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United States General Accounting Office

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

March 1993

# ENERGY MANAGEMENT

## Improving Cost-Effectiveness in DOE's Support Services Will Be Difficult



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United States  
General Accounting Office  
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Resources, Community, and  
Economic Development Division

B-244590

March 5, 1993

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

Dear Mr. Chairman:

The Department of Energy (DOE) contracts extensively to perform a wide variety of its support services needs, including management, administrative, and technical activities. In August 1991 we reported to you that contracting for these services can cost substantially more than using federal employees to perform the work.<sup>1</sup> We also reported that few of the contracts we reviewed were awarded on the basis of comparisons between federal and contract costs; rather, they were awarded solely because DOE did not have enough staff to do the work. To better ensure that DOE's support services activities are conducted in a cost-effective manner, we recommended a number of actions for improvement.

Concerned about whether prompt action had been taken to implement our recommendations, in April 1992 you requested a follow-up to our 1991 report. Specifically, as agreed with your office, we determined (1) what actions have been taken in response to the report recommendations, (2) what obstacles DOE has encountered in its efforts to improve the cost-effectiveness of its support services activities, and (3) whether actions have been taken to overcome these obstacles.

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## Results in Brief

DOE agreed with our 1991 report recommendations to require its units to conduct cost comparisons and to use the results of the cost comparisons to support requests for additional staff from the Office of Management and Budget (OMB) when the comparisons demonstrate that the work can be performed less expensively in-house. To implement these recommendations, DOE, among other things, revised its order on support services contracting to require cost comparisons effective October 1, 1992. According to DOE officials, the outcome of the comparisons and discussions with OMB about the results will determine whether DOE will submit cost comparisons to justify requests for additional staff from OMB.

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<sup>1</sup>Energy Management: Using DOE Employees Can Reduce Costs for Some Support Services (GAO/RCED-91-186, Aug. 16, 1991).

OMB disagreed with our recommendation that it issue guidance documenting its position on converting support services contracts to in-house performance, including the type of cost comparisons DOE should perform to justify conversions. In commenting on the recommendation, OMB stated that its existing guidance—Circular A-76—already provides detailed and exhaustive instructions on how to calculate and compare the costs to the government of acquiring a service by contract or performing the work in-house using government resources. While OMB did not issue additional guidance, it recently agreed to work with DOE to evaluate the results of DOE's cost comparisons and to determine what additional steps DOE would need to perform to justify conversions to in-house performance.

DOE has encountered two major obstacles in its efforts to bring cost-effectiveness to its support services activities. First, DOE adopted a simplified approach for conducting cost comparisons on the basis of its understanding that the approach was acceptable to OMB budget officials. Specifically, to reduce the time needed to conduct the comparisons, DOE eliminated one of the major steps required by Circular A-76—the solicitation of competitive bids to arrive at the cost of contract performance. However, OMB's general management group, which is responsible for implementing the A-76 program governmentwide, subsequently told DOE that it must follow all the provisions in Circular A-76 to justify converting contract work to in-house performance. The conflicting guidance from OMB has left DOE officials uncertain about whether to proceed with conducting the abbreviated cost comparisons, because, in their view, DOE does not have the time and resources needed to perform A-76 studies for all the support services contracts DOE awards annually.

Second, regardless of whether DOE's cost comparisons show that support services can be performed less expensively in-house, personnel ceilings established by OMB for federal agencies limit the number of authorized DOE positions. Therefore, DOE officials believe that there is little incentive to perform cost comparisons or, ultimately, to convert contract work to in-house performance, because the work would have to be accommodated within DOE's existing personnel ceiling. OMB officials, in contrast, believe that DOE's current ceiling is sufficient to accommodate additional work if DOE were to use its existing resources more effectively. Strained relations have resulted from the agencies' fundamental differences of opinion on these issues.

