

DISCLAIMER NOTICE

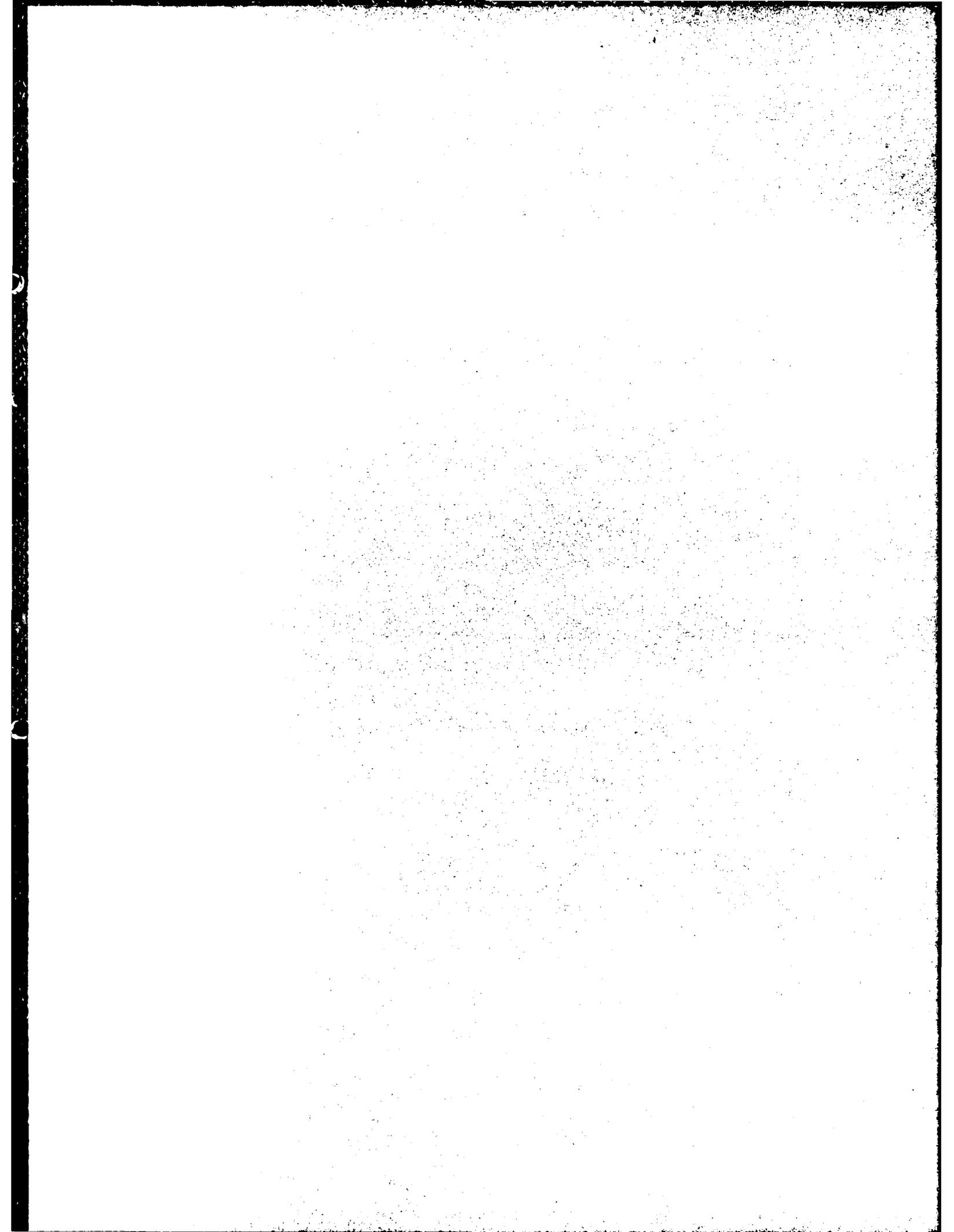
THIS DOCUMENT IS BEST QUALITY PRACTICABLE. THE COPY FURNISHED TO DTIC CONTAINED A SIGNIFICANT NUMBER OF PAGES WHICH DO NOT REPRODUCE LEGIBLY.

**BEST
AVAILABLE COPY**

AD-A 206 749

DTIC
SELECTED
APR 10 1969
ON

89 4 07 008



General Government Division

B-229033

February 1, 1989

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

Dear Mr. Chairman:

This report responds to your request that we examine the use of contractors and cost incurred by the principal agencies responsible for implementing the Federal Employees Retirement System (FERS) Act of 1986 (P.L. 99-335). We also included in our study the extensive services that the principal agencies obtained from other federal agencies because of the significant costs for these services.

The act provided (1) a new retirement system for all federal civilian employees hired after December 1983 and (2) an opportunity for about 2.1 million employees covered by existing retirement systems, primarily the Civil Service Retirement System (CSRS), to transfer to FERS during a July through December 1987 open season. FERS provides benefits from three separate components, each administered by a different agency:

- The Office of Personnel Management (OPM) is responsible for the pension plan component;
- The Social Security Administration (SSA) is responsible for the Social Security component;
- The Federal Retirement Thrift Investment Board is responsible for the thrift savings plan component.¹

DTIC
ELECTE
S APR 10 1989 D
H 6

Results in Brief

Each of the three agencies used the services of other federal agencies and contractors extensively in implementing FERS. OPM paid about \$3.8 million (about \$2.2 million to other agencies and about \$1.6 million to contractors) primarily to develop and print information to help federal employees better understand and compare the features of FERS and CSRS and to take preliminary steps leading to the design and implementation of an automated FERS recordkeeping system. SSA contracted through the Government Printing Office (GPO) for an automated system using machine-readable forms to respond to federal employees' requests for

¹We previously evaluated FERS implementation by these agencies in our report Federal Retirement Implementation of the Federal Employees Retirement System (GAO GGD-88-107, Aug 4 1988)

DISTRIBUTION STATEMENT A
Approved for public release;
Distribution is unlimited

Social Security earnings and coverage information. The total cost to design, print, and process forms was \$621,506. The Thrift Board paid about \$14.6 million (about \$14.3 million to other agencies and about \$0.3 million to contractors) primarily to develop and operate an automated recordkeeping system and to prepare, print, and distribute materials and forms. Appendix II contains a table of the costs of services provided by contractors and other agencies to implement the new retirement system.

We believe that using contractors and other agencies to provide these products and services was appropriate because (1) the principal agencies' staffs either were too small or did not have the capability, (2) some products or services were needed on a one-time-only basis, and (3) government printing regulations restrict agencies from doing large printing requirements in-house.

The details of our findings are contained in appendix I.

Objectives, Scope, and Methodology

~~Our~~ objectives were to determine the extent to which the three principal agencies used contractors and other agencies to assist them in implementing FERS, the cost of these services, and whether the agencies could have used their own employees and equipment to provide the products and services in a timely manner. We limited our review to products and services provided by contractors and services provided by other agencies that were directly related to implementing FERS.

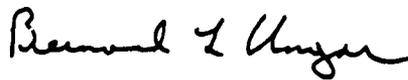
To determine the extent that contractors were used, we examined contract files and related records at the three agencies; the Federal Prison Industries, Inc. (trade name UNICOR), which printed OPM and Thrift Board materials; and GPO, which contracted for printing services for OPM and for printing and other services for SSA. We interviewed officials at the three agencies to determine why they contracted for the products and services and identified whether contracts were competitively awarded. We also observed the level of staff available to do this work and the agencies' compliance with federal laws and regulations.

We obtained oral comments from OPM, SSA, and Thrift Board officials on a draft of this report. They suggested some minor technical changes that we incorporated in the final product.

Our field work was done in accordance with generally accepted government auditing standards between May 1987 and September 1988. The major contributors to this report are listed in appendix III.

As arranged with the Subcommittee, we are sending copies of this report to selected congressional committees; the Director, Office of Personnel Management; the Commissioner of Social Security; the Executive Director, Federal Retirement Thrift Investment Board; and other interested parties.

Sincerely yours,



Bernard L. Ungar
Associate Director



Accession For	
NTIS GRA&I	<input checked="" type="checkbox"/>
DTIC TAB	<input type="checkbox"/>
Unannounced	<input type="checkbox"/>
Justification	
By _____	
Distribution/	
Availability Codes	
	Avail and/or
Dist	Special
A-1	

Contents

Letter		1
Appendix I		6
Use of Contractors in FERS Implementation	Pension Plan Implementation	6
	Social Security Information	8
	Thrift Plan Implementation	9
Appendix II		14
Cost of Services Provided by Contractors and Other Agencies to Implement FERS		
Appendix III		15
Major Contributors to This Report		

Abbreviations

CSRS	Civil Service Retirement System
FERS	Federal Employees Retirement System
GPO	Government Printing Office
OPM	Office of Personnel Management
SSA	Social Security Administration

Use of Contractors in FERS Implementation

Pension Plan Implementation

The act made the Office of Personnel Management (OPM) responsible for administering the pension plan component of the Federal Employees Retirement System (FERS) and for educating employees about the new system. To carry out these responsibilities, OPM created a FERS task force of 14 employees, which established the regulatory framework for the new system, determined the kind of descriptive information on Civil Service Retirement System (CSRS) and FERS benefits that employees needed, and began administering the pension plan as required by law on January 1, 1987. The task force also determined contracting requirements and provided oversight and approval of contractor activities.

To implement FERS, OPM paid for services from other agencies and awarded contracts and work orders totaling about \$3.8 million. Over 90 percent of the funds were used for developing and printing informational materials about CSRS and FERS and for designing an automated FERS recordkeeping system. The remaining funds (\$319,892) were competitively awarded to a firm for actuarial services, which included independently reviewing and validating the assumptions and methodology for calculating the cost of FERS.

A task force official said that these products and services were not available in-house because OPM's small task force did not have the capability to do all the work needed to meet the legal deadlines for implementing FERS by January 1, 1987, and that the products and services were needed on a one-time-only basis. In addition, government regulations prohibited printing large quantities of documents in-house.

Informational Materials

OPM issued work orders to prepare materials explaining FERS and how it differed from CSRS. These work orders were issued against technical assistance contracts previously awarded by OPM's Training Management Assistance Branch. The Branch maintained 10 separately negotiated firm-fixed-price contracts with private sector companies for services to improve federal agency personnel and training programs. The Branch places work orders against the contracts on behalf of OPM organizations or other federal agencies.

Between July 23