

~~116831~~ 116831

UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D. C.

FOR RELEASE ON DELIVERY
EXPECTED AT 10:00 A.M. EST
WEDNESDAY, NOVEMBER 4, 1981

STATEMENT OF
BRIAN L. USILANER
ASSOCIATE DIRECTOR
ACCOUNTING AND FINANCIAL MANAGEMENT DIVISION

BEFORE THE
COMMITTEE ON SMALL BUSINESS
SUBCOMMITTEE ON ADVOCACY AND THE FUTURE
OF SMALL BUSINESS



UNITED STATES SENATE

ON

THE GENERAL SERVICES ADMINISTRATION'S CLEANING PROGRAM

Mr. Chairman and members of the subcommittee:

We are pleased to appear before you today to summarize the findings of our August 1981 report entitled "GSA's Cleaning Costs Are Needlessly Higher Than In The Private Sector." With the Chairman's permission, I would like to submit the full report for the record.

The importance of productivity improvement to our economy and to cost reduction efforts has become a widely recognized fact. In the abstract, the subject need hardly be discussed. However, as it applies to specific Government agencies' programs and private sector firms, productivity improvement retains the need for focused attention. A case in point is the General Services Administration's (GSA's) cleaning program.

The report on which my statement today is based is one of a series of high-yield studies that we have made using a similar approach; namely, comparing certain Government functions with like functions performed by the private sector. By examining Government productivity in a particular area--in this case GSA's custodial program--and comparing that to private sector custodial performance, we were able to identify where specific improvements could yield significant cost savings.

GSA is responsible for cleaning general purpose Government-owned and leased buildings. The agency has three ways of accomplishing this task: (1) its in-house employees, (2) contracting out, and (3) having owners of Government-leased space provide the cleaning. The third mode is performed solely by the private sector with very little Government involvement. Cleaning in all cases, however, is to be done to similar "commercially equivalent" GSA specifications.

In our review we compared the cost and productivity of cleaning done by all three methods for a sample of office buildings in four GSA regions (Washington, D. C., Boston, Atlanta, and Chicago). Our sample included at least 10 percent of the space cleaned by each method in each region.

GSA's custodial function is an example of a Government "commercial or industrial activity," which means it is operated and managed by a Federal executive agency, is a service needed regularly, and is obtainable from a private source.

As of February 1981, Office of Management and Budget (OMB) data indicated that over 11,000 such activities were being operated by about 400,000 Federal employees at an estimated cost approaching \$19 billion annually. OMB Circular A-76 contains important requirements about these activities, and I will return to this subject shortly.

Regarding GSA's cleaning program, the agency has not kept its costs for this activity nearly as low as possible. Our comparison of fiscal 1980 cleaning costs in four GSA regions showed that, overall, GSA was paying over 50 percent more to clean office space with its own staff than with contractors, and almost twice what its landlords paid to clean leased Federal space.

(Average annual cleaning costs per square foot for each mode of cleaning in the four regions are shown in appendix I of this statement.)

We identified two major reasons for these extreme differences in cleaning costs: wages and productivity.

Regarding wages, both GSA and its contract cleaners pay more than do GSA's landlords. GSA, however, has little or no control over wage rates. In accordance with law, the Office of Personnel Management sets wages for GSA's custodians, and the Department of Labor sets the wages paid by contractors. We have reported on the need for changes in the provisions of the Federal blue collar law that causes Federal wage rates to exceed local prevailing rates. On the contracting side, we will soon complete a study of the Service Contract Act and will report our findings to the Congress.

Because we are separately studying wages, we confined our custodial review to the subject of productivity and other issues affecting cleaning costs.

The other major cause of the wide range in cleaning costs is the varying productivity performance achieved by GSA's three cleaning modes. According to production rates we compiled in four GSA regions, the agency's in-house staff cleaned fewer square feet per staff hour than either its contract cleaners or custodial firms cleaning for its landlords. The in-house staff cleaned an average of 9.8 percent less area per staff hour than contractors, and an average of 17 percent less than custodial firms cleaning for landlords. GSA did not have good comparable data on cleaning quality, but agency officials acknowledged that most custodial contractors clean as well or better than the in-house staff.

An important causal factor contributing to GSA's low productivity is its failure to maintain up-to-date staffing standards based on the latest technology in cleaning methods, supplies, and equipment. Standards are important since they reflect management's expectation of performance. GSA's standards were developed in the mid-1960s and have changed little since. In our opinion, the standards are seriously outdated.

(Average hourly production rates for the three modes of cleaning are given in appendix I of this statement.)

Because of the higher cost of cleaning with its in-house staff, GSA is paying several million dollars more per year for cleaning than necessary. We estimate that in the four regions we studied, GSA could have saved approximately \$16 million during 1980 had it contracted for cleaning being done by its own custodians.