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Action is being taken to address the identified obstacles. Despite strained relations, both DOE and OMB agree that government operations should be conducted in a cost-effective manner. Therefore, in August 1992 we facilitated a meeting between the agencies to discuss the feasibility of working toward a common solution to the A-76 and personnel ceiling issues. The meeting resulted in the formation of a task force consisting of DOE and OMB officials, with GAO serving as moderator. The purpose of this task force is, among other things, to discuss DOE's cost comparison results and to determine what additional steps DOE would need to perform to justify increases in its personnel ceiling. While formation of the task force represents a significant opportunity to improve the cost-effectiveness of DOE's support activities, it is too early to determine whether the efforts of the group will be successful. However, our work at the two agencies over the last several years leads us to believe that only through commitment and cooperation will the task force be successful.

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## Background

To address a long-standing concern about competing with the private sector, in 1955 the Bureau of the Budget promulgated a government policy that federal agencies should not perform commercial activities that can be obtained through ordinary business channels.<sup>2</sup> Every administration since 1955 has endorsed the general policy of relying on the private sector to provide commercial services required to support the government's operation. This policy derives in part from the view that relying on the free enterprise system will result in cost-effective government operations. Functions that are inherently governmental—those ultimately related to the public interest—are expected to be performed by federal employees.

In addition, recent administrations have used personnel ceilings to limit the number of federal employees as a means of reducing federal spending and of encouraging agencies to rely on the private sector to meet the government's need for goods and services. DOE's fiscal year 1992 staffing ceiling, set by OMB, was 19,950 positions.

Given constraints on federal employment, DOE contracts extensively with private firms and companies to obtain additional staff needed to plan, manage, and carry out its work. Such contracts are appropriate for, among other things, fulfilling specialized, short-term, or intermittent needs. Between fiscal years 1989 and 1992, DOE's expenditures for support services contracts increased from \$399 million to \$602 million, an increase of about 51 percent. According to DOE's estimates, the number of contract

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<sup>2</sup>OMB replaced the Bureau of the Budget.

employees employed by these contracts also increased—from 4,909 positions in fiscal year 1989 to 6,392 positions in fiscal year 1992. This represents an increase of about 30 percent over the 4-year period.

OMB Circular A-76 details a process for determining whether commercial activities, such as engineering and janitorial services, can be more economically performed by contractors or federal employees. The process involves four major steps, including (1) developing a performance work statement describing the work to be done, (2) performing a management study to identify the most efficient government organization capable of performing the work, (3) issuing a solicitation to establish contract costs, and (4) comparing in-house costs against proposed contract costs following A-76's detailed cost comparison procedures. Completing these steps, collectively termed an A-76 study, is generally considered to be resource-intensive and time-consuming.

Although the A-76 process can be used to decide whether to contract out support activities or bring them back in-house, the primary thrust and use of the circular has been to identify and systematically review commercial activities performed by the government to determine if they should be contracted out. This practice is consistent with the government's policy of relying on the private sector to support the government's operations. In keeping with this policy, the circular does not require cost comparisons when agencies are (1) contracting for services needed to fulfill new agency requirements or (2) renewing existing contracts. Unless contract prices are viewed as unreasonable or contract performance becomes unsatisfactory, the circular states that the government's need for services normally will be satisfied through contracts—without any assessment of the comparable cost of performing the work in-house.

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## DOE Has Taken Action to Implement Our 1991 Report Recommendations

In 1991 we found that DOE rarely considered the cost of in-house performance when deciding to contract for support services, despite a federal policy that government activities should be conducted in a cost-effective manner. Specifically, we found that DOE conducted cost comparisons on only three of the activities covered by the 75 support services contracts we reviewed. According to DOE officials, they did not compare such costs because personnel ceilings prevented them from obtaining additional staff needed to perform the contracted work in-house. We also found that contracting for support services can cost substantially more than using additional DOE employees to perform the same work. Eleven of the 12 support services activities for which we conducted cost

comparisons were, on average, 25 percent more costly.<sup>3</sup> Fiscal year 1990 contract costs for these activities totaled \$5 million more than the estimated cost of federal performance.<sup>4</sup>

We concluded that cost comparisons are an essential management tool in deciding whether to contract out. Therefore, we recommended that the Secretary of Energy

- require DOE units to (1) conduct cost comparisons before awarding or renewing support services contracts and (2) regularly review existing contracts to ensure that they are cost-effective and
- use the cost comparison results to support requests for additional staff to OMB if justified by cost savings, except where compelling reasons exist for performing the work under contract.

