

BY THE U.S. GENERAL ACCOUNTING OFFICE

**Report To The Chairman, Committee On
Government Operations,
House of Representatives**

**Synopsis Of GAO Reports Involving
Contracting Out Under OMB Circular A-76**

This report contains summaries of reports issued during fiscal years 1981 and 1982 concerning Government agencies' contracts with private commercial sources for goods and services that could be provided by Federal sources. The reports showed that:

- Questionable cost comparisons affected the contracting decision in some instances but not in others.
- Some decisions to contract were made without benefit of required cost comparisons.
- Cost estimates of Government performance were not always based on the most efficient and effective in-house operation.
- Statements of work used for developing some cost estimates were incomplete.
- Outdated wage rates were sometimes provided for use by bidders.





UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

PROCUREMENT, LOGISTICS,
AND READINESS DIVISION

B-211320

The Honorable Jack Brooks
Chairman, Committee on
Government Operations
House of Representatives

Dear Mr. Chairman:

Your February 3, 1983, letter expressed concern that Government agencies may be contracting with private commercial sources for goods and services at a cost that is greater than it would be if Federal employees did the work. In order for the Committee to better understand the types of problems occurring in this area, you requested that we furnish you a synopsis of reports we have issued during the last 2 fiscal years on activities which were contracted out following Office of Management and Budget (OMB) Circular A-76 policy. You asked that the synopsis include specific locations and activities reviewed, findings, conclusions, recommendations, and actions taken in response to recommendations.

From October 1, 1980, to December 31, 1982, we issued 10 reports with primary emphasis on the contracting out of activities following OMB Circular A-76. Eight of the reports were initiated as a result of congressional requests, and two were initiated under our basic auditing authority. In general the reports showed that:

- In some instances, questionable costs included in the cost comparisons were significant enough to affect the decision to perform work in-house or by contract while in other instances the costs questioned were not great enough to affect the decision.
- Some decisions to contract were made without the required cost comparisons. Hence, there was no assurance that the activities could be performed more economically by contract.
- Required studies were not always done to determine if the function in question was presently being performed in-house in the most efficient and cost effective manner. Such a study precedes the cost comparison and provides the basis for estimating in-house costs. If a contractor's cost is less than the cost of an inefficient in-house organization,

LIST OF REPORTS SUMMARIZED

	<u>Page</u>
Contracting Out of Selected In-House Commercial and Industrial-Type Activities at the U.S. Military Academy, West Point, New York	1
Contracting Out Vehicle Maintenance and Operations Functions at U.S. Naval Station, Mayport, Florida	3
Army's Contracting Out of Installation Support Functions at Fort Gordon, Georgia	4
Factors Influencing DOD Decisions To Convert Activities From In-House to Contractor Performance	5
GSA's Cleaning Costs Are Needlessly Higher Than in the Private Sector	8
Review of DOD Contracts Awarded Under OMB Circular A-76	10
Army's Contracting Out of Laundry and Educational Testing Services at Fort Carson, Colorado	12
Contracting of Guard Services at Oak Ridge Will Spiral Costs	13
Contracting for Support Services and Competitive Procurement Practices at the Navy's Pacific Missile Test Center, Point Mugu, California	14
Navy Procedures Used in Awarding Solicitation #62474-82-R-0051 at the Naval Weapons Center, China Lake, California	16

ABBREVIATIONS

GAO	General Accounting Office
GSA	General Services Administration
OMB	Office of Management and Budget
PMTC	Pacific Missile Test Center

CONTRACTING OUT OF SELECTED IN-HOUSE COMMERCIAL
AND INDUSTRIAL-TYPE ACTIVITIES AT THE U.S. MILITARY
ACADEMY, WEST POINT, NEW YORK (PSAD-81-4, DEC. 4, 1980)

Organizations concerned

Department of the Army
U.S. Military Academy, West Point, New York
Department of the Army, Stewart Army Subpost, New York

Background

At the request of the Chairman, Subcommittee on Human Resources, House Committee on Post Office and Civil Service, and Representative Benjamin A. Gilman, we reviewed the Academy's comparisons of costs to perform four functions with in-house personnel and by contract. The functions were custodial services, laundry and drycleaning, and refuse collection at the Academy and maintenance services at the Stewart Army Subpost. The maintenance services at the Subpost had been contracted out for over a year, and the other three functions at the Academy were being contracted out after cost comparisons were made in accordance with OMB Circular A-76.

Findings

The actual first-year savings at the Subpost exceeded the cost comparison estimated savings, and the laundry and drycleaning contract and refuse contract will result in sufficient savings to justify contracting out. The custodial services cost comparison indicated that contracting out would not generate sufficient savings to meet the minimum OMB Circular A-76 requirements. Certain elements in the cost comparison for custodial services were found to be questionable. The proposed contract prices were understated due to the outdated Department of Labor wage determination that was supplied to the offerors. If the offerors had been given the correct wage determination, their proposed prices could have increased considerably. Also, the cost of contract administration was understated because the Academy determined the cost by taking 4 percent of the contract cost instead of the actual expected cost of contract administration.