I will now discuss actions that are needed to reduce GSA's cleaning costs. Federal executive branch policy contained in OMB Circular A-76 would require GSA to contract for cleaning when it is more economical than in-house performance, and it provides guidelines for comparing costs to make such determinations. (The policy also encourages GSA to organize and staff its in-house operations for the most effective performance before making a cost comparison.) OMB specified that GSA was to have completed the cost comparisons by September 1982. (See app. II.) Despite this requirement, as of our review GSA had taken little action to reduce its in-house cleaning costs. It had neither issued an order implementing Circular A-76 nor completed any comparative cost studies.

Instead of actively implementing A-76, GSA is slowly converting to contract cleaning as attrition reduces its in-house custodial work force. At the present rate, this conversion would take about 15 years. During that period, GSA could spend about \$250 million more for cleaning than would be necessary if it acted to improve the productivity of its in-house staff and contracted for cleaning where its in-house staff is not cost competitive.

Given the magnitude of the costs involved in the cleaning area, we do not believe GSA can afford the luxury of continuing to act so slowly. It should complete the cost comparisons required by A-76 as rapidly as possible. To facilitate this action, we encourage GSA to explore with OMB a streamlined approach in applying A-76 to cleaning. In locations where GSA has actual experience and cost data readily available for comparison, formal A-76 analyses may be more burdensome than beneficial.

I now turn briefly to GSA's contract operations. Here again our public-private sector comparison approach was most productive. We found that although GSA's contract cleaners are less costly and more productive than the in-house staff, the former, due to GSA restrictions, are not quite as productive as custodial firms cleaning for GSA landlords. GSA can foster greater productivity and thus reduce the costs of cleaning done on contract by eliminating, where possible, its requirements that contractors clean during the day and use a minimum number of staff hours. GSA's use of minimum staff hours is an attempt to ensure that contractors provide acceptable cleaning quality. Instead of minimum hours, GSA should establish (1) effective preaward surveys to identify and preclude the awarding of contracts to unreliable contractors and (2) a good inspection system to control quality.

Other actions--less directly related to productivity--by which GSA can reduce cleaning costs are to:

- Use renewal options in contracts, at least on a pilot basis.
- Allow large contractors to bid on some cleaning contracts, especially those for larger buildings.
- Require that cleaning contracts with disadvantaged businesses be obtained at a cost reasonably close to that of competitively bid contracts.

The General Services Administration has a real need to demonstrate its intention to forsake old ways and strive for

positive change. We were pleased by the new GSA Administrator's receptivity to our report, and we hope to observe soon the corrective actions that are needed.

In conclusion, we believe that OMB Circular A-76, implemented properly by Government agencies, can be a most effective tool for improving productivity. We at GAO will continue monitoring the progress that GSA and other agencies make in using this tool, and one way we will do this is with our public-private sector comparison approach.

COSTS AND PRODUCTIVITY FOR THE THREE MODES OFCLEANING USED BY GSAA. CLEANING COSTS

	<u>Average annual costs</u> <u>per BOMA square foot (note a)</u>				
	<u>Boston</u>	<u>Atlanta</u>	<u>Chicago</u>	<u>Washington,</u> <u>D. C.</u>	<u>Weighted</u> <u>average</u>
In-house staff (note b)	\$1.19	\$ 1.05	\$1.25	\$1.20	\$ 1.18
Contractors (note c)	.75	.67	.91	.72	.73
Landlords (note d)	.58	.47	.88	.57	.63

a/ BOMA square feet is a standard method of floor measurement used by the Building Owners and Managers Association, International. It includes all areas within outside walls except space not actually available to the tenant for furnishings or personnel. Where other types of measures are used by GSA, we converted them to BOMA square feet.

b/ Includes wages plus premium pay and benefits (11%) for all field office personnel. Excludes headquarters and region program direction costs and expenditures for major equipment.

c/ Total contract costs including profit. Does not include GSA contract administration costs, estimated at 4 percent.

d/ Total costs cited in contracts or by landlords. Excludes landlord overhead for contract administration or direction of in-house cleaning staff.

The above figures are not perfect comparisons. For example, wages differ by region and by location within region, and regions vary in staffing GSA-cleaned buildings to GSA standards. Also, some buildings because of their design and use are more difficult to clean; thus more staff may be required to clean them. The tasks performed by custodians differ somewhat and, to the extent possible, we adjusted for this. Notwithstanding these variances, the figures reflect the relative difference in cost among GSA's in-houses staff, its contractors, and its landlords, that persisted at each of the regions.

