

GAO

Report to the Chairman, Subcommittee  
on Federal Services, Post Office, and  
Civil Service, Committee on  
Governmental Affairs, U.S. Senate

March 1990

## OMB CIRCULAR A-76

# DOD's Reported Savings Figures Are Incomplete and Inaccurate



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General Government Division

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March 15, 1990

The Honorable David Pryor  
Chairman, Subcommittee on  
Federal Services, Post Office,  
and Civil Service  
Committee on Governmental Affairs  
United States Senate

Dear Mr. Chairman:

This report responds in part to your request that we evaluate federal agency implementation of the Office of Management and Budget (OMB) Circular A-76, "Performance of Commercial Activities." A principal purpose of OMB's A-76 program is to achieve economy in government operations.

As agreed, we focused on the savings the Department of Defense (DOD) attributes to its A-76 efforts. As part of our evaluation, we assessed the (1) accuracy of A-76 savings data reported to OMB and (2) availability of A-76 administrative cost information. Although our work was limited to DOD's cost and savings data, it provides an insight into the accuracy of OMB's reported aggregate savings in government operations achieved by the A-76 program because most of the reported A-76 savings were made by DOD. A more detailed discussion of our objectives, scope, and methodology appears in appendix II. Other aspects of your request have been addressed in our previous reports.<sup>1</sup>

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## Background

OMB Circular A-76 applies to federal agencies' commercial activities—functions such as custodial services, data processing, and vehicle maintenance. (Inherently governmental functions—those intimately related to the public interest—must continue to be done by federal employees.) Commercial activities are to be studied to determine whether they could be done more economically by nonfederal sources—contractors—or by government employees.

The first step in an A-76 cost study involves the agency precisely defining the performance standards of the work it is doing and expects to do in the future.

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<sup>1</sup>Federal Productivity: DOD Functions With Savings Potential From Private Sector Cost Comparisons (GAO/GGD-88-63FS), April 8, 1988; and Federal Productivity: DOD's Experience in Contracting Out Commercially Available Activities (GAO/GGD-89-6), Nov. 28, 1988).

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As part of the A-76 study, the agency does a management review to determine how the in-house workforce should be organized and equipped to most efficiently accomplish the performance standards. The agency next determines how much it would cost to operate according to the revised in-house organization. This cost is the in-house bid to accomplish the work.

The agency also solicits contractors' bids for the work to be done. When all bids are received, the agency compares the in-house bid to the contractors' bids. In general, the agency is to award a contract to the lowest bidder whom the agency judges to be able to meet all the standards. In instances where there are no qualified contractor bids or the contractor bids exceed the in-house bid, the activity will be kept in-house to be done by government employees, who are to implement the revised in-house organization within 6 months of winning the bid.

Agencies are required to report to OMB quarterly the status of their A-76 studies. Estimated savings figures for completed studies are reported annually. Agencies are to calculate annual savings from each study by subtracting the anticipated new cost of the activity (based on the winning bid) from the estimated original cost to operate the function. Savings figures, therefore, are projections and are not based on actual experience.

To track A-76 studies on a DOD-wide basis, DOD's A-76 office uses a computerized data base. Installations provide required data to their component headquarters, who report the information quarterly to the Defense Manpower Data Center (DMDC). DMDC compiles reports and other information, including data reports for OMB.

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## Results in Brief

According to OMB, annual A-76 savings for fiscal year 1988 totaled over \$133 million. More than 80 percent of these reported governmentwide savings are attributable to DOD. However, our evaluation of DOD's savings data shows that OMB's figures do not accurately reflect the extent to which economy in government operations is being achieved. Specifically:

- DOD estimates expected cost savings from individual studies on the basis of standardized assumptions, not on the best available cost data.
- DOD does not routinely collect and analyze cost information to monitor actual operations after a cost study has been made.
- The computerized data base that DOD uses to accumulate information on expected cost savings contains inaccurate and incomplete information.

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- DOD's automated system miscalculates total annual expected cost savings.
  - DOD's system does not contain reliable information on the cost of implementing DOD's A-76 program, including the cost of doing the studies.

Therefore, neither DOD nor OMB has reliable information on which to assess the soundness of savings estimates or knows the extent to which expected savings are realized.

Complete and accurate savings information would help to reduce some of the controversy surrounding the A-76 program. As discussed in our previous reports, agencies are not embracing the program and Congress has legislatively prohibited A-76 cost studies of certain functions. There is no unanimity that the A-76 program is the appropriate way to get governmentwide efficiencies. The process is characterized as burdensome and time-consuming, agencies say the goals assigned them by OMB are unrealistic, and Congress has not fully accepted the program.

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## Principal Findings

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### Original Operating Costs Are Determined by Formula

Projected cost savings from individual A-76 studies are estimated centrally by DOD's A-76 office. Rather than basing savings on original operating costs as estimated by the installation doing the study, DOD's A-76 office uses a formula to compute savings. DOD's formula assumes that nonpersonnel costs vary directly with the number of people working in an activity, an assumption that is not valid for some types of costs, such as materials for housing repairs. In general, the cost of repair materials would be determined by the amount of repair material required, not by the number of people working on the repair.

DOD A-76 officials said they use the formula because not all accounting systems at military installations can identify the actual operating costs of individual activities of that installation. OMB A-76 officials do not support the use of a formula by DOD's A-76 office and said that installations could, from existing information, prepare a reasonably accurate estimate of original costs. Service officials said service headquarters could assume responsibility for reporting original activity costs, on the basis of available information from installations. They said they did not want to add another requirement on the already burdened installations' A-76 offices.

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## DOD Lacks Information on Modifications Made After the Cost Study

DOD does not know the extent to which the actual costs incurred after a cost study is completed differ from anticipated costs because it does not analyze the information the reporting system collects, and the system does not collect sufficient information. Sometimes, contracts are modified, contract administration costs are higher than originally estimated, or in-house reorganizations do not occur as planned. Without adequate information for post-study analysis, however, DOD cannot determine the extent to which projected savings are realized nor detect cost-growth problems in functions that have been studied.

Adequate post-study analysis requires the collection of at least three types of information that DOD does not now have.

