes administration of these contracts difficult because of the complexity and uncertainty of pricing the literally thousands of items covered by the contracts. We believe substantial contract administration costs would have to be incurred to provide adequately trained Government personnel who would assure the receipt of goods and that each item delivered is: (a) actually the item billed for, (b) properly

priced under the contract terms, and (c) the most favorably priced item that will meet the Government's needs.

(MASAD-81-27, July 8, 1981.)

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In closing, we would like to say that although its implementing guidelines could be strengthened, GAO supports the general policy precepts set forth by Circular A-76. These precepts are: (1) Government reliance on the private sector is a valid principle, (2) certain functions are inherently governmental in nature and must be performed in-house, and (3) the taxpayer is entitled to economy in Government and cost comparisons are appropriate as criteria.

In 1978, we recommended, as did the Commission on Government Procurement in 1972, that the Congress establish a national policy relating to reliance by the Federal Government on the private sector to provide needed goods and services. (PSAD-78-118, September 25, 1978.) Without a firm national policy, the future of the A-76 program will be a repetition of the past-- confusion, controversy, and ineffective implementation. The

policy must be stable and must appropriately balance many issues of national significance. It needs both legislative and executive branch endorsement and support.

Mr Chairman and Members of the Subcommittee, this completes our formal statement. I will be happy to respond to any questions you may have at this time.