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GENERAL SERVICES
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Opportunities For Cost
Savings and Service
Improvements

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GENERAL SERVICES ADMINISTRATION
OPPORTUNITIES FOR COST SAVINGS AND SERVICE IMPROVEMENTS

SUMMARY OF STATEMENT OF
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OPERATIONS ISSUES

The General Services Administration (GSA) has a virtual monopoly over the provision of federal office space, common-use supplies and equipment, and certain other mission-support services. GSA expects to spend about \$13 billion in fiscal year 1996 to provide facilities, goods, and services to federal agencies. Also, GSA (1) arranges for federal agencies to purchase annually billions of dollars of goods and services directly from private vendors through its governmentwide supply, travel and transportation, and telecommunications and ADP contracts and (2) influences other federal spending through its governmentwide property acquisition and management regulations.

In many respects, GSA is a large, diversified business enterprise. Despite its businesslike mission, however, GAO's work has shown that GSA all too rarely operates in a businesslike manner. GSA's office space leasing and supply depot and distribution activities are examples that illustrate how a more businesslike approach could reduce costs and improve performance.

GAO's December 1992 transition series report on GSA issues, among other things, (1) highlighted structural weaknesses in the way GSA does business that no longer allow it to respond quickly and effectively in today's environment and (2) pointed out that GSA will lack the incentive and pressure to meet the modern standards its customers demand as long as it depends on monopoly power. In recommending an end to GSA's service monopolies, separation of its policy/oversight and service provider roles, and the creation of new enterprises aimed at improving management of the government's extensive real estate portfolio, the National Performance Review (NPR) echoed GAO's conclusions.

In response, GSA committed to end its service monopolies, has separated its real estate policy/oversight and service delivery roles and reorganized its Public Buildings Service, and is reforming the way it does business. The changes that GSA is considering appear responsive to many of the concerns GAO and NPR expressed. In response to the President's recent initiative to reduce the size of government and realize long-term cost savings, GSA has expanded its ongoing reform efforts and targeted governmentwide cost savings of \$24 billion over the next 5 years.

GSA is headed in the right direction. However, there are inherent risks in and legal and cultural impediments to reform. GSA will need to show that any reforms it proposes involve acceptable risks and are likely to result in improved support services to federal agencies and net cost savings for taxpayers.



Mr. Chairman and Members of the Subcommittee:

We welcome this opportunity to appear before you today in connection with your oversight of the General Services Administration's (GSA) budget and activities. My testimony focuses on (1) opportunities for cost savings and performance improvements in GSA's office space leasing and supply depot and distribution activities and (2) our views on GSA's overall efforts to improve support services and realize cost savings by reforming its operations and restructuring its organization.

As the attachment to my statement shows, we have reported on GSA's general management practices, management reform efforts, and various aspects of its activities in a series of reports and testimonies over the past 6 years. We also have work under way in several other GSA areas and are monitoring GSA's efforts to reform its operations and restructure its organization. My testimony today is based on our extensive body of past and ongoing work in the GSA area and our understanding of its reform and organizational realignment efforts.

GSA'S SERVICE MONOPOLIES

As the federal government's principal real estate and business agent, GSA has a virtual monopoly over the provision of general purpose office space, common-use supplies and equipment, and certain other mission-support services. In other words, federal agencies, with some exceptions, must obtain facilities, goods, and services from GSA. GSA expects to spend about \$13 billion in fiscal year 1996 to provide them to federal agencies. Also, GSA (1) arranges for federal agencies to purchase annually billions of dollars of goods and services directly from private vendors through its governmentwide supply, travel/transportation, and telecommunications and ADP contracts and (2) influences other federal spending for mission-support services through its governmentwide property acquisition and management regulations.

