

THE WHITE HOUSE
WASHINGTON

CABINET AFFAIRS STAFFING MEMORANDUM

Date: 5/18/84 Number: 168991CA Due By: _____

Subject: Cabinet Council on Management and Administration - Monday, May 21
4:00 P.M. - Roosevelt Room

	Action	FYI		Action	FYI
ALL CABINET MEMBERS	<input type="checkbox"/>	<input type="checkbox"/>	CEA	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Vice President	<input checked="" type="checkbox"/>	<input type="checkbox"/>	CEQ	<input type="checkbox"/>	<input type="checkbox"/>
State	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	OSTP	<input type="checkbox"/>	<input type="checkbox"/>
Treasury	<input checked="" type="checkbox"/>	<input type="checkbox"/>	ACUS	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Defense	<input checked="" type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Attorney General	<input type="checkbox"/>	<input checked="" type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Interior	<input type="checkbox"/>	<input checked="" type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Agriculture	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Baker	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Commerce	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Deaver	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Labor	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Darman (For WH Staffing)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
HHS	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Jenkins	<input type="checkbox"/>	<input checked="" type="checkbox"/>
HUD	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Mc Farlane	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Transportation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Svahn	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Energy	<input checked="" type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Education	<input type="checkbox"/>	<input checked="" type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Counsellor	<input checked="" type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
OMB	<input checked="" type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
CIA	<input type="checkbox"/>	<input checked="" type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
UN	<input type="checkbox"/>	<input checked="" type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
USTR	<input type="checkbox"/>	<input checked="" type="checkbox"/>	CCCT/Gunn	<input type="checkbox"/>	<input type="checkbox"/>
GSA	<input checked="" type="checkbox"/>	<input type="checkbox"/>	CCEA/Porter	<input type="checkbox"/>	<input type="checkbox"/>
EPA	<input type="checkbox"/>	<input type="checkbox"/>	CCFA/	<input type="checkbox"/>	<input type="checkbox"/>
OPM	<input checked="" type="checkbox"/>	<input type="checkbox"/>	CCHR/Simmons	<input type="checkbox"/>	<input type="checkbox"/>
VA	<input checked="" type="checkbox"/>	<input type="checkbox"/>	CCLP/Uhlmann	<input type="checkbox"/>	<input type="checkbox"/>
SBA	<input type="checkbox"/>	<input type="checkbox"/>	CCMA/Bledsoe	<input checked="" type="checkbox"/>	<input type="checkbox"/>
			CCNRE/	<input type="checkbox"/>	<input type="checkbox"/>

REMARKS: The Cabinet Council on Management and Administration will meet on Monday, May 21, 1984 at 4:00 p.m. in the Roosevelt Room.

The agenda and background papers are attached.

RETURN TO:

- | | | |
|---|---|--|
| <input type="checkbox"/> Craig L. Fuller
Assistant to the President
for Cabinet Affairs
456-2823 | <input type="checkbox"/> Katherine Anderson | <input type="checkbox"/> Don Clarey |
| | <input checked="" type="checkbox"/> Tom Gibson | <input type="checkbox"/> Larry Herbolsheimer |
| | Associate Director
Office of Cabinet Affairs
456-2800 | |

THE WHITE HOUSE

WASHINGTON

CABINET COUNCIL ON MANAGEMENT AND ADMINISTRATION

May 21, 1984

4:00 p.m.

Roosevelt Room

AGENDA

1. Personnel Management Improvement (Morale)
2. Non-Career SES Awards Program
3. Cost-Effectiveness in Government Services (A-76)



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

DRAFT

MEMORANDUM FOR: EDWIN MEESE, III
FROM: Joseph R. Wright, Jr., Deputy Director
SUBJECT: Presidential Memorandum on OMB Circular No. A-76

Many Federal agencies are not implementing OMB Circular No. A-76, "Performance of Commercial Activities." This represents a lost opportunity for management efficiencies and budget reductions. The following describes the need for a Presidential memorandum in support of the program. Long-term savings potential exceeds \$1 billion per year.

Background

A-76 enhances Governmental productivity by comparing the cost of Government-operated commercial activities with the private sector. It provides Federal managers with an incentive to become more efficient through open competition with private businesses. Almost 1,700 cost studies have been conducted since 1979, primarily in DOD, resulting in an average savings of 20% over the previous cost of the commercial activity to the Government.

