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

FEDERAL PERSONNEL AND  
COMPENSATION DIVISION

B-201794

SEPTEMBER 30, 1981

The Honorable David A. Stockman  
Director, Office of Management  
and Budget



116569

Dear Mr. Stockman:

Subject: Increased Agency Use of Efficiency Guidelines  
For Commercial Activities Can Save Millions  
(FPCD-81-78)

We have completed a limited survey of the Office of Management and Budget's (OMB's) program to increase the efficiency of commercial or industrial-type activities in the Government (referred to hereafter as commercial activities). We believe OMB might be able to save millions of dollars by requiring wider agency usage of OMB guidelines on developing performance standards. These OMB guidelines, originally issued to help assure that contract personnel perform required Government services at the lowest possible cost, can also be used to help assure that in-house personnel perform required services at the lowest possible cost by identifying unnecessary or inefficient work practices.

Through its participation in the efficiency review program, the Department of Defense (DOD) has reported staffing reductions of about 600 personnel spaces, saving about \$30 million over a 3-year period. However, the civilian agency with the largest commercial activity annual operating costs, the General Services Administration (GSA), has not followed the OMB guidelines on performance standards. As a result, its costs are higher than necessary. We are recommending that you take action to assure that all agencies follow the OMB guidelines.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our objective was to determine if agencies developed and applied performance standards to increase commercial activities' productivity and efficiency. Performance standards

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can be applied relatively easily to commercial activities since the work typically involves repetitive physical actions that can be readily measured.

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 from OMB's Office of Federal Procurement Policy (OFPP) and the Office of the Assistant Secretary of Defense for Manpower, Reserve Affairs and Logistics responsible for monitoring A-76 implementation. We also interviewed Army, Navy, and Air Force officials.

Much of the information used during this survey was initially collected for our August 24, 1981, report, "GSA's Cleaning Costs Are Needlessly Higher Than in the Private Sector (AFMD-81-78), and 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 personnel savings resulting from efficiency reviews. We did not verify the accuracy of these DOD reported savings.

A-76 EFFICIENCY REVIEWS ARE BASED ON  
EFFECTIVE WORK FORCE PLANNING PRINCIPLES

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 the in-house commercial activities to insure they are organized and staffed for the most efficient performance.

The first step in performing an A-76 efficiency review is to accurately describe the commercial activity's minimum work requirements and performance levels. In A-76, this is referred to as writing a performance statement of work. The second step consists of determining what in-house organizational, staffing, and other personnel changes are required to do the work described in the first step most efficiently. Maximum savings will be realized only if both steps are completed.

A-76 also requires that the performance statement of work developed in step one should clearly state what is to be done without prescribing how it is to be done and provide objective standards to measure performance. Performance standards make it easier to determine how well Federal employees are meeting the Government's minimum work requirements or, if the activity is contracted out, how well the contractor is meeting the work requirements. Performance standards also give the contractor or in-house manager flexibility to determine the most efficient way to organize and staff the activity to meet minimum work requirements. A-76 procedures also require agency contracting officers to review statements of work to determine if they were prepared properly, including the use of performance standards.

If agencies use sound work force planning principles to prepare performance statements of work:

- Operating costs should decrease and productivity increase as unnecessary and inefficient work practices are identified and eliminated.
- Agency officials will have objective criteria (standards) for evaluating the contractor's performance or the Federal employee's performance if the work remains in-house.
- Contract administration costs should be reduced because objective performance criteria combined with a reliable inspection system based on random sampling require fewer inspectors to assure quality.
- Work force requirements and staffing management decisions for activities that remain in-house will be supported by credible and reliable data to justify agency personnel requests.
- The turmoil and disruption associated with contracting out Federal activities should be minimized to the extent that reducing the cost of in-house operations makes it more economical to continue the activity with Government employees.

OMB GUIDELINES ON HOW TO DEVELOP  
PERFORMANCE STANDARDS

In October 1980, OFPP issued written guidelines to help agencies properly prepare contract statements of work based on performance standards. OFPP's Pamphlet #4, "A Guide for Writing and Administering Performance Statements of Work for

Service Contracts," gives detailed instructions on how to accurately describe the Government's minimum work requirements and performance levels. Using a service contract for vehicle maintenance and operations as an example, it also describes how to develop a reliable inspection system based on random sampling to assure that the contractor actually provides the quality and quantity of services required. Pamphlet #4 is based on techniques developed by the Air Force Logistics Management Center and field tested in a broad cross section of service contracts both overseas and in the United States.

The pamphlet describes a "job analysis" technique to identify and eliminate unnecessary or inefficient work practices. In a January 28, 1980, report on work force planning, <sup>1/</sup> we recommended agencies use a similar technique. This technique involves separating an agency's main objectives into successively smaller levels of responsibilities and eliminating those activities that are not tied to an agency's overall mission.

We have not had an opportunity to completely evaluate each recommended procedure in Pamphlet #4, and we recognize that agencies may identify ways to improve it. However, we believe it is a step in the right direction since it appears to be based on sound management principles that, if followed, can result in savings, particularly in civilian agencies.

