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NATIONAL SECURITY AND
INTERNATIONAL AFFAIRS DIVISION

AUGUST 3, 1984

B-214583



The Honorable Norman Sisisky
House of Representatives

Dear Mr. Sisisky:

Subject: Contracting Out Under OMB Circular A-76 at
Selected Army and Navy Activities in Virginia
(GAO/NSIAD-84-122)

In your June 27, 1983, letter, you expressed concern about the recent increase in the number of Office of Management and Budget (OMB) Circular A-76 cost studies being made at selected Army and Navy activities in Virginia. These studies are used to determine whether needed government goods and services should be obtained in-house or by contract. You asked us to examine (1) the reasons for the substantial increase in A-76 cost studies at activities you designated, (2) the emphasis given readiness when reviewing a function for possible performance by contract, (3) the adequacy of "most efficient organization" studies, (4) the types and training of personnel used to conduct these studies and cost comparison studies, (5) the disposition of employees displaced by contracting, and (6) Office of Personnel Management regulations to determine if they preclude achievement of efficient staffing patterns.

FINDINGS AND CONCLUSIONS

Our review of the implementation of the OMB Circular A-76 cost studies by the Army and the Navy at the five activities showed that:

--There has been increased emphasis by the executive branch since 1979 to implement OMB Circular A-76 because of the potential savings to the government by obtaining its goods and services in the most economical manner. Nationwide, the Army and Navy, in their efforts to implement the circular, announced 3,071 cost studies in fiscal years 1979 through 1983. Of these, 381 were for activities in Virginia, of which 40 were at the five activities you designated.

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- For commercial functions being considered for contracting, the potential impact on readiness was examined before cost studies were initiated. Consideration was given to military mobilization requirements, training requirements for skills that were exclusively military, and military rotation base requirements.
- Most efficient organization studies appeared to be adequate. These studies are made to ensure that in-house functions to be cost studied are organized and staffed for the most efficient performance. Studies performed on 27 of the 35 functions seemed to support the organizations and staffing recommended. Studies were not made on the remaining eight functions because of staffing problems.
- Most efficient organization and cost comparison studies were performed by personnel assigned full-time to the commercial activities program with assistance from knowledgeable individuals from the functional areas under study and from other functional areas, such as personnel and internal review.
- Of 508 permanent government employees affected by contracting at the five activities, 357 obtained other federal employment, 32 went to work for the contractor, 37 retired, and 82 were involuntarily separated.
- Office of Personnel Management regulations do not preclude achievement of most efficient staffing (i.e., job positions involving duties in two or more occupations).

Our findings are discussed in detail in enclosure I. A listing of the activities and functions reviewed is contained in enclosure II.

SCOPE AND METHODOLOGY

We reviewed the policies and procedures in OMB Circular A-76 and the A-76 cost comparison handbook. We interviewed commercial activities program officials at the Departments of the Army and the Navy in Washington, D.C., and at the five activities you designated--the Norfolk Naval Shipyard and the Naval Hospital in Portsmouth, Virginia; the Naval Supply Center in Norfolk, Virginia; and Headquarters, Army Quartermaster Center and the Army Logistics Management Center at Fort Lee, Virginia. We also

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reviewed documentation relevant to the commercial activities program and the 35 functions that had been studied at the five activities during fiscal years 1979 through 1983. We also interviewed an official of the Office of Personnel Management concerning job positions involving multiple occupations. Our review was made from November 1983 through February 1984 and was performed in accordance with generally accepted government auditing standards.

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As requested by your office, we did not obtain official agency comments on this report. However, the results of our review were discussed with Army and Navy Headquarters officials responsible for the commercial activities program, and they concurred in our findings.

We are currently making a nationwide review to determine the disposition of employees displaced when contracting under OMB Circular A-76 and, particularly, to find out what happened to those employees that were involuntarily separated. We will provide you a copy of that report when the review is completed.

As arranged with your office, we are sending a copy of this report today to Representative Herbert H. Bateman. Unless you publicly announce its contents earlier, we plan no further distribution of this report until 5 days from the date of this report. At that time, we will send copies to the Secretaries of Defense, the Army, and the Navy; the Director, Office of Management and Budget; and the Administrator, Office of Federal Procurement Policy. We will also make copies available to others upon request.

Sincerely yours,



Frank C. Conahan
Director

Enclosures - 2

OMB CIRCULAR A-76 STUDIES
BY SELECTED ARMY AND NAVY ACTIVITIES
IN VIRGINIA

BACKGROUND

OMB Circular A-76 establishes the policies and procedures used to determine whether needed government products or services should be obtained in-house or by contract. The circular directs government agencies to rely on the commercial sector, with certain exceptions, for commercial products and services as long as it is the more economical method. Whenever commercial sector performance of a government-operated commercial function is permissible in accordance with the circular, a comparison of the cost of contracting and in-house performance is required to determine who will do the work.