The program is a proven productivity tool that has been supported by the President's Private Sector Survey on Cost Control, the National Academy of Public Administration, and the General Accounting Office. Caspar Weinberger reports that the program is now saving DOD over \$300 million per year. In 1983 alone, DOD reduced 9,143 FTEs through conversion to contract and streamlining of in-house operations.

Discussion

A-76 is a controversial program among Federal managers and some members of Congress. It is perceived as a "contracting out" program. Overlooked are the Government's 29-year old policy of relying on the private sector for commercial services and the principle of fair competition embodied in A-76.

Twenty-four Federal agencies recently reported to OMB on their progress and plans for implementing A-76. After making A-76 an important part of Reform '88 and tying it to the budget process, we expected significant progress in its implementation.

With few exceptions, that has not been the case. To the contrary, many agencies have understated the scope of their commercial activities by 400-500%, and Federal program managers have misrepresented A-76 in discussions with Congress.

This inaction represents a significant lost opportunity to reduce the Federal budget through management efficiencies. The Attachment summarizes an analysis we recently prepared of the program's cost saving potential in response to the Grace Commission's recommendation that we accelerate implementation of the program.

Options

Major options to increase compliance with the Circular include:

1. Executive Order. Statement of support for the principle of fair competition embodied in A-76. Require a vigorous A-76 program in each agency and describe personnel, budgetary, and management responsibilities. Request agencies to target productivity savings goals through A-76 and to report progress to OMB. Have agencies keep Congress, businesses, and employees well informed about A-76 plans and activities.
2. Presidential Memorandum. Similar to Executive Order, except that memorandum could also describe some of the President's current concerns over lack of A-76 progress. It could also describe a Government-wide A-76 targeted savings goal for 1988.
3. Continued OMB Leadership. No direct Presidential involvement at this time. OMB would continue to push for the achievement of productivity savings through the budget process and Reform '88.

Recommendation

For the following reasons, I recommend that the Cabinet Council on Management and Administration endorse a Presidential memorandum:

- o The likelihood of achieving savings currently reflected in the 1985 budget from A-76 is slim without Presidential support. Additional savings that could be obtained would also be foregone unless we can halt a 29-year trend of noncompliance.
- o While a Presidential memorandum is not as prestigious or enduring as an Executive Order, its chief merit is that it has a shorter clearance process that the CCMA can control. The A-76 process involves internal cost studies and procurement actions that have lengthy lead-times. Efforts to achieve savings within the 1985-1988 time frame must begin now.
- o We need to dispel the misperceptions of many Federal managers that this program is a plot to "contract out" jobs in a wholesale manner that could harm Government missions and raise costs. A statement by the President advocating fair competition, quality performance, and cost effectiveness as the guiding principles of the A-76 cost comparison process would greatly help the program.

I would be glad to brief you further on the ability of this program to provide cost effective Government services, along with the pros and cons of the various options.

Attachment

Copy to: Ralph Bledsoe

ATTACHMENT

BACKGROUND INFORMATION ON A-76 COST SAVINGS

Through OMB's management review process, we identified 19,201 FTE reductions and \$451.9 million in A-76 savings that could be achieved by 1988 in non-Defense agencies. The savings estimates were extremely conservative and several agencies received no projected reductions. However, all savings were premised on implementation of the Circular -- a task many are still avoiding.

In the course of our most recent analysis of the Grace Commission's recommendations, we made our own estimate of total savings available if the A-76 program were accelerated within reason.

Savings through 1987

<u>Civilian Agencies</u>	<u>FTEs Studied</u>	<u>FTEs Saved</u>	<u>Dollars (millions)</u>
1985 Budget	33,000	15,235	\$272.0
Program accelerated beginning in 1985 and GSA savings traded	<u>39,000</u>	<u>15,945</u>	<u>154.7*</u>
Total	72,000	31,180	\$426.7
<u>Department of Defense</u>			
1985 Budget	30,000	reprgm	reprgm
Program accelerated with no reprogramming	<u>15,000</u>	<u>18,585</u>	<u>296.3</u>
Total	45,000	18,585	\$296.3
Grand Total	117,000	49,765	\$723.0

This still represents only 5% of the Federal civilian work force.

