

September 1995

# PUBLIC-PRIVATE MIX

## Effectiveness and Performance of GSA's In-House and Contracted Services







United States  
General Accounting Office  
Washington, D.C. 20548

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**General Government Division**

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September 29, 1995

The Honorable Wayne T. Gilchrest  
Chairman  
The Honorable Bob Wise  
Ranking Minority Member  
Subcommittee on Public Buildings  
and Economic Development  
Committee on Transportation and Infrastructure  
House of Representatives

The Honorable James M. Inhofe  
United States Senate

The Honorable John J. Duncan, Jr.  
The Honorable James A. Traficant, Jr.  
House of Representatives

This report was prepared in response to your request that we review (1) the cost-effectiveness and performance of the General Services Administration's (GSA) real property management services, such as building maintenance and custodial services, to determine whether GSA's decisions to retain the services in-house or contract them out were sound and (2) evaluation approaches used by private sector real property management organizations to determine whether any practices could improve oversight and evaluation of the effectiveness of GSA services.

Much of our past work on contracting out has been based on requests to review individual, usually controversial, studies and decisions and focused on procedural compliance issues rather than general results. Because much of this work found procedural problems, information gaps, and administrative shortcomings, it contributed to congressional skepticism about the effectiveness of contracting out as a whole.<sup>1</sup> This report presents findings from a retrospective review of GSA's contracting decisions in real property services since 1982 that provided an opportunity to address the broader performance question of the effectiveness of contracting-out programs. It is the second and final report on the results of our retrospective review. The first report provided general information on the

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<sup>1</sup>Government Contractors: An Overview of the Federal Contracting-Out Program (GAO/T-GGD-95-131, Mar. 29, 1995); Achieving Cost Efficiencies in Commercial Activities (GAO/T-GGD-90-35, Apr. 25, 1990); and A-76 Program Issues (GAO/T-GGD-90-12, Dec. 5, 1989).

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extent to which real property management services were contracted out or retained by GSA.<sup>2</sup>

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## Background

GSA is the central management agency responsible for policy and oversight of administrative services (except personnel) and is a central provider of real property services, such as buildings acquisition and management, for federal agencies. GSA and its Public Buildings Service (PBS) have been undergoing a lengthy transformation in size and organization. Beginning in the 1980s, significant downsizing occurred in GSA's workforce. Total employment in GSA declined from about 35,800 full-time equivalent (FTE) positions in 1980 to about 16,900 FTEs by 1995. While this general downsizing was occurring, PBS also began to systematically review its real property management activities, using the guidelines in the Office of Management and Budget's (OMB) Circular A-76,<sup>3</sup> to determine whether such activities should be provided in-house by government personnel or contracted out.<sup>4</sup>

The National Performance Review (NPR) recommended a competitive environment as the catalyst to provide the greatest impetus for GSA to streamline its real property activities. In the fall of 1993, the GSA Commissioners of PBS and the Federal Property Resources Service initiated a joint Real Property Reinvention Task Force. The task force analyzed the GSA real property organization, systems, and processes and recommended a new organizational structure for real property management to implement the NPR recommendations. This restructuring was implemented in the second quarter of fiscal year 1995. GSA is now engaged in further reinvention efforts under Phase II of NPR and additional downsizing.<sup>5</sup>

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<sup>2</sup>Public-Private Mix: Extent of Contracting Out for Real Property Management Services in GSA (GAO/GGD-94-126BR, May 16, 1994).

<sup>3</sup>OMB Circular A-76 establishes the federal policy on commercial services. The circular specifies cost-comparison procedures for determining when it is more economical to contract out for services currently done by federal employees.

<sup>4</sup>Throughout this report, we use the term "services" to refer to such services as custodial or cleaning services in general. We use the term "activities" to refer to services at specific locations, for example, mechanical operation and maintenance service for the Federal Building and Courthouse in St. Paul, Minnesota.

<sup>5</sup>For further information on GSA's reorganization efforts, see Public Buildings: GSA's Reinvention Initiatives (GAO/T-GGD-95-100, Mar. 2, 1995).

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## Results in Brief

The cost comparison, performance evaluation, and historical tracking data we reviewed for 54 sample activities indicated that GSA's decisions to retain individual activities in-house or contract them out were sound. Post-decision analyses and evaluations by GSA generally showed that GSA was obtaining services at a reasonable cost and at an acceptable level of performance, and GSA made relatively few reversals from its original decisions. On average, the winning contractor bid in contract actions after the original decision (e.g., renewals, resolicitations) was 18 percent below GSA's estimated cost for government performance of the same services. These actions occurred as many as 12 years after and on average 5 and one-half years after GSA's original decisions. Reported actual costs for six retained activities were lower than the original estimates for in-house performance. Only one retained activity reported actual costs of more than 10 percent above the estimated costs for in-house performance, a threshold the agency established for taking corrective action. While the agency's decisions appeared to be sound, we could not, based on the available evidence, conclusively demonstrate that the selected alternatives generated the level of savings estimated at the time of the original decisions.

We found no evidence of performance problems in the case files for a majority (29) of the 54 sample activities. For 14 of the sample activities, we only found evidence of relatively minor problems, such as incomplete tasks or paperwork. For 11 sample activities, we found evidence of serious problems, such as defaults or terminations for unsatisfactory performance. All but one of the activities with evidence of serious performance problems involved maintenance services. In general, the files provided evidence of GSA's efforts to oversee the sample activities and take appropriate corrective action, including deductions from payments to contractors, when necessary. If problems continued or were more serious, the agency resolicited or restudied the activity. However, 39 of the sample activities (about 72 percent) continued to be delivered by the sector originally selected by the agency. Four other sample activities were abolished for economic reasons.

Information on private sector practices that we reviewed and that GSA gathered to support its reinvention efforts indicated that real estate organizations commonly used approaches such as performance measurement and benchmarking to manage and evaluate their operations and activities and decide whether to contract out. These approaches offer an opportunity for GSA to improve the oversight and evaluation of its services. In general, the private sector organizations focused the

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evaluation of their operations on a “vital few” key performance measures, such as cost and customer satisfaction, in contrast to GSA’s typical reliance on process checks and detailed inspections. GSA has begun to implement selected performance measures, such as customer satisfaction surveys. However, the specific performance measures GSA will use after its reorganization is completed are still being developed.

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## Objectives, Scope, and Methodology

The objectives of this assignment were to review (1) the cost-effectiveness and performance of both in-house and contracted real property management services in GSA to determine whether its contracting decisions were sound and (2) evaluation approaches used by private sector real property management organizations to determine whether any practices could improve the oversight and evaluation of the effectiveness of GSA commercial services. For the purposes of this report, real property management services were defined as those services that GSA provides to federal agencies relating to housing for staff and facilities for the storage of equipment and supplies. Because most GSA real property services are the responsibility of PBS, our analyses focused on PBS activities.

To address the first objective and support analysis for the second objective, we relied primarily on our examination of a random stratified sample of 54 activities in PBS that were originally reviewed as part of its A-76 program; 21 of the activities were originally retained in-house, and 33 were not. No one clear, common measure was available to evaluate the cost-effectiveness and performance of the sample activities, so we used three types of evidence from the sample case files to assess whether the agency’s original decisions to retain or contract activities were sound. The evidence was (1) subsequent cost comparisons, analyses, and modifications that GSA did to indicate whether it was obtaining services at a reasonable cost; (2) agency evaluations and related documents to indicate whether GSA was obtaining services at an acceptable level of performance; and (3) changes in the status of the activities tracked over time to indicate whether GSA reversed its original decisions or selected other alternatives because of cost, performance, or other factors. Because our sampling strategy precluded the selection of contracted activities from some regions of the country, the results of our assessment, although representative of a significant portion of PBS’ A-76 inventory, are not generalizable to all activities in PBS’ A-76 program.