- **Detailed information on contract cost increases:** DOD now collects only the information on total (annual) amounts paid to contractors. Information on the reasons for cost increases, and related dollar amounts, is not collected. Such data could be used to identify the extent of problems, such as errors or omissions in work statements.
- **Estimated contract administration staffing:** A comparison of staffing estimated at the time of contracting out and actual staffing would show the extent to which a change from the estimated staffing level has affected projected savings. DOD plans to collect information on actual staffing, but not on the estimated (baseline) staffing.
- **Revised in-house organization actual costs:** DOD's A-76 office does not collect any information about the implementation of the revised in-house organization, including whether it is saving as much money as projected. Although DOD does not collect this information, OMB requirements state that all agencies should.

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## DOD's A-76 Data Base Contains Inaccuracies and Incomplete Savings-Related Data

DOD's A-76 savings reports for fiscal years 1986 through 1988 did not include about 13 percent of the studies it completed in those years. Some studies were excluded because a DOD reporting instruction directed that if there were no qualified contractor bids, an installation should not report its in-house bid. Therefore, data that DOD would need to calculate the savings resulting from implementation of the revised in-house organization were not available. DOD officials speculated that these cost data involved what could be considered to be proprietary information that could not be disclosed. However, they acknowledged that such protection is not needed once the period for any appeals and protests has passed. DOD excluded other studies from its totals because cost-related data required to be reported to DOD were missing or inconsistent. The two types of excluded studies involved a total of more than \$36 million

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in annual (recurring) savings from studies completed in fiscal years 1986 through 1988.

One reason for not detecting the missing or inconsistent data—as well as for problems found with data that are not cost related—is flawed computerized edit checks and error correction procedures of the DOD A-76 reporting system. The system lacks comprehensive edit checks at the points where data are initially entered into computerized systems, and errors in the data base are not corrected in a timely manner. A majority of the suspected errors that DOD identified recently in its data base were for studies completed at least a year earlier—studies that DOD had, or should have, already included in its annual savings calculations. These, therefore, affected the annual savings figures reported to OMB.

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**Special Computer Program  
Miscalculates Reported  
Total Annual Savings**

The total annual A-76 savings figures we calculated by adding the savings from individual DOD cost studies did not match the figures produced by a special computer program that DOD developed to generate its total annual savings figures. One phase of this computer program miscalculates the savings figures. The average yearly miscalculation for fiscal years 1986 through 1988 was more than \$2 million each year. (For 2 of the years DOD's program produced lower savings figures, and for 1 year it produced a higher figure.) DOD had no compelling reason for using that phase of the computer program. Moreover, if DOD continues to use that phase of the program, OMB and DOD will have different annual savings figures, because OMB plans to compute its own annual figures by summing individual study savings reported to it.

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**Lack of Information on  
A-76 Program Costs**

Neither DOD nor OMB had much information on the cost of administration of the A-76 program. The overall cost of the program, including doing the studies, has been estimated by the Deputy Assistant Secretary of Defense for Installations at between \$150 million and \$300 million per year. None of these costs, such as those incurred in doing the studies, are considered in estimating savings. The costs of administering the A-76 program have been a congressional concern. For example, discussions of DOD's appropriation for fiscal year 1990 have focused on the costs of DOD's A-76 program.

DOD requires its components to report staff hours expended to do individual studies. However, we found that most of the data are not being

reported or do not appear to be reasonable, and DOD plans to stop collecting the information. OMB does not require agencies to collect this information. OMB believes that routinely collecting information on the cost of the A-76 program is not appropriate because the A-76 program is aimed at achieving management efficiencies, which is what all government managers should be doing. While we believe that information on study costs could be useful for getting a clearer picture of the costs and benefits from the A-76 program, OMB, DOD, and service officials noted difficulties in getting installations to report reliable information.

## A-76 Program Remains Controversial

According to OMB, the A-76 program has been achieving economy in government operations. The President's report, Management of the United States Government, Fiscal Year 1990, stated that annual A-76 savings in fiscal year 1988 totaled over \$133 million. More than 80 percent of these reported savings were from DOD's A-76 studies.

In 1988 and 1989 reports<sup>2</sup> and testimony,<sup>3</sup> we discussed controversies surrounding the A-76 program. Proponents believe it can achieve substantial savings and improve government productivity. Others are concerned about its potential effect on the anxious employees who spend time looking for new jobs and on federal managers who are left to accomplish essential functions with fewer workers. Moreover, there is no unanimity that the A-76 program is the appropriate way to get governmentwide efficiencies because (1) the process is characterized as burdensome and time-consuming, (2) agencies say the goals assigned them by OMB are unrealistic, and (3) Congress has not fully accepted the program. In turn, agencies are not embracing the program, and Congress has legislatively prohibited A-76 cost studies of certain functions. Congress also has been concerned about the costs to administer the program. In our opinion, accurate and complete program data would help resolve some of the controversy and stimulate more informed debate on the issue by providing clearer insight into the costs and benefits of federal agencies' efforts.

<sup>2</sup>Federal Productivity: DOD's Experience in Contracting Out Commercially Available Activities (GAO/GGD-89-6), Nov. 28, 1988; and Managing The Government: Revised Approach Could Improve OMB's Effectiveness (GAO/GGD-89-65), May 4, 1989.

<sup>3</sup>Statement of Gene L. Dodaro, before the President's Commission on Privatization (GAO-T-GGD-88-7, Jan. 7, 1988).

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## Conclusions

Neither DOD nor OMB knows with specifiable accuracy the extent to which the A-76 program is meeting the objective of achieving economy in government operations. Estimates of annual recurring savings have been reported, and program costs have also been estimated. However, neither the reported savings figures nor cost estimates are supported by complete and accurate data. Accordingly, some of the controversy surrounding the A-76 program is understandable—Congress questions whether projected savings are real, and agencies are not sure of the benefits of implementing the program.

A number of factors contribute to the inaccuracy of DOD's savings estimates. DOD estimates expected cost savings from individual studies on the basis of standardized assumptions, not on the best available cost data. Further, DOD's A-76 office does not routinely collect and analyze cost information to monitor actual operations after a cost study has been made, nor does it assess the extent to which actual post-study costs differ from anticipated costs. Also, DOD's instructions for its A-76 reporting system cause nonreporting of some needed data. Moreover, that system lacks comprehensive edit checks at the points where data are initially entered into computerized systems. As a result, data reported by DOD services are often incomplete or inconsistent. Those errors also are not being corrected in a timely manner. Further, DOD's program used to calculate total annual savings miscalculates the reported savings figures. We believe DOD can correct each of these problems.

