
BY THE U.S. GENERAL ACCOUNTING OFFICE
Report To The Chairman, Subcommittee On
Civil Service, Post Office & General Services
Committee On Governmental Affairs
United States Senate

Information From Previous Reports
On Various Aspects Of Contracting Out
Under OMB Circular A-76

This report contains information from previously issued GAO and other reports concerning contracting out under OMB Circular A-76. This information shows that:

- Although contract costs increased on functions contracted out, savings were usually realized.
- Savings were generally attributable to contractors using fewer employees and paying lower wages.
- Most employees obtained other federal jobs when the functions in which they were working were contracted out.



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

NATIONAL SECURITY AND
INTERNATIONAL AFFAIRS DIVISION

B-219120

The Honorable Ted Stevens
Chairman, Subcommittee on Civil Service,
Post Office & General Services
Committee on Governmental Affairs
United States Senate

Dear Mr. Chairman:

On April 25, 1985, your office advised us of your concern that government agencies may be contracting under Office of Management and Budget (OMB) Circular A-76 at costs that might be greater than would be incurred if federal employees did the work. You requested that we furnish you various information from reports we and others have issued dealing with this matter.

CONTRACT COST INCREASES

In April 1985, we reported¹ on a review of a judgmental sample of 20 Department of Defense (DOD) functions that were contracted out between October 1, 1978, and February 28, 1981. This review was undertaken at the request of several congressmen because of concerns that contractors tend to increase contract costs in the years following conversion to contracting, resulting in higher costs to the government. We limited our review to DOD because most of the federal functions contracted out were in DOD. We selected functions that had been contracted out for at least 3 years (contract periods are usually 3 years) to compare contract costs, including modifications, with the contract costs used in the cost comparisons required under OMB Circular A-76. Our review of the costs for the 20 functions showed that all but 1 had contract cost increases, but savings were still realized on 17 of the functions. Savings were not realized on two functions and we could not determine whether savings were realized on one function.

In an August 1981 report² on 18 conversions to contracting we reported that where contract price increases occurred, they

¹DOD Functions Contracted Out Under OMB Circular A-76: Contract Cost Increases and The Effects On Federal Employees (GAO/NSIAD-85-49, dated April 15, 1985).

²Review of DOD Contracts Awarded Under OMB Circular A-76 (GAO/PLRD-81-58, dated August 26, 1981).

seemed justified. Generally price increases resulted from such factors as wage increases required by the Department of Labor and new work requirements. With the exception of one conversion to contract which involved contractor performance problems, contract price increases did not exceed the estimated savings by contracting out.

DOD reviewed all 235 contracts it awarded under OMB Circular A-76 between October 1, 1980, and October 1, 1982.³ DOD reported that although some costs increased, the cost of functions if they had remained in-house would also have increased due to wage rate increases and mission changes. This March 1984 report pointed out that although the originally estimated savings had decreased slightly, contractor performance of these 235 contracts still saved an estimated \$250 million through September 30, 1983.

DERIVATION OF SAVINGS BY CONTRACTING OUT

Government employees most frequently affected by contracting out under OMB Circular A-76 are blue-collar employees. Blue-collar employees generally include (1) workers in a recognized trade or craft, or other skilled mechanical craft, or manual labor occupation and (2) foremen or supervisors in positions having trade, craft, or labor experience and knowledge as their paramount requirement.

Personnel costs are generally an important element in comparing the cost of in-house versus contractor performance, especially in labor intensive service activities. Therefore, the number of employees and wages and fringe benefits paid to employees are instrumental in the decision to contract out or keep the function in-house.

In April 1981, we reported⁴ that estimated cost savings in 12 DOD functions contracted out were generally attributable to contractor plans to use fewer employees and to pay lower wages. In November 1984, we reported⁵ on five Air Force

³Report to Congress on the Commercial Activities Program, Assistant Secretary of Defense (Manpower, Installations, and Logistics), dated March 12, 1984.

⁴Factors Influencing DOD Decisions to Convert Activities From In-House to Contractor Performance (PLRD-81-19, dated April 12, 1981).

⁵Contracting of Various Functions Under OMB Circular A-76 at Selected Air Force Installations in San Antonio, Texas (GAO/NSIAD-85-17, dated November 20, 1984).

functions contracted out in San Antonio, Texas. We found that savings were realized on two of the three functions on which cost comparison data was available. For the two functions for which savings were realized, we found that the contractors could perform the work at a lesser cost than the government primarily because (1) the contractors used fewer employees and (2) the contractors' pay scales, generally based on Department of Labor wage rates under the Service Contract Act (41 U.S.C. 351, et seq.), were lower than the government's.

The Service Contract Act requires that a service contractor's employees be paid at least the prevailing rates for similar employees in the locality or the rates provided for in a collective bargaining agreement covering such employees. The act is administered by the Department of Labor, which determines the minimum wages that contractors must pay their employees.

EFFECT ON EMPLOYEES DISPLACED BY CONTRACTING OUT

In our April 15, 1985, report, we also reported on the effects of contracting out on government employees in a random sample we took of 31 functions converted to contract during fiscal year 1983. We found that of 2,535 employees affected, 1,881 (74 percent) obtained other government positions. Only 129 (5 percent) were involuntarily separated.

DOD's report to the Congress in March 1984 on the commercial activities program showed results similar to these. That report showed that of 9,650 employees affected, 9,035, or 94 percent, were either placed in other government jobs or retired. Of the remaining 615, about half obtained employment with the contractors. Our April 1985 report showed that 86 percent of affected employees obtained other government jobs or retired and about half of the remaining employees went to work for contractors.

ESTIMATED SAVINGS BY CONTRACTING OUT

The President's Private Sector Survey on Cost Control (Grace Commission) in 1984 recommended greater emphasis on OMB Circular A-76. The Commission estimated that \$13 billion could be saved over a 3-year period from implementing its recommendations. However, the Commission recognized that some of its task forces, in developing estimated savings, duplicated each other. Therefore, the Commission subtracted \$8.8 billion to compensate for its double counting of savings.

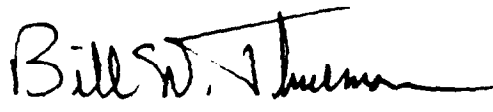
We have not made an estimate of the potential savings if the A-76 program was fully implemented. The Congressional

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Budget Office made a comprehensive study in 1982⁶ and estimated that, in the long term, savings from fully implementing the A-76 program government-wide would be \$1.1 billion a year.

We trust this information is responsive to your needs.

Sincerely yours,


for Frank C. Conahan
Director

⁶Contracting Out For Federal Support Services: Potential Savings and Budgetary Impacts (Congressional Budget Office, October 1982).

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