To address the second objective, we examined methods and practices used by private sector property management organizations to measure

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service performance and determine whether activities should be retained in-house or contracted out. We reviewed industry studies and met with officials from private sector real estate organizations. In addition, we reviewed GSA plans and proposals developed in response to NPR, the Government Performance and Results Act (P.L. 103-62 (1993)), and resulting reorganization efforts.

A more detailed description of the methodology we used and specific data limitations are provided in appendix I. We did our work from September 1994 to July 1995 in accordance with generally accepted government auditing standards. We also incorporated information gathered in the preparation of our previous report on contracting out real property management services at GSA, where appropriate.<sup>6</sup> We asked the Administrator of GSA for comments on a draft of this report. The comments are summarized and analyzed on page 16 and presented in appendix V.

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## Original Decisions Were Sound

Our review of the sample activities indicated that GSA's original decisions to retain sample activities in-house or contract them out were sound. GSA's subsequent evaluations and analyses of government cost estimates and contractor bids for those activities confirmed that the sector originally selected, in-house or contract, provided services at a reasonable cost to the government. Case file documents also furnished evidence that performance was generally satisfactory. Finally, the sector GSA originally selected for the activities, whether in-house or contract, generally did not change over time.

GSA's cost analyses and evaluations done after the original decision to retain or contract out a sample activity provided a useful measure of whether the costs of the activities remained reasonable.<sup>7</sup> The clearest measure of cost-effectiveness was found when GSA resolicited or reviewed an existing contract for renewal. (See app. IV for further information on the approaches used by GSA to determine reasonable costs.) While we could not recreate complete histories for the sample activities that were contracted out, we were able to examine cost data from 34 separate contract solicitations or renewals. For those sample activities originally retained in-house, we reviewed GSA evaluations that compared the government's cost estimates at the time GSA decided to retain the activity

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<sup>6</sup>Public-Private Mix: Extent of Contracting Out for Real Property Management Services in GSA (GAO/GGD-94-126BR, May 16, 1994).

<sup>7</sup>For the purposes of this report, we did not revisit cost data from GSA's original decisions. Rather, we focused on the costs of sample activities after GSA retained them in-house or contracted them out.

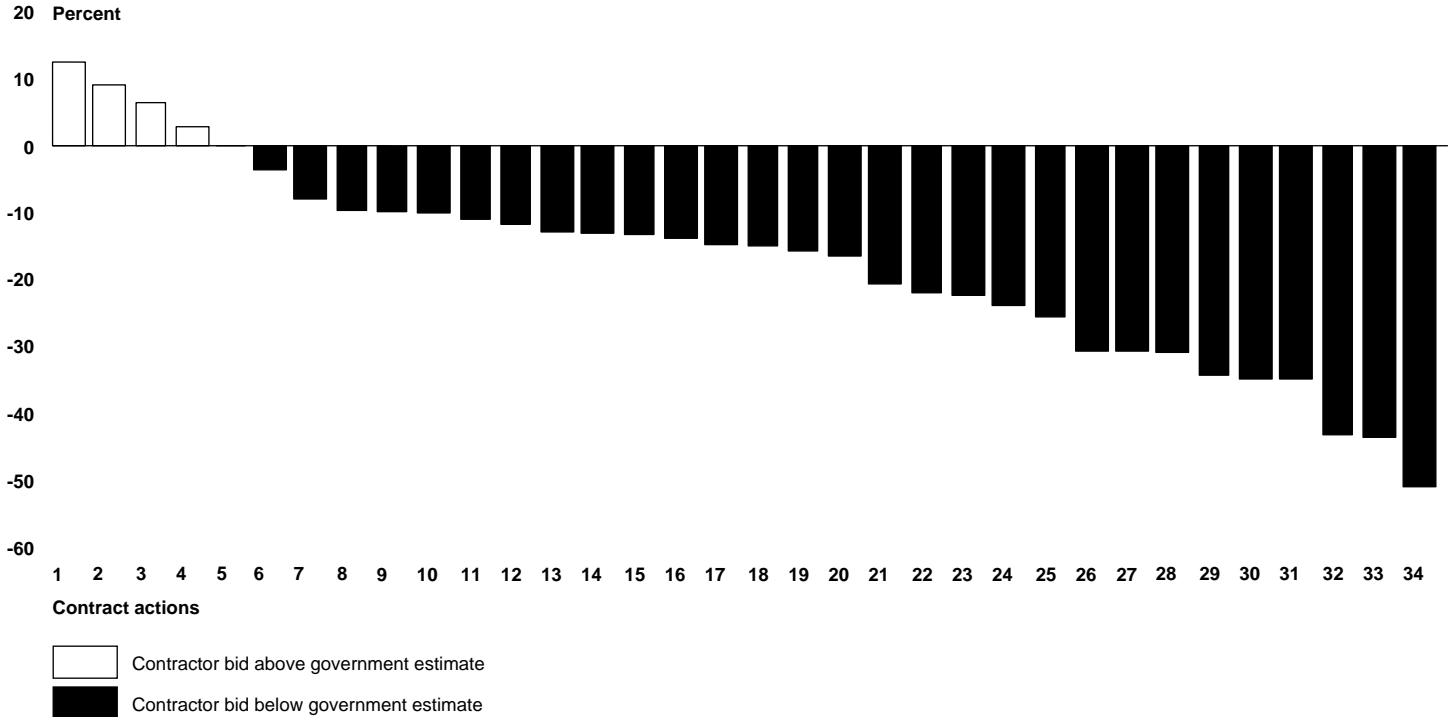
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with the actual costs experienced by in-house performance. At the time of our review, GSA had completed evaluations for 14 of the in-house sample activities.

Information in the case files showed that contractor bids remained lower than the independent government cost estimates for in-house performance in all but three sample activities that were contracted out. However, the three activities included situations in which price was not the determining factor in the agency's decision. One of the sample maintenance activities was brought back in-house when GSA personnel won a resolicitation that combined three separate federal activities into a single activity. The low contractor bid in that case was 6.4 percent above the government's bid. Overall, the low contractor bids ranged from 12 percent above to 51 percent below the government cost estimate and averaged 18 percent below the government cost estimates. These actions occurred as many as 12 years after and on average 5 and one-half years after GSA's original decisions. Figure 1 presents cost data from the subsequent contract actions.



**Figure 1: Percentage Differences Between Contractor Bids and Government In-House Estimates in Subsequent Contract Actions for Sample Activities**



Note: Results are displayed for individual contract solicitations or renewals for contracted sample activities in descending order of the percentage difference between the low responsive contractor bid and the government’s estimated cost for in-house performance. The government estimate was used as the base for comparison. The difference for action five equaled -0.05 percent.

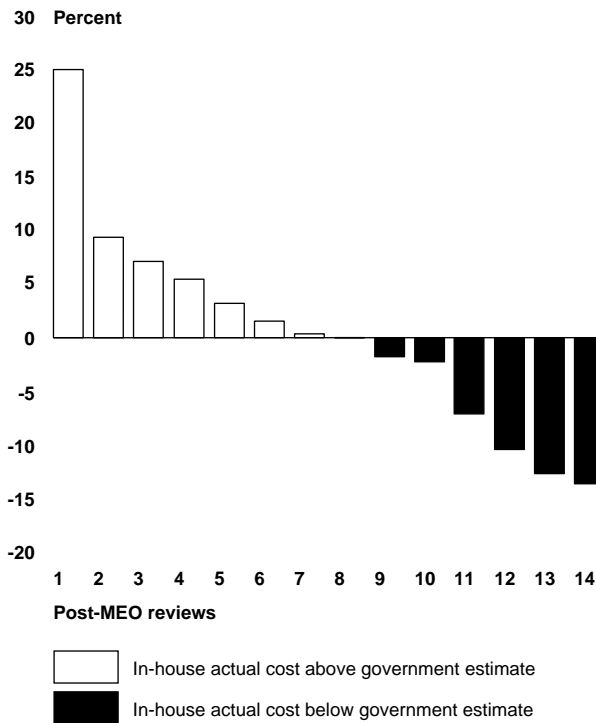
Source: Data from GSA contract files.

