



Testimony

Before the Subcommittee on Public Buildings and
Economic Development
Committee on Transportation and Infrastructure
House of Representatives

For Release on Delivery
Expected at
8:30 a.m. EDT
Thursday
July 18, 1996

GENERAL SERVICES ADMINISTRATION

Observations on GSA's Implementation of the Federal Operations Review Model

Statement of
J. William Gadsby, Director
Government Business Operations Issues
General Government Division



General Services Administration: Observations on GSA's Implementation of the Federal Operations Review Model

Mr. Chairman and Members of the Subcommittee:

We welcome this opportunity to appear before you today to provide our observations on the General Services Administration's (GSA) implementation of the Federal Operations Review Model, commonly referred to as FORM, as well as to discuss our previous recommendations on improving GSA's leasing process. As part of its reinvention efforts, and with the assistance of Arthur Andersen LLP., GSA developed and intended to use FORM to help identify the most cost-effective methods of carrying out each of its 16 major mission-support functions or business lines. Various groups in addition to GSA have had a role in the process. Arthur Andersen had a dual role—providing assistance in developing and implementing the FORM process itself and also reviewing the appropriateness of the assumptions supporting the analyses and the mathematical accuracy of the calculations. The GSA Office of Inspector General (IG) provided its own independent review of the FORM process to determine whether the analysis of various business lines provided a reasonable, supported, and unbiased methodology for developing options that would result in the lowest cost to the taxpayer. The IG issued several reports on its reviews. As agreed with the Subcommittee, our role has essentially been limited to monitoring the process by examining GSA FORM reports and the completed IG reports.

The specific purpose of the FORM process was to identify the strategic options that could enable GSA to provide quality services to its clients and customers at the least cost to the taxpayer, either in-house or through privatization and outsourcing. The foundation of FORM is a financial analysis used to compare the cost effectiveness of current government operations with other alternatives. As originally designed, the process was to have at least two phases—a preliminary phase to identify and assess potential options and a second phase for more in-depth analysis of specific options. GSA applied the initial phase of the FORM process to 16 business lines, 6 of which were within the Public Buildings Service (PBS), which is under this Subcommittee's jurisdiction. These business lines were commercial broker (leasing), federal protective service, portfolio management, property development, property disposal, and property management.

To carry out our role, we reviewed the final FORM reports prepared by GSA for the initial analysis of all the business lines, seven GSA IG business line reports, four IG reports on GSA overhead expenses for the FORM process, and two IG reports on the GSA contract with Arthur Andersen relating to

FORM work. For the commercial broker report, we also interviewed GSA officials and IG auditors who were involved in the work to obtain more detailed information on the process than was provided by the reports. Finally, we reviewed the draft management plans GSA program staff developed at the end of the initial phase of the FORM effort to see if any recommendations from the FORM process were being included in any implementation plans. These plans were to address the implementation of the preliminary findings, recommendations, and/or results of the FORM reports for the initial analysis phase.

On the basis of the limited work we did, we found no reason to question the IG's view that, while GSA's implementation of the preliminary phase generally followed the prescribed FORM process, it contained a number of weakness related to (1) the consistent application of assumptions, (2) the sufficiency of—and in some cases the absence of—relevant data, (3) the appropriateness of certain cost estimates, and (4) certain financial calculation errors. Similarly, the IG's observation that the data in initial FORM analysis reports should not be relied on as the primary basis for making final decisions about privatizing or outsourcing specific business lines seems reasonable—particularly since phase one was to be followed by more in-depth second analysis.

For example, the IG's report on the commercial broker FORM report, including leasing, identified several reasons why the report should not be relied on for making final decisions. Some of the reasons cited were that (1) the private sector cost data were based on informational quotes and not on firm comparative prices from the industry; (2) the idea of privatizing small lease acquisition services to generate savings was not derived from an analytical process but from a suggestion from PBS management; and (3) the implementation costs associated with operational changes, GSA's market leverage, and current cost saving efforts were not considered in the preliminary phase. For these reasons, we would agree with the IG's opinion that the commercial broker FORM analysis report did not provide an adequate basis for GSA to make final decisions on lowest cost alternatives. Again, it is important to recognize GSA did not plan to use the phase one reports as the sole basis for making final decisions. The more in-depth or second-phase analysis called for in the original design has not yet occurred.