DOE agreed with our recommendations and has taken actions to implement them. Among other things DOE (1) revised its order on support services contracting to require units requesting support services contracts to compare contract and in-house costs before deciding how to perform the work and (2) developed and tested a method for conducting the cost comparisons.

DOE's method for conducting cost comparisons follows most of A-76's detailed procedures for calculating and comparing costs. However, DOE does not intend to solicit competitive bids to arrive at the cost of contract performance, a major step in the A-76 process. According to DOE officials, soliciting bids on DOE's contracts would add 6 to 8 months to each of DOE's cost analyses. Instead, for existing contracts, DOE's estimate is based on the actual cost of the expiring contract in a typical year, with adjustments to reflect any anticipated changes in work scope. For new contract requirements, DOE officials said the estimate will be based on an analysis of similar, recently awarded contracts, including a market survey if additional information is needed to estimate contract costs.

DOE officials believe the extra time and effort required to solicit bids are not justified because, in their view, DOE's method will provide a good approximation of the difference between in-house and contract costs for support services. Regarding existing contracts, for example, DOE officials

<sup>3</sup>Because we selected these contracts judgmentally, our results cannot be projected to the universe of DOE support services contracts.

<sup>4</sup>In our earlier report we recognized a variety of reasons for using support services contractors, including an inability to recruit specialized skills and the need for flexibility in accomplishing short-term or intermittent tasks. Such factors may justify higher costs for contract performance. However, we pointed out that most of the contracts we reviewed were not justified on these bases.

pointed out that DOE frequently has a long history of contracting for these activities and, as a result, has historical information on the contracts' costs. Also, DOE officials noted that many of these contracts were awarded competitively, thereby providing assurance that the earlier contracts' costs were reasonable. Finally, while historical, contract-specific information does not exist for DOE's new work requirements, DOE officials believe their analysis of similar existing contracts—supplemented by a market survey when warranted—will produce a good approximation of the cost of performing the new work by contract.

DOE's requirement for conducting the recommended cost comparisons, using the modified A-76 process, became effective October 1, 1992. According to DOE officials, the outcome of the comparisons and discussions with OMB about the results will determine whether DOE will submit cost comparisons to justify requests for additional staff from OMB.

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## OMB Disagreed With Our 1991 Report Recommendation

During our earlier audit OMB budget officials conceded that the agency's policy had been, for many years, one of reducing federal employment and of aggressively studying federal activities to determine whether they should be contracted out. However, they indicated that OMB was willing to provide additional DOE staff if DOE could adequately justify cost savings. OMB stopped short, however, of providing guidance to DOE on what type of cost comparisons would be adequate.

To ensure that OMB's position about converting costly support services contracts would be clear, we recommended that OMB "issue guidance documenting the position and any additional information that would be needed to justify conversions, such as information about the type of cost comparisons DOE should perform." OMB disagreed with the recommendation, stating that its existing guidance—Circular A-76—already provides detailed and exhaustive instructions on how to calculate and compare the costs to the government of acquiring a service by contract or providing it with in-house government resources. Therefore, in its view, additional guidance was not needed. While OMB did not issue additional guidance, as discussed later, it recently agreed to work with DOE to evaluate the results of DOE's cost comparisons and to determine what additional steps DOE would need to perform to justify conversions to in-house performance.