An internal evaluation process for in-house activities, known as the post-MEO review, was developed by GSA to determine whether those activities retained in-house continued to perform within the government cost estimates and performance requirements established in the A-76 competition.<sup>8</sup> The post-MEO reviews did not consider what current contractor bids would be for the same activity. According to those

<sup>8</sup>MEO refers to most efficient organization, which is the government’s estimate, developed during the A-76 review process, of the most efficient way to structure an in-house activity. Appendix II contains a more detailed description of the A-76 and post-MEO review processes.

reviews, only one sample activity reported actual costs that were more than 10 percent above the estimated costs for in-house performance, a threshold GSA has established for taking corrective action. Overall, the post-MEO reviews showed actual costs to range from 13.5 percent below to more than 25 percent above the estimated costs. The reported actual costs for six sample activities were below the original estimates for in-house performance. The sample activity with a difference of more than 25 percent between actual and estimated costs failed the post-MEO review and was converted to contract. Figure 2 presents cost data from post-MEO reviews of sample activities retained in-house.

**Figure 2: Percentage Differences Between Government's Actual and Estimated Costs for Subsequent Reviews of In-House Sample Activities**



Note: Results are displayed for individual post-MEO reviews of in-house sample activities, in descending order of the percentage difference between the actual cost and the estimated cost of in-house performance. The estimated cost was used as the base for comparison. The difference for review eight equaled 0.02 percent.

Source: Data from GSA post-MEO review files.

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We found that detailed documentation on performance was somewhat limited in the case files for the sample activities, especially for the in-house activities, which tended to be evaluated as part of larger organizational components. However, the available information from GSA inspections, performance reviews, and evaluations, including post-MEO reviews, indicated that GSA was obtaining a satisfactory level of performance for most of the sample activities. We found no evidence of performance problems in the case files for a majority (29) of the sample activities. For 14 of the 54 sample activities, we found evidence of only relatively minor problems. These problems usually involved tasks or paperwork that were incomplete or not up to specified performance standards. For those activities that were contracted out, these problems were not serious enough to preclude GSA from exercising contract options or extensions.

There was evidence of more serious problems for 11 of the sample activities. These activities included three contractor defaults, five terminations for unsatisfactory performance (one terminated contract involved two sample activities), and two occasions in which no contractor was willing to take on the sample activity. Five of these cases were converted from contract to in-house or vice versa; new contractors were found for four others, and the remaining activity was abolished when GSA disposed of the building. Performance problems were found more often in maintenance activities (both contract and in-house) or Commercial Facility Management (CFM) contracts,<sup>9</sup> including all examples of terminations or defaults. Agency officials in the GSA regional and field offices also said that they had experienced more frequent and serious performance problems with contracted maintenance activities than with other types of activities.

In general, the case files for the sample activities we reviewed provided evidence that GSA made efforts to oversee those activities and take appropriate corrective action when necessary. Oversight actions ranged from official correspondence or records of meetings in which GSA identified problem areas and requested corrections to GSA's taking deductions from monthly payments. If problems continued or were more serious, GSA terminated or resolicited the activity, even reversing its original decision.

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<sup>9</sup>CFM contracts are used to bundle several types of services for a specific facility or facilities into one service contract. For example, a CFM contract for federal facilities in Nashville, Tennessee, covered facility management, operations and maintenance, elevator maintenance, maintenance repairs, architectural and structural maintenance, janitorial services, utilities and fuels, and additional special services.

Because complete cost and performance data were not available for the entire history of each sample activity, we also compared the original status of each sample activity to its overall status at the time of our review. This comparison provided a proxy measure of whether cost, performance, or other factors resulted in GSA changing its original decision. Only 8 of the 54 sample activities (about 15 percent) had changed from contract to in-house, or vice versa, by the time of our review. Thirty-nine of the sample activities (about 72 percent) continued to be delivered by the sector originally selected by the agency. Of the remaining seven activities, four were abolished for such economic reasons as disposal of the federal building originally covered by the activity; two were pending restudy because of changes in scope; and one had been delegated, in large part, to other federal agencies. All of the 10 activities that changed or were scheduled for restudy involved maintenance services.

Table 1 presents summary data on the status of the sample activities at the time of our review. (Tables III.1 and III.2 in app. III provide more detailed information on each of the individual sample activities.)

**Table 1: Status of Sample Activities at Time of GAO Review**

<b>Sample activities</b>	<b>Number</b>
Originally retained in-house	21
Status as of GAO review	
Performed in-house	15
Converted to contract	3
Scheduled to be restudied because of changes in scope	2
Responsibility partially delegated to other federal agencies	1
Not originally retained in-house	33
Status as of GAO review	
Contracted out	24
Returned in-house	5
Abolished for economic reasons	4

Note: The time of GAO review varied for individual sample activities because of the travel required to review some of GSA's files for these activities.

Source: GAO analysis of GSA data on sample activities.

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## No Clear Assessment of Whether GSA Realized Expected Savings

While GSA's original decisions appeared to be sound, we could not conclusively demonstrate that they generated the estimated level of savings or improved the cost-effectiveness of GSA's services. Our attempt to systematically assess GSA's commercial services was frustrated by two main factors. First, there was no common basis for measuring costs and outcomes. Second, we found that post-decision comparisons would be difficult because most activities did not remain static over time.

In-house and contract activities were not subject to the same evaluation. Without a common basis for measurement, we were not able to confirm whether cost-effectiveness had improved since the original decisions, nor were we able to compare the actual costs of these activities with what could have been the cost if another decision had been made. Some indirect evidence was available in looking case-by-case at activities after a decision was made, but we could not verify the agencywide impact.

Even if consistent data were available for evaluation purposes, we found that post-decision comparisons would still be difficult because most activities did not remain static over time. Our review showed that analysis at the activity level was very difficult given changes in scope. The evidence was incomplete and also more indirect for in-house activities than it was for contracted ones. However, in 30 of 42 cases for which information was available, we found some changes in scope—i.e., work that was done as part of an activity that was not part of the activity when GSA originally reviewed it.

Changes in scope ranged from minor adjustments, such as incorporating trash removal into the custodial contract for an activity in Elizabeth City, North Carolina, to drastically restructuring the original activity. For example, one sample case was originally a small activity involving one full-time equivalent position to provide maintenance services for the federal building in Kingston, Tennessee. This sample activity was subsequently folded into a broader CFM contract. The CFM contract covered facilities management, utilities, operations and mechanical maintenance, elevator maintenance, maintenance repair, architectural and structural, janitorial, and protection services for federal buildings in Kingston and five other cities (Knoxville, Athens, Wartburg, Chattanooga, and Jacksboro). We also found 13 modifications to the CFM contract that changed the scope of services for that particular contract. The Kingston activity was not an isolated example; at least 13 other sample activities became part of broader multisite contracts or in-house activities.

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## Private Sector Approaches Emphasized Use of Performance Measures and Benchmarking

To support its reinvention efforts, GSA collected information on private sector practices. This information indicated that real estate organizations commonly used performance measurement to evaluate their activities and to decide whether to contract out. We obtained similar information in our review of industry studies and through feedback from directors of several Fortune 500 organizations with large investments in real estate during roundtable discussions on how corporate America manages its real estate strategies and tasks. Specifically, the organizations identified the value of such practices as developing and using performance measures to evaluate the effectiveness of programs and service delivery and benchmarking an organization's own performance against that of others.