Our December 1992 transition series reports on Government Management Issues and General Services Issues emphasized the need for reforms in the way federal agencies obtain mission-support services. Our GSA report (1) highlighted structural weaknesses in the way GSA does business that no longer allow it to respond quickly and effectively in today's environment and (2) pointed out that GSA will lack the incentive and pressure to meet the modern standards its customers demand as long as it depends on its monopoly power. It stressed the need to (1) resolve GSA's conflicting policy enforcement and service provider roles; (2) replace outmoded centralized methods of delivering facilities, goods, and services; (3) strengthen weak and ineffective internal management systems; and (4) improve GSA's oversight of governmentwide procurement practices. It also pointed out ways to improve congressional oversight of GSA's activities.

In recommending an end to GSA's service monopolies, separation of its policy/oversight and service provider roles, and the creation of new enterprises aimed at improving management of the federal government's extensive real estate portfolio, the National Performance Review (NPR) echoed our conclusions. S. 204, now pending in the Senate, would reform several aspects of GSA's public buildings activities. Among other things, S. 204 would require that the Office of Management and Budget (OMB) report to Congress, not later than 1 year after enactment, on the feasibility and desirability of ending GSA's monopoly over federal office and storage space.

In many respects, GSA is a large, diversified business enterprise. If GSA were a private company, it would rank among the top 50 on the Fortune 500 list. Despite its businesslike mission, however, our work has shown that GSA all too rarely operates in a businesslike manner. GSA's office space leasing and supply depot and distribution activities are examples that illustrate how a more businesslike approach could reduce costs and improve performance.

GSA'S LEASING PROCESS

Our latest report on GSA's activities assessed the efficiency and effectiveness of its traditional process-oriented approach for leasing office space for federal agencies and contrasted it with the more results-oriented approach typically used by private industry. This report--Federal Office Space: More Businesslike Leasing Approach Could Reduce Costs and Improve Performance (GAO/GGD-95-48, Feb. 27, 1995)--showed that GSA's leasing process is a highly prescriptive and inflexible one that is grounded in federal procurement law, uniformity, and numerous well-intended procedural controls that were added over the years. But, this process does not enable GSA to respond quickly enough in today's dynamic commercial real estate marketplace and impedes its ability to get the best available leasing values.

Almost one-half of GSA's real estate portfolio of 276 million square feet is leased, and leasing costs are over 30 percent of its total public buildings budget. In recent years, GSA has become increasingly dependent on leasing to satisfy federal space needs and now spends over \$2 billion annually for leased space. In leasing office space, GSA is to follow procedures prescribed in the General Services Acquisition Regulation (GSAR). GSA's leasing procedures apply many of the procurement principles contained in the Federal Acquisition Regulation (FAR) and the Competition in Contracting Act (CICA). Also, GSA's leasing procedures are influenced by various federal policies and socioeconomic goals.

We identified several characteristics of GSA's leasing process that seem to put GSA at a distinct disadvantage in the commercial

marketplace, cause it to pay more than is necessary for leased space, impede timely space delivery, and discourage competition for government leases. Over the years, GSA's leasing approach became increasingly preoccupied with process at the expense of results as numerous procedural controls were added to help (1) safeguard the government's interests; (2) ensure compliance with federal procurement laws and regulations and other national policies; and (3) minimize fraud, abuse, and the number of bid protests. Although such procedural controls were well intended and even though GSA has begun reducing those controls that are within its authority, their cumulative effect is still a leasing process that has become rule-focused and inflexible, complex and cumbersome, and time consuming and costly. For example, GSA's realty staff have limited flexibility to modify space requirements or award criteria or to bargain with landlords to take advantage of available leasing opportunities, even those they believe would be good values for the government.

In contrast, the more results-oriented approach that private sector firms typically use is much simpler, more flexible, and less time consuming. The private realty managers and commercial landlords and brokers that we contacted generally believe the private sector approach results in better overall leasing values. Although there is no standard private industry leasing model, and practices differ from firm to firm, the 12 private firms we contacted use several common practices that seem to help them take advantage of available market opportunities in a timely manner. Basically, these firms use a results-oriented approach that relies on the expertise of their realty staffs or on commercial brokers.