Recommendations

- The Secretary of the Army should resolicit the requirement using a current Department of Labor wage determination.
- The Secretary should prepare an updated cost comparison which uses the actual expected cost of contract administration.

CONTRACTING OUT VEHICLE MAINTENANCE AND OPERATIONS
FUNCTIONS AT U.S. NAVAL STATION, MAYPORT, FLORIDA
(MASAD-81-8, MAR. 4, 1981)

Organization concerned

Department of the Navy, U.S. Naval Station, Florida

Background

Representative Charles E. Bennett asked us to review the cost comparison used by the Navy to justify its decision to convert in-house vehicle maintenance and operations functions to contractor performance at the U.S. Naval Station in Mayport.

Findings

A Navy report to Representative Bennett showed that some revisions to the original cost comparison which reduced the estimated contracting-out savings were appropriate. However, the report stated that contractor performance was still more economical over the 3-year contract period. We do not believe that the report adequately resolves some of the questions raised or demonstrates the validity of the comparison. We believe that further revisions to the comparison are appropriate which would result in a cost advantage for in-house performance. The decision to contract out vehicle maintenance and operations functions is not supported by the cost comparison that was made. However, the 1966 circular, which was used to develop the comparison, is no longer in effect. If a new comparison were prepared using the current 1979 circular, we believe that it would probably support the Navy's decision.

Recommendations

None

Agency actions

None required

FACTORS INFLUENCING DOD DECISIONS TO CONVERT
ACTIVITIES FROM IN-HOUSE TO CONTRACTOR PERFORMANCE
(PLRD-81-19, APR. 22, 1981)

Organizations concerned

Department of Defense
Office of Management and Budget
Also see listing below

Background

We reviewed the Department of Defense's (DOD's) implementation of OMB Circular A-76 to find out how much contracting out is taking place because of (1) personnel ceilings, (2) wage differentials between Federal blue collar and contractor employees, and (3) other significant influences.

Findings

We found that (1) the most significant influence on decisions to contract out was a cost comparison showing lower costs for contractor performance, (2) estimated cost savings were generally attributable to the contractors' plans to use fewer employees and to pay lower wages, (3) the military services recognize that the Commercial and Industrial-Type Activities Program is a valuable means of reducing their civilian personnel work force, (4) there was no evidence that the desire to circumvent personnel ceilings led to contracting-out decisions, (5) the Army disregarded serious shortcomings in the contractor's proposal in making its cost comparison, (6) required reviews were not made in 5 of the 12 cases to ensure that the in-house cost estimates were based on the most efficient and cost effective organization and staffing, (7) in one case, an incomplete statement of work in a solicitation for bids significantly overstated the estimated cost comparison savings from contracting out, (8) in one case, the contract price was understated because the most current Service Contract Act wage rates were not used, and (9) 6 of the 12 cost comparisons included contract administration cost estimates which were lower than the actual costs that could be expected.

Recommendations

- The Secretary of Defense and the Director of OMB should jointly conduct a complete review of the standard 4-percent factor required by Circular A-76. The review should include (1) evaluation of the basis of the factor, (2) an assessment of its applicability to all functions, regardless of their complexity, (3) the possible development of a more accurate costing method for application where the factor is not considered appropriate, such as individual estimates of actual expected cost or a series of rates to apply to the various types of functions

contract administration on the basis of contract size. The Army did not concur in our recommendation to reevaluate the decision to contract out installation support functions at Hawthorne Army Ammunition Plant. The Army said that notwithstanding the "understated" labor costs identified by the Defense Contract Audit Agency, in its opinion, the contractor would be able to perform the minimum requirements of the solicitation with the proposed staffing.

Installations, locations, and activities

<u>Army</u>	<u>Function</u>
Aberdeen Proving Ground, Maryland	Motor vehicle maintenance
Fort Dix, New Jersey	Laundry and drycleaning
Fort Gordon, Georgia	Base operations and housing services
Fort Hood, Texas	Aircraft maintenance
Fort Sam Houston, Texas (Brooke Army Medical Center)	Custodial services
Fort Knox, Kentucky	Food services
Fort Lee, Virginia	Food services
Hawthorne Army Ammunition Plant, Nevada	Total installation support
St. Louis Area Support Center, Granite City, Illinois	Total installation support
Vint Hill Farm Station, Virginia	Facilities maintenance
<u>Air Force</u>	
Air Force Academy, Colorado Springs, Colorado	Custodial services
Seymour Johnson Air Force Base, Goldsboro, North Carolina	Food service attendants

Agency actions

As regards contracting-out recommendations, GSA had started cost comparison reviews and converted to contract cleaning for some buildings but was stopped by an amendment to the fiscal year 1983 continuing resolution (Public Law 97-377). The law precludes GSA from contracting out custodial, guard, elevator operator, and messenger jobs for the remainder of fiscal year 1983.

Installations, locations, and activitiesArmy

Fort Belvoir, Alexandria, Virginia

Laundry

Fort Leonard Wood, Waynesville,
MissouriLaundry and dry-
cleaningNavyNaval Air Station,
Patuxent River, Maryland

Ground maintenance

Navy Fleet Accounting and Disburse-
ment Center, San Diego, California

Keypunch services

Navy Radio Transmitting Facility,
Dixon, CaliforniaOperation and mainte-
nance radio trans-
mittingNavy Radio Transmitting Facility,
Driver, VirginiaOperation and mainte-
nance radio trans-
mittingDefense Fuel Support Points, San
Pedro and Estero Bay, CaliforniaBulk liquid storage
operationsPacific Missile Test Center, Point
Mugu, California

Keypunch services

Navy Ships Parts Control Center,
Mechanicsburg, Pennsylvania

Janitorial services

Air ForceEglin Air Force Base,
Valpariso, FloridaBomarc missile mainte-
nanceHill Air Force Base,
Ogden, UtahPrecision measurement
equipment laboratoryKeesler Air Force Base,
Biloxi, Mississippi

Food services

Lowry Air Force Base,
Denver, Colorado

Audiovisual activity

McClellan Air Force Base,
Sacramento, CaliforniaPrecision measurement
equipment laboratory

CONTRACTING OF GUARD SERVICES AT
OAK RIDGE WILL SPIRAL COSTS
(PLRD-82-71, APR. 30, 1982)

Organizations concerned

Department of Energy
Department of Energy, Oak Ridge, Tennessee

Background

As requested by Representative Marilyn Bouquard and Senator Jim Sasser, we reviewed decisions by the Oak Ridge Operations Office and the Technical Information Center, Department of Energy, to contract for services which were or could be performed by Government employees. Our objectives were to determine whether the decisions comply with OMB Circular A-76 and if any conflicts of interest have resulted from certain contracting situations.

Findings

The Operations Office's award of a contract for security services will increase rather than reduce costs to the Government. The Office's decision to contract was based on a cost comparison which showed that contracting would save funds over a 3-year period. However, the comparison did not include significant costs that would be incurred by contracting, which will actually increase Government costs over the 3-year period. The Operations Office did not make a required cost comparison before converting accounting activities for nuclear materials from in-house to contract performance. Since the activity is currently contracted, there is no requirement that a cost comparison be made unless the agency feels that the work can be performed in-house at less cost. Since a cost comparison was not made, cost data was not available for us to determine which method of operation would be less costly. The other contracting actions were in compliance with OMB Circular A-76. There appeared to be no conflict of interest resulting from those decisions specifically identified by the concerned employees as possible conflict-of-interest situations.

Recommendation

--The Secretary of Energy should reassess the decision to contract for guard services at the Oak Ridge Operations Office to determine whether termination of the contract might be in the best interest of the Government.

Agency actions

The agency reassessed the decision to contract for guard services. The agency did not agree with our findings and decided not to terminate the guard services contract.

Recommendations

- The Commander, PMTC, should defer the award of the data processing center facilities management contract scheduled for October 1, 1982, until the required cost comparison is made in accordance with OMB Circular A-76.
- The Commander, PMTC, should monitor recently promulgated procedures designed to (1) ensure compliance with OMB Circular A-76 and (2) eliminate extensions of contract performance periods.

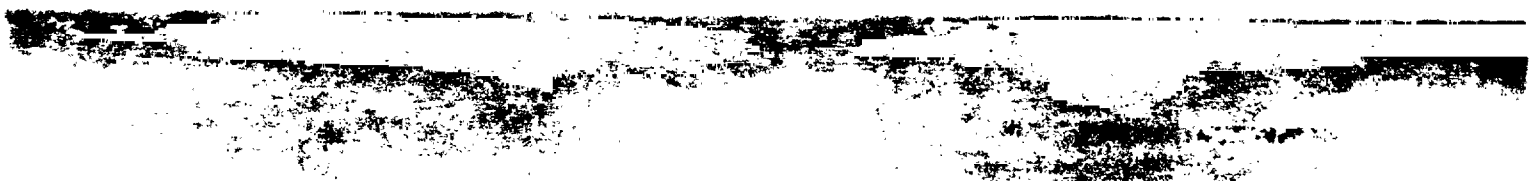
Agency actions

The Navy did not concur in our recommendation to defer contract award until a cost comparison was done. The Navy said OMB Circular A-76 did not require a cost comparison in this case. As stated previously, it is our opinion that the circular does require a cost comparison. The Navy did concur with our recommendation that it monitor the procedures discussed above.

contract contingent upon the results of a review by a Navy flag officer of all issues appealed in connection with the contracting out for services. The review was made, and it was concluded that the appeals team had properly followed applicable procedural guidance and that the decision to contract out was correct.

The Navy did not agree that a different appeals officer should be appointed on second appeals because the original appeals officer is knowledgeable of the facts and is capable of making an objective opinion. As regards review of elements from the first appeal, the Navy felt that to continue to rehash old issues would result in a never-ending appeals process.

(942272)



1

2

