



UNITED STATES GENERAL ACCOUNTING OFFICE
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JUN 4 1976

Mr. Donald P. Hodel, Administrator
Bonneville Power Administration
P. O. Box 3621
Portland, Oregon 97208

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Dear Mr. Hodel:

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At the request of Senator Henry Jackson, we have reviewed three cost studies prepared by BPA to determine whether to contract or continue performing in-house janitorial and routine maintenance activities at the Ross Complex, Vancouver, Washington. These studies were part of a "Manpower Utilization Review" which BPA began in 1975. Although the cost studies collectively were inconclusive, it is our understanding, based on discussions with Mr. Stan Efferding, your Assistant Administrator for Management Services, that BPA will continue to perform these activities in-house.

During our review, we noted certain opportunities for improving BPA's cost studies and reviews of Commercial and Industrial (C&I) activities as defined in Office of Management and Budget (OMB) Circular A-76. These matters were discussed with Mr. Efferding at the conclusion of our field work and are summarized below for your review and action.

BPA COST STUDIES DID NOT MEET A-76 CRITERIA

OMB Circular A-76 provides guidelines to implement the Government's policy of relying on private enterprise to supply its needs. It also provides general instructions as to costs that should be considered when comparing in-house and commercial alternatives for performing C&I activities. Agencies are responsible for implementing the provisions of A-76 by issuing appropriate instructions to their employees. However, BPA has not issued instructions on how cost studies required by A-76 should be performed. Our examinations indicated that the lack of such instructions adversely affects the quality and consistency of BPA cost studies.

We examined the three cost studies of janitorial activities at the Ross Complex to determine if they were in conformance with the requirements of Circular A-76. We found that the studies did not consider all costs that the Government would be incurring under each alternative. For example, none of the three studies included provisions required by A-76 for:

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- Federal taxes that would be paid if a contractor did the work.
- expenses of preparing bid invitations.
- expenses of evaluating and negotiating bids.
- expenses of awarding bids.
- expenses of contract administration.
- expenses of premature retirements of Government employees.

In addition, the cost studies used inconsistent data on square footage of building space maintained, and unsupported assumptions about contractor manpower requirements.

We believe that such omissions and inconsistencies would be minimized if BPA employees were provided detailed instructions on how to perform cost studies. We were informed by a Department of the Interior official that the Department is developing instructions for implementing Circular A-76 which will include guidance for performing cost studies. These instructions are planned to be issued by October 1, 1976.

TRIENNIAL REVIEWS NEED TO CONSIDER
C&I ACTIVITIES INDIVIDUALLY

Under Circular A-76, Federal agencies are required to compile and maintain an inventory of all in-house C&I activities having an annual output of products or services costing \$50,000 or more or a capital investment of \$25,000 or more. These activities are to be systematically reviewed on a triennial basis to determine if the in-house activities should be performed by contractors. Agencies may justify in-house activities of a commercial or industrial nature if:

- (a) procurement of a product or service from a commercial source would disrupt or materially delay an agency's program.
- (b) it is necessary for the Government to conduct a commercial or industrial activity for purposes of combat support or for individual and unit retraining of military personnel or to maintain or strengthen mobilization readiness.
- (c) a satisfactory commercial source is not available and cannot be developed in time to provide a product or service when it is needed.

- (d) the product or service is available from another Federal agency.
- (e) procurement of the product or service from a commercial source will result in a higher cost to the Government.

Circular A-76 provides that in-house C&I activities may be authorized when comparative cost studies of commercial and in-house alternatives show that the Government can provide the product or service at a lower cost than commercial sources.

BPA's latest triennial review in 1974 consolidated many individual C&I activities under 14 general functions. For example, we found that the general function listed as "machine shops and other jobbing and repairs" included the following C&I activities: machine shops, sheet metal shops, welding and plumbing shop, carpenter shop, paint shop, vehicle maintenance (nine different locations), custodial services, and field services. After consolidating these activities under a general function, BPA justified continued in-house performance on the basis that there were no commercial sources available that could adequately perform the consolidated function. BPA's Management Analysis Officer stated that, based on this justification, BPA did not prepare any comparative cost studies during its last triennial review.

Consolidation of individual C&I activities into general functions seems contrary to the spirit of A-76 because consolidation tends to limit management's ability to identify individual commercial or industrial activities which might be performed more efficiently by commercial sources.

Recommendation

To provide BPA management with improved oversight of commercial and industrial activities, we recommend that you require future triennial reviews of C&I activities to include (1) listings and evaluations of C&I activities on an individual basis, and (2) comparative cost studies of in-house and commercial alternatives when the use of commercial sources is feasible.

We would appreciate receiving your comments on the matters discussed in this report, and on any corrective actions initiated or planned by BPA. We appreciate the cooperation extended to our staff during this review.

Copies of this letter report are being sent to the Office of Audit and Investigation, Department of the Interior; and the Office of Federal Procurement Policy, Office of Management and Budget.

Sincerely yours,
JOSEPH W. KEGEL

For:

Philip A. Bernstein
Regional Manager

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