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Testimony before the Senate Committee on Governmental Affairs: Federal Spending Practices and Open Government Subcommittee; by Jerome H. Stolarow, Deputy Director, Procurement and Systems Acquisition Div.

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GAO has supported the major acquisition recommendations of the Commission on Government Procurement and the intent of OMB Circular A-109 and monitored their implementation. Three key elements of A-109 are the determination of need in relation to an agency's mission requirements, the examination of alternative solutions, and the generation of the maximum degree of competition. The General Services Administration's (GSA's) plans for implementing A-109 call for no substantive changes in its current acquisition process which does not include some key elements of the process recommended by the Commission. GSA and the Office of Federal Procurement Policy have differing opinions of A-109's application to public buildings but have not been working to resolve these differences. GSA's determination that a need exists for a major building acquisition generally results from continuing surveys of Federal office space in communities. Market surveys are conducted through informal meetings. GSA's approach differs from the A-109 approach in its presentation to the Congress and in the level of competition obtained. GSA believes that its acquisition process accomplishes the spirit of A-109 and that formal solicitation is not necessary. In response to GAO recommendations, GSA has taken several actions to correct deficiencies in its procurement process and to collect overcharges. Other management areas discussed were GSA's leadership role, agency reorganization, efficiency of GSA's self-service stores, and administration of repair contracts.

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STATEMENT OF
JEROME H. STOLAROW, DEPUTY DIRECTOR
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BEFORE THE
SENATE SUBCOMMITTEE ON FEDERAL SPENDING
PRACTICES AND OPEN GOVERNMENT
COMMITTEE ON GOVERNMENTAL AFFAIRS

Mr. Chairman and members of the Subcommittee, we are pleased to appear at these hearings and will comment, as you requested, on General Services Administration's (GSA) progress in implementing OMB Circular A-109, as well as certain other matters relating to the management of public buildings.

First, however, I would like to make a few background comments. As you are well aware, the GAO fully supports the major acquisition recommendations of the Commission on Government Procurement and the intent of OMB Circular A-109. We have been monitoring the progress of the the Executive Branch implementation of the Commission's recommendations and have issued six progress reports on actions taken.

We have also issued a report on mission budgeting, which is closely related to the A-109 concept, and reports on three Department of Defense weapon system programs in which we compared their acquisition with the Commission's recommended acquisition process.

Our ongoing work in this area includes another review of Executive Branch actions on the Commission's recommendations and a review of A-109 implementation progress by the Department of Defense and four civil agencies--the National Aeronautics and Space Administration, the Department of Transportation, the Department of Energy, and the General Services Administration.

We began our review at GSA near the end of May. Our tentative conclusions are:

--GSA's plans for implementing A-109 call for no substantive changes in its current acquisition process which does not include some key elements of the acquisition process recommended by the Commission and included in A-109 by the Office of Federal Procurement Policy (OFPP).

--GSA and OFPP have differing opinions on A-109's application to public buildings, but have not been working to resolve these differences.

In our opinion, there are three key elements of A-109

--the determination of need in relation to an agency's mission requirements,

- the examination of alternative solutions to meeting that need, and
- the generation of the maximum degree of competition possible under the circumstances.

Although there has been some question of the applicability of A-109 to the acquisition of Federal buildings, we think these three elements are clearly just as important in this area as they are in the acquisition of weapons systems.

GSA's determination that a need exists for a major acquisition in the Public Buildings Service area will normally result from (1) continuing surveys of Federal office space in individual communities (an activity required by statute), or (2) a Congressional resolution directing GSA to survey the Federal space needs of a given community. In addition, GSA becomes involved in the building acquisitions by other agencies at different points in the acquisition process. This involvement will be discussed in more detail later in this statement.

While determining whether a need for a major acquisition exists, GSA will identify and evaluate alternative means for satisfying the need. This will be accomplished through GSA's existing market survey procedures--where GSA officials hold informal meetings with State and local officials, local planning commissions, developers, professional societies, and other appropriate groups.

After review at GSA Headquarters, a statement of the need, a recommended solution, and data on other alternatives

considered are presented to the GSA Administrator. GSA then incorporates essentially this same information into a Prospectus which, in accordance with law, it presents to the House and Senate Public Works Committees. GSA is precluded by statute from spending money on a project for construction, alteration, acquisitions, or lease of buildings involving expenditures of over \$500,000 before the Prospectus has been approved by the Committees.

