



UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

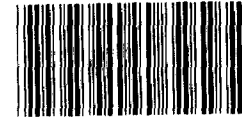
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FEDERAL PERSONNEL AND
COMPENSATION DIVISION

B-201794

SEPTEMBER 30, 1981

The Honorable Caspar W. Weinberger
The Secretary of Defense



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Dear Mr. Secretary:

Subject: Expanding the Efficiency Review Program for
Commercial Activities Can Save Millions
(FPCD-81-77)

We have completed a limited survey of the Department of Defense's (DOD's) program to increase the efficiency of some in-house commercial or industrial-type activities (referred to hereafter as commercial activities). The efficiency review program saves money each year by developing and applying performance standards that eliminate unnecessary and inefficient work practices. However, about 80 percent of DOD's 15,000 commercial activities are exempt from the program for various reasons. We believe DOD could save an additional \$350 million by expanding the scope of its program to include these activities, and we are recommending actions to deal with this matter.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our objective was to determine if and how DOD could expand its efficiency review program to include those commercial activities now exempt. Because a large number of activities are exempt, the potential for increased efficiency and large dollar savings is significant.

Office of Management and Budget (OMB) Circular A-76 establishes executive branch policies and procedures to be used to determine whether needed commercial or industrial goods and services should be obtained by contract with private sources or provided in-house using Government facilities and personnel.

During July 1981, we interviewed officials responsible for the A-76 program in the Office of Federal Procurement Policy

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in OMB and the Office of the Assistant Secretary of Defense for Manpower, Reserve Affairs and Logistics. We also interviewed Army, Navy, and Air Force officials responsible for monitoring A-76 implementation. Much of the information used during this survey was initially collected for our June 19, 1981, report "Civil Servants and Contract Employees: Who Should Do What for the Federal Government?" (FPCD-81-43). DOD officials provided data on estimated personnel savings resulting from the efficiency review program. We did not verify the accuracy of these DOD reported savings.

OMB CIRCULAR A-76 REQUIRES
EFFICIENCY REVIEWS

DOD has been a consistent leader in carrying out the executive branch policy which requires agencies to rely on the private sector for needed goods and services unless it is more economical to provide them in-house. Implementing this policy, as prescribed in OMB Circular A-76 of March 29, 1979, can result in the efficient expenditure of funds.

Before a commercial activity can be converted from in-house to contract operations, or maintained in-house, OMB Circular A-76 requires agencies to compare costs to determine the most economical source of performance--contract or in-house. To assure that in-house costs are as low as possible before comparing them to contractors' costs, A-76 requires agencies to review in-house commercial activities to insure they are organized and staffed for the most efficient performance. During these efficiency reviews, agencies are to develop and apply performance standards that clearly describe all work requirements in terms of what is to be done without prescribing how it is to be done. DOD officials have found that, if developed and applied properly, work statements based on performance standards can increase productivity and reduce operating costs by eliminating unnecessary and inefficient work practices.

DOD has completed more efficiency reviews of commercial activities than any other Federal agency. A DOD official stated that efficiency reviews have reduced commercial activities' annual operating costs by an average of 5 percent. The Assistant Secretary of Defense for Manpower, Reserve Affairs and Logistics, who provides DOD-wide guidance for conducting efficiency reviews, has established a joint military service working group to expedite the development of standard performance work statements that can be used by all the military services. These actions are commendable. However, since efficiency reviews are triggered by a requirement to perform

a cost comparison, and a cost comparison is required only when it is feasible to convert a commercial activity to a contract operation, most of DOD's commercial activities are exempt from the program.

DOD EXEMPTS 80 PERCENT OF COMMERCIAL
ACTIVITIES FROM EFFICIENCY REVIEWS

DOD operates about 15,000 commercial activities at an annual operating cost of about \$17 billion. However, DOD officials have estimated that only about 20 percent of the 15,000 activities will be candidates for cost comparisons. Cost comparisons are not required on the remaining 80 percent of DOD's commercial activities because they must remain in-house to support the Nation's defense or because no commercial source is available. Assuming that the cost is equally distributed, these activities represent an annual operating cost of about \$14 billion.

Until recently, staff limitations have apparently precluded the military services from voluntarily expanding efficiency reviews to commercial activities not scheduled for cost comparisons. However, in 1980 the services received several hundred additional positions to better manage the A-76 commercial activities program. Although priority should be given to completing efficiency reviews on those activities scheduled for cost comparisons, we believe it is important for the military services to also use these additional resources to expand the scope of the efficiency review program to include those activities that must remain in-house.

The potential savings from expanding the program will, of course, vary for different types of activities. For example, in the depot maintenance area, potential savings may be lower than the average 5 percent because of an active productivity improvement program. In other areas, such as base operations support, potential savings may be more than 5 percent. Recognizing these variances, if an average 5 percent of costs can be saved in only half of the annual \$14 billion of commercial activities that must remain in-house, DOD could save an additional \$350 million annually and reallocate thousands of civilian and military positions to other areas experiencing staffing shortages.

CONCLUSIONS

Rising costs and increasing competition for limited funds make it essential that DOD take advantage of every opportunity

to perform defense activities more efficiently. By limiting the efficiency review program to only those commercial activities that can be operated by contractors, DOD has yet to realize the full savings possible from this cost-reduction program. The commercial activities that must continue to be performed in-house present an important opportunity for additional savings, and the program should be expanded to include these activities.

RECOMMENDATION

To realize the full potential of the efficiency review program, we recommend that you require the military services to conduct efficiency reviews and develop and apply performance work statements for those commercial activities that must remain in-house.

As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations. This written statement must be submitted to the Senate Committee on Governmental Affairs and the House Committee on Government Operations no later than 60 days after the date of the report. A written statement must also be submitted to the House and Senate Committees on Appropriations with an agency's first request for appropriations made more than 60 days after the date of the report.

Sincerely yours,

Clifford I. Gould
Clifford I. Gould
Director