

GAO

Testimony

For Release
on Delivery
Expected at
10:00 a.m. EST
Tuesday
December 5, 1989

A-76 Program Issues

Statement of
L. Nye Stevens, Director
Government Business Operations Issues
General Government Division

Before the
Subcommittee on Human Resources
Committee on Post Office and Civil Service
House of Representatives



047216 / 140149

A-76 PROGRAM ISSUES

SUMMARY OF STATEMENT BY
L. NYE STEVENS
DIRECTOR, GOVERNMENT BUSINESS OPERATIONS ISSUES
GENERAL GOVERNMENT DIVISION

The A-76 program has always been and continues to be controversial. However, GAO believes that the concept of encouraging competition is a sensible management objective that can contribute to more efficient and effective government operations and potentially result in significant savings. GAO further believes that if the A-76 program is to obtain broader acceptance, OMB will have to adopt a more flexible implementation strategy and improve communications with Congress.

In the more than 100 reviews it and others have done mostly in the Department of Defense, GAO has found that managers generally agree with the A-76 concept of government/private sector competition and accept its objectives of seeking efficiencies and cost savings. Nevertheless, managers also say that the program is time consuming, difficult to implement, disruptive, and threatening to both managers and employees.

Our work has shown that employees feel threatened and understandably anxious about the possible loss of their jobs as a result of A-76 cost studies. We believe the A-76 program's perceived threat to the morale and productivity of federal workers must be addressed if the program is to gain wider governmentwide acceptance.

Implementation problems also have limited the A-76 program's success. GAO has identified five obstacles that hinder program implementation: burdensome and time-consuming cost studies, unclear and inflexible program objectives, congressional restrictions, unrealistic study goals, and increased contract costs due to poorly written performance work statements.

GAO recommends that OMB adopt a strategy for implementing the A-76 program that would overcome these problems. GAO believes that once this strategy has been developed OMB should present it to key congressional committees and work to ensure Congress' acceptance.

Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to discuss our work involving the Office of Management and Budget's (OMB) Circular A-76, "Performance of Commercial Activities." The goal of the A-76 program is to achieve efficiencies by encouraging competition between the federal workforce and the private sector in providing quality commercial goods and services needed by government agencies.

My remarks today are based on a distillation of 65 of our own products issued since 1980 and our review of nearly as many Inspector General and other audit reports on A-76 activities. Most of this work pertains to the Department of Defense (DOD), which has been the most active in implementing A-76, and much of it involved reviewing individual cost studies at specific installations at the request of Members of Congress. Recently we have taken a broader view of the A-76 program--most notably in our general management review of OMB¹, and in response to a broad request from Senator David Pryor, Chairman of the Subcommittee on Federal Services, Post Office, and Civil Service, Senate Committee on Governmental Affairs. We have issued two reports

¹MANAGING THE GOVERNMENT: Revised Approach Could Improve OMB's Effectiveness (GAO/GGD-89-65, May 4, 1989).

which addressed this request² and plan to issue another early next year.

BACKGROUND

Under OMB's Circular A-76, agencies are required to study their existing commercial activities to determine whether they can be done more economically by modifying in-house operations or using private contractors. Commercial activities include a wide variety of functions such as custodial services, data processing, laundry and drycleaning services, and vehicle and facilities maintenance. Once an activity is scheduled for an A-76 study, the first step is to define the government's requirements in a performance work statement, or "PWS." A study of the agency's existing activity also is done to determine the most efficient organization (MEO) needed to accomplish the tasks in the PWS. Costs of the MEO are calculated to arrive at the government's bid. The total MEO cost is then compared with bids received from private contractors. This comparison leads to a decision to keep the activity in-house or to award a contract. Savings are calculated by subtracting the estimated original in-house cost from the winning bid--either in-house or private contractor.

²FEDERAL PRODUCTIVITY: DOD's Experience in Contracting Out Commercially Available Activities (GAO/GGD-89-6), November 28, 1988; FEDERAL PRODUCTIVITY: DOD Functions With Savings Potential From Private Sector Cost Comparisons (GAO/GGD-88-63FS, Apr. 8, 1988).