B. CLEANING PRODUCTIVITY

	<u>Average cleaning productivity rate (note a)</u>			
	<u>Boston</u>	<u>Atlanta</u>	<u>Chicago</u>	<u>Washington, D.C.</u>
	----- (sq. ft. per hr.)-----			
In-house staff	1910	2157	2213	2196
Contractors	2157	2410	2428	2474
Landlords	2700	2764	<u>b/</u> 2463	2566

a/ These rates were determined using direct labor hours and BOMA square feet.

b/ Productivity rates may be limited by a union agreement in Chicago that firms cannot decrease the number of janitors in a building without union approval.

These rates must be considered reasonable approximations rather than precise measures of performance. Available data were not precise, and for us to accumulate such data on our own was not cost effective. Nonetheless, the rates we compiled reflect the relative differences in existing productivity rates.



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

APR 8 1981

Mr. Ray Kline
Acting Administrator
of General Services
Washington, DC 20405

Dear Mr. Kline:

One of the major goals within this Administration centers on maximizing the efficient expenditure of funds. OMB Circular A-76, "Policies for Acquiring Commercial or Industrial Products and Services Needed by the Government," provides you with one of the necessary tools to achieve this goal. This Administration strongly supports the general policy of reliance on competitive private enterprise to supply the products and services needed by the Government. Through proper and effective implementation of the Circular you will be able to achieve economies and efficiencies in operating commercial-industrial type activities by:

- Determining the least cost method of providing essential services (contract or in-house).
- Streamlining existing Government organizations ensuring they are organized and staffed for the most efficient performance.
- Reducing long-range fiscal obligations through reductions in the Federal workforce when cost comparisons show a contract operation is more cost effective.
- Enhancing productivity through the development of measurable job standards.

The Circular provides that when private performance of commercial or industrial activities is feasible and no overriding factors require in-house performance, a rigorous comparison of contract costs versus in-house costs will be made, using the Circular's Cost Comparison Handbook, to determine whether the work will continue to be performed by in-house personnel or converted to a contract operation. The Circular contains several provisions that give appropriate consideration to affected Federal employees. Among the more significant ones are that:

- Existing in-house activities will not be converted to contract performance on the basis of economy unless it will result in a savings of at least 10 percent of the estimated Government personnel costs for the period of the comparative analysis; and
- Federal employees displaced as a result of the conversion to contract performance will be given the right of first refusal for employment openings in the contract operation.

I recently reviewed your implementation of Circular A-76 and note that it has been in a vacuum for almost two years. I understand that one of the reasons the Circular has not been implemented within your Agency is due to the lack of a

formal implementing order. Although such an order is not required by the Circular, our primary concern is that since the effective date of the Circular in all agencies was May 1, 1979, your agency has not reviewed a single in-house activity for possible conversion to contract performance. This gravely concerns us in view of the obvious savings that can be effected through reliance on the private sector.

In reviewing your inventory, I believe that the opportunity exists for you to conduct OMB Circular A-76 cost comparison studies on the four functions listed below which comprise over 13,000 personnel positions. These functions are:

Guard Services	3,000
Custodial	5,000
Building Maintenance	4,000
Motor Vehicle Operations and Maintenance	<u>1,000</u>
Total	13,000

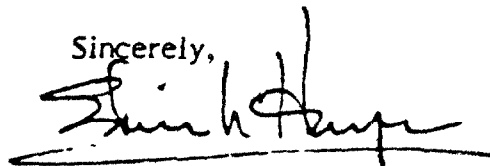
Therefore, these functions shall be scheduled for cost comparison studies in FY 1981 and completed by September 1982. Accomplishment of these studies in that timeframe will move us closer to the realization of this Administration's goals. I look forward to your response regarding your specific plans to review the above listed functions.

One of the actions required to ensure uniform implementation of the Circular in the civilian agencies is the modification of the Federal Procurement Regulation (FPR). Your assistance is requested in publishing appropriate clauses and contract provisions thereby enacting uniform procurement procedures. The recently published draft Federal Acquisition Regulation A-76 coverage should be the basis of the procedures incorporated into the FPR. We would appreciate this being accomplished within 60 days.

Both the Circular and other instructions, limiting Federal civilian employment, are complementary. The instructions preclude the use of contracting with firms and institutions outside the Government solely to circumvent personnel ceilings. Agencies that contract out for goods and services under the structured and deliberate process prescribed by OMB Circular A-76 are doing so because it is cost effective and reduces the growth in Government spending.

In light of the trust and responsibilities placed in us by the American people, it is essential that we join together in forming a partnership to ensure OMB Circular A-76 is implemented in an effective and timely manner. Please be assured that my staff and I will work closely with you in this endeavor.

Sincerely,



Edwin L. Harper
Deputy Director