



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

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B-215002

FEBRUARY 1, 1985

RESTRICTED - This report contains the General Accounting Office's recommendations and approval by the Office of Management and Budget.

The Honorable William D. Ford
Chairman, Committee on Post Office
and Civil Service
House of Representatives

RELEASED

Dear Mr. Chairman:

Subject: The A-76 Study at the National Oceanic and Atmospheric Administration's National Climatic Data Center Could Have Been Compromised by the Disclosure of Certain Information (GAO/RCED-85-53)

In an April 9, 1984 letter, the former Chairman of your Subcommittee on Human Resources requested that we examine an A-76 review being done at the National Oceanic and Atmospheric Administration's (NOAA's) National Climatic Data Center. The review is being done under the Office of Management and Budget's (OMB's) Circular A-76, which requires federal agencies to determine whether the private sector can perform certain government activities more economically than the government. We briefed subcommittee staff on the results of our work in June 1984 and agreed to report in writing on a particular aspect of the A-76 review--the release of information about the data center which should have been kept confidential.¹

An A-76 review compares the government's costs of continuing to conduct an activity in house with bids from private firms that want to contract for the activity. Because Circular A-76 makes the government, in effect, a bidder along with private firms, information on future government costs should be kept confidential so that maximum competition is obtained. However, information about the expected costs of continued government operation of the data center, produced early in the A-76 review, was released in NOAA's fiscal year 1985 budget request. This cost estimate was later changed as the A-76 review proceeded. If it had not been changed, the disclosure could have

¹"Confidential" is used in this report to mean "withheld from release as public information." It does not refer to a national security classification.

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compromised the competitiveness of the A-76 process and given an unfair advantage to contractors who learned of it. OMB should revise its Circular A-76 to make clear that federal agencies should not make public the kind of information disclosed about the data center.

OBJECTIVE, SCOPE, AND METHODOLOGY

Our objective was to assess the consequences of disclosing the expected costs of continued federal operation of certain data center units which were under A-76 review. This disclosure was made in NOAA's 1985 congressional budget submission.

We interviewed the Acting Director of the data center and his staff, NOAA headquarters officials responsible for administering A-76 reviews, a Department of Commerce budget official, and OMB officials responsible for A-76 policy to determine federal policy regarding the safeguarding of information in A-76 reviews, find out why the information on the data center study was disclosed, and assess the consequences of the disclosure. We also reviewed OMB Circular A-76 and Department of Commerce and NOAA procedures relating to A-76 reviews to determine what guidance exists on performing the reviews. As requested by the Subcommittee, we did not obtain written agency comments on this report; however, we discussed its contents with OMB, Commerce, and NOAA officials and included their observations in the report. The audit work on this assignment was done between April and October 1984. We performed our review in accordance with generally accepted government auditing standards.

THE A-76 REVIEW AT THE NATIONAL CLIMATIC DATA CENTER

The National Climatic Data Center, with offices in Asheville, North Carolina, and Camp Springs, Maryland, is the official national custodian for weather and climate data. The center gathers weather data from a global network of meteorological and climatological stations. It edits, validates, and stores the data and sells them to federal and nonfederal customers. The center has about 370 employees with salary costs in fiscal year 1984 of about \$7.7 million.

In April 1983 NOAA began a review at the center under OMB Circular A-76 to determine whether selected activities should be performed (1) under contract with commercial sources or (2) in house using government personnel. An A-76 review includes three phases: (1) a management efficiency study which seeks to identify the most efficient and least costly way the government can continue to perform an activity, (2) the development of a solicitation to obtain bids from private firms to take over the

activity, and (3) a comparison of contractors' bids and the costs of "most efficient" government performance.

The data center review is one of a large number of A-76 reviews NOAA has begun of its activities. The review initially considered archiving, printing and distribution, audio-visual services, and computer-related activities involving about 41 percent (154 employees) of the total data center work force. NOAA determined that other center activities were not commercial in nature and so not suitable for contracting out. After completing its management efficiency study of these activities in June 1983, NOAA decided to eliminate (1) printing and distribution activities from its own review and include them in a contracting-out review being done by the Government Printing Office and (2) certain computer activities because they were determined to be unsuitable for contracting out. It issued a contract solicitation for the remaining activities and is currently considering proposals from private firms to perform these activities.

MANAGEMENT EFFICIENCY STUDY
WAS NOT KEPT CONFIDENTIAL

OMB Circular A-76 requires that information on the expected costs of continued government operation of a facility being studied for contracting out, be kept confidential. The portion of the circular dealing with the third phase of an A-76 review, the comparison of contractor bids with projected government costs, states that:

"The confidentiality of all cost data, including the contract price, must be maintained to ensure that government and contract cost figures are completely independent. For example, the contracting officer will not know the in-house cost estimate until the cost comparison is accomplished at bid opening date."