The A-76 program has always been and continues to be controversial. Proponents, led by OMB, believe it can achieve substantial savings and improve government productivity. Others question the level of reported savings and characterize the program as a burdensome, time-consuming, and disruptive process that can diminish the quality of services and adversely affect the morale and productivity of federal employees and managers. We believe that the A-76 concept of encouraging competition is a sensible management objective that can contribute to more efficient and effective government operations and could potentially result in significant savings. However, despite its appeal on a conceptual level, the A-76 program has failed to fully meet its objectives.

In part, because many federal employees see the program as a threat to their jobs, if not careers, it has become increasingly sensitive politically and has not been used widely governmentwide. We believe that OMB will have to adopt a more flexible implementation strategy and improve communications with Congress if it wants A-76 to obtain broader acceptance. On the basis of our work and our examination of the work of others, we believe that there are a number of obstacles hindering governmentwide acceptance and the successful implementation of the A-76 program.

One of these, on which we are still working and will not be able

to discuss in detail today, is whether estimated savings are accurate. The level of A-76 program savings is subject to considerable disagreement. At Senator Pryor's request, we are reviewing the reliability of DOD's A-76 savings estimates. Because DOD is responsible for about 75 percent of all governmentwide positions studied to date, OMB's governmentwide savings estimates are questionable if DOD's estimated savings are unreliable. We expect to issue our report, which is now out for agency comment, early next year.

Today I will discuss two other key areas we have addressed in our work: (1) the program's effect on federal employees and managers, which is of special interest to this Subcommittee, and (2) A-76 program implementation issues.

EFFECT ON FEDERAL EMPLOYEES
AND MANAGERS

We have found that managers generally agree with the A-76 concept of government/private sector competition and accept its objectives of seeking efficiencies and cost savings. However, managers also say that the program is time consuming, difficult to implement, disruptive, and threatening to both managers and employees. In one of our previously-cited reports, one manager summed it up: "This is a very worthwhile program. . . . The execution of it is an exhausting, emotional, unhappy experience

for . . . all of the individuals involved in it."

Since employees affected by an A-76 study face uncertain employment futures, the A-76 program adversely affects federal workers' morale and productivity. In our November 1988 report, we said that employees feel threatened and understandably anxious about the possible loss of their jobs.

Our work has shown that employee anxiety can begin as soon as an A-76 study is announced. Some affected employees begin to look for new jobs, reducing individual and organizational productivity and frequently resulting in the loss of good employees. As attrition rates increase, managers frequently are required to accomplish essential functions with fewer workers. Studies averaging 2 years--and a few taking as long as 5 to 8 years to complete--extend and compound the problems for employees and management alike.

In a 1985 report on the program's impact in DOD³, we found that the majority of federal workers whose jobs had been contracted out obtained other federal employment, most often at the same installation. We said that of 2,535 DOD employees we sampled who were in functions contracted out in fiscal year 1983, 74 percent had found other government jobs, most often at the same

³DOD FUNCTIONS CONTRACTED OUT UNDER OMB CIRCULAR A-76:
Contract Cost Increases And The Effects On Federal Employees
(GAO/NSIAD-85-49 Apr. 15, 1985).

installation; 7 percent went to work for the contractor; 5 percent were involuntarily separated; and most of the remaining 14 percent resigned or retired. Of those who obtained other government positions, about 56 percent received lower grades, and about 44 percent received the same or higher grade.

In early 1985 we followed up by questionnaire with those employees who had been involuntarily separated or had gone to work for contractors. Of those respondents who were involuntarily separated, over half were reemployed with the federal government. Over half also said that they had received unemployment compensation and/or public assistance. Fifty-three percent who went to work for contractors said they had received lower wages, and most reported that contractor benefits were not as good as their government benefits.

At a recent conference of government managers, a senior DOD official said that one of the problems with A-76 is "good employees leave, while others worry about keeping their jobs and do not do their jobs." The DOD official added, "while only a small percentage of employees lose their jobs--they all worry," and concluded, "good businesses do not threaten people with the loss of their jobs if they do a good job."

We believe the A-76 program's effect on the morale and productivity of federal workers must be addressed. There are

signs that OMB's sensitivity to employee concerns is increasing. A senior OMB official recently said that proposed changes to the A-76 Circular, currently going through internal review at OMB, address several employee concerns such as eligibility for severance pay and an expanded placement program.