The evidence we reviewed suggests that the use of performance measures was the most widespread of these practices. During our roundtable discussion, it was also the practice most often cited by the private sector participants as a key element of successful management. We obtained evidence to a lesser degree on the use of benchmarking, reengineering, and such techniques as activity-based costing.<sup>10</sup> As we have found in our related management work, a common element in each of these practices is that they tend to focus on the outcomes of their programs in addition to the performances of their core operations and activities.

Across the industry, private sector organizations employ a wide variety of specific performance measures. Among the most common general categories are cost, profit, and customer feedback. GSA's Real Property Reinvention Task Force found that unlike GSA's reliance on process checks and detailed inspection, private sector organizations relied on a few key performance measures.<sup>11</sup> In its report, the task force noted that industry benchmark data, such as the Building Owners and Managers Association (BOMA) Experience Exchange Report, are commonly used as a reference.<sup>12</sup> The feedback from our roundtable participants was consistent with the task force's findings. The participants also pointed out the importance of performance measures for customer satisfaction, costs of operations, and profitability.

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<sup>10</sup>Activity-based costing is an accounting technique that identifies all costs associated with individual activities constituting a value stream or process regardless of its place within the organization.

<sup>11</sup>We reported similar findings in recent testimony on measuring performance in the federal government. See Managing for Results: Critical Actions for Measuring Performance (GAO/T-GGD/AIMD-95-187, June 20, 1995).

<sup>12</sup>The BOMA report cites average costs to clean, operate, and rent space by geographic location and type of space.

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Private sector officials stressed the need for an organization to measure performance in order to effectively manage real estate operations. Among the advantages the officials cited for using such data were the ability to (1) analyze changes in performance over time and (2) identify opportunities for improvement. Benchmarking and performance measures also assisted organizations in deciding which services to retain in-house or contract out. For example, several private sector officials said they benchmarked their performance against those of their peers. According to these officials, if the data indicated that the officials' organizations were not demonstrably best in class, adding value to the parent organization, or providing services at least as well as others could, they would turn to outside sources. Performance measures and analysis also helped organizations focus on what services and mix of skills they needed to keep inside the unit (i.e., their "core" business) and what remaining needs should be filled through contracts, alliances, or other relationships with outside providers.

While most of the private sector organizations we met with or reviewed information on used benchmarking and performance measures to some extent, we found a range of opinions on what type of data they used in their evaluations. Some organizations were concerned with finding comparable data. These organizations were likely to rely on internal comparisons of their own data for benchmarking purposes rather than making comparisons to data from outside sources. Other organizations were concerned with measuring their performance against operations considered best in class. Those organizations would seek out data from peers in the industry and even organizations that might be very different from their own in terms of size or even the field of business, because the other organizations did some things very well. The organizations taking the broader approach appeared to be less concerned with straightforward cost comparisons than with identifying best practices and setting higher standards for their own performance. In the middle ground, organizations looked to industry sources, such as BOMA, or to special studies for local or regional markets.

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## GSA Proposals Reflect Closer Alignment With Private Sector Practices

GSA's reorganization of PBS along private sector business lines presents GSA with an opportunity to apply private sector performance measures and benchmarking practices. GSA has already begun to implement selected performance measures, for example, through customer satisfaction surveys.<sup>13</sup> The reorganization was designed, in part, to help PBS measure its performance against commercial practices and identify opportunities for improvement. Such opportunities may not only include improving areas in which the performance of PBS' business lines falls short of industry benchmarks but also replicating and reinforcing areas in which PBS' performance and practices can be demonstrated to exceed industry benchmarks.

Recent GSA proposals, generated as part of GSA's efforts to reorganize PBS, would begin to implement a number of the common private sector practices. For example, the Real Property Reinvention Task Force recommended the following general types of performance measures: (1) customer satisfaction, as determined through surveys, personal contacts, and such indicators as complaint trends and customer retention statistics; (2) competitiveness, as determined by cost-recovery pricing versus commercial pricing; (3) cost-effectiveness, as measured through benchmarking against other providers; and (4) timeliness, as measured through the percentage of reimbursable work authorizations completed on schedule. Subsequent business design documents proposed more specific versions of the general categories of performance measures set forth in the task force report.

The use of multiple performance measures reflects the general trend found in the research on industry practices. On a more practical level, our review of the sample activities also showed that no single measure could account for all aspects of a service. For example, while data on customer satisfaction and operating costs are among the most common measures established by firms, such data are imperfect measures of some service aspects, such as preventive maintenance of the physical plant and equipment. GSA officials we interviewed expressed similar concerns, particularly about finding suitable measures for preventive maintenance.

Our work on federal, state, foreign, and private sector reform efforts has shown that the experiences of leading organizations suggest that the number of measures should be limited to a vital few that provide the most needed information for accountability, policymaking, and program

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<sup>13</sup>In 1994, GSA's agencywide customer satisfaction survey was developed in conjunction with the International Facilities Management Association.



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management. The use of a few significant performance measures provides a clearer basis for an organization to assess accomplishments, facilitate decisionmaking, and focus on accountability. Too many measures, including those that have little value for stakeholders, can confuse and overwhelm users or make a performance measurement system unmanageable.

For GSA to implement benchmarking within PBS business lines, it would not be necessary to find perfectly compatible data. In fact, there are examples, from corporate real estate and other industries, of organizations that have benchmarked their performance by looking outside their business line. Private sector real estate officials pointed out that GSA could also focus first on developing measures using data already available internally. At a minimum, such internal benchmarks could show GSA's units how they have progressed since the last measurement period. Both private sector and GSA officials pointed out that cost benchmarks should take into account some special circumstances, for example, whether a facility has 24-hour operations (e.g., Customs' border stations or data processing centers) or has additional security requirements (e.g., courts). According to private sector real estate officials, some common elements of private industry costs, such as taxes and insurance, would also not be applicable to federal space. However, they said that GSA would still be able to focus on the elements that are applicable in the detailed industry data that are reported.

The existing post-MEO review structure could be a very valuable tool when applied to analysis of GSA operations against broader cost benchmarks or similar performance goals. The structure allows for variation in individual cost components as long as the aggregate results remain within accepted limits. This approach recognizes that the performance within individual cost elements may go up and down over time and, in fact, that some variation should be expected. The most common feedback we received from regional and field office officials in GSA was that such flexibility was needed in evaluating and analyzing the performance of GSA operations.

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## Conclusion

On the basis of cost comparison, performance evaluation, and historical tracking data we reviewed for our 54 sample activities, we found GSA's decisions to retain individual activities in-house or contract them out to be sound. The results of our review of the sample activities and evaluation approaches used by private sector organizations showed that there are management practices used by private sector real property organizations that could improve oversight and evaluation of GSA's services. Through its

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response to NPR's recommendations, GSA is restructuring its real property management organization and practices to become more comparable with private sector practices. GSA's proposed wider use of performance measurement and benchmarking practices used by other organizations could improve overall evaluation of cost-effectiveness and performance of services and provide the basis for decisions to contract out. Among the benefits of such practices are that they could (1) provide a common basis for evaluating cost and performance, regardless of which sector was providing a service and (2) enable GSA to measure the outcome of services, regardless of changes in the scope of an individual activity. Because GSA is actively investigating the applicability of such private sector practices as performance measurement and benchmarking in its restructuring review, we are making no recommendations in this report.