## DOE Has Encountered Obstacles in Its Efforts to Improve Cost-Effectiveness

DOE officials cite two major obstacles that have hampered departmental efforts to improve the cost-effectiveness of support services activities. First, according to DOE officials, they proposed, tested, and adopted the simplified A-76 cost comparison method on the basis of their understanding that, at least in concept, it was acceptable to OMB budget officials. However, OMB's management group, which is responsible for implementing the A-76 program governmentwide, disagreed. According to this group, OMB's official policy requires that the detailed procedures contained in Circular A-76 be followed to justify converting contract work to in-house performance. OMB's June 5, 1992, budget guidance letter to DOE reiterated this position. According to this letter, OMB will

... review all DOE requests to 'refederalize' DOE contract employees where there is net savings to the taxpayer, as long as such requests are accompanied by a cost analysis and justification, and they are consistent with the Department's... [personnel] levels under the President's employment freeze. The cost and analysis should be consistent with OMB Circular A-76 [emphasis added].

According to DOE officials, DOE does not have the time and resources to perform the estimated 60 to 80 A-76 studies that DOE would need to perform each year just to keep pace with the volume of contracts expiring annually. DOE's past experience with conducting A-76 studies indicates that each study takes between 4 to 24 months and costs from \$59,000 to \$139,000 to complete, depending on the complexity of the activity being assessed. In contrast, DOE estimates that its simplified method will take between 3 to 4 weeks and about \$2,500 for each cost comparison.<sup>5</sup>

Second, regardless of whether DOE can prove that support services activities can be performed more cost effectively in-house, DOE views personnel ceilings as another major obstacle to achieving cost-effectiveness in its support services activities. According to DOE officials, any request to convert such contracts should be considered an additional manpower requirement and, consequently, OMB should increase DOE's ceiling to accommodate proposed contract conversions. In DOE's view, unless additional personnel are provided, there is little incentive to perform cost comparisons or, ultimately, to convert contract work to in-house performance because doing so reduces the total number of workers (DOE employees and contractors) available to perform DOE's work.

<sup>5</sup>OMB officials agree that adhering to the A-76 process involves more time and effort than DOE's approach. However, one OMB management official questioned whether the additional time and effort would be as significant as DOE believes.

OMB budget officials, in contrast, said that adding positions to DOE's ceiling would assume that DOE is operating at 100-percent efficiency. According to these officials, however, DOE is not using its available resources effectively. The officials believe that if existing positions were properly utilized, DOE's current ceiling would provide sufficient resources to convert costly support services contracts to in-house performance.

According to DOE officials, OMB's current positions that (1) DOE must perform A-76 studies and (2) DOE's existing ceiling is sufficient to absorb contract conversions have created uncertainty within DOE about whether to proceed with the cost comparisons that became effective on October 1, 1992. Specifically, they said that OMB's positions have led DOE to conclude that

- DOE's abbreviated cost comparisons may not be acceptable to OMB and
- OMB is unlikely to approve additional DOE positions.

The fundamental differences in opinion on the A-76 and ceiling issues have strained relations between the agencies and stymied efforts to improve the cost-effectiveness of DOE's support services activities. Nevertheless, DOE officials said that DOE is committed to conducting the recommended cost comparisons because, as discussed in our earlier report, determining the least costly method of performing DOE's work is a "good management practice."

## Action Is Being Taken to Address Obstacles

Despite the strained relations between the agencies, both OMB and DOE agree that government operations should be conducted in a cost-effective manner. To address this issue, we facilitated a meeting in August 1992 between the agencies to discuss the feasibility of working toward a common solution. The meeting resulted in the formation of a task force consisting of DOE and OMB officials, with GAO continuing to serve as a facilitator and moderator. The goal of this task force is, among other things, to (1) establish a cooperative working relationship between the parties, (2) share ideas and concerns about DOE's cost comparison approach, and (3) determine what additional steps DOE would need to perform to justify increases in its personnel ceiling for converting costly support services contracts to in-house performance.

Some of the specific issues that the task force is addressing include whether DOE's approach will result in an accurate comparison of in-house and contract costs. Specifically, although DOE acknowledges that following

the A-76 process would provide a more precise cost estimate, DOE nonetheless believes that its method will result in a good approximation of the cost difference between in-house and contract costs, especially for its existing contracts. And because its method requires less time and fewer resources than the A-76 process, DOE believes it is a more practical approach. OMB, on the other hand, is concerned that, by deviating from the A-76 process, DOE's approach may not accurately reflect the cost of performing the work by contract. For example, one OMB task force member expressed concern that if DOE does not bid its contracts to establish contract costs, contractors will not have the opportunity to provide a lower contract price for use in comparing in-house and contract costs.