Regarding the costs of administering the A-76 program, neither DOD nor OMB has much information. Such information, together with complete and accurate savings data, could present a more comprehensive picture of program costs and benefits and help to determine the most cost-effective use of resources. However, A-76 program officials at OMB, DOD, and the services believe that there are difficulties in obtaining reliable information from installations on the hours expended in doing A-76 studies, and DOD plans to stop collecting this information. In general, these officials believe the relative costs would outweigh the benefits of collecting program cost information. Moreover, OMB officials believe that doing reviews to determine the most efficient way to accomplish operations is a management responsibility that should be carried out routinely and thus should not be counted as a cost against A-76 savings.

We recognize that obtaining reliable information on A-76 administrative costs may be difficult. Not all military accounting systems automatically provide such information, and staff time and effort would be needed to

develop it. Even so, we believe more needs to be done to measure A-76 administrative costs given the following:

- The contentious differences between proponents and opponents of A-76 programs can affect program implementation.
- Neither proponents nor opponents have hard data to support their positions.
- Reliable data could help resolve the controversy and stimulate more informed debate on the costs and benefits of A-76.
- Congressional focus on A-76 administrative costs is increasing.

As a first step, DOD should design and pilot test an approach for reliably measuring its A-76 administrative costs. On the basis of the pilot-test information—the costs versus the benefits—OMB should be in a position to accurately determine the level of A-76 administrative costs and whether it would be worthwhile to collect these costs governmentwide.

## Recommendations

To improve DOD's oversight of its A-76 program and the reliability of A-76 program savings reported by DOD, we recommend that the Secretary of Defense take the following actions:

- Make DOD components responsible for estimating the original cost of activities being studied, using standardized budgetary and actual cost information, rather than using a formula to calculate this, and use these cost figures in computing and reporting savings.
- Improve DOD's ability to analyze cost changes that occur after cost studies are completed by requiring DOD's A-76 office to collect information on (1) reasons for contract cost changes and related dollar amounts, (2) estimated contract administration costs (baseline costs), and (3) revised in-house organization costs (activity costs after the revised in-house organization is implemented).
- Report to OMB actual costs for revised in-house organizations, as required.
- Change DOD reporting instructions to require reporting of the in-house organization bid for all completed cost studies.
- Direct the Secretaries of the Air Force, Army, and Navy to ensure that there are comprehensive edits on A-76 data at the point where they are initially entered into a computerized system, in order to reduce the number of errors in DOD's A-76 data base.
- Place increased emphasis on correcting data errors in the DOD A-76 data base as soon as they are found by error-identification programs.

- Change the procedure for calculating total A-76 savings for a fiscal year by summing savings across studies. The portion of the computer program currently used to produce the annual estimated savings total should be deleted to avoid the possibility of errors in reported information.

To help resolve the controversy surrounding the A-76 program, we recommend that the Secretary of Defense design and pilot test an approach for reliably measuring A-76 program administration costs at DOD, with OMB monitoring the progress of the effort. On the basis of the pilot test, OMB should be in a position to accurately determine the level of A-76 administrative costs and whether it would be worthwhile to require their collection governmentwide.

## Agency Comments

OMB commented on a draft of this report and generally agreed with our findings and concurred with our recommendations. It said it will monitor DOD's progress in pilot testing an approach to reliably measuring A-76 administrative costs.

However, OMB expressed concern about what it called the report's "inference" that because DOD's savings figures are suspect, the A-76 program may not be achieving economy in government operations. This was not our intent. We could not determine, from the available data, the impact the program has had or whether the reported economies were overstated or understated. Thus, we have modified our report's language to minimize the possibility that readers would draw other inferences. Our principal message is that accurate A-76 savings figures are needed to address long-standing and growing congressional concerns about the A-76 program's value and achievements. While we agree that the program is appealing conceptually, as long as the data supporting its cost effectiveness are open to question, the program will continue to be vulnerable to doubts about its efficacy in practical application.

OMB also questioned whether our review, which was confined to DOD, has governmentwide applicability. We agree that our review provides no indication whether the inaccuracies found in DOD's data system exist in other agencies. However, because DOD was responsible for more than 80 percent of estimated governmentwide savings in fiscal year 1988, we believe that cleaning up its data base will result in more complete and accurate estimates of governmentwide A-76 savings. We have modified the report to make this point more clearly.

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We requested written comments from DOD, but none were provided. However, we obtained the department's views during an exit conference, and these are reflected throughout the report. DOD officials generally agreed with our recommendations. However, as discussed on page 17 of this report, they believe the responsibilities of the A-76 office end with a cost study's completion and do not involve gathering further information.

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As arranged with the Subcommittee, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days after its issue date. At that time, we will send copies to other appropriate congressional committees and Members, the Secretary of Defense, and the Director of the Office of Management and Budget. We will also send copies to other interested parties upon request.

As agreed with the Subcommittee, we have also included as appendix IV a list of recent GAO reports that address issues related to this report.

Major contributors to this report are listed in appendix V. Please contact me at 275-8676 if you or your staff have any questions concerning the report.

Sincerely yours,



L. Nye Stevens  
Director, Government Business  
Operations Issues



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**Abbreviations**

<b>AFMEA</b>	<b>Air Force Management Engineering Agency</b>
<b>DMDC</b>	<b>Defense Manpower Data Center</b>
<b>DOD</b>	<b>Department of Defense</b>
<b>OMB</b>	<b>Office of Management and Budget</b>
<b>OPM</b>	<b>Office of Personnel Management</b>

# DOD's Reported A-76 Savings Figures Are Incomplete and Inaccurate

OMB Circular A-76 applies to federal agencies' commercial activities, such as custodial services, data processing, and vehicle maintenance. The A-76 process requires that agencies identify all activities being done by government workers that could be done by nonfederal sources and schedule those activities for review. As the initial step in the actual A-76 cost study process, the agency must precisely define the performance standards (quality, timeliness, quantity) of the work it is doing and expects to do in the future. These standards are incorporated in a written document called the performance work statement. This work statement is the basis for developing both the in-house cost estimate and contractors' bids.