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## Agency Comments and Our Analysis

We provided copies of a draft of this report for review by officials in the GSA offices and regions where we did our audit work. On August 10, 1995, we met with GSA's A-76 Program Coordinator and the Deputy Director, Portfolio Team, from the Office of Property Management. They fully agreed with the facts presented and provided additional information on GSA's reinvention efforts that we incorporated in the background.

On August 29, 1995, the Administrator of GSA provided written comments on this report (see app. V) in which GSA generally concurred with the report's conclusions, including our opinion that additional management practices used by private sector real property organizations could improve oversight and evaluation of GSA's services. The Administrator also said that he was pleased that we found GSA's decisions in this area to be sound for all sample activities reviewed. Contrary to the Administrator's apparent interpretation, our conclusion regarding the soundness of GSA's decisions represents a summary observation based on the sample activities in their entirety rather than a specific endorsement of all individual decisions. The Administrator also suggested some specific changes to the report text. These suggested changes dealt with additional information on GSA's reinvention efforts, which we had already made to the text, having received the same information in the August 10 meeting.

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We are sending copies of this report to the Administrator of GSA, the Director of OMB, and appropriate congressional committees. Copies will also be made available to other interested parties upon request.

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If you have any questions concerning this report or would like further information, please contact me on (202) 512-8676. The major contributors to this report are listed in appendix VI.

A handwritten signature in black ink that reads "L. Nye Stevens". The signature is written in a cursive style with a large, stylized initial "L".

L. Nye Stevens  
Director, Federal Management  
and Workforce Issues

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**Abbreviations**

BOMA	Building Owners and Managers Association
CFM	Commercial Facility Management
FTE	full-time equivalent
GSA	General Services Administration
MEO	most efficient organization
NPR	National Performance Review
OMB	Office of Management and Budget
PBS	Public Buildings Service

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# Objectives, Scope, and Methodology

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The objectives of this assignment were to review (1) the cost-effectiveness and performance of both in-house and contracted real property management services in GSA to determine whether its contracting decisions were sound and (2) evaluation approaches used by private sector real property management organizations to determine whether any practices could improve the oversight and evaluation of the effectiveness of GSA's real property management services.<sup>1</sup> For purposes of this report, real property management services were defined as those services that GSA provides to federal agencies relating to housing for staff and facilities for the storage of equipment and supplies. Because most GSA real property services are the responsibility of GSA's Public Building Services (PBS), our analyses focused on PBS' activities.

To address the first objective and support analysis for the second objective, we relied primarily on our examination of a random, stratified sample of 54 commercial services activities in GSA's PBS. The sample was based on the universe of real property management activities in PBS that had been reviewed by GSA from fiscal years 1982 through 1992 as part of its A-76 program.<sup>2</sup> Although the A-76 program accounts for only a portion of all government contracting activity, more complete data were available for PBS' A-76 actions than for contracting actions in general, especially on cost estimates. PBS' A-76 inventory also provided a set universe from which we selected a sample of both retained and contracted service activities.

We stratified the population of PBS A-76 actions by whether an activity had been retained in-house or contracted out and by region of the country. Because copies of GSA evaluations for in-house activities are kept at GSA headquarters, we were able to select a sample of retained activities from each of GSA's regional offices. Because detailed records of GSA's contracted activities are retained in the regional offices, we sampled contracted activities from 3 of the 11 GSA regions at the time of our review for more efficient use of resources. We traveled to GSA regional offices in Atlanta, Chicago, and Fort Worth to review files for sample contract cases. These three regions accounted for about 50 percent of all contracted activities in the PBS' A-76 inventory from 1982 to 1992, and our sample activities were

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<sup>1</sup>Throughout this report, we use the term services to refer to such services as custodial or cleaning services in general. We use the term activities to refer to services at specific locations, for example, mechanical operation and maintenance service for the Federal Building and Courthouse in St. Paul, Minnesota.

<sup>2</sup>As part of its A-76 program, GSA systematically reviewed its real property management activities using the guidelines provided by OMB Circular A-76. The circular specifies cost comparison procedures for determining when it is more economical to contract out for services currently done by federal employees.

representative of those regions. As a result of its original review, GSA decided to retain 21 of the selected sample activities in-house and not retain the remaining 33 activities.

There was no one clear measure that demonstrated whether GSA made sound decisions, so we relied on three indicators: (1) cost comparison data, (2) evaluations of performance, and (3) a tracking of the status of sample activities over time. Cost data were used to confirm that the alternatives selected by GSA provided services at a reasonable cost to the government. To compile relevant data, we reviewed PBS' acquisition plans, solicitations, performance work statements and modifications, cost studies, price analysis reports, price negotiation memos, post-MEO evaluation packages and independent reviews, financial statements for direct operations, and supporting worksheets. We used evaluations, inspection reports, and related documentation, including correspondence, to indicate whether the performance of the sample activities was generally satisfactory. We tracked the status of the sample activities over time because we could not recreate a complete history for each activity. The sample reflected GSA's reviews from as far back as 1982, so many related case documents had been retired from the active files and, in some cases, destroyed. We therefore needed a broad proxy measure of whether progress had been satisfactory after GSA's original decision.

We found that documentation on actual performance was somewhat limited and uneven in the case files for the sample activities. In general, more evidence was available for the activities that were contracted out than for those retained in-house. In part, this may reflect the difference between having individual contract files for contracted activities, while GSA's evaluation and inspection reports for in-house operations tended to focus on performance at levels of service that were broader than individual activities, such as entire GSA field offices. For both in-house and contracted activities, the evidence on the performance of individual activities focused on the documentation of specific problems. The case files, therefore, tended to show the exceptions to satisfactory performance rather than provide a guide to the general level of performance for individual activities.

We supplemented our review of the case files with interviews of GSA officials, including regional personnel in the contracts offices and PBS managers responsible for the facilities covered by the sample activities. We asked their observations on both in-house and contracted services and did not limit the interviews to only the sample activities. In addition, we

obtained their perceptions on what practices have or have not worked well in their experience. They also provided insights on what information was most useful for day-to-day management and oversight of in-house and contracted activities as well as possible changes that could improve management of real property services.

To address the second objective, we examined methods and practices used by private sector property management organizations to measure service performance and determine whether activities should be retained in-house or contracted out. We reviewed industry studies and met with officials from private sector real estate organizations. The officials participated in roundtable discussions on how corporate America manages its real estate strategies and tasks. The discussions were jointly hosted by GAO and GSA, and participants included representatives from private sector organizations; other outside experts; and federal representatives from Congress, OMB, GSA, and other agencies. In addition, we reviewed GSA plans and proposals developed in response to the National Performance Review, the Government Performance and Results Act (P.L. 103-62 (1993)), and resulting reorganization efforts.

We did our work from September 1994 to July 1995 in accordance with generally accepted government auditing standards. Where appropriate, we also incorporated information on sample activities that was gathered to prepare our previous report on the extent to which GSA contracted out or retained in-house the real property management activities in PBS.<sup>3</sup>

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<sup>3</sup>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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# Description of the A-76 and Post-MEO Review Processes

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OMB Circular A-76 establishes the federal policy on commercial services (referred to in the circular as commercial activities). The circular and its cost comparison handbook specify procedures for determining when it is more economical to contract out activities currently done by federal employees. The A-76 guidance does not always require a formal cost study for an agency to convert a commercial activity to contract. OMB and federal agencies are to maintain records on the reviews done using the A-76 guidance. GSA's PBS established guidance and technical procedures for evaluating activities that remained in-house after GSA performed an A-76 review. The purpose of these evaluations was to certify that the activity was meeting the cost and performance requirements established during the A-76 review.