Unlike GSA, these firms generally do not establish highly prescriptive and detailed space specifications or require extensive, multilevel reviews of proposed lease contracts. Their lease solicitations and contracts are much simpler and shorter than GSA's and conform to customary commercial practices that landlords and brokers say they are comfortable with and understand. Also, their leases place more of the risk on the tenant, such as in customizing or building out the space, and this seems to help hold down rental costs. In addition, these firms adjust their leased space requirements, if necessary, and negotiate aggressively with landlords for concessions and bargains--such as a few months' free rent or greater allowances for customizing the space--to conclude an advantageous deal expeditiously. Their more results-oriented approach typically enables them to lease and occupy space in less than one-third of the time it takes GSA and to get overall leasing values they and many commercial landlords and brokers said are better than GSA's.

To simplify and streamline GSA's leasing process and make it less costly and time consuming, more responsive to federal agencies' needs, and a better value for taxpayers, we recommended that GSA

(1) test the benefits, risks, and potential federal application of private industry leasing practices or other leasing alternatives and (2) adopt administratively or, if legislative authority is needed, propose the necessary legislation to Congress to enable it to adopt those private industry leasing practices or other alternatives tested that result in documented performance improvements, make sense, and are cost effective. We also recommended several specific actions GSA should take, within the limitations imposed by CICA and other statutory provisions, to improve selected aspects of its leasing process or practices, better track and measure its leasing performance, and share more leasing authority with federal agencies that are capable of and willing to lease their own space.

GSA generally agreed with the overall thrust of this report and our recommendations and said it will address them as part of ongoing efforts to reform its real estate program. However, GSA said that it cannot carry out leasing like a private sector tenant unless it receives an exemption from CICA and other statutory constraints that add time and costs to its leasing process. We recognized these statutory provisions in our report, acknowledged that legislative changes may be required, and recommended that GSA propose to Congress the necessary legislation to enable it to make its leasing process more cost effective and businesslike.

GSA'S SUPPLY DEPOT OPERATIONS

The private sector is reducing the need for costly supply depots and their associated inventory investment by relying on improved information systems that transmit retail sales information directly to the manufacturer to regulate production and delivery. However, GSA continues to operate a multimillion-dollar supply depot and distribution system to help support federal agencies' mission needs. Also, GSA has spent millions of dollars to modernize and automate two of its depots, but this effort has been largely wasted because key software to operate the automated system has not yet been fully developed.

GSA's Federal Supply Service (FSS) buys and warehouses some 16,000 common-use supply products and resells and ships them to federal agencies through a network of five depots. GSA also makes limited use of direct delivery from suppliers to federal agencies as an alternative method of supplying products. GSA's fiscal year 1994 year-end inventory of depot products was valued at \$216 million. In fiscal year 1994, GSA's depot sales totaled \$915 million, and depot operating costs were \$243 million. GSA recoups its operating costs by charging federal agencies a handling and processing fee. On average, GSA charges federal agencies a 36-percent fee for orders shipped from its depots and a 22-percent fee for orders shipped directly from suppliers.

We reported in December 1992--General Services Administration: Increased Direct Delivery of Supplies Could Save Millions (GAO/GGD-93-32)--that millions of dollars could be saved annually if GSA had more orders shipped directly to federal agencies from suppliers instead of from its depots. Our review, which covered a 1-year period from February 1990 to February 1991, showed that GSA used direct delivery for only 7 percent of its nearly \$1 billion in sales but that 83 percent of its sales had the potential to be direct delivered. If this 83 percent of sales had been direct delivered, which our work showed was possible, we estimated that federal agencies could have saved as much as \$107 million annually.

Our work also raised questions about the continuing need for GSA's depots. If GSA maximized direct delivery, its depot operations could be significantly reduced, or possibly even eliminated, because remaining sales would not be enough to sustain current operations. Also, remaining sales would be for many low dollar-value, small-quantity orders that may be uneconomical and could be purchased locally in the commercial marketplace. If GSA's depot operations were eliminated, there would be annual recurring savings in depot operating costs, which totaled \$243 million in fiscal year 1994, as well as eventual savings from the elimination of the depot inventory, which was valued at \$216 million at the end of fiscal year 1994. Actual savings would depend on how quickly depots could be phased out.