As part of the A-76 process, the agency does a management study to determine how the in-house workforce should be organized and equipped to most efficiently accomplish the performance standards specified in the work statement. The in-house workforce's most efficient organization is designed to enable the government workers to be more competitive with private sector contractors in bidding for the work. The agency next determines how much it would cost to operate according to the revised in-house organization. This cost becomes the in-house bid to accomplish the commercial activity.

The agency solicits contractors' bids for the work to be done. When all bids are received, the agency compares the in-house bid to the contractors' bids. The agency awards a contract to the lowest-bidding contractor who is judged by the agency to be able to meet all the government's quality, timeliness, and quantity standards, provided that (1) the total cost of contract performance is less than the in-house bid, and (2) the margin of difference between the total cost of contract performance and the in-house bid exceeds 10 percent of the personnel costs of the in-house bid. This 10-percent margin is included in the cost comparison to take into account such factors as temporary decrease in efficiency and effectiveness, the cost of retained grade and pay, and other unpredictable risks that may occur as a result of the conversion to contract. The total cost of contract performance includes, in addition to the contractor's bid price, the government's estimated costs of severance pay, relocating and retraining the government's workers, and administering the contract.

If the conditions listed above are not met, the activity will be retained in-house and be done by government workers, who must implement the revised in-house organization within 6 months of winning the bid. Affected parties can file an appeal as a safeguard to help ensure that

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**Appendix I  
DOD's Reported A-76 Savings Figures Are  
Incomplete and Inaccurate**

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the decision is equitable and in accordance with A-76 procedures. Projected savings from each cost study are computed by DOD's A-76 office, which reports to OMB the projected savings from all its components' cost studies.

In January 1988, the Deputy Assistant Secretary of Defense for Installations testified that A-76 cost comparisons result in an average savings of 30 percent of the original cost of operations regardless of whether the activity is retained in-house or contracted out. Savings are defined as the difference between the anticipated cost of the activities (based on the winning bid) and the estimated original cost of the activities before the studies began. For A-76 studies completed in fiscal years 1986 through 1988, DOD reports showed average annual (recurring) savings of about \$93 million.

DOD's experience with A-76 cost studies is the most extensive of all federal agencies. DOD records show that from fiscal year 1984 through 1988, DOD completed cost comparisons covering about 40,000 employee positions.<sup>1</sup> DOD uses a computerized data base to track and monitor these studies. Installations provide required data to component headquarters, which in turn report quarterly on the status of their A-76 studies to the Defense Manpower Data Center (DMDC). DMDC prepares reports and other output as requested by DOD A-76 officials, including data for OMB's A-76 tracking system.

We found that the savings figures DOD's A-76 office reports to OMB are not accurate, and DOD's A-76 office does not have a complete picture of A-76 efforts for the following reasons:

- DOD's A-76 office estimates savings from individual cost studies using a formula, rather than having the services project the savings using installations' known operating costs.
- DOD's A-76 office lacks information on modifications made to contracts or to the revised in-house organization after a cost-study decision has been made.
- DOD's A-76 data base contains inaccurate and incomplete information.
- The computer program DOD uses to calculate total annual estimated A-76 savings miscalculates the savings figures.
- DOD lacks information on A-76 program costs.

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<sup>1</sup>OMB reported that all other federal agencies' studies covered a total of about 16,000 positions during this period.

## Original Operating Costs Are Determined by Formula

Projected annual (recurring) savings from individual A-76 cost studies are estimated centrally by DOD's A-76 office, using a formula, rather than by service headquarters or the installation doing the study, using standardized budgetary and actual cost information. DOD's A-76 office projects savings from each cost study by subtracting the anticipated new cost of the activity (based on the winning bid) from the estimated original operating cost of the studied function. To do this, the A-76 office uses a formula to estimate the original operating costs of activities and uses the estimated cost figures to compute the A-76 savings figures reported to OMB. DOD A-76 officials said that they use the formula because not all accounting systems at military installations can identify the actual operating costs of the individual activities being studied. OMB's A-76 official said that original costs should be estimated by installation officials who have much of the actual cost information rather than be calculated by DOD's A-76 staff using a formula. Service officials said, however, that installations' A-76 staffs already have too many responsibilities. They said that the services' headquarters staffs could assume responsibility for reporting original activity costs.

DOD's formula for estimating the original cost of an activity is based on the assumption that the operating cost per full-time employee to do that activity remains constant, regardless of the number of people doing the work in-house after the reorganization. Specifically, to obtain its estimated original cost of the activity, DOD calculates the per-person cost of the revised in-house organization determined by the management study and multiplies that cost by the number of people needed for that activity before the study began.<sup>2</sup>

DOD's formula implicitly assumes that if the number of people staffing an activity decreases, then all costs that are being bid on for that activity—including materials and supplies, overhead, and equipment—also decrease by the same proportion. For certain types of costs (such as telephones or office supplies), this assumption may be valid. However, other types of costs, such as materials and supplies for housing repairs or the equipment costs of a computer center, are largely independent of the number of people who staff an activity. A DOD A-76 official said that validation of DOD's formula was done some years ago using a small sample of activities, but he was unable to provide us with any documentation.

<sup>2</sup>For example, if the in-house bid is \$500,000 and proposes staffing of 10 people, the per-person cost is \$50,000. If 16 full-time people were needed for an activity before the study began, DOD's formula would compute the estimated original cost of the activity to be \$800,000 (\$50,000 x 16).

OMB officials said that they do not agree that DOD needs to use a formula to estimate original costs. They believe that installation officials doing a cost study can prepare a reasonably accurate estimate of the original operating cost of an activity on the basis of the installation management study and on actual personnel, travel, materials, and supplies budgets.

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## **DOD's A-76 Office Lacks Information on Modifications Made After the Cost Study**

Sufficient data to monitor A-76 savings projections are not being routinely collected. DOD's reporting system collects only a few items of information about performance of activities after the cost study decision has been made to contract out or keep the function in-house. Without an adequate monitoring and evaluation system in place, DOD does not know the extent to which projected costs or savings were realized. DOD does not try to detect cost growth problems in activities after the studies have been completed, and neither DOD nor OMB has a complete view of DOD's A-76 program results. Projected savings do not reflect (1) modifications to contracts that affect the final contract price, (2) differences between estimated and actual contract administration costs, or (3) modifications to the revised in-house organization when activities remain in-house.