A-76 COST STUDIES

There has been increased emphasis by the executive branch since 1979 to implement OMB Circular A-76 because of the potential savings to the government by obtaining its goods and services in the most economical manner. OMB Circular A-76, revised March 1979, required agencies to review their commercial activities within 3 years to determine whether in-house performance or contracting would be more economical. The Department of Defense was given 5 years because of its large number of commercial activities. However, agencies did not meet this requirement. The circular was revised in August 1983 and now requires agencies to review all of their commercial activities by September 30, 1987. According to the Office of Federal Procurement Policy in OMB, full implementation of OMB Circular A-76 policies would result in savings exceeding \$1 billion annually by 1988. We would expect that additional cost studies will continue in the coming years.

In their effort to implement the circular, the Army and the Navy, according to Defense data, announced to the Congress their intent to perform cost studies of 3,071 functions in fiscal years 1979 through 1983. During that period, 381 of the announcements were for studies of activities in Virginia. For the activities we reviewed, the numbers of cost studies that were announced to the Congress, positions affected, studies completed, and functions

remaining in-house and contracted out from 1979 through 1983 are provided below.

<u>Fiscal year</u>	<u>Announced^a</u>		<u>Completed^b</u>	<u>Remained in-house</u>	<u>Converted to contract</u>
	<u>No. of studies</u>	<u>Positions affected</u>			
1979	6	363	-	-	-
1980	2	107	1	-	1
1981	11	368	1	1	-
1982	16	533	22	9	13
1983	5	469	11	8	3
Total	<u>40</u>	<u>1,840</u>	<u>35</u>	<u>18</u>	<u>17</u>

^aCost studies are authorized to start after they are announced to the Congress. The announcement dates are used because actual start dates of the studies were not available.

^bCompletion date based upon the date of the independent audit reports discussed on page 7.

READINESS CONSIDERATION

OMB Circular A-76 requires agencies to review a commercial function to determine whether the function would be less costly being performed in-house or by contract. The circular provides that a function may be retained in-house for reasons other than lower costs, including national defense purposes. The Department of Defense, in accordance with the circular, established criteria in its regulations for determining when in-house performance is required for national defense reasons.

On the basis of Defense regulations, each military service established its own regulations. The first phase of the Army's and Navy's process determines if a function should be retained in-house because of overriding national defense requirements. The national defense considerations are mobilization requirements, which are functions designated in approved contingency plans as deployable; training requirements for skills, which are exclusively military; and military rotation base requirements, which provide military personnel with stateside positions in their particular skills between overseas tours. An exception for national defense reasons must be made on a case-by-case basis, considering the specific function or military positions under review rather than broad functional areas. For example, the food service function is retained in-house at selected stateside

activities to maintain skills of military personnel between overseas and shipboard assignments, while it is contracted out at other stateside activities.

When a function cannot be retained in-house for reasons of national defense, the second phase of the process is to determine the availability of a satisfactory commercial source. When a satisfactory private commercial source has been identified, a cost study is required to be made if a function has the equivalent of more than 10 employees. Then the activity prepares documentation summarizing the results of the review and the recommended actions. The documentation is forwarded to the command level to obtain approval either to keep the function in-house or to initiate the cost comparison process and notify the Congress that the function will be evaluated for possible conversion to contract. The documentation is then sent to the agency headquarters for review and approval. After headquarters approves the documentation and necessary notification is made to the Congress, the activity is authorized to proceed with the recommended actions.

The activities we visited complied with the circular and implementing regulations in reviewing their commercial functions and in implementing the recommended actions.

EFFECTIVENESS OF EFFORTS TO
PERFORM MOST EFFICIENT
ORGANIZATION STUDIES

An essential element of the commercial activities program is to base the government's competitive cost estimate on the most efficient organization. OMB Circular A-76 requires each agency to ensure that functions to be cost studied are organized and staffed for the most efficient performance. At military activities, the commander or a designee must certify that the in-house cost estimate is based on the most efficient and cost-effective operation practical.

The activities we visited were generally in compliance with the circular. Because of a shortage of personnel to perform studies, one activity did not perform the most efficient organization studies on eight functions from 1979 to 1982. However, subsequent studies performed by this activity appeared to be adequately documented. We reviewed the 10 most efficient organization studies performed by this activity and the 17 studies performed by the other activities and, in our opinion, documentation appears to support the organizations and staffing recommended. Of the 27

studies, 13 recommended reduced staffing, 11 recommended retaining the same number of staff, and 3 recommended increased staffing.

