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[Action of OMB Designed to Expand the Amount of Contracting Out of Functions Now Performed by Civil Service Employees].

PSAD-77-79; B-158685. February 16, 1977. 3 pp.

Report to Rep. Clarence J. Brown; by Elmer B. Staats, Comptroller General.

Issue Area: Federal Procurement of Goods and Services: OMB Guidelines for Relying on the Private Sector to Supply Federal Needs (1906).

Contact: Procurement and Systems Acquisition Div.

Budget Function: General Government: Other General Government (806).

Organization Concerned: Office of Management and Budget; Civil Service Commission.

Congressional Relevance: Rep. Clarence J. Brown.

An Office of Management and Budget (OMB) release and GAO plans for monitoring major developments concerning the contracting out of functions now performed in-house by Government employees were discussed. GAO recommended that OMB give consideration to developing a series of rates tailored to each type of activity to be contracted out. It was also recommended by GAO that social security costs for private sector employees be computed on the dynamic normal basis, as are retirement costs for civil service employees.

Findings/Conclusions: GAO continued to believe that the establishment and use of a series of tailored rates would result in more accurate cost comparisons. Further evaluation of the Civil Service computer model used to calculate the retirement cost factor will be made by GAO to determine if it is practical to establish such rates. GAO continues to believe that estimates of the cost of contracting should include some provision for potential or future cost for benefits. GAO plans an evaluation of executive agency implementation of and compliance with the rules and regulations concerning contracting out for goods and services. Recommendations: Obtaining needed goods and services at the lowest possible cost is a sound public policy that must be given equal consideration to the policy of placing reliance on the private sector. The effective implementation of these policies requires that complete and accurate cost comparisons be made. (Author/SW)

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

5/6/77

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B-158685

The Honorable Clarence J. Brown
House of Representatives

FEB 16 1977

Dear Mr. Brown:

In response to your letter of December 14, 1976, we met with you and your staff on January 11, 1977, to discuss a recent Office of Management and Budget (OMB) release and our plans for monitoring major developments concerning the contracting out of functions now performed in-house by Government employees.

The OMB release which was enclosed with your letter restates information that we considered in preparing our report of November 5, 1976, (PSAD-77-7) to the Honorable Morris K. Udall, House of Representatives, a copy of which was previously furnished to you. During our discussion, you advised us that your primary interest at this time concerns what GAO plans to do in regard to OMB's letter of December 20, 1976, which essentially rejects the two recommendations included in the above report.

We advised Congressman Udall that the 24.7 percent Government retirement cost factor for civil service employees, established by the Civil Service Commission for use in determining the cost of activities performed in-house, is a composite rate applicable to the overall work force, including engineers, secretaries, unskilled laborers, and other employees. We stated that we believed OMB should give consideration to developing a series of rates tailored to each type of activity to be contracted out. OMB commented that implementation of the suggestion would significantly increase the cost and complexity of the administrative burden of the Civil Service Commission and lead to many questions, problems, and perceived inequities. OMB also stated that use of the 24.7 percent cost factor is fully justified, but that if the Government subsequently establishes different factors for different activities, their use in cost comparisons will be considered.

As we advised you, we continue to believe that the establishment and use of a series of tailored rates would result in more accurate cost comparisons. Accordingly, we are planning to further evaluate the Civil Service computer model used to calculate the retirement cost factor to see if it is practical to establish such rates.

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We also advised Congressman Udall that in making cost comparisons to determine whether activities should be performed in-house or contracted out, it is very important that proper consideration be given to costs under both alternatives. Therefore, we stated a belief that social security costs for private sector employees should also be computed on the dynamic normal basis as are retirement costs for civil service employees. Costs computed on a dynamic basis would reflect the future cost of benefits as they are earned. Factors such as inflation, wage increases, and benefit increases are considered. The current employer social security contribution is 4.95 percent of an employee's wages up to an annual ceiling of \$16,500. This amount, together with the employee's contribution, may be insufficient to cover the full cost of employee benefits accruing under the system.

In its reply of December 20, OMB advised us that considerable attention had been given to this recommendation, but that no basis was found for imputing any additional cost to the Government as a result of a decision to rely on the private sector for goods or services. OMB also believed it would be inappropriate for the executive branch to assign to the general taxpayer a liability that by law is not now a burden on the general funds of the Treasury.

The Social Security Administration acknowledges that contributions to the social security trust fund are not adequate to finance future liability for benefits. Estimates of the unfunded liability range to the trillions of dollars. In our opinion, the necessity for Government funding of the liability is a distinct possibility. Accordingly, we continue to believe that estimates of the cost of contracting should include some provision for this potential cost.

During our discussion, you stated that you were quite concerned with the effect that mass contracting out could have on Government employees performing functions in-house, as well as the added cost to the Government for retraining of the displaced employees, unemployment, welfare, loss of tax revenue, etc. You believe that executive agencies should be required to include these and similar costs in cost comparisons aimed at determining whether activities performed in-house should be performed by contractors. Further, you believe that even where comparisons support contracting out, agencies should be required to consider whether the savings involved warrants the damage done to the Government employees through loss of employment.

As we discussed with you, we are planning an evaluation of executive agency implementation of and compliance with the rules and regulations concerning contracting out for goods and services. An

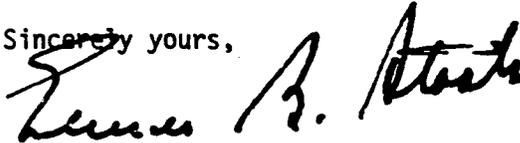
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important part of this evaluation will be consideration of the manner in which the agencies perform cost comparisons. In performing this work, we will give consideration to the practicality of implementing your thoughts as discussed above.

We believe that obtaining needed goods and services at the lowest possible cost is a sound public policy that must be given equal consideration to the policy of placing reliance on the private sector. The effective implementation of these policies requires that complete and accurate cost comparisons be made.

We will furnish you a copy of any report that results from the evaluations discussed.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Thomas A. Stach". The signature is written in a cursive style with a large, prominent initial "T".

Comptroller General
of the United States