We made several recommendations to the Administrator of GSA that were aimed at increasing reliance on direct vendor delivery to federal agencies, eliminating uneconomical orders, significantly reducing depot operations, and systematically questioning the continued need for its depots. GSA agreed with the overall thrust of this report and most of our specific recommendations. GSA acknowledged the potential for increasing direct delivery of supplies and said it would establish a plan with timetables to test our recommendation in the commercial marketplace. In addition, GSA said that it would establish an interagency council of senior logisticians to evaluate its current depot operations and help develop the most cost-effective supply system.

In addition to our work in this area, NPR concluded that maintaining large and costly depot warehousing and distribution systems may no longer be a viable or necessary activity for the federal government. As part of its efforts to change how federal agencies obtain mission-support services, NPR recommended that (1) agencies be permitted to choose their sources of supply and (2) depot distribution costs be compared with commercial distribution systems. In response, GSA (1) drafted regulations that would eliminate its supply monopolies; (2) increased its use of commercial product descriptions, which should provide a clearer link between the items that agencies need and those that are available commercially; and (3) began studying ways of

improving the efficiency and cost effectiveness of its depot distribution system. In addition, GSA is using reinvention laboratories and collaborative efforts with other agencies and the private sector to test other logistic models to satisfy the federal government's common-use supply needs.

GSA'S OVERALL EFFORTS TO IMPROVE SUPPORT SERVICES AND REALIZE COST SAVINGS BY REFORMING ITS OPERATIONS AND ORGANIZATION

In response to our recommendations and those of NPR, GSA committed itself to ending its long-standing support services monopolies, separating its policy and oversight responsibilities from service delivery, revising its organizational structure and improving how it interfaces with customer agencies, and using private sector practices as benchmarks to reform the way it does business.

The reforms that GSA is considering appear responsive to many of the concerns that we and NPR expressed. However, there are a number of formidable impediments. Major operational reforms will require fundamental changes in the traditional centralized federal support services paradigm and in GSA's organizational culture and role. These reforms may also require changes in existing federal laws and regulations and in congressional appropriation and authorization processes and practices.

As part of its reform efforts, GSA reorganized its Public Buildings Service (PBS) along business lines effective January 8, 1995. This restructuring separated its policy/oversight and service-provider responsibilities to help facilitate the delivery of real estate services to federal agencies, as both we and NPR had recommended. In connection with this organizational change, GSA abolished its Federal Property Resources Service and made its real property disposal function a part of PBS, another change that we had recommended. PBS's new organizational structure consists of (1) three policy and oversight components--Governmentwide Real Property Policy, Portfolio Management, and Business Development; (2) five service provider components--Property Management, Commercial Broker, Fee Developer, Federal Protective Service, and Property Disposal; and (3) three support components--Controller, Chief Information Officer, and Acquisition Executive.

Also in January 1995, in response to the President's recent initiative to reduce the size of government and realize long-term cost savings, GSA announced plans to accelerate and broaden its ongoing reform efforts. GSA committed itself to identify the most cost-effective method of carrying out each of its assigned mission-support responsibilities and, if necessary, to seek statutory authority to implement the most cost-effective solution. Also, GSA identified a number of potential internal

and governmentwide long-term cost-savings opportunities in various support services areas and plans to establish--by October 1, 1995--a separate agencywide Office of Policy and Oversight to enhance its ability to carry out effective governmentwide policy and oversight.

GSA identified an estimated cost-savings target--through governmentwide policy and oversight and in its own operations--of \$4 billion for fiscal year 1996 and a total of \$24 billion for the 5-year period ending in fiscal year 2000. This is certainly an ambitious agenda. We have not reviewed GSA's cost-savings proposal in detail. However, the bulk of GSA's estimated cost savings--from reduced governmentwide spending for telecommunications and computer systems, supplies and services, travel, and real estate operations, as well as from deferral or cancellation of approved new building construction projects--would require federal agency and/or congressional action. And, as mentioned earlier, there are a number of obstacles that will have to be overcome if GSA's reform and cost-savings efforts are to succeed.