In the outyears, these savings will grow, as the program can be accelerated further (we estimate approximately 500,000 FTEs in commercial activities; under the current rate of review, cost studies would be completed over a 20-25 year cycle, rather than the 4 years required by A-76). Sizeable room for improvement exists, but our first step must be to increase agency support and compliance.

Presidential and Cabinet assistance for A-76 is vital for its implementation and for the attainment of its cost savings.

* Savings are spread out over 2-year periods after year A-76 study initiated. Hence, 1985-87 dollar savings from accelerated program are smaller than those available from current efforts. In outyears, the accelerated program will generate substantial additional cuts.

**PROGRESS AND PROBLEMS
IN IMPLEMENTING OMB
CIRCULAR NO. A-76**

Office of Federal Procurement Policy

Office of Management and Budget

May, 1984

THE GOOD NEWS.....

1) A-76 has been endorsed as an effective productivity improvement process by:

- * the General Accounting Office;
- * the President's Private Sector Survey on Cost Control; and
- * the National Academy of Public Administration.

2) A-76 is a major management efficiency program for the Department of Defense:

- * 9143 FTE* reduced in FY 83 through cost studies;
- * Average savings of 27% generated as a result of A-76 reviews of commercial activities;
- * Government wins half of the cost comparisons by moving to more efficient organizations (through improved work processes, reclassification of overgraded jobs, automation, and other techniques); and
- * Concept of efficiency reviews is being applied to study 1,041,000 non-commercial occupations exempt from A-76 because of its success in productivity improvement.

3) The Circular was revised and simplified in August, 1983, after months of consultation with agencies, employee groups, business representatives, and the Congress.

4) A-76 has been incorporated as one of the major initiatives of President Reagan's "Reform 88" management improvement program.

*An "FTE" is a full-time equivalent position.

FOUR STEPS TOWARD BETTER GOVERNMENT: THE A-76 PROCESS.....

Step #1: Preparation of performance work statements that define the organization's objectives in measurable performance standards. This document includes a systematic quality assurance system to measure achievement of the standards.

Step #2: Completion of an efficiency study to develop the most cost effective way for the Government to provide the service. Agencies are encouraged to adopt innovative management strategies to provide quality services at reasonable cost.

Step #3: A-76 then interjects the competitive marketplace into our search for the most cost effective operation by allowing the private sector to compete for the opportunity to provide the same commercial services at the same performance standards.

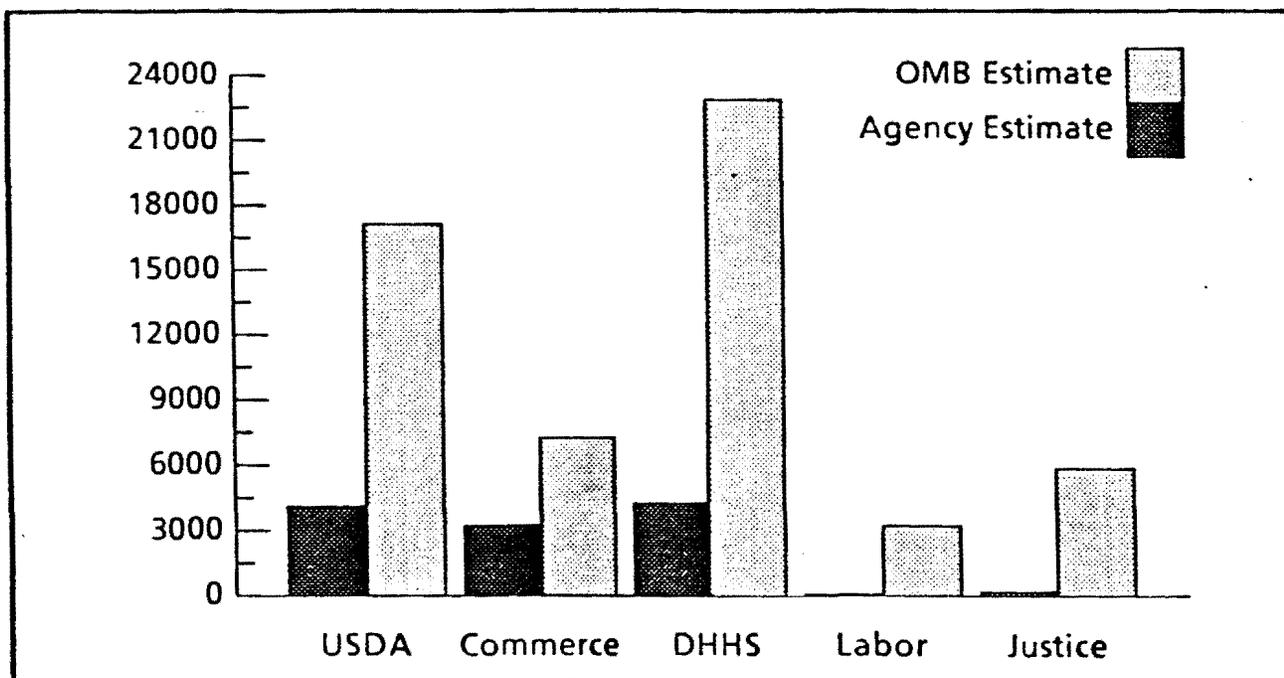
Step #4: The most cost-effective means of operation -- public or private -- of the commercial activity is selected. Whoever wins the competition is held accountable to the performance standards through a formal quality assurance program.

