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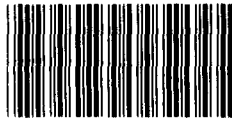
United States General Accounting Office

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Transition Series

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General Services Issues



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Comptroller General
of the United States

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The Speaker of the House of Representatives
The Majority Leader of the Senate

In response to your request, this transition series report discusses major policy, management, and program issues facing the Congress and the new Administrator of the General Services Administration. These issues include (1) resolving the fundamental conflict between the agency's roles as service provider and regulator, (2) replacing outmoded centralized methods of delivering services with new methods based on entrepreneurial and competitive principles, (3) strengthening weak and ineffective internal management systems, and (4) improving GSA's oversight of governmentwide procurement practices. In addition, we point out that improvements are possible in congressional oversight of GSA's many activities.

The GAO products upon which this report is based are listed at the end of the report.

We are also sending copies of this report to the President-elect, the Republican leadership of the Congress, the appropriate congressional committees, and the Administrator-designate of the General Services Administration.

Charles A. Bowsher

Contents

| | |
|---|----|
| General Services Issues | 4 |
| Resolving Conflicting Roles | 6 |
| Making GSA More Businesslike | 11 |
| Strengthening GSA's Internal Management Systems | 16 |
| Improving GSA's Governmentwide Procurement Practices | 20 |
| Bolstering Congressional Oversight | 24 |
| Related GAO Products | 26 |
| Transition Series | 29 |

General Services Issues

We did not issue a transition report on general services issues in 1988 because our work at the General Services Administration (GSA) did not provide a comprehensive overview of the agency and its functions. Since then, however, we have completed a general management review of GSA and reviewed in depth many of the areas for which GSA serves as the government's central management agency—such as public buildings, supply, and information resources.

The time is due for a significant restructuring of the way government agencies obtain the general purpose goods, offices, and services they need to support their missions. The governments of many other countries and some state and local governments in this country have revamped the way they provide general administrative services, separating policy and regulation from operations, encouraging competition, and decentralizing some operations to bring services closer to the customer. The next Administrator of GSA faces two fundamental challenges. First, he or she must continue to improve, as the current GSA Administrator has done, the internal management of an agency with a history of operational problems, a mix of regulatory and service functions, and frequent changes in

leadership and direction. Second, the new Administrator must address the underlying structural weaknesses in the way GSA does business. As long as GSA depends for survival on its monopoly over the provision of office space, supplies, telecommunications, and computers, it will lack the incentive and pressure needed to meet modern standards its customers—the rest of the government—demand. The Congress, too, has an opportunity to reshape its oversight of GSA by providing for periodic reauthorization of the agency's major functions on the basis of the agency's performance at meeting specified strategic goals.

Resolving Conflicting Roles

GSA was established in 1949, when centralized institutions were perceived as necessary to secure economies of scale. The Hoover Commission identified supply, records management, and the operation and maintenance of public buildings as needs common to all agencies, and GSA was created to bring central direction to the federal government's essential housekeeping functions. Civilian departments and agencies, with some exceptions, were required to come to GSA for common goods and services. GSA was envisioned, primarily but not exclusively, as a policymaking body with the option of delegating its authorities while maintaining comprehensive accountability to the Congress for efficiency and economy in these areas.

Since its creation, GSA has been torn between an internal dynamic that favors a centralized approach to directly providing services to agency customers, and a largely external expectation that its primary role should be to issue governmentwide policy guidance and oversee decentralized operations within the departments and agencies themselves. GSA has historically concentrated on day-to-day operations under its direct control. By 1978, GSA had about 37,500 employees running buildings and

switchboards, driving cars, storing records, and doling out supplies.

Today, however, changing work concepts brought about by new information and telecommunications technologies and a highly developed private sector service capability are calling this traditional centralized way of functioning into question. GSA has been reduced to about 19,000 employees, primarily through contracting out and delegating its functions during the early 1980s, driven by staffing reductions imposed by the Office of Management and Budget. In this process, agencies have commonly found that the quality of housekeeping services correlates directly with the closeness and accountability of those providing the service to the final customer.