Our past and ongoing work at GSA indicates that (1) more effective governmentwide coordination and oversight of federal spending for mission-support services is sorely needed and (2) total cost savings of the dollar magnitude that GSA has targeted may not be unreasonable. In the federal real estate area alone, for example, the government owns 450,000 buildings and 650 million acres of land that are worth hundreds of billions of dollars and also leases additional building space and land from private owners. While most of this real estate is national parks and other public lands, thousands of buildings and associated acres of land are used to support federal agencies' missions. These valuable real estate assets should be strategically acquired, managed, and disposed of so that taxpayers' return on investment in them is maximized. Given planned government downsizing, other streamlining efforts, and advancements in workplace technology, many of these real estate assets, especially those that were acquired and located to meet the needs of an earlier era, may no longer be needed or cost effective to operate or maintain.

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Before closing, Mr. Chairman, I would like to say that we are encouraged by the commitment and leadership of the GSA Administrator and Deputy Administrator to streamline GSA, make its operations more cost effective and businesslike, and identify opportunities for long-term cost savings in the federal support-services area by strengthening its ability to provide effective governmentwide policy and oversight. GSA is headed in the right direction. However, there are inherent risks involved in making any major reform. GSA will need to show that any reforms it

proposes involve acceptable risks, represent an optimal mix of government and private sector ownership and operation of the support-services infrastructure, and are likely to result in improved mission-support services to federal agencies and net cost savings for taxpayers. GSA also will need to work closely with this and other congressional committees to identify and resolve legal and cultural impediments to reform.

This concludes my prepared statement. My colleagues and I would be pleased to respond to any questions.

RELATED GAO PRODUCTS

Public Buildings: GSA's Reinvention Initiatives (GAO/T-GGD-95-100, Mar. 2, 1995).

Federal Office Space: More Businesslike Leasing Approach Could Reduce Costs and Improve Performance (GAO/GGD-95-48, Feb. 27, 1995).

Management Reform: Implementation of the National Performance Review's Recommendations (GAO/OCG-95-1, Dec. 5, 1994).

Real Property Management: Reforms in Four Countries Promote Competition (GAO/GGD-94-166, Sept. 30, 1994).

Budget Issues: Budget Scorekeeping for Acquisition of Federal Buildings (GAO/T-AIMD-94-189, Sept. 20, 1994).

General Services Administration: Better Data and Oversight Needed to Improve Construction Management (GAO/GGD-94-145, June 27, 1994).

Supply Contract Terminations: GSA Is Missing Opportunities to Recover Costs From Vendor Default (GAO/GGD-94-137, June 15, 1994).

Public-Private Mix: Extent of Contracting Out for Real Property Management Services in GSA (GAO/GGD-94-126BR, May 16, 1994).

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General Services Administration: Increased Direct Delivery of Supplies Could Save Millions (GAO/GGD-93-32, Dec. 28, 1992).

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

FTS2000 Overhead: GSA Should Reassess Contract Requirements and Improve Efficiency (GAO/IMTEC-92-59, Aug. 3, 1992).

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

Government Civil Aircraft: Longstanding Management Problems (GAO/T-GGD-92-44, May 21, 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).

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

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

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

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General Services Administration: Management of FTS2000 (GAO/T-IMTEC-91-9, Apr. 18, 1991).

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

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

Mail Management: GSA Needs to Improve Support of Agency Programs (GAO/GGD-90-49, Aug. 7, 1990).

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The Disinvestment in Federal Office Space (GAO/T-GGD-90-24, Mar. 20, 1990).

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Building Purchases: GSA's Program Is Successful But Better Policies and Procedures Are Needed (GAO/GGD-90-5, Oct. 31, 1989).

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Public Buildings: Own or Lease? (GAO/T-GGD-89-42, Sept. 26, 1989).

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