A DOD A-76 official said that his office does not attempt to evaluate the data it collects or determine the reasons for contract cost increases reported to it, because once an A-76 study has been completed, the activities involved are no longer A-76 issues and are therefore not within his area of responsibility. Similarly, DOD's A-76 office does not want to collect additional information about the results of completed studies. We believe that DOD's position on this issue renders DOD's savings figures questionable and prevents DOD from having a complete view of A-76 program results.

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## **Modifications to Contract Costs Not Analyzed**

Cost increases sometimes are due to errors or omissions in work statements or other parts of the contract. Contract modifications to correct such errors can cause the projected savings for a study not to be realized. We reported in November 1988<sup>3</sup> that work statements were often incomplete or lacked the specificity of requirements and tasks needed by the in-house work force to estimate costs and to enable contractors to develop accurate bids. An Air Force survey completed in October 1988 of 11 larger studies completed in fiscal year 1985 found that of the 6

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<sup>3</sup>Federal Productivity: DOD's Experience in Contracting Out Commercially Available Activities (GAO/GGD-89-6, Nov. 28, 1988).

studies won by contractors, contracts for 2 were terminated because of disagreements about the scope of work defined by the contract. Another of the six studies resulted in higher-than-expected contractor payments (11 percent higher in fiscal year 1986, 20 percent in 1987) for which the Air Force survey was unable to determine the reason.

DOD's A-76 reporting system collects only figures for the total contract costs for each of the first 3 years of each contract, and DOD reports these data to OMB's A-76 office. Two of the military services have decided that they need additional information on contract cost changes. Officials at the Air Force Management Engineering Agency (AFMEA) said that Air Force installations will, in the future, be required to report specific reasons for cost increases of 10 percent or more. The Army now requires its installations to identify, by dollar amounts, the reasons for changes in contract costs for 5 years after a cost comparison final decision and is evaluating the extent to which it will ask for retroactive information about such cost changes.

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### **Estimated Contract Administration Costs Not Captured**

In a cost comparison, an estimate for contract administration costs is added to the contractors' bids. This is an additional cost to the government if a contractor wins the competition. OMB's A-76 Cost Comparison Handbook sets out authorized contract administration staffing levels, based on the number of employees of the revised in-house organization. If the installation believes it will need more staff than specified by OMB standards, it must request a waiver from its headquarters organization.

Contract administration costs can increase after a cost study has been completed. For example, the Army Audit Agency reported in 1983 that the average contract administration costs for 12 A-76 contracts it reviewed were more than double the estimates used in the cost comparison. In a June 1989 report, the Army Audit Agency found that the contract administration costs for 10 contracted-out activities were about \$2.3 million higher than originally estimated by the government.

DOD's A-76 office lacks the information to compare actual to estimated costs to determine if projected savings have been affected by a change from the estimated staffing level. The office plans to add, as a data element in its reporting system and data base, the number of personnel performing contract administration duties for each completed study won by a contractor. However, the office is not planning to include in its A-76 data base any information on the estimated staffing level used in

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the cost comparison. Without such baseline information, increases in contract administration costs cannot be identified.

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**Information on  
Modifications to In-House  
Staffing and Costs Not  
Collected**

For in-house wins, problems have been reported with the implementation of revised in-house organizations. For example, in a 1984 report on 25 commercial activities that remained in-house, the Army Audit Agency found 8 activities for which the revised in-house organization had not been implemented promptly or in the manner prescribed by the management study. It reported that the costs of in-house operations were higher than projected. The Air Force survey completed in October 1988 (of 11 larger studies completed in fiscal year 1985) found that of the 5 installations with in-house wins, 1 had not implemented the revised in-house organization and 1 could not, except with considerable research, determine whether actual costs after the win were above, below, or the same as the winning in-house bid.

The services have established different ways to monitor the implementation of the revised in-house organization. A DOD Inspector General official told us that the Navy controls implementation through its budget, and the Air Force controls through billets or position staffing systems. The Army now requires, for in-house wins, that the installation report actual in-house organization costs and staffing for 5 years after the cost comparison final decision. Service officials told us that it can be difficult to track in-house activity costs over time because an activity's functions often do not remain constant.

DOD's reporting system does not collect information (such as actual costs) about the implementation of revised in-house organizations. A DOD A-76 official said his office does not collect these costs because they do not consider events occurring after an A-76 study has been completed to be A-76 issues. However, because the OMB supplement to Circular A-76 requires the revised in-house organization be implemented within 6 months of the cost-study decision, we believe collection of these data is appropriate under the A-76 program.

DOD is not reporting required information on in-house costs to OMB. OMB's A-76 tracking system is designed to collect revised in-house organization costs for three performance periods (up to 3 years) following the cost competition final decision. Because it does not collect the data, DOD cannot report the information to OMB.

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## **DOD's A-76 Data Base Contains Inaccuracies and Incomplete Savings-Related Data**

DOD's computerized A-76 data base is the source from which DOD provides program information to OMB and to Congress. When we examined the data used to report savings, we found that DOD excluded about 13 percent of all studies completed in fiscal years 1986 through 1988 from its savings reports. These excluded studies represent at least \$36 million in annual (recurring) savings.

DOD's data base, with information as of December 31, 1988, showed that 489 studies were completed during fiscal years 1986 through 1988. The DOD computer program used to calculate savings excluded 63 of these from its calculations. Of these 63, the program excluded 19 because of a problem caused by a DOD reporting instruction. The other 44 studies were excluded because the data base did not contain cost-related data needed to calculate savings, or it contained inconsistent data.

In reviewing the cause of the missing and inconsistent data, we found that the computerized edit checks and error correction procedures of the DOD A-76 reporting system need improvement. Comprehensive edit checks do not exist at the point where data are first entered into a computerized system—at the service level. Also, errors contained in DOD's error identification listings are not being corrected in a timely manner. As a result, DOD's reported savings continue to be inaccurate and remain uncorrected.