Although GSA has reluctantly surrendered many of its operational functions, it is still insecure in its governmentwide policy role. Decentralized operations require a long-term strategy, sensible and flexible common policies, consistent and knowledgeable guidance from market and technical specialists, coordination to prevent competition among agencies, and comprehensive reporting and oversight so

that the Congress can hold the executive branch as a whole accountable for efficient use of the taxpayer's money. Lacking comprehensive and strategic information in these areas, the Congress cannot set priorities, establish budgets, or take action based on desired outcomes and is forced into making narrow, project-by-project decisions.

GSA, however, still tends to be preoccupied with its role as a direct deliverer of services and has not developed a long-term strategy for managing the government's valuable property assets or relationships with contractors. For example, GSA protects its control over 7,000 government buildings in its custody but lacks the solid cost and performance information necessary for effective oversight of the 2,000 buildings for which it has delegated operational responsibility to agency tenants. More significantly, GSA has not developed a comprehensive policy framework for managing the government's overall 400,000-building real estate portfolio to better integrate people, information, technology, and space to make the workplace more productive and responsive to agencies' missions. GSA's 1991 "strategic plans" were heavily oriented toward the

need to improve the delivery of services to customers—laudable goals, but underlining the message that GSA's basic role remains service delivery, not central management, policy-setting, and oversight.

Our most recent examinations of how other countries are managing similar organizations indicated that the most effective way of addressing the tendency for operations to drive out strategic policy considerations may be to separate policy and regulatory functions from responsibility for day-to-day operations. An important first step toward strategic leadership has just been taken. On November 30, 1992, the GSA Administrator established the Federal Property Asset Management Service. The new organization is intended to shift GSA away from its historical focus on the use and disposal of real estate toward a proactive role in governmentwide asset management. For the first time, a federal organization will look at the government's real estate holdings as valuable national assets and seek to provide governmentwide policy guidance to ensure that resources are invested where the return will be greatest. The organization will promote a life-cycle approach to real estate management, with emphasis on planning, policy, oversight, contractual services, and

inventory management. The success or failure of the fledgling organization will depend on the support given to it by the new Administrator.

Making GSA More Businesslike

GSA is in many respects a large, diversified business enterprise. Its real estate portfolio, supply procurement and distribution activities, travel and transportation services, telecommunications and computer services, and property management and disposal functions involve a cash flow of more than \$10 billion annually. If GSA were a private company, it would rank among the top 50 on the Fortune 500 list. Despite its businesslike mission, however, GSA all too rarely operates in a businesslike manner, as the following examples illustrate:

- **Depot operations.** Our most recent work on GSA's supply depot operations found that GSA has spent millions of dollars to modernize two of its four large depots but that the effort has been largely wasted because key software is lacking. This modernization effort comes at a time when the private sector is reducing the need for depots and their inventory by relying on improved information systems that transmit retail sales information directly to the manufacturer to regulate production and delivery. Our work found that millions could be saved by significantly reducing depot operations. GSA should increase reliance on direct vendor delivery to federal agencies, eliminate uneconomical orders, and systematically

question the need for its depots.

- Real estate operations. GSA does not manage its real estate portfolio strategically. For example, the lack of a consistent cost-conscious location policy concentrates the government in the nation's highest-cost labor markets, fails to take modern telecommunications capabilities into account, and ignores the incentives that localities may offer to attract employers. Agencies also lack incentives and analysis of alternatives to make efficient decisions on the amount and location of needed office space. Though GSA charges them rent, agencies typically treat office space as required overhead rather than as a cost within their control. In addition, GSA has yet to employ the basic concepts of asset management to determine the relative cost-effectiveness of building construction, purchase, lease, lease-purchase, modernization, or disposal so that decisionmakers can choose the options that offer the greatest economic return on investment. We have also found that GSA's ability to take advantage of the current downturn in the commercial real estate market is impeded by structural rigidities, such as a lack of discretionary building purchase authority and budget scorekeeping

limitations that discourage capital investment in favor of short-term leases.