DOD REPORTS SAVINGS  
FROM EFFICIENCY REVIEWS

DOD has been a consistent leader in carrying out the OMB policy in Circular A-76. As a result, DOD has completed more A-76 efficiency reviews and cost comparisons than any other Federal agency. About 40 percent of the completed cost comparisons show it is more economical to operate the activity in-house. Efficiency reviews on these activities made it possible to reduce in-house staffing levels by about 600 spaces, saving about \$30 million over a 3-year period. DOD expects an additional \$130 million in savings from more economical contract performance. The Air Force and the Army use Pamphlet #4 when preparing A-76 performance work statements, and we were told the Navy is also considering making the use of the pamphlet mandatory.

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<sup>1/</sup>"Handbook For Government Work Force Requirements,"  
FPCD-80-36, January 28, 1980.

A DOD official stated that efficiency reviews have reduced commercial activities' annual operating costs by an average 5 percent. However, 80 percent of commercial activities are exempt from A-76 efficiency reviews because these activities must remain in-house to support the Nation's defense requirements or because no commercial source is available. We have advised the Secretary of Defense that more money could be saved by expanding the efficiency review program to these commercial activities. (A copy of our letter is enclosed.)

An OMB official stated that there are efficiency review savings to be considered in addition to the 5-percent reduction in annual operating costs. For example, the Government will not have to make retirement or insurance contributions for the 600 positions eliminated in DOD. The OMB official estimated that, if all factors are considered, A-76 efficiency reviews have reduced the Government's total costs by about 20 percent.

GSA HAS NOT ADOPTED OMB STANDARDS  
FOR COMMERCIAL ACTIVITIES

An August 24, 1981, report entitled "GSA's Cleaning Costs Are Needlessly Higher Than in the Private Sector" (AFMD-81-78), illustrates how costs for commercial activities can increase if OFPP guidelines are not followed. We reported that GSA is spending several million dollars more than necessary to clean office buildings. Because of high wages and low productivity in four regions studied, it cost GSA over 50 percent more to clean offices with its own custodians than with contractors, and almost twice what GSA landlords paid to clean federally leased space. When our report was issued, GSA had not completed any A-76 efficiency reviews or cost comparisons since A-76 was revised in March 1979.

Our report identified a GSA practice that is not consistent with Pamphlet #4 and which resulted in higher than necessary GSA costs. GSA has a policy requiring contractors to furnish a specified number of staff hours under each contract. This is contrary to Pamphlet #4 and Circular A-76 policy that performance standards be used to specify what work is required without stating how that work should be done. GSA officials stated that the objective of the minimum-hour requirement is to insure quality. We do not believe it necessarily does. What it does do, if set too high, is to eliminate the incentive for the contractor to improve productivity and save staff hours. GSA policy requires deductions from contractors' pay for failing to provide required staff hours, even though they provide quality cleaning.

Our report recommended, among other things, that GSA (1) complete the cost comparisons required by A-76 as rapidly as possible and choose the most economical source of performance, (2) adopt a random sampling inspection system as prescribed in Pamphlet #4 to reduce contract administration costs, and (3) eliminate minimum-hour requirements from cleaning contracts.

ACCELERATED A-76 CONTRACTING OUT PROGRAM

On April 8, 1981, the Deputy Director of OMB directed executive branch agencies to accelerate implementation of Circular A-76. He stated that through proper and effective implementation of the circular, agencies will be able to achieve economies and efficiencies in operating commercial or industrial activities. Agencies were directed to schedule A-76 cost comparisons (and thus efficiency reviews) for over 92,000 Federal positions by the end of fiscal year 1982. Over 13,000 of these positions are at GSA.

These actions are commendable and should result in more efficient Government operations. However, if agencies are to rapidly accelerate their A-76 programs to meet the OMB deadline, it is essential that OMB establish controls to assure that cost comparisons are completed properly and do not result in erroneous decisions to convert commercial activities to contract or in-house performance. In our opinion, an accelerated A-76 program must be built on a firm foundation that assures that agencies follow the structured and deliberate decisionmaking process prescribed in the circular. This is particularly important for those civilian agencies, such as GSA, that have little or no experience in performing cost comparisons and efficiency reviews since A-76 was revised in March 1979. The Deputy Director's April 8, 1981, directive stated civilian agencies' implementation of A-76 has, for the most part, been in a "vacuum."

If civilian agencies can reduce their approximate \$2 billion annual operating costs for commercial activities by 5 percent, as DOD has, they could save \$100 million annually. Moreover, agencies' use of performance standards could save even more by giving contractors maximum flexibility in determining the most efficient way to staff the activity.

CONCLUSIONS

OMB's accelerated A-76 program cannot result in maximum savings unless all agencies follow OMB's guidelines to develop and apply performance standards when doing efficiency reviews.

For example, unless GSA follows OMB guidelines and discontinues the requirement for cleaning contractors to provide a minimum number of hours, cleaning costs will remain needlessly high.

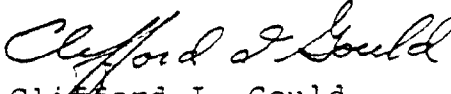
RECOMMENDATIONS

To save as much as possible from implementing A-76, we recommend that the Director, OMB:

- Make OFPP Pamphlet #4 an attachment to Circular A-76.
- Require agency contracting officers to determine if the statement of work was generally prepared according to OFPP Pamphlet #4.
- Emphasize to all agencies the importance of using OFPP Pamphlet #4 to develop performance work statements.

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 not 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  
Director

Enclosure