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## The A-76 Review Process

OMB characterizes Circular A-76 as a management reinvention process designed to use competition to encourage change and improve the quality and cost of commercial support services. The circular defines a commercial activity as one that is operated by a federal executive agency and provides a product or service that could be obtained from a commercial source. Certain government activities are not subject to contracting out under Circular A-76 because they are so closely related to the public interest that they must be done by federal employees. These activities are referred to as inherently governmental.<sup>1</sup> In addition, Congress has exempted some activities from the A-76 review process.

To implement the circular, an agency first evaluates its activities to determine whether they are governmental or commercial and completes an inventory of all the commercial activities. Along with a description of the nature and location of each activity, the inventory includes the number of full-time equivalent (FTE) positions assigned to the activity at the start of an A-76 review. For example, one activity in PBS' A-76 inventory that was selected for our sample was mechanical maintenance services for the U.S. Post Office/Court House and U.S. Customs House in Galveston, Texas, which involved three FTE positions when the activity was studied in fiscal year 1990. At GSA, one FTE is not necessarily comparable to one employee; PBS' A-76 inventory includes authorized positions, temporary employees, and borrowed labor in its FTE figures.

Some inventory activities may be converted to contract without undergoing a formal cost study. The two primary circumstances under

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<sup>1</sup>According to OMB's Policy Letter on Inherently Governmental Functions, published September 30, 1992, governmental functions normally fall into two categories: (1) the act of governing, i.e., the discretionary exercise of government authority and (2) monetary transactions and entitlements.

which a direct conversion to contract may occur are (1) if the activity should be contracted to a noncompetitive, preferential procurement program source in accordance with applicable regulations and (2) if the activity employs 10 or fewer FTEs. While a formal cost study is not required, an agency may use available cost data to help determine the reasonableness of proposed contract prices and ensure that contracting out will result in a cost that is less than the government's cost of operation.

Agencies are supposed to review the remaining activities in their commercial inventories through a three-step process: (1) the development of the agency's performance work statements, (2) the completion of a management study of in-house operations, and (3) the submission of formal bids for cost comparison. The purpose of the performance work statement is to allow government employees and the private sector to competitively bid on the same scope of work. It requires agencies to define their workload requirements in terms of measurable performance standards. The purpose of the management study is to determine the most efficient way to provide the requirements using a federal workforce. The resulting government estimate of the lowest number and type of employees required for in-house performance is generally referred to as the most efficient organization (MEO). According to OMB, the management study to identify the MEO protects current employees from historical inefficiencies in the cost comparison, creates incentives to restructure services and reduce costs, and serves to protect the procurement process by protecting the in-house bid. The MEO is used to develop the government's cost estimate for the activity being studied.

This MEO cost is then compared to private sector bids. The circular's cost comparison handbook describes the specific cost elements of a cost comparison and includes areas such as fringe benefits, material support, facilities, insurance, contract administration, and overhead. A contract is to be awarded for an activity if three conditions are met: (1) the contractor is judged by the government to be able to meet all of the government's standards for quality, timeliness, and quantity; (2) the total cost of contract performance is less than the government's total estimate; and (3) the projected cost advantage to the government is at least 10 percent of the government's personnel costs. The 10-percent margin is included in the cost comparison to take into account unpredictable costs that may occur as a result of the conversion to contract. If these three conditions are met, the activity is to be contracted out. If not, the activity is to remain in-house, but the government must implement the MEO standards

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developed during the management study to streamline operations and reduce costs.

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## The Post-MEO Review Process in PBS

Much of the information we used in our analysis of sample activities retained in-house was generated through the review processes described in this section. However, this description reflects the general guidance and practices used by PBS at the time of our review. Because GSA is currently involved in major reinvention and reorganization efforts, the specific processes and terminology may not apply to future PBS evaluations of in-house activities.

The objective of PBS' post-MEO reviews of retained activities was to certify that PBS implemented the cost and performance requirements established in the A-76 review. The PBS general guidance on post-MEO review and certification noted that the implicit contractual commitment made when commercial activities were retained in-house after an A-76 competition required a method of in-house contract administration. The post-MEO review process was therefore developed to determine whether those PBS activities retained in-house continued to perform within the government cost estimates and performance requirements established in the PBS MEO.

To evaluate cost, the post-MEO review compared the government's adjusted actual costs to adjusted estimated costs proposed at the time of the A-76 competition. According to the guidance, to ensure an equitable review, post-MEO worksheets included adjustments in the costs of fringe benefits, depreciation, and insurance. The review also might have included adjustments for inflation, depending on the period under review and how inflation was handled in the original A-76 cost comparison. Other worksheets covered actual costs for the period under review in areas such as labor, supplies and materials, contracts, and utilities. If actual costs, as summarized in the worksheets, appeared to be excessively high for any of these areas (i.e., more than 10 percent above the estimated cost), the reviewer was supposed to complete additional worksheets to explain or show adjustments to the costs, as appropriate. In explaining or adjusting excessive costs, the reviewers were to examine GSA cost reports and other documents to determine whether the costs coded for the MEO activity actually reflected items or work within the MEO's scope of work.

According to the PBS guidance, if the review indicated that actual costs for a full year of MEO operation are within 10 percent of the cost estimate, the activity could be certified as meeting the cost requirements. If the actual

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**Appendix II**  
**Description of the A-76 and Post-MEO**  
**Review Processes**

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costs were between 10 and 25 percent of the estimate, an action plan was to be prepared to bring the activity within the 10 percent tolerance and implemented within 180 days. Activities for which the variance exceeded 25 percent were to be scheduled for A-76 recompetition.

To determine whether an activity operated within the government's predicted performance objectives, the post-MEO review was to include the most recent GSA Field Office Evaluation.<sup>2</sup> Evaluations were done by teams of inspectors who rated the quality of service delivery and administration for operations. There were 12 categories of operations, such as custodial management, contracting, and security, that might be included in the evaluation if applicable for the location being reviewed. The quality score from the Field Office Evaluation determined the performance level of the activity being reviewed. A score of 75 or more (out of 100) signified an acceptable level of performance.

Before final certification and acceptance of the post-MEO review results, GSA's Central Budget Office completed an independent review. The independent review officer was not responsible for performing a separate audit but had to concur on the calculations and analysis on which the post-MEO certification was based. One of the most important tasks of the independent review officer was to ensure again that the scope of the post-MEO review matched the scope of the MEO performance work statement, including any approved modifications.

If the review showed that the in-house activity failed to (1) meet either cost or performance thresholds, (2) adequately explain the reasons for excessive cost variances, or (3) have an approved modification to the MEO, the activity was to be scheduled for A-76 recompetition. However, an activity that failed the post-MEO review was required to recompetete using its current organization and operational cost without reconfiguring it for a revised MEO.

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<sup>2</sup>Field offices were an administrative level within GSA's regions generally organized around a geographic inventory of facilities. As part of its reorganization efforts, GSA is replacing its field office structure with property management centers.

# Summary Information on Individual Sample Activities

The following tables present information on each of the sample activities reviewed for this report. Table III.1 includes those sample activities that were retained in-house after GSA's initial A-76 review, while table III.2 includes those sample activities that GSA decided not to retain in-house.