- Disposal activities. GSA's program to identify and dispose of excess and underutilized government property has been largely ineffective. Because they have no financial incentive to do so, federal agencies have reported very few holdings as excess property to GSA. As a consequence, the government is incurring opportunity costs, since much of the property could be recycled to more economic uses, exchanged for needed property, or sold. The government also unnecessarily incurs considerable costs in holding, managing, repairing, and safeguarding property that could more appropriately be recycled or sold. GSA needs a practical ability to identify and remove buildings from its own portfolio that have passed their useful life. More than half of GSA's buildings are over 40 years old, face rehabilitation backlogs that GSA has not fully aggregated, and in some cases, buildings may have a negative return on further investment.

To be responsive to the needs of its customer agencies, GSA should replace these inefficient and outmoded methods of delivering services with new methods based

on entrepreneurial and competitive principles. While much can be done to improve GSA's management under its present structure, in the longer run the government needs to revamp the manner in which general services are provided to bring to bear the competitive forces of the marketplace. As long as GSA has a monopoly on the provision of office space, vehicles, supplies, telecommunications, and computers, it will lack the incentive and pressure to meet modern needs and standards.

Other countries—including Great Britain, Australia, New Zealand, and Sweden—have embarked on fundamental reform of their administrative service operations. Line agencies are given the choice to use their funds to obtain office space, maintenance, transportation, printing, and supplies from either the central government provider or private sector competitors. Since the funds are not earmarked for specific services, the customer agency decides on the desired quantity and quality by its own standards of value.

These countries share a common result. Where agencies have the choice between government providers and private providers

and varying levels of service, the government providers have become more efficient, innovative, and businesslike. Concepts like asset management and strategic planning have been adopted, output-based performance measures have been developed, and incentives and corporate cultures have been changed.

Strengthening GSA's Internal Management Systems

Given the nature, dollar magnitude, and governmentwide scope of GSA's activities, it is especially critical that the agency's operations be supported by reliable information systems and be adequately protected from fraud, waste, and mismanagement. Any losses and inefficiencies in GSA's activities not only adversely affect the agency's own operations, but also the operations of federal agencies that rely on GSA for facilities and other day-to-day support.

Our work over the last 3 years has found that GSA's general management and internal control systems and practices need substantial improvement. Our November 1989 general management review made 33 recommendations aimed at improving GSA's performance in executive leadership and direction setting, the management of information and human resources, and the adoption of a more strategic approach to the agency's responsibilities. Our April 1991 follow-up report noted that GSA was making good progress in the areas of executive leadership and information management, but that several of our key recommendations on human resources and strategic planning

related to facilities management had not been implemented.

Our September 1992 report on internal controls found that despite efforts by GSA to improve its performance, its operations are not adequately protected. Certain of its functions are high risk not only inherently, but also because key internal controls have not worked as intended or as well as they should. GSA's past efforts have been focused primarily on establishing control structures and procedures, and only secondarily on their outcomes and effectiveness in implementation. Historically, GSA has relied too much on the Inspector General (IG) as the agency's primary control to stop misguided actions. Although there has been some improvement, remaining deficiencies in management information continue to impede GSA's ability to improve the agency's operational performance and detect losses and inefficiencies.

Consequently, our September 1992 report made several recommendations designed to (1) improve GSA's existing efforts in three key areas—overall agency emphasis, implementation, and oversight of internal controls; resolution of GAO and IG audit findings and recommendations; and

Financial Integrity Act (FIA) implementation and reporting—and (2) more fully protect the eight GSA functions and activities that our assessment indicated are high risk.

GSA agreed with and committed to implement our recommendations and has other initiatives under way aimed at resolving the various management, operational, and oversight deficiencies discussed in the report. For example, GSA agreed that it needs to make the prevention and detection of fraud, waste, and mismanagement a higher agencywide priority and has already revised its strategic plan to do this. Also, GSA agreed that it should (1) focus more on the expected outcomes and measurable results of control structures and processes; (2) hold GSA services, regions, program offices, and managers fully accountable for more effective implementation of existing internal controls and audit recommendations; and (3) ensure that its FIA reports disclose all material internal control weaknesses and properly characterize the status of previously reported weaknesses. Finally, GSA has efforts under way to upgrade the capability and reliability of its various program management information systems.