THE BAD NEWS.....

Many Federal agencies continue to understate the size of their commercial activities.

For example, the Social Security Administration reports only 183 FTE in its current inventory, yet it employs over 5,000 mail and file clerks, 147 warehouse and stockhandlers, 3,289 data transcribers, etc..

**Selected Agencies'
A-76 Commercial Activities Inventories
Agency vs. OMB Estimates**



Each understated inventory represents a substantial lost opportunity .

MORE BAD NEWS

Many Federal agencies did few -- if any -- cost studies in FY83.*

Agency	Commercial Activities Cost Studied	FTEs Reduced
AID	0	0
USDA	8	74
Commerce	4	67
Defense	298	9143
Education	0	0
Energy	5	70
FEMA	0	0
DHHS	6	9
Justice	0	0
Labor	1	5
NRC	0	0
OPM	0	0
Peace Corps	0	0
SBA	5	1
Treasury	5	64
USIA	1	5

DOD plans to study approximately 400 commercial activities in 1984, covering 10,000 FTEs. The remaining 23 agencies reporting their plans to OFPP indicate they will review only 99 activities with 1,918 FTEs in 1984.

* The 23 civilian agencies reported an additional 656 FTEs reduced in FY 83 from conversions to contract without a cost study. All DOD savings were generated through formal cost studies.

The formal, A-76 cost study process is an open, fair, and proven method of generating savings through interjecting the competitive marketplace into Federal management. The lack of formal cost studies in many agencies is the primary reason employees misperceive A-76 as a "contracting out" program.

CAUSES UNDERLYING PROBLEMS WITH A-76 :

- **Managing an agency's A-76 program is often a part-time duty**
- **Skepticism of Federal program managers. As one bureau in the Department of Justice reported to OMB in March, 1984:**

"It is not expected that cost studies will result in any appreciable savings inasmuch as the activities are currently being performed at the lowest cost possible. Future budgets may require increases to reflect additional manpower requirements to conduct cost studies."

Given this attitude, it is unsurprising that only 5 A-76 actions -- none involved formal cost studies -- were completed in the entire Department of Justice in 1983.

- **Internal controls over A-76 program are lacking in several agencies.**
- **Little involvement of Personnel Officers or Budget Officers in program.**
- **Employees not informed about nature and scope of program.**
- **Agencies do not keep Congress well informed about their A-76 efforts, nor about the benefits it provides to taxpayers, businesses, and Federal employees interested in cost effective government. Instead, several agency officials have misrepresented the program in their descriptions of it to members of Congress.**

NECESSARY ACTIONS.....

- 1) Personal involvement and support of senior agency officials**
- 2) Full time, trained A-76 staff in Comptroller's Office or as part of an agency's Reform '88 staff. In several agencies, personnel changes may be needed to get the program implemented.**
- 3) Revise commercial activities inventories with assistance of personnel and budget staffs.**
- 4) Develop and implement plan for keeping Congress informed about A-76 actions.**
- 5) Management tracking of A-76 progress is needed.**
- 6) Inform employees about the scope and nature of A-76. Solicit their input in development of Most Efficient Organizations' studies required by A-76.**