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## **DOD Reporting Instruction Causes Needed Information to Remain Unreported**

DOD's instructions for reporting cost study information affects reported savings figures. Included in DOD's September 1985 A-76 reporting procedures (DODI 4100.33) is an instruction that if no contractor bids are received during a cost study, or all bidders are disqualified, then the estimated cost of the revised in-house organization is not to be reported to DOD. DOD uses this cost figure in the formula that calculates projected annual savings from a study. Nonreporting causes DOD to exclude such studies from its calculation of total projected savings for the year, erroneously reducing DOD's total reported savings.

DOD's data base shows 19 of these studies were reported to DOD as having been completed during fiscal years 1986 through 1988. To identify the effect of DOD's reporting instruction, we calculated what DOD's approximate savings estimates would have been for 18 of these 19 studies (for 1 study, there were insufficient data to calculate savings). Table

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I.1 shows approximately how much these studies would have changed DOD's total projected savings.<sup>4</sup>

**Table I.1: Projected Recurring Savings Excluded by DOD Reporting Instruction**

<b>Fiscal year</b>	<b>Number of studies</b>	<b>Excluded projected savings</b>
1986	8	\$1.7 million
1987	8	12.1 million
1988	2	2.0 million
<b>Total</b>	<b>18</b>	<b>\$15.8 million</b>

DOD's reporting instruction is inconsistent with OMB's A-76 reporting procedures, which do not provide any exception for the reporting of the cost of the revised in-house organization. DOD A-76 officials speculated that the information could be considered proprietary and should therefore be kept confidential. They agreed, however, that once the period for any appeals and protests has passed, such information can be disclosed and should be reported.

**Other Errors With Savings-Related Data**

To compute savings figures, DOD's computer program requires that installations report original (baseline) staffing for an activity, the bid (cost) and planned staffing for the revised in-house organization, and the cost of contracting out. If any of the needed data are missing, or are inconsistent (for example, the in-house bid is reported as less than the contractor bid, yet the bid winner is identified—in another data field—as being the contractor), then the program excludes the study in question. For studies reported as completed in fiscal years 1986 through 1988, DOD's computer program excluded 44 studies from DOD savings reports because of problems with missing data or inconsistent cost-related data. For 25 of these 44 studies, enough information was available in the data base for us to calculate a minimum approximate projected savings from a study and thus approximate the effect of these data errors. Table I.2 shows what we were able to identify as additional unreported savings estimates.

<sup>4</sup>The methodology used for tables I.1 and I.2 is described in appendix II.

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**Table I.2: Projected Recurring Savings Excluded Because of Data Problems**

<b>Fiscal year</b>	<b>Number of studies</b>	<b>Excluded projected savings</b>
1986	7	\$15.5 million
1987	5	.5 million
1988	13	4.5 million
<b>Total</b>	<b>25</b>	<b>\$20.5 million</b>

**Edit Checks and Error Corrections Need Improving**

Installations initially report information in the data base to their respective service headquarters, which in turn report the information to DOD. Each service has created and maintains its own computerized A-76 data base and management information system, containing both DOD-required data elements (such as the study announcement date) and service-unique data elements (for example, the date when development of the work statement began). Data reported to each service by the installations are subject to various checks by the services to ensure accuracy and completeness. DMDC also prepares a quarterly feedback report that lists suspected errors.

We identified two problems with the existing system. First, comprehensive edit checks (checking for all incorrect data entries) often do not exist where most data are first entered into a computerized system—at the service level. As a result, when the data reach DOD headquarters level, large numbers of suspected errors are being found. For example, the second quarter 1989 feedback report listed 1,005 suspected errors, such as an unreported cost comparison period or a missing or incorrect appeal result.

Second, errors noted on DMDC's error identification listings are not being corrected in a timely manner. We found 799 of the 1,005 suspected errors were for data involving 448 completed studies—most of which have been completed for more than a year. We noted that one service, with 652 completed studies in the data base, had only 26 suspected errors listed for those studies; another service, with 865 completed studies, had 527 suspected errors. Since OMB does not make retroactive changes to the cumulative savings figures it reports annually, the effects of untimely error correction include erroneous year-end savings reports to OMB and erroneous cumulative savings reports by OMB.

Earlier in this report, we noted the extent of problems with data used to calculate savings. The quality of the remaining data is also important

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for management purposes. For example, a change in severance pay procedures, effective March 28, 1990, permits severance pay for federal employees displaced by A-76 cost studies who go to work for successor contractors. DOD already collects information on employees displaced because of A-76 contracting out. However, after reviewing fiscal year 1986 through 1988 data in the A-76 data base, we concluded that errors in the data would prevent DOD from accurately reporting on or reaching correct conclusions about these data—including whether OPM's change is accomplishing its intended purpose of encouraging displaced federal employees to go to work for winning contractors.

DOD's A-76 staff plans to begin checking service-provided information using new, microcomputer-based error routines. DOD's A-76 official said the first error check—checking cost study dates—was started in September 1989. He said when the system is fully operational, his office would supply the error lists to the services quarterly, replacing the DMDC feedback report.

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## **Special Computer Program Miscalculates Reported Total Annual Savings**

About 5 years ago, DOD officials responsible for the A-76 program created a special computer program to calculate annual (recurring) savings for studies completed each year. One phase of the program generates a total annual savings figure that cannot be matched to the sum of the savings from each individual study for that year. There is no clear rationale for the use of this part of the special program, and continuing its use will lead, in the future, to OMB and DOD having different total savings figures.

To check the accuracy of the portion of the DOD computer program used to calculate annual savings, we summed the savings estimates for the 426 studies of fiscal years 1986 through 1988 that DOD included in its calculations, using DOD's savings formula for each individual study. In comparing our results with those of the computer program, we found that part of the computer program miscalculates total savings. The difference in total savings figures produced by that portion of the computer program and by summing is shown in table I.3. DOD A-76 officials could not explain why annual savings were not simply calculated on an individual study basis and then summed, and they were not aware of the magnitude of the difference.

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**Table I.3: Differences in Projected  
Recurring Savings—Special Computer  
Program vs. Summing**

<b>Fiscal year</b>	<b>Projected savings, DOD program<sup>a</sup></b>	<b>Projected savings, summing</b>	<b>Difference</b>
1986	\$84.6 million	\$88.9 million	+ \$4.3 million
1987	\$85.7 million	\$87.0 million	+ \$1.3 million
1988	\$129.3 million	\$128.0 million	- \$1.3 million

<sup>a</sup>At our request, DMDC provided calculated totals for studies completed in fiscal years 1986 through 1988 using information as of December 31, 1988. These totals do not match those reported at the end of each fiscal year by DOD (\$87 million, \$78 million, and \$114.5 million) because of changes to data made by services and agencies during quarterly updates subsequent to the year-end reports.