Since full implementation of the recommendations is a long-term process, it is essential that the corrective actions begun by the outgoing GSA Administrator be sustained by his successor.

Improving GSA's Governmentwide Procurement Practices

GSA is responsible for operating or overseeing several governmentwide procurement programs. Among these programs are the multiple award schedules and competitive indefinite delivery contracts programs to provide agencies with easy methods of acquiring commonly used supplies and equipment and a program to acquire short- and long-distance telecommunications services. Under the Brooks Act, GSA has oversight responsibility for information technology acquisition throughout the government. Our work in each of these areas indicates that effectiveness could be improved substantially.

GSA needs to reexamine its governmentwide procurement programs to (1) ensure clear and rational negotiation strategies, (2) eliminate chronic poor performers, (3) compare government requirements with commercial practices to determine whether the requirements are value added, and (4) identify and correct common or systemic problems. Specifically, GSA needs to address the following:

- Multiple award schedules. Our ongoing work on the multiple award schedules program has indicated that GSA's policies on pricing

and negotiation are poorly crafted and lead to widespread inconsistency, misunderstanding, and mistrust both within GSA and in the private sector. From the perspective of agency purchasing patterns, we found that, for the most part, agencies filled users' requests for a specific manufacturer's product without determining if other schedule products could satisfy the requirement at a lower price. GSA's negotiating policy statement needs a basic revision to clarify and rationalize discount goals and reduce burdensome and irrelevant data requirements for vendors.

- Competitive supply contracts. GSA continues to award contracts to vendors who repeatedly have supplied defective or poor-quality products or who were late with deliveries. Such procurement practices are wasteful and have adverse operational consequences, such as compromising customer agencies' mission accomplishment. GSA continues to do business with poor-performing contractors because it (1) lacks complete, readily usable data on vendors' past contract performance and (2) has not consistently emphasized product quality, on-time delivery, or vendor performance in awarding and administering contracts. GSA has recently initiated actions

to correct these problems, but it is too early to judge their effectiveness or whether they will be sustained.

- Governmentwide telecommunications. In 1988, GSA awarded FTS (Federal Telecommunications System) 2000 contracts to two vendors—AT&T and US Sprint—to provide state-of-the-art telecommunications services to federal agencies. These contracts are estimated to be worth over \$10 billion in total over a 10-year period. Since the contract was awarded, we have identified numerous problems with GSA's management of the program and have questioned the cost-effectiveness of the contracts. GSA has implemented our recommendations and made other management improvements. For example, GSA recently completed a recompetition between the two vendors that brought prices below comparable commercial rates, generating savings of over \$450 million over the remaining 6 years of the contracts. GSA is also negotiating price cap mechanisms to ensure that future prices remain cost-effective. The FTS 2000 program now seems on track. The ever-increasing importance of telecommunications to the office environment, however, combined with continuing budget pressures, indicates that GSA even now must begin defining

governmentwide telecommunications strategies for the longer term future.

- Agency procurement of computer equipment, software, and services. The federal government spends over \$20 billion annually acquiring computer hardware and software. GSA is the principal agency responsible for ensuring that the government acquires and manages this technology effectively. Under GSA's ineffective oversight, agency actions continue to result in poorly designed, ineffectively managed procurements with overruns measured in years and in the hundreds of millions of dollars. We found GSA's procurement and information technology management reviews, which are to help agencies develop good computer procurement practices, were too limited in scope and number. GSA needs to refocus its procurement review process by identifying and analyzing data on common or systemic problems.

Information resource management issues are addressed in more detail in a separate transition report entitled Information Management and Technology Issues (GAO/OCG-5TR, Dec. 1992).

Bolstering Congressional Oversight

While the Congress has kept a watchful eye over some efforts—such as FTS 2000, computer procurements, and certain building projects—over the years it has not devoted comprehensive or sustained oversight to GSA. The Congress has not been engaged in the debate over GSA's role or tried to hold GSA accountable for its overall performance as an agency. One reason is that jurisdiction over GSA is divided between the Public Works and the Government Operations/Governmental Affairs Committees, and Appropriations Committee attention has been affected by the unusual condition that less than 5 percent of GSA's funds are appropriated directly to the agency.

The current building prospectus process also hinders comprehensive congressional attention to GSA. GSA presents the Congress with dozens of prospectuses for capital investment projects each year, but the agency fails to cast them in any long-term context. S. 2068, introduced last year, recognized this problem and the importance of developing a broad, comprehensive approach to congressional oversight. If the bill had passed, it would have required GSA to submit 5-year plans for meeting public buildings needs with an explanation of their

priorities to the Congress. This would have addressed GSA's full range of needs from acquisition through disposal.

In the 103rd Congress, more than half of the chairpersons and ranking minority members of GSA's authorization, oversight, and appropriations subcommittees will change through reorganization or turnover. This circumstance, combined with new leadership for the agency, necessarily means that a large number of new actors will have an opportunity to influence GSA's direction. It also offers an opportunity to place congressional oversight of GSA on a new footing.

H.R. 3161, which was considered during the 102nd Congress, contained a section providing for the first time that GSA be periodically reauthorized by the Congress as a means of improving legislative oversight. If the focus of reauthorization is to hold GSA accountable for achieving a number of specific goals and objectives over a sustained period, the process could provide the regular and comprehensive congressional oversight that GSA has historically lacked.

Related GAO Products

General Services Administration: Increased Direct Delivery of Supplies Could Save Millions (GAO/GGD-93-32, forthcoming).

General Services Administration: Actions Needed to Stop Buying Supplies From Poor-Performing Vendors (GAO/GGD-93-34, forthcoming).

General Service Administration: Actions Needed to Improve Protection Against Fraud, Waste, and Mismanagement (GAO/GGD-92-98, Sept. 30, 1992).

Multiple Award Schedule Purchases: Changes Are Needed to Improve Agencies' Ordering Practices (GAO/NSIAD-92-123, June 2, 1992).

General Services Administration: Distribution Center Modernization Was Mismanaged (GAO/GGD-92-71, May 20, 1992).

Multiple Award Schedule Purchases: Improvements Needed Regarding Publicizing Agencies' Orders (GAO/NSIAD-92-88, May 12, 1992).

Federal Office Space: Obstacles to Purchasing Commercial Properties From

RTC, FDIC, and Others (GAO/GGD-92-60, Mar. 31, 1992).

GSA: A Central Management Agency Needing Comprehensive Congressional Oversight (GAO/T-GGD-92-3, Oct. 29, 1991).

Real Property Management Issues Facing GSA and Congress (GAO/T-GGD-92-4, Oct. 30, 1991).

ADP Procurement: GSA Needs to Improve Its Review Process to Enhance Its ADP Oversight (GAO/IMTEC-92-7, Oct. 28, 1991).

FTS 2000 Recompetition: Opportunity Exists for Better Prices (GAO/IMTEC-91-79, Sept. 11, 1991).

Federal Buildings: Actions Needed to Prevent Further Deterioration and Obsolescence (GAO/GGD-91-57, May 13, 1991).

General Services Administration: Status of Management Improvement Efforts (GAO/GGD-91-59, Apr. 3, 1991).

General Services Administration: Management of FTS 2000 (GAO/T-IMTEC-91-9, Apr. 18, 1991).

Facilities Location Policy: GSA Should Propose a More Consistent and Businesslike Approach (GAO/GGD-90-109, Sept. 28, 1990).

General Services Administration: Delegated Buildings Adequately Operated but Better GSA Oversight Needed (GAO/GGD-90-76, May 15, 1990).

Federal Office Space: Increased Ownership Would Result in Significant Savings (GAO/GGD-90-11, Dec. 22, 1989).

