

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

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FOR RELEASE ON DELIVERY  
Expected at 10:00 a.m.  
Wednesday, June 24, 1981

STATEMENT OF  
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BEFORE THE  
SUBCOMMITTEE ON THE ADVOCACY AND FUTURE  
OF SMALL BUSINESS  
ON  
[THE GOVERNMENT'S USE OF CIVIL  
SERVANTS AND CONTRACTORS]

Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to discuss our June 19, 1981, report on the kinds of work that Federal employees and Federal contractors are performing. The report, entitled "Civil Servants And Contract Employees: Who Should Do What For The Federal Government?," showed that Federal agencies have used contractor personnel to do work that involves basic management functions. Although contractors may not be making final decisions, we are concerned about the extent to which contractors are influencing agencies' control of Federal programs and policies.

At the same time that Federal agencies are using contractor personnel for work that should be done in-house, they are using Government employees to provide commercial services that

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contractors could provide in many cases at a lower cost. We believe that if agencies relied more on the private sector for commercial services, significant savings would accrue to the Government and agencies would be able to concentrate on their primary objective--the performance of Government functions.

Executive branch policy concerning agencies' use of Federal employees and contractors is prescribed in the Office of Management and Budget (OMB) Circular A-76. Basically, the Circular provides that agencies should rely on the private sector for commercial goods and services and that all Government functions must be performed by Federal employees.

Recently, we have found that the Departments of Energy and Defense used contractors to

- substantially determine or influence national energy policies and

- identify the requirements for national defense.

These Government functions are the responsibility of the Secretaries of Energy and Defense, respectively, and should be performed by Federal employees to assure control over the direction of agency policies and programs. Agencies often cite personnel ceilings as a primary reason for not having enough Federal employees to perform these essential functions.

Although Circular A-76 does not permit contracting for the performance of Government functions, it does permit agencies to obtain contractors' advice on such functions. However, it is sometimes difficult to tell where advice stops and performance

begins. Agency officials often contend that contractors do not perform Government functions--they only advise on the performance of such functions since a Federal official approves resultant policy directives or reports before they are issued. In our opinion, performance begins when the contractor's involvement is so extensive (as we found at Energy and Defense) that an agency's ability to develop options other than those proposed by the contractor is limited.

Our report recommended that the Director of OMB issue guidelines that will better define the differences between contractors' advice on Government functions and performance of such functions. OMB has agreed to do this.

Executive branch agencies, with few exceptions, have made little progress to implement Circular A-76's longstanding policy to rely on the private sector for goods and services. Although this policy has existed for more than 25 years, OMB information shows that as many as 400,000 Federal employees are currently operating more than 11,000 commercial or industrial activities at a cost of almost \$19 billion annually. These employees represent almost one-fourth of the total executive branch civilian work force. Many of these Federal activities provide services--such as janitorial, guard, keypunching, and laundry services--that the private sector could often provide more economically. OMB has estimated that savings of \$3.6 billion could be achieved during fiscal years 1982 to 1987 if all agencies fully implement Circular A-76.

It is important to recognize the foundation for the A-76 policy as stated in the Circular:

"The Government's business is not to be in business. Where private sources are available, they should be looked to first to provide the commercial or industrial goods and services needed by the Government to act on the public's behalf."

"In a democratic free enterprise economic system, the Government should not compete with its citizens. The private enterprise system, characterized by individual freedom and initiative, is the primary source of national economic strength."

GAO has consistently supported that policy while recognizing that improvements can be made in the procedures established to implement it.

Circular A-76 requires agencies to inventory their commercial or industrial activities and establish schedules for comparing costs to determine the most economical source of performance--contract or in-house. The Department of Defense has conducted more A-76 cost comparisons than any other Federal agency. About 60 percent of these comparisons show that it is more economical to convert the in-house activity to a contract.

If additional cost comparisons show that a large percentage of the commercial and industrial activities could be provided

more economically by contract, agencies could reallocate many of these existing in-house commercial positions to work that must be performed by Federal employees--Government functions--without an increase in personnel ceilings and thus lessen contractors' involvement in basic management functions.

In a 1978 study, we found agencies' compliance with A-76 to be inconsistent and relatively ineffective. Over the years, different Administrations' support for the policy vacillated and agencies were reluctant to invest the resources necessary to fully implement the policy. To assure that agencies implement A-76 consistently, we recommended that the Congress legislate a national policy of reliance on the private sector for commercial goods and services.

Since that report was issued, agencies' progress to implement A-76 has been slow. On April 8, 1981, the Deputy Director of OMB, in a directive to executive branch agencies, concluded that overall implementation of A-76, with few exceptions, has been in a "vacuum."

OMB also stated that the new Administration strongly supports the general policy of reliance on competitive private enterprise to supply the products and services needed by the Government. OMB told four agencies to schedule over 95,000 positions for cost comparison studies by 1982 with more scheduled through 1985.

In view of the little progress agencies have made to effectively carry out this policy, we believe that the Congress should act on our earlier recommendation. Such legislation would preclude

unilateral shifts in the policy by different Administrations by establishing a stable national policy that could not be changed significantly without congressional approval. The Deputy Director of OMB told us that OMB would not oppose such legislation if it clearly states that the Government's general policy is to rely on competitive private enterprise for needed goods and services.

To conclude, Mr. Chairman, we believe it is important for the Congress, as it strives to find every possible way to realize savings and control the growth of Government, to establish a national policy of reliance on this country's free enterprise system for the commercial goods and services it needs.

In this regard, we welcome your recent introduction of a joint resolution, along with Congressman Dreier, that would establish a national policy of reliance on the private sector for commercial goods and services. We believe this resolution has merit and should be favorably considered by the Congress. Such a policy would enhance agencies' ability to concentrate on the performance of Government functions. I would be happy to answer any questions.