Since the first quarter of fiscal year 1989, DOD has been providing computerized individual study information to OMB. OMB A-76 officials said that they intend to use this information in the future to calculate total DOD savings by summing across individual studies. Thus, if DOD continues to use its special computer program, total savings figures as calculated by DOD and OMB will no longer match.

## Lack of Information on A-76 Program Costs

Neither DOD nor OMB has much information about the overall administrative costs of the A-76 program, so that neither knows whether the program is cost beneficial. The issue of A-76 program costs has become a concern to several congressional committees. For example, expenditures to administer the program have been a focus of congressional discussion on DOD's appropriation for fiscal year 1990.

DOD plans to stop collecting data on the hours expended to do individual A-76 studies. While such data could be useful in determining the cost effectiveness of the program, A-76 officials at all levels noted difficulties with its collection.

We found that little is known about actual DOD A-76 program costs. In January 1988, in testimony before the President's Commission on Privatization, the Deputy Assistant Secretary of Defense for Installations said that DOD spends about \$150 million to \$300 million per year on the A-76 program, and there are probably large costs in addition to that which DOD could not quantify.<sup>5</sup> DOD's A-76 and DMDC staffs could not provide us with any additional information on overall costs. An OMB A-76 official said that OMB's only information on DOD costs was from about 1985, when DOD reported that there were more than 1,700 personnel working

<sup>5</sup>A-76 program costs and savings figures should be compared with caution. Costs during a year are one-time and involve both studies completed that year and studies still in progress. A-76 savings during a year result from (1) studies completed in prior years (such studies generate a stream of recurring—annual—savings), and (2) studies completed in that year.

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full time on the A-76 program throughout DOD. OMB's A-76 official said that OMB does not believe information on the cost of the A-76 program should be routinely collected because the A-76 program is aimed at achieving management efficiencies, which is what all government managers should be doing. OMB has said that managers who meet what should be normal performance standards will not encounter any new requirements in doing an A-76 cost study.

DOD now requires its components to collect and report the number of staff hours spent to do each cost study, but it is planning to eliminate this requirement. We believe that such information could help evaluate whether the studies being done represent the best use of A-76 resources. For example, some service A-76 officials told us that for activities with 10 or fewer full-time positions, the costs of doing an A-76 study exceeded, on average, the expected savings from such a study.<sup>6</sup> According to DOD's data base, 189 (39 percent) of the 489 studies completed in fiscal years 1986 through 1988 involved 1 to 10 positions (table I.4).

**Table I.4: Completed Studies Involving 1 to 10 Positions ("Small Studies")**

Fiscal year	All completed A-76 studies		Small studies	
	No. of studies	Positions studied	No. of studies	Positions studied
1986	182	6,769	72	431
1987	148	7,570	52	328
1988	159	10,766	65	365
<b>Total</b>	<b>489</b>	<b>25,105</b>	<b>189</b>	<b>1,124</b>

DOD and service officials said that they do not use the data on hours expended, and the data being reported are unreliable because installations are not using the same criteria to measure the number of staff hours. OMB's A-76 tracking system does not require the reporting of hours or costs to do individual A-76 studies. OMB considers study costs to be a normal cost of business. OMB's A-76 officials also noted the difficulty of obtaining reliable data. Our analysis of the data in the DOD A-76 data base on hours expended found that most installations are either not reporting hours or are reporting numbers that do not appear to be comparable to other studies.<sup>7</sup>

<sup>6</sup>Sufficient data were not available for us to evaluate the validity of this statement.

<sup>7</sup>We categorized the hours of study that were reported as "not comparable" if the total represented either less than 25 hours per position in the revised in-house organization, or more than 1,000 hours per position.

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# Objectives, Scope, and Methodology

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We did this assignment at the request of the Chairman of the Subcommittee on Federal Services, Post Office, and Civil Service, Senate Committee on Governmental Affairs. As agreed with the Subcommittee, we focused on the A-76 efforts of the DOD, which has the most extensive experience with A-76 cost studies. We did not review any other agencies. Our objectives were to assess (1) the accuracy of DOD's A-76 savings data reported to OMB and (2) the availability of information on the administrative costs of DOD's A-76 program. We did not examine the part of the A-76 program involving conversion of an activity to a contract status without a full cost study, because DOD's reported savings do not include these conversions.

To assess the accuracy of reported savings, we reviewed DOD's procedures for calculating and reporting A-76 program savings. We also reviewed the completeness and consistency of the data on which DOD has based its savings reports, using a computer file extracted from DOD's A-76 data base, which we obtained from the Defense Manpower Data Center, Rosslyn, Virginia. To assess the availability of information on the administrative cost of DOD's A-76 program, we reviewed DOD reporting instructions and the administrative cost information in DOD's A-76 data base.

We obtained background information from, and discussed our findings and conclusions with, A-76 officials at OMB, DOD, and headquarters of the Army, Navy, and Air Force. Since the Air Force Management Engineering Agency (AFMEA) at Randolph Air Force Base in Texas manages the Air Force A-76 management information system, we also met with AFMEA officials. Because these three services account for more than 95 percent of all DOD A-76 reported savings, we did not interview officials of other DOD components. We also reviewed prior reports on the A-76 program issued by GAO, DOD, and the services and other background information.

To estimate approximate (and minimum) savings for the studies completed in fiscal years 1986 through 1988 that were excluded from DOD's savings reports, we used the following methodology to develop tables I.1 and I.2. This methodology is generally consistent with DOD's formula for estimating savings, but its application is dependent on the DOD data base containing sufficient data.

- For studies where the bid was won by the contractor, we counted as savings the difference between the bid of the revised in-house organization and the cost of contracting out.

- For studies where the staffing of the revised in-house organization was reported as being equal to or lower than the staffing of the original (baseline) organization, but no cost of the revised in-house organization was reported, we based our savings estimates on the reduction in the number of positions. We assumed that the savings from each position reduction was the same as the average cost, per person, of the revised in-house organizations for all other studies completed during the same fiscal year that DOD included in its savings figures and which were won in-house.
- For studies where there was no qualified contractor bid but the cost of the proposed in-house organization was reported despite the DOD reporting instruction not to do so, we used the standard DOD formula to estimate savings.