This requirement, according to OMB officials, is to ensure maximum competition between government and industry and preserve fair treatment for federal employees. The circular does not require the confidentiality of management efficiency studies but a Deputy Associate Administrator of OMB's Office of Federal Procurement Policy, which is responsible for federal contracting policy and Circular A-76, told us that it was important to safeguard these studies as well as the amount of expected government costs. According to the Acting Director of the data center, disclosing a management efficiency study could reduce the chances of the government's obtaining the lowest possible bids from private firms and could be unfair to federal employees whose jobs would be affected by contracting out and to bidders who might not know of the disclosure. The Acting Director said that estimates of future government costs need to be kept confidential because they

are compared with private sector bids in deciding whether or not to contract out. According to the Acting Director, a contractor that knew what savings were recommended in a management efficiency study could estimate future government costs by subtracting the savings from current costs, which are public information. As explained below, budget requests for activities which are under A-76 review are prepared so as not to disclose estimated government costs developed during the reviews.

In a memorandum dated November 23, 1983, NOAA's Associate Administrator told NOAA managers to treat management efficiency studies as confidential documents and not to disclose their contents to any persons other than those directly responsible for conducting the studies. NOAA revised its operating procedures on October 3, 1984, to formalize this requirement.

In October 1983, OMB set up a procedure to protect the confidentiality of the expected future costs of federal activities under A-76 review, while reflecting anticipated cost reductions in the budget it proposes for these activities. OMB instructed the Commerce Department to reduce the fiscal year 1985 budget request for activities in NOAA which were under A-76 review by an average percentage by which past A-76 studies had reduced federal costs government-wide. The actual savings recommended by individual management efficiency studies were not to be reflected in budget submissions.

Nevertheless, the savings recommended by the management efficiency study of the National Climatic Data Center were published in NOAA's fiscal year 1985 congressional budget submission, which was made public in January 1984. The submission explained that the fiscal year 1985 budget for climatic data services was being reduced because a management efficiency study recommended savings of certain specified amounts. Officials of NOAA's Budget Office and the Office of NOAA's Associate Administrator who is coordinating NOAA's A-76 reviews agency-wide told us that the savings recommendations should not have been disclosed. According to the Chief of the section in the Commerce Department Budget Office which is responsible for NOAA's budget, Commerce published the savings figures under the mistaken impression that the A-76 process had been completed at the data center.

The recommendations for savings at the data center disclosed in the NOAA budget submission were from a management efficiency study that was later modified substantially. As indicated above, printing and distribution and certain computer activities were removed from the study. The savings reported in the budget submission included undisclosed amounts recommended for the deleted activities, and bidders could not determine from the budget what savings were targeted for the activities

remaining in the A-76 review. Therefore, the advantage potential bidders might have received from the disclosure was greatly reduced.

Nevertheless, the incident illustrates the importance of controls to ensure the confidentiality of management efficiency studies. We have discussed this issue with a Deputy Associate Administrator of OMB's Office of Federal Procurement Policy. This official agreed with us that Circular A-76 should explicitly require the safeguarding of management efficiency studies and that such a requirement would be incorporated in a revision of the circular to be issued in early 1985.

CONCLUSION

OMB Circular A-76 seeks to promote the efficient operation of federal activities by determining the lowest cost at which the government can perform an activity and comparing this with competitive bids from private firms. In effect, the circular makes the government a bidder along with private firms to see which can operate activities at the lowest cost. The system assumes, as do other competitive procurements, that the parties do not know each other's bids. The disclosure of management efficiency studies may permit private firms to estimate future government costs. These studies should be held confidential to ensure full competition as well as fair treatment for federal employees and bidders who might not know about the recommendations. The information disclosed about the National Climatic Data Center's management efficiency study was made obsolete by the study's subsequent revision.

OMB Circular A-76 does not explicitly require safeguarding management efficiency studies. NOAA procedures were changed on October 3, 1984, to require the confidentiality of these studies.

RECOMMENDATION TO THE DIRECTOR OF THE OFFICE OF MANAGEMENT AND BUDGET

To ensure maximum competition for the performance of activities under A-76 review and fair treatment for federal employees and all bidders, we recommend that the Director of OMB include in OMB's planned revision of Circular A-76 a requirement that management efficiency studies not be made public until the comparison of private bids and expected federal costs is completed.

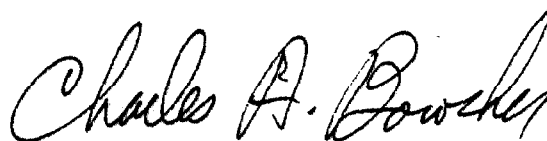
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As arranged with the Subcommittee, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from the date of the report. At that time we will send copies to the appropriate House and

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Senate committees, the heads of departments and agencies whose programs we discussed, Members of Congress, and other interested parties.

Sincerely yours,

A handwritten signature in cursive script that reads "Charles A. Bowsher". The signature is written in black ink and is positioned above the typed name.

Comptroller General
of the United States