**Table III.1: Sample Activities Originally Retained In-House (21)**

A-76 ID number	Type of activity	Location	Original review action	Activity status at time of GAO review
02PMM022	Maintenance	New York, NY	Studied and retained in-house, FY 1983	Converted to contract (September 1989). Subsequently became a Commercial Facilities Management (CFM) contract.
02PMM024	Maintenance	New York, NY	Studied and retained in-house, FY 1989	Retained in-house. Post-MEO review of performance showed the activity to be 9.4% above the adjusted MEO estimate.
03PMM006	Maintenance	Roanoke, VA	Studied and retained in-house, FY 1990	Retained in-house. Post-MEO review of performance showed the activity to be 10.4% below the adjusted MEO estimate.
03PMM008	Maintenance	Charlottesville, VA	Studied and retained in-house, FY 1989	Retained in-house. Post-MEO review of performance showed the activity to be 12.6% below the adjusted MEO estimate.
04PMM056	Maintenance	Gastonia, NC	Studied and retained in-house, FY 1988	Retained in-house. Post-MEO review of performance showed the activity to be 0.02% above the adjusted MEO estimate.
04PMM087	Maintenance	Savannah, GA	Studied and retained in-house, FY 1989	Retained in-house. Post-MEO review of performance showed the activity to be 5.5% above the adjusted MEO estimate.
05PMM003	Maintenance	St. Paul, MN	Studied and retained in-house, FY 1988	Retained in-house. Post-MEO review of performance showed the activity to be 2.2% below the adjusted MEO estimate.
05PMM073	Maintenance	Chicago, IL	Studied and retained in-house, FY 1987	Retained in-house. Post-MEO review of performance showed the activity to be 13.5% below the adjusted MEO estimate.
06PMM001	Maintenance	St. Louis, MO	Studied and retained in-house, FY 1985	Scope changed. Scheduled for restudy.
06PMM003	Maintenance	Kansas City, MO	Studied and retained in-house, FY 1986	Retained in-house. Post-MEO review of performance showed the activity to be 0.5% above the adjusted MEO estimate.
06PMM020	Maintenance	N. Platte, NE	Studied and retained in-house, FY 1986	Retained in-house. The activity is exempt from post-MEO review because it is remote and uneconomical to study.
06PMM025	Maintenance	St. Louis, MO	Studied and retained in-house, FY 1986	Scope changed. Scheduled for restudy.
07PMM004	Maintenance	San Antonio, TX	Studied and retained in-house, FY 1983	Converted to a CFM contract.
07PMM021	Maintenance	Oklahoma City, OK	Studied and retained in-house, FY 1989	Retained in-house. Post-MEO review of performance showed the activity to be 3.2% above the adjusted MEO estimate.

(continued)

**Appendix III  
Summary Information on Individual Sample  
Activities**

<b>A-76 ID number</b>	<b>Type of activity</b>	<b>Location</b>	<b>Original review action</b>	<b>Activity status at time of GAO review</b>
08PMM035	Maintenance	Bismarck, ND	Studied and retained in-house, FY 1989	Retained in-house. Post-MEO review of performance showed the activity to be 1.6% above the adjusted MEO estimate.
09PFS026	Full service	Andrade, CA	Studied and retained in-house, FY 1986	Retained in-house. The activity is exempt from post-MEO review.
09PMM088	Maintenance	Sacramento, CA	Studied and retained in-house, FY 1988	Retained in-house. Post-MEO review of performance showed the activity to be 1.7% below the adjusted MEO estimate.
09PMM089	Maintenance	Laguna Niguel, CA	Studied and retained in-house, FY 1989	Failed post-MEO review (over 25% above the adjusted MEO estimate). The activity was contracted out (May 1993).
10PMM045	Maintenance	Everett, WA	Studied and retained in-house, FY 1984	Retained in-house but was combined in a full service group for W. Washington. The post-MEO review for the combined activity found it to be operating at 7.1% below the adjusted MEO estimate.
10PMM202	Maintenance	Portland, OR	Studied and retained in-house, FY 1990	Retained in-house. Post-MEO review of performance showed the activity to be 7.1% above the adjusted MEO estimate.
11PMM019	Maintenance	Washington, D.C.	Studied and retained in-house, FY 1983	Retained in-house but reconfigured. Responsibility for managing almost all of the facilities covered by the original activity was delegated to other federal agencies.

**Table III.2: Sample Activities Not Retained In-House After Original Review (33)**

<b>A-76 ID number</b>	<b>Type of activity</b>	<b>Location</b>	<b>Original review action</b>	<b>Activity status at time of GAO review</b>
04PCS014	Custodial	Louisville, KY	Direct conversion to contract, FY 1985	The activity remained contracted out, but the active contract added janitorial services at the Federal Building-Agency Motor Pool to the original activity covering the Courthouse-Customhouse.
04PCS046	Custodial	Pikeville, KY	Direct conversion to contract, FY 1982	The activity remained contracted out.
04PCS052	Custodial	Elizabeth City, NC	Direct conversion to contract, FY 1982	The activity remained contracted out.
04PCS065	Custodial	Nashville, TN	Direct conversion to contract, FY 1982	The activity remained contracted out but became part of a CFM contract covering the Federal Building and Courthouse, Federal Building/ Courthouse Annex, and parking garage.

(continued)

**Appendix III  
Summary Information on Individual Sample  
Activities**

<b>A-76 ID number</b>	<b>Type of activity</b>	<b>Location</b>	<b>Original review action</b>	<b>Activity status at time of GAO review</b>
04PCS069	Custodial	Jacksboro, TN	Direct conversion to contract, FY 1982	The activity remained contracted out but became part of a CFM contract. The CFM contract covered facilities management at the Knoxville, Athens, Wartburg, Chattanooga, Kingston, and Jacksboro, Tennessee federal buildings. The services included were operations and mechanical maintenance, elevator maintenance, maintenance repair, architectural and structural, janitorial, utilities, and protection.
04PCS084	Custodial	London, KY	Direct conversion to contract, FY 1982	The activity remained contracted out. The active contract also included services for Corbin, KY.
04PCS097	Custodial	Asheville, NC	Direct conversion to contract, FY 1982	The activity remained contracted out. The active contract resulted from resolicitation after previous contract options were not exercised due to unsatisfactory performance.
04PCS099	Custodial	Sumter, SC	Direct conversion to contract, FY 1982	The activity remained contracted out but had been combined with other activities handled out of the local field office.
04PMM030	Maintenance	Albany, GA	Contracted after cost study, FY 1984	The contractor defaulted, and the activity was brought back in-house (Jan. 1992).
04PMM039	Maintenance	Newnan, GA	Direct conversion to contract, FY 1986	GSA reviewed the activity and determined it would be beneficial to return the activity in-house (Feb. 1989).
04PMM058	Maintenance	Winston-Salem, NC	Cost study started but never completed	The activity was abolished for economic reasons.
04PMM066	Maintenance	Anderson, SC	Direct conversion to contract, FY 1986	The activity had been combined with another activity in Greenville. When the contractor for that activity defaulted, everything was brought back in-house (Jan. 1992).
04PMM093	Maintenance	London, KY	Attempted conversion to contract, FY 1987	The activity was returned in-house because GSA could not get a contractor to take on this activity (no satisfactory commercial source).
04PMM157	Maintenance	Kingston, TN	Direct conversion to contract, FY 1989	The activity remained contracted out. It became part of the CFM contract that includes Jacksboro, TN (see 04PCS069).
05PCS007	Custodial	Chicago, IL	Direct conversion to contract, FY 1985	The activity remained contracted out.
05PCS024	Custodial	Port Huron, MI	Direct conversion to contract, FY 1982	The activity became part of a CFM contract for five locations in Michigan. The active contract was an emergency procurement (previous contract not renewed due to poor performance).
05PCS048	Custodial	Sault Ste. Marie, MI	Direct conversion to contract, FY 1982	The activity remained contracted out.
05PMM020	Maintenance	Detroit, MI	Direct conversion to contract, FY 1984	The activity remained contracted out. It became part of the CFM contract that includes Port Huron, MI (see 05PCS024).