I would like to discuss the differences between this approach and the A-109 acquisition framework. GSA's acquisition process is dictated to a great extent by law and the long-standing desires and practices of the congressional committees responsible for reviewing, approving, and funding individual projects.

The Commission and A-109 call for the agency head to approve a mission need statement before the identification and exploration of alternative system solutions. This requirement would normally be communicated to Congress during the budget process so that the Congress could consider the major needs of all agencies and their relative priorities prior to decisions to initiate new programs. GSA's approach differs from A-109 in that Congress is presented with the requirement and a preferred solution at the same time.

To some, this may not seem to be a significant variation, but we do believe it shortcuts one of the key elements of A-109-- the full examination of alternatives in a competitive environment.

Under A-109, after agency head approval of the mission need statement, the agency would proceed to what OFPP has labeled the key action in the acquisition process. This is a formal solicitation so that industry can respond to the mission need with alternative concepts. Alternatives which might be proposed to satisfy a Federal office space need include (1) use of excess or surplus space, (2) joint use of existing Federal buildings, (3) purchase of a non-Federal building, (4) leasing of space, or (5) construction of a new building.

As described above, GSA uses its market survey techniques to identify alternatives and to arrive at a recommended solution without a formal solicitation.

Another difference concerns the level of competition which will be obtained. For construction projects, GSA normally selects a single architect-engineer (A-E) firm from a list of qualified firms. For leasing projects, GSA selects the lessor without formal competition and then negotiates the lease price.

The Procurement Commission and A-109, however, strongly favor open competition. Leasing, new construction, and other alternatives should compete openly, and smaller and newer businesses should be given a chance to compete. For new construction projects, the Commission favored maintaining at least two competing conceptual designs, and felt that the proposed concept of the end product should be a factor in selecting the A-E firm for the final design effort.

We have discussed these matters with OFPP and GSA officials. OFPP officials have also expressed confidence that the A-109 framework could be applied by Public Buildings Service; GSA officials, responsible for implementing A-109, on the other hand, have said that they believe GSA accomplishes the spirit of A-109 in its existing acquisition process. GSA objected to the A-109 concept of a formal solicitation to industry based on the approved mission need, and made the following comments:

--They feel formal competition is not necessary as GSA has the in-house expertise to adequately identify and consider alternatives and to arrive at the best solutions.

--They feel the A-109 framework is tailored toward acquisition involving research and development and the uncertainty inherent in these activities. They believe this high level of uncertainty does not exist in PBS activities.

--Statutory restrictions govern Public Buildings Service activities and require Congressional approval and funding before money can be spent on a lease or construction project exceeding \$500,000. Implementation of A-109 would require changes to existing statutes.

We have found no indication that GSA and OFPP are working together or with the appropriate Congressional Committees to resolve these issues.

You also requested that we address other specific areas. Each area is discussed below.

LEADERSHIP ROLE PLAYED BY GSA IN ASSISTING OTHER AGENCIES

We found that for major acquisitions of other agencies, GSA is taking the position, which by the way is consistent with OFPP direction, that other agencies are responsible for insuring compliance with A-109 for that portion of the acquisition process occurring within the agency. GSA becomes the executive agency for the construction or acquisition at some point in the process, GSA would be responsible only for compliance with A-109 for actions taken by GSA.

AGENCY REORGANIZATION TO ACCOMMODATE A-109 REQUIREMENTS

To study and direct implementation of A-109, GSA initially established a Systems Acquisition Office. This office prepared a detailed plan for A-109 implementation and a draft GSA order which, we believe, reflected the acquisition framework intended by A-109. The office was dissolved in mid-1977 after the change in administrations. The order was not approved and the implementation plan was not carried out, apparently because of the GSA objections to the A-109 concept previously described.

GSA's current organization for implementation of A-109 consists of the Acquisition Executive, who is the Deputy Administrator, a two-person staff in his office, and one person each in the Public Buildings Service and in the Automated Data and Telecommunications Service who have been assigned implementation responsibilities in addition to his basic responsibilities.