PROGRAM IMPLEMENTATION ISSUES

Now I will discuss several key A-76 program implementation issues. In our recent report on the management of OMB⁴, we said that the A-76 program is being implemented unevenly governmentwide. For example, we found that for fiscal years 1984 to 1988 agencies met only about 33 percent of the governmentwide position study goals. In addition, DOD, GSA, Transportation and Commerce accounted for over 92 percent of all governmentwide positions studied during this period, although these agencies accounted for only about 61 percent of the governmentwide goal.

We believe agencies' reluctance to fully implement A-76 is the result of OMB's implementation strategy. I will summarize five obstacles that we believe hinder the effective implementation of the A-76 program.

⁴MANAGING THE GOVERNMENT: Revised Approach Could Improve OMB's Effectiveness (GAO/GGD-89-65, May 4, 1989).

Cost Studies Are Burdensome

And Time Consuming

First, federal managers and employees see the program implementation procedures as burdensome, time consuming, and disruptive. Although most of them are managers and operational workers rather than management analysts, they are required to develop detailed work statements and proposals for streamlined in-house operations--tasks they often are not skilled in, may never do again, and are frequently given to do as extra duties.

The time it takes to do a study has been a common criticism and recent evidence suggests that studies may be taking longer than ever to complete. For example, cost studies completed by DOD during the period from October 1, 1978, to December 31, 1986, took an average of about 2 years to complete. About 40 percent of the studies exceeded 2 years, with about 4 percent taking 5 to 8 years to complete. Recent information from DOD's data base shows that studies may be taking even longer to complete. As of January 1989, there were 940 cost studies in progress. Of these, 411, or 44 percent of the studies, were started in fiscal year 1983 or earlier, representing 6 or more years in process.

Among the reasons for lengthy studies is the absence of adequate cost accounting and work measurement systems in federal agencies.

When such systems are lacking, the A-76 cost-study process is lengthened--and those doing the study must do much more work to determine what the activity being studied actually accomplishes.

Program Objectives Unclear

And Inflexible

The second implementation barrier is that A-76 program objectives are not uniformly understood by all agencies. Some agencies believe the A-76 program is strictly for contracting out and do not recognize its broader purpose of gaining efficiencies through competition even when the function is retained in-house. We believe that the misperception of A-76 as basically a contracting-out program contributes to the negative impression some agencies have and, in part, could explain why some agencies have been reluctant to implement the program.

Some agencies also believe that too much emphasis is placed on A-76 to the exclusion of other OMB programs to gain efficiencies--specifically the Productivity Improvement Program and the Privatization Program. Agency officials have told us that they could meet their efficiency goals more effectively if OMB gave them greater flexibility to use the full array of available programs. They said that a more flexible approach would permit them to tailor their initiatives to meet agency specific operational needs. They complain that OMB continues to reduce

their budgets to meet A-76 program objectives and that they do not receive credit for efficiency gains achieved through the use of the other programs.

Congressional Restrictions

A third obstacle we see is that the A-76 program has been legislatively restricted. Over the years, Congress has excluded certain activities or locations and imposed other limitations on the A-76 process. For example, an amendment included in each year's DOD appropriations legislation since fiscal year 1987 has authorized installation commanders to determine the level of A-76 activities on their bases. OMB and DOD officials believe this legislation could reduce the number of studies done in the military services. More recently, a provision in DOD's fiscal year 1990 appropriations bill requires that ongoing single function cost studies exceeding 2 years must reach an initial decision by August 31, 1990, or be terminated and the activity converted to the most efficient organization identified as a result of the A-76 management study. The appropriation that funds DOD's A-76 program administration also was reduced by \$160 million for fiscal year 1990.

Congressional concern about the program has been exacerbated by the lack of convincing data that real savings from the program exceed its costs in disruption, diversion of energy, and program

and contract administration.

At the same time that congressional restrictions and limitations on A-76 have been increasing, OMB has been sending an entirely different message to agencies. In November 1987, Executive Order 12615 was issued, which among other things, significantly increased agency annual position study targets and mandated that agency budgets be reduced at the beginning of each fiscal year to reflect estimated savings from planned A-76 studies. We believe that this pulling and tugging between Congress and the Executive Branch has created confusion and has put agencies in a very difficult situation.