(continued)

**Appendix III  
Summary Information on Individual Sample  
Activities**

<b>A-76 ID number</b>	<b>Type of activity</b>	<b>Location</b>	<b>Original review action</b>	<b>Activity status at time of GAO review</b>
05PMM039	Maintenance	Columbus, OH	Contracted after cost study, FY 1984	The contract was terminated by GSA in 1986. The activity was combined with two other locations in Columbus and Zanesville and retained in-house after resolicitation in 1987. The most recent post-MEO review of performance (1992) showed the activity to be 7.24% above the adjusted MEO estimate.
07PCS005	Custodial	Little Rock, AR	Direct conversion to contract, FY 1991	The activity remained contracted out.
07PCS024	Custodial	Hot Springs, AR	Direct conversion to contract, FY 1982	The activity remained contracted out.
07PCS031	Custodial	Alexandria, LA	Direct conversion to contract, FY 1983	The activity remained contracted out.
07PCS037	Custodial	Ruston, LA	Direct conversion to contract, FY 1982	The GSA activity was abolished. Federal offices previously covered under this activity were covered in a full service lease.
07PCS045	Custodial	Claremore, OK	Direct conversion to contract, FY 1983	The activity remained contracted out but became part of a full maintenance contract.
07PCS066	Custodial	McKinney, TX	Direct conversion to contract, FY 1983	There was no service in the building since April 1992. The building was excessed, and the GSA activity was abolished. Federal offices previously covered under this activity were covered in a full service lease.
07PMM009	Maintenance	Albuquerque, NM	Direct conversion to contract, FY 1984	The activity remained contracted out. The activity is to become part of a CFM contract in November 1995.
07PMM018	Maintenance	Austin, TX	Contracted after cost study, FY 1989	The activity remained contracted out.
07PMM023	Maintenance	Baton Rouge, LA	Direct conversion to contract, FY 1986	The activity remained contracted out.
07PMM031	Maintenance	Lafayette, LA	Direct conversion to contract, FY 1986	The activity remained contracted out.
07PMM047	Maintenance	Galveston, TX	Direct conversion to contract, FY 1990	The activity remained contracted out but became part of a CFM contract.
07PMM058	Maintenance	Marshall, AR	Direct conversion to contract, FY 1983	The activity remained contracted out but was expanded to cover full maintenance services.
07PMM060	Maintenance	Russellville, AR	Direct conversion to contract, FY 1986	The activity remained contracted out.
07PMM065	Maintenance	Chickasha, OK	Direct conversion to contract, FY 1985	The contract reviewed was terminated for default. The building was disposed by GSA (June 1992).



# Approaches Used by GSA to Determine Reasonable Costs for Services

## GSA Employed Range of Practices to Obtain Competitive Prices

Once a decision was made to compete an activity, our review indicated that the government could determine a fair price for services without resorting to lengthy cost study processes, even if direct competition was limited. Formal A-76 cost comparison studies were used for only two of the sample contract activities we reviewed, because the activities were under the circular threshold requiring a cost study.<sup>1</sup> The other contract activities were all direct conversions to contract. While inadequate cost or price analysis documentation has been identified as a broad area of concern by prior GAO, OMB, and agency reviews of contracting practices, our review of the sample case files did not reveal such problems.<sup>2</sup> We found that it was common practice for GSA managers and contracts personnel to compile detailed cost data to evaluate prospective bids for activities going out to contract.

GSA personnel used a variety of approaches to establish a reasonable price range for the desired services. For example, documents in the contract case files showed that bid prices could be analyzed on the basis of an analysis and comparison of (1) competitive bids received for the current solicitation; (2) the prior contract price; (3) prices paid for similar services in different GSA locations (a market analysis); (4) an independent government cost estimate; and (5) industry data, such as reported average costs of specific services.

Documentation in the contract case files indicated that GSA usually used a combination of these approaches as part of its cost analysis and negotiations and rarely relied on only one data source. We found that this type of analysis was done even for a legally mandated contract source.<sup>3</sup>

In some of the more complex cases, particularly multistage solicitations, we found that GSA contracts personnel had completed detailed analyses of individual cost components, hourly rates, and prices for special services

<sup>1</sup>Appendix II describes the conditions under which an activity may be converted to contract without undergoing a cost study. Coding in the GSA A-76 database indicated that all 21 of the in-house sample activities were retained after a study.

<sup>2</sup>For example, see *Summary Report of Agencies' Service Contracting Practices*, Office of Management and Budget, Office of Federal Procurement Policy (Jan. 1994).

<sup>3</sup>For example, Congress has included a provision in the Treasury, Postal Service and General Government Appropriations Act for fiscal year 1995 that generally prohibits GSA from contracting out for guard, elevator operator, messenger, and custodial activities that are performed by GSA employees, unless it is to a sheltered workshop employing the severely handicapped. The act does not require that the source provide services at a lower cost than government in-house operations. Only if the workshops decline to contract for the provision of the covered services may GSA procure the services by competitive contract. Public Law 103-329 (1994), 40 U.S.C. 490c. (Congress has included a provision similar to this in every GSA appropriation, starting with fiscal year 1983.)

**Appendix IV  
Approaches Used by GSA to Determine  
Reasonable Costs for Services**

that contractors proposed in their bids to GSA. An independent government estimate for these items was often incorporated into the analyses. Such analyses permitted both the government and the bidders to identify areas in which costs appeared to be out of line (either too high or too low) and determine whether adjustments were necessary. GSA resolved problems with two solicitations in this manner—one in which the government had underestimated the costs associated with new services and another in which the private sector sources and the government had widely different assumptions about requirements in the scope of work on which they were bidding.

**Competition Was Limited for Some Activities**

GSA officials in the regional offices told us that the number of bidders competing for some of the real property activities had been limited. Our review of the case file materials for active and previous contracts generally confirmed their observation. We were able to obtain information on the number of responsive, responsible (i.e., technically and financially acceptable) bidders for 42 individual solicitations. Table IV.1 shows the overall distribution of bidders.

**Table IV.1: Distribution of Number of Bidders for Sample Activities**

<b>Number of bidders</b>	<b>0</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7+</b>
Distribution of solicitations involving sample activities	3	10	5	5	7	4	6	2

In four of these cases, competition was limited to a mandatory source, such as workshops employing the severely handicapped. The limited amount of competition for some sample activities underscored the value of GSA’s practice of relying on more than a low bid to determine whether the government was obtaining cost-effective services.

# Comments From the General Services Administration



Administrator  
General Services Administration  
Washington, DC 20405

August 29, 1995

The Honorable Charles A. Bowsler  
Comptroller General  
of the United States  
General Accounting Office  
Washington, DC 20408

Dear Mr. Bowsler:


We appreciate the opportunity to have met with your representatives on August 10, 1995, to discuss the General Accounting Office's (GAO's) draft report, "Public-Private Mix: Effectiveness and Performance of GSA's In-House and Contracted Services." We are pleased that the report found the General Services Administration's (GSA's) decisions in this area to be sound for all sample activities reviewed.

GSA generally concurs with the report's conclusions including the opinion expressed that additional management practices used by private sector property organizations could improve oversight and evaluation of GSA's services. As noted in the report, to this end, GSA, in its restructuring, is proposing to make more use of performance measurement and benchmarking practices.

As an example of the above, as part of the current evaluation of GSA business lines through our Federal Operations Review Model (FORM), we are refining and adding benchmarks critical to measuring outcomes in many of our programs. To assist us in these efforts, GSA would appreciate receiving from GAO the benchmark data GAO obtained from the roundtable discussions referenced in the report. We believe the information you have gathered would be most helpful to us.

I would like to thank you again for inviting us to comment on the draft report. Specific suggested changes to the report text are enclosed.

Sincerely,

  
for Roger W. Johnson  
Administrator

Enclosure



# Major Contributors to This Report

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### Ordering Information

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