General Services Administration: Sustained Attention Required to Improve Performance (GAO/GGD-90-14, Nov. 6, 1989).

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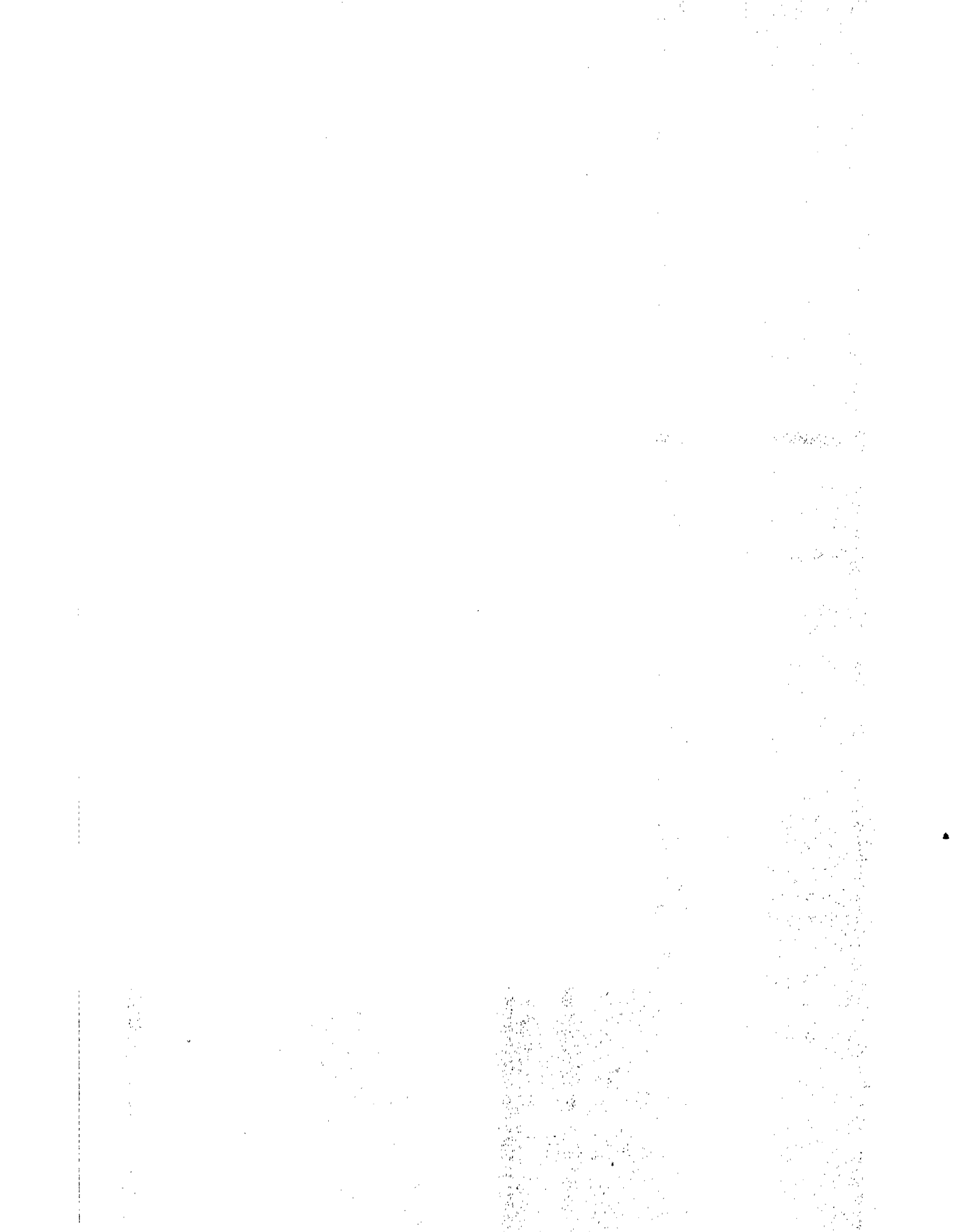
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