Study Goals Are Thought
to Be Unrealistic

A fourth obstacle is that in recent years OMB has imposed annual study goals that agencies believe are unrealistic. From fiscal years 1984 through 1987, only 26 percent of OMB's governmentwide annual position study goals were met, with DOD accounting for 78 percent of all positions studied during this period. This resulted in a governmentwide annual average of 9,732 positions studied, with no agency meeting OMB's goals. In our May 1989 report, we said that 19 of 21 agencies surveyed believed the A-76 study goals were unrealistic. Executive Order 12615 further increased these goals by establishing a new annual

governmentwide study goal of 60,000 positions, a six-fold increase over agencies' historical study rate. Since the order was issued, agencies have achieved on average about 28 percent of the goals.

Poorly Written PWSs

Result In Increased Contract Costs

The fifth and final obstacle to effective implementation that I will discuss today involves poorly written PWSs. Past audits have shown that tasks omitted from PWSs in the A-76 process were later added to contracts. This resulted in increased costs when the function was contracted out. For example, we reported in our November 1988 report that in 1984, the Air Force Audit Agency identified 15 of 31 contracts it reviewed where contract modifications were made as a result of changes in original work statements. Changes due to errors in the PWSs for 6 contracts resulted in contract modifications of about \$3.8 million over the initial contract amount. Further, in a review we did of 20 DOD functions converted to contract, savings for 12 of the 20 functions were reduced in part because of contract errors or ambiguities resulting from inadequate statements of work.

The problem of increased contract costs is not distinctive to the A-76 program. It arises from endemic deficiencies in contracting and the contract administration process. In September 1989 we

reported that 59 of the 87 large dollar contracts we reviewed in four civilian agencies had specific contracting or contract administration deficiencies that contributed to cost increases and delays.⁵ Previous GAO reports have identified similar deficiencies at other agencies. Since frequent deficiencies were found on these highly visible contracts, similar problems would be expected with A-76 contracts.

We found that civilian agencies

- failed to prepare clear work statements and contract clauses,
- awarded contracts before they were ready for the contractor to start work,
- hindered contractor performance,
- allowed program officers to exceed their contract authority, and
- improperly modified contracts.

The deficiencies resulted in cost increases from several hundred dollars to over \$1 million, delays from several days to 2 years, and failure to complete a contract task or the entire contract. For example, two contractors were paid about \$1.9 million to wait about 8 months until the agency made sure of what it wanted.

⁵CIVILIAN AGENCY PROCUREMENT: Improvements Needed In Contracting And Contract Administration (GAO/GGD-89-109, Sept. 5, 1989).

Our report concluded that the deficiencies identified will continue to occur unless specific action is taken to strengthen civilian agency contracting practices. We recommended that the Administrator, Office of Federal Procurement Policy, work together with the heads of civilian agencies to strengthen contracting practices. Specifically, we recommended that a concerted effort be initiated by the Administrator to improve civil agency contracting and contract administration. This included addressing weaknesses in contract specifications and statements of work.

GAO RECOMMENDATIONS

To address these implementation issues, we recommended in our OMB general management review that the Director of OMB adopt a more flexible strategy for implementing the A-76 program.

Specifically, we said that OMB should take the following actions:

--Initially focus on a few agencies in addition to DOD that are more likely candidates for contracting-out activities and work to build expertise within those agencies for managing and doing the necessary analytical work.

--Set broad agency goals through the budget process to achieve greater efficiencies. Allow agencies to decide what mix of processes, including contracting out, they want

to use to achieve efficiency goals.

--Have OMB A-76 technical staff work primarily with OMB's budget divisions to help provide overall guidance and direction to the agencies and critique agency submissions and plans. We believe that this will better ensure an integrated OMB approach and maximize the use of limited staff resources that have been diluted by trying to implement the program on a governmentwide basis.

--Once this strategy has been developed, present it to the key congressional committees and work to ensure Congress' acceptance.

We are waiting for OMB to issue the new Circular A-76 to assess the extent to which it has addressed our recommendations.

We expect other recommendations to emerge from our ongoing work for Senator Pryor on A-76 program costs and reported savings at DOD.

Mr. Chairman, that concludes my prepared remarks. My colleagues and I would be pleased to respond to questions.