TRAINING AND TYPES OF
PERSONNEL USED TO PERFORM
STUDIES

At the activities we visited, the most efficient organization studies and cost comparisons were conducted/coordinated by individuals assigned on a full-time basis to the commercial activities program. They are educated/trained as management analysts, program analysts, auditors, accountants, or industrial engineers. In addition, training specific to the commercial activities program, such as preparation of most efficient organization studies and cost studies, is available. Most commercial activities staff members at these activities had attended one or more of the courses.

During the conduct of the studies, commercial activities staff were assisted by knowledgeable individuals from the functional areas under study and from other functions. For example, the Naval Hospital, Portsmouth, in studying the laundry, food service, housekeeping, and public works functions, used commercial activities program staff, the chief and/or assistant chief of the functional area, and the Chief, Operating Management Service. Also, in Fort Lee's study of its food services function, the commercial activities staff relied to some extent on reports prepared by a food management assistance team from the Army Troop Support Agency and Fort Lee's Office of Internal Review and Civilian Personnel Office.

Each cost comparison is required to be reviewed by an independent organization. The review is to substantiate the currency, reasonableness, and completeness of the cost comparison and to ensure that the costs were prepared in accordance with the A-76 cost comparison handbook. Of the 35 cost comparisons, 31 were reviewed by the Army Audit Agency or the Naval Audit Service and 4 were reviewed by the activities' Office of Internal Review.

DISPOSITION OF
DISPLACED EMPLOYEES

Activities we visited appeared to make considerable efforts to retain the employees in-house or to find employment for them elsewhere. The activities' success generally depended on the number of employees affected and the size of the activity. For example, the Norfolk Naval Shipyard and the Naval Supply Center, both large activities employing several thousand persons,

retained their employees, whereas the Naval Hospital and Fort Lee, small activities in comparison, were not able to retain all of their employees when functions were contracted. The following table shows the disposition of the permanent employees at the five activities reviewed.

	<u>Permanent employees affected</u>	<u>Obtained other federal employment</u>	<u>Employed by contractor</u>	<u>Retired</u>	<u>Involuntarily separated</u>
Naval Hospital, Portsmouth	208	105	32	29	42 ^a
Headquarters, Fort Lee	128	83	-	5	40 ^b
Army Logistics Management Center, Fort Lee ^c	-	-	-	-	-
Naval Supply Center, Norfolk	140	138	-	2	-
Norfolk Naval Shipyard, Portsmouth	<u>32</u>	<u>31</u>	<u>-</u>	<u>1</u>	<u>-</u>
Total	<u>508</u>	<u>357</u>	<u>32</u>	<u>37</u>	<u>82</u>

^aAn additional 36 temporary employees were terminated, none of whom accepted employment with the contractors.

^bAn additional 97 temporary employees were terminated, of whom 40 accepted employment with the contractor.

^cDecision to contract was made in February 1984 and the disposition of employees had not been finalized at the time of our review.

EFFICIENT STAFFING PATTERNS

Office of Personnel Management regulations do not preclude the use of efficient staffing patterns, that is, use of job positions when the duties encompass two or more occupations. For example, a position description for a carpenter may require that an employee have sufficient locksmith skills to re-key door locks. An Office of Personnel Management official said that the use of such job positions is logical and that it should be done. The official also said the Office of Personnel Management Job Grading System for Trades and Occupations provides instructions for grading such positions. In addition, OMB Circular A-76 encourages the use of such job positions to fully utilize employees.

LIST OF ACTIVITIES VISITED
AND FUNCTIONS REVIEWED

	<u>Study decision</u>	
	<u>In-house</u>	<u>Contract</u>
<u>Norfolk Naval Shipyard, Portsmouth, Va.</u>		
Key punch operators		X
Ground and surface		X
Administrative telephone		X
Vermin control		X
Photographer	X	
Motor vehicle operations	X	
Motor vehicle maintenance	X	
Illustrator	X	
Messenger	X	
St. Juliens Creek (maintenance)		X
<u>Headquarters, Fort Lee, Va.</u>		
Food service		X
Audio-visual	X	
<u>Army Logistics Management Center, Fort Lee, Va.</u>		
Support services		X
<u>Naval Supply Center, Norfolk, Va.</u>		
Key punch	X	
Privately owned vehicles, operations		X
Cold storage		X
Public works, Cheatham Annex	X	
Public works, Craney Island	X	
Physical inventory		X
Servmart		X
Material turned into storage		X
Outfitting		X
Motor vehicle operations	X	
Visual communication	X	
Freight receiving	X	
Library operations	X	
Bulk liquid storage	X	
Waterfront operations	X	
Container assembly		X
Air transportation	X	
Personal property	X	
<u>Naval Hospital, Portsmouth, Va.</u>		
Laundry		X
Custodial		X
Food service		X
Public works	X	