Actions to date include two GSA orders (an agency wide order and an order governing Public Buildings Service activities). A third order is being prepared governing automated data and telecommunications acquisitions and implementing instructions for Public Buildings Service activities are being prepared. As I said earlier, we believe the completed actions do not call for any significant change from the way GSA has conducted its PBS activities in the past.

You also requested that we examine training relative to A-109 and GSA's plans regarding ongoing programs. We believe that if GSA implements A-109 as currently planned, there would be little effect on ongoing programs and no need for new training programs. Regardless, ten GSA officials have attended A-109 training conducted by the Federal Acquisition Institute and about 37 GSA officials have heard a lecture on A-109 which was presented at a Regional Commissioner's meeting.

LEVEL OF EFFICIENCY OF
GSA'S SELF-SERVICE
STORES

On April 14, 1977, we reported that GSA self-service stores were not providing agencies with efficient service and necessary supplies.

Among our findings were:

(1) Because of inefficiencies in inventory procedures and reporting of inventory price changes, GSA did not have good control over the self-service stores stock. The lack of control can prevent prompt detection of thefts. Store employees knew in advance when inventories were to be taken and they participated in taking the inventories.

(2) The audit coverage of GSA stores was inadequate to provide management with necessary information to judge the effectiveness of store operations. Although the number and sales volume of self-service stores was increasing, the number of audits performed each year was decreasing. During the fiscal year 1972, 15 audits were made while only 5 audits were made during fiscal year 1974. No audits were performed during fiscal year 1975. Fifty-four self-service stores were not audited in three or more years. When audits were made, the findings were quite significant.

(3) Items carried by self-service stores were arbitrarily determined by store managers. There was no systematic method for determining what individual stores should carry.

(4) Customer agencies lacked good controls over purchases made by their employees from the stores. They also failed to control the issuance and usage of shopping plates. This leads to impulsive buying of items nonessential to Government needs or procurement of items for personal use.

Based on our recommendations, GSA took action to improve self-service store operations, such as the following:

- increased internal audit coverage to include the review of each store at least once a year.
- advised customer agencies of the need to control their own purchases.
- eliminated stockage of personal use items, such as aspirin, styrofoam cups, facial tissue, and room deodorizers.
- directed store managers to use more economical ordering techniques.

While these actions strengthened store operations, other things remain to be done. For instance, despite planned action to have knowledgeable personnel take inventories, GSA claimed it was unable to do so because of funding constraints.

ADMINISTRATION OF REPAIR CONTRACTS

In December 1976 we published a report ("Administration of Repair Contracts Needs Improvement," PSAD-76-179) showing that on all eight time and material contracts in our audit sample, contractors billed the Government for unauthorized and unsupported labor and material charges. The improper charges went unchecked because GSA did not take corrective action, although such charges had been made known to GSA in its internal audit reports since 1973.

We informed GSA of our findings and recommended detailed reviews by GSA to determine and recover the total overcharges to the Government. GSA started collection actions to recover \$464,000 in overcharges. Examples of the overcharges included:

--Labor costs for employees who did not work on the GSA contracts.

--Contractors billed for materials which were not used on the repair orders billed.

As a result of the situation disclosed by our audit work, three people were convicted in Federal court for false claims payments on the repair contracts. A fourth person was awaiting trial. Testimony during the trial in January 1978 disclosed that invoices of as many as 15 fictitious companies were used to bill the Government for non-existent parts used in repair of Government equipment. One witness, who had already pleaded guilty, stated that he had made his living since 1965 by submitting phony claims to the Government on repair contracts. He said he had worked for about 6 or 8 companies during those years.

GSA actions that have been taken to correct the deficiencies include:

--requirements for contractors to have a written procurement system to ensure that parts are purchased competitively;

--reconcile labor hours with payroll records at least quarterly;

Also each GSA region has been instructed to review all heavy equipment contracts and to implement followup procedures for reviewing contractor performance to include referral to the GSA Office of Audits when their preliminary review so warrants. Even though GSA took these actions, the kinds of fraud we reported on have not been stopped as evidenced by your hearings yesterday and by many media stories in the past several months.

Also, you asked that we be prepared to discuss specific leasing and construction programs, and GSA's construction management program. With me is Mr. Joseph Normile of our Logistics and Communications Division, who will present a statement in these areas. After his statement, we will be happy to answer any questions y u might have on our testimony.