A second and perhaps more significant issue is whether other factors could be responsible for any identified in-house cost advantage. OMB task force members have expressed concern, for example, that problems such as insufficient competition, inadequate contract administration, and poorly written statements of work could be contributing to unreasonable contract prices. If such problems exist, they believe that correcting them could reduce or eliminate any in-house cost advantage that may be identified in DOE's cost comparisons.

The task force met in September 1992 and plans to meet again after DOE has conducted and analyzed several months of cost comparisons.<sup>6</sup> At that time, the group plans to discuss, among other things, (1) the results of DOE's cost comparisons and (2) what additional steps DOE would need to perform to justify increases in its personnel ceiling.

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## Observations

We believe that the formation of the combined DOE and OMB task force represents a significant opportunity to improve the cost-effectiveness of DOE's support services activities. However, it is too early to determine whether the efforts of the group will be successful. But in light of the strained relations and the widely divergent views held by each party about how to proceed, the success of the task force is not guaranteed.

The challenges that the task force faces are numerous and complex. OMB's concerns about (1) the efficiency of DOE's operations, (2) the adequacy of DOE's cost comparison approach, and (3) whether other factors are contributing to unreasonable contract costs will have to be resolved, as

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<sup>6</sup>In commenting on the facts in this report, DOE officials stated that the next task force meeting will not be held until March 1993 at the earliest.

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will DOE's concerns about the A-76 and personnel ceiling issues. Our work with DOE and OMB in this area over the last several years leads us to conclude that only through commitment and cooperation will these issues be resolved.

If the task force cannot resolve its differences, the opportunity to achieve available cost savings may be lost. Instead, it will likely be "business as usual"—contracts will be renewed and new contracts will be let without ensuring cost-effectiveness. Given the huge budget deficit and the need to identify cost savings, we believe that every effort should be made to help ensure the success of the task force initiative. Consequently, we plan to continue facilitating and moderating the task force and to monitor the agencies' actions and progress in achieving cost-effectiveness in DOE's support services activities.

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## Views of Agency Officials

As requested, we did not obtain written agency comments on a draft of this report. However, we discussed the facts in this report with officials in DOE's Office of Organization, Resources, and Facilities Management—specifically, the Director of the Management Systems Division and the Chief of the Systems Management and Evaluation Branch—who generally agreed with the facts presented.

We also discussed the facts in this report with officials in OMB's budget, general management, and federal personnel policy offices, including the Chief of the Energy Branch and the Chief of the Federal Services Branch. The officials acknowledged that, during our earlier work, there had been a difference of opinion within OMB about whether DOE would need to perform A-76 studies to justify contract conversions during the budget process. Nevertheless, they stressed that OMB had only one official policy throughout the period—that A-76 studies must be performed. OMB officials also made a number of comments clarifying the factual accuracy of the information presented. We incorporated their comments where appropriate.

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## Scope and Methodology

To gather information for this report, we interviewed OMB and DOE headquarters officials and reviewed pertinent documents, including the agencies' official response to our 1991 report recommendations, DOE's revised order on support services contracting, and correspondence between the agencies about the A-76 and personnel ceiling issues. Our observations about the likely success of the task force initiative derive

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from our work with DOE and OMB in this area over the last several years as well as from our participation on the task force. We conducted our work from May 1992 through February 1993 in accordance with generally accepted government auditing standards.

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As agreed with your office, we plan no further distribution of this report until 30 days from the date of this letter. At that time we will send copies to the Secretary of Energy; the Director, Office of Management and Budget; and other interested parties. We will also make copies available to others upon request.

If you have questions, please contact me at (202) 512-3841. Major contributors to this report are listed in appendix I.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Victor S. Rezendes". The signature is fluid and cursive, with the first name "Victor" being the most prominent.

Victor S. Rezendes  
Director, Energy and Science Issues

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