Before I conclude, I would like to say that, despite the weaknesses just highlighted, the FORM process should have aided GSA in better understanding its business and the market place. We are encouraged by

GSA's ongoing reform efforts, especially those related to streamlining the federal leasing process. In recent years, GSA has become increasingly dependent on leasing to satisfy federal space needs and now spends over \$2 billion annually for leased space. Our February 1995 leasing report showed that GSA's highly prescriptive and inflexible leasing process did not enable it to respond quickly enough in today's dynamic commercial real estate marketplace and impeded its ability to get the best available leasing values.¹

We identified several characteristics of GSA's leasing process that seemed to put GSA at a distinct disadvantage in the commercial marketplace, caused it to pay more than is necessary for leased space, impeded timely space delivery, and discouraged competition for government leases. For example, GSA's realty staff had limited flexibility to modify space requirements or award criteria or to bargain with landlords to take advantage of available leasing opportunities, even those they believed would be good values for the government.

In contrast, the more results-oriented approach that the private sector firms we contacted typically used was much simpler, more flexible, took considerably less time, and seemed to result in better overall leasing values. Unlike GSA, these firms generally did not establish highly prescriptive and detailed space specifications, and their lease solicitations and contracts were much simpler and shorter than GSA's. These firms' more results-oriented approach typically enabled them to lease and occupy space in less than one-third of the time it took GSA and to get leasing values that they and many commercial landlords and brokers said were better than GSA's.

Accordingly, we made several recommendations to GSA that were aimed at simplifying and streamlining its leasing process and making it less costly and time-consuming, more responsive to federal agencies' needs, and a better value for taxpayers. GSA generally agreed with the overall thrust of this report and our recommendations and said it would address them as part of its ongoing effort to reform its real estate program.

We believe GSA is headed in the right direction. However, there are inherent risks involved in making any major reform. GSA needs to be able to show that any reforms it proposes will involve only acceptable risks, improve mission-support services to federal agencies, and provide a net

¹Federal Office Space: More Businesslike Leasing Approach Could Reduce Costs and Improve Performance (GAO/GGD-95-48, February 27, 1995).

**Statement
General Services Administration:
Observations on GSA's Implementation of
the Federal Operations Review Model**

cost savings to taxpayers. To do this, GSA will need good performance data, adequate benchmarks, and effective oversight and measurement systems.

Mr. Chairman, this concludes my prepared statement. I would be pleased to answer any questions you or other Members of the Subcommittee might have at this time.

Ordering Information

The first copy of each GAO report and testimony is free. Additional copies are \$2 each. Orders should be sent to the following address, accompanied by a check or money order made out to the Superintendent of Documents, when necessary. VISA and MasterCard credit cards are accepted, also. Orders for 100 or more copies to be mailed to a single address are discounted 25 percent.

Orders by mail:

U.S. General Accounting Office
P.O. Box 6015
Gaithersburg, MD 20884-6015

or visit:

Room 1100
700 4th St. NW (corner of 4th and G Sts. NW)
U.S. General Accounting Office
Washington, DC

Orders may also be placed by calling (202) 512-6000
or by using fax number (301) 258-4066, or TDD (301) 413-0006.

Each day, GAO issues a list of newly available reports and testimony. To receive facsimile copies of the daily list or any list from the past 30 days, please call (202) 512-6000 using a touchtone phone. A recorded menu will provide information on how to obtain these lists.

For information on how to access GAO reports on the INTERNET, send an e-mail message with "info" in the body to:

info@www.gao.gov

or visit GAO's World Wide Web Home Page at:

<http://www.gao.gov>

**United States
General Accounting Office
Washington, D.C. 20548-0001**

**Bulk Rate
Postage & Fees Paid
GAO
Permit No. G100**

**Official Business
Penalty for Private Use \$300**

Address Correction Requested