We restricted our analysis to information for studies completed in fiscal years 1986 through 1988 because DOD issued the most recent reporting procedures for its A-76 data base in September 1985, and because OMB Circular A-76 was significantly revised in August 1983. The extract from the DOD A-76 data base that we used contained information on completed and in progress cost comparisons as of December 31, 1988. We did not verify information in the data base by comparing it to source documents. We did our work between April 1988 and September 1989, in accordance with generally accepted government auditing standards. We obtained comments on our report from OMB. Formal written comments were also requested from DOD but were not received.

# Comments From the Office of Management and Budget



EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET  
WASHINGTON, D.C. 20503

February 12, 1990

Mr. Richard L. Fogel  
Assistant Comptroller General  
United States General Accounting Office  
Washington, DC 20548

Dear Mr. Fogel:

Thank you for the opportunity to provide comments on the draft report, OMB CIRCULAR A-76: DOD's Reported Savings Figures Are Not Reliable. In providing our comments, we would like to draw a distinction between the inaccuracies found with DoD's data system and the inferences drawn from those inaccuracies. The report assumes that (1) DoD savings are suspect and, as a consequence, (2) it is questionable whether the A-76 program is achieving economy in government operations.

With respect to the inaccuracies, we recognize that there are aspects of the DoD system which can be improved. The system was first instituted in the 1970's and many of the identified weaknesses are holdovers from a time when the A-76 program was less stringent than today. For example, the use of a formula to derive original operating costs stems from a time when the A-76 program did not require that original costs be identified. Likewise, the requirement to track actual costs, both in-house and contract, after the completion of a cost study is less than two years old.

We concur, therefore, with GAO's recommendations that DoD use actual cost information to calculate the original costs of an organization and the revised costs of the in-house organization, and that it collect information on in-house and contract cost changes. We also concur with the recommendations that DoD report all completed cost studies, conduct comprehensive edit checks on A-76 data, and place increased emphasis on correcting data errors. In response to the recommendation that DoD and OMB jointly design a pilot to test an approach for reliably measuring A-76 program administration costs, DoD has agreed to design such a pilot for DoD. We will monitor the progress of this effort.

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Comments From the Office of Management  
and Budget**

While we agree with the need to improve the accuracy of the system, we are particularly concerned about the report's inference that as a consequence of system inaccuracies, the DoD savings are suspect and, by extension, that the A-76 program may not be achieving economy in government operations. The report findings fail to support such an inference. In fact, the examples in the report demonstrate that the system tends to underestimate the savings generated by the A-76 program. Without a sensitivity analysis reflecting the impact of the inaccuracies found to the total savings estimate, it is impossible to determine if the magnitude of the inaccuracies are so significant as to make the data unreliable or the data insignificant. We recommend that such an analysis be conducted to determine if the inaccuracies significantly affect the level of savings reported by DoD.

We also question whether a review of the DoD A-76 data system "provides insight into OMB's use of the A-76 program to achieve economy in government operations." The inaccuracies in the DoD data do not necessarily exist in other agencies' systems. The savings rates reported by the civilian agencies, while varying by agency and type of function, are of the same magnitude as those reported by DoD. Moreover, the savings generated by the A-76 program are qualitative as well as quantitative. The report does not address the "savings" generated through improved contract administration, quality, management reporting and decision-making, or the benefits of establishing a measurable baseline for future performance evaluation. We do not believe that they can be used to support an argument that the A-76 program does not generate savings either for DoD or for civilian agencies.

Sincerely,



Peter J. Basso  
Assistant Director  
for General Management

# Recent GAO Reports Addressing Related Issues

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**1. NAVY CONTRACTING: Contract Administration Staffing Requirements for Navy A-76 Studies, GAO/NSIAD-88-175BR, July 26, 1988, for the Chairman, Subcommittee on Government Efficiency, Federalism, and the District of Columbia, Senate Committee on Governmental Affairs.**

We concluded that the projected contract administration staffing levels for the A-76 studies we reviewed were based on specific work load data identified in the quality assurance plans and were reviewed and approved as required by appropriate Navy guidance. The objectives of the review and approval process were to eliminate any unnecessary staffing levels and to ensure that the staffing levels requested by the installations were adequately justified. Contract administration staffing levels that exceed the OMB-authorized levels have not significantly affected the outcome of the Navy's A-76 studies. While we did not review the appropriateness of OMB's guidelines, Navy contract administration experience indicates the OMB-authorized staffing levels may not be sufficient to administer A-76 contracts that involved multiple functions and technically complex tasks.

**2. FEDERAL PRODUCTIVITY: DOD's Experience in Contracting Out Commercially Available Activities, GAO/GGD-89-6, November 28, 1988, for the Chairman, Subcommittee on Federal Services, Post Office, and Civil Service, Senate Committee on Governmental Affairs.**

We said that the A-76 process has led to savings and encouraged competition for providing quality goods and services. Nearly half of DOD's A-76 cost comparisons have resulted in decisions to continue operating commercial activities with a government workforce. Many DOD managers support the concept of government/private sector competition and recognize its objectives of seeking efficiencies and cost savings.

However, major concerns raised by federal employees and unions regarding various implementation issues continually cloud the A-76 cost study process. DOD A-76 cost studies often have been time-consuming, difficult, disruptive, and threatening to activity managers and employees.

Agencies have achieved only a fraction of past goals set by OMB for studying positions. OMB has recently set new goals, however, and these are nearly double those established in the past. Based on agencies' past progress in meeting OMB's goals, and given the length of time cost studies take, it is unlikely that the new goals will be met.

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**3. MANAGING THE GOVERNMENT: Revised Approach Could Improve OMB's Effectiveness, GAO/GGD-89-65, May 4, 1989, to the Congress.**

In the section discussing A-76, we said obstacles agencies identified as hindering A-76 success include

- lack of relevancy of the program to agency operations;
- unrealistic study goals;
- a burdensome, time-consuming cost study process;
- unclear program objectives;
- limited OMB program resources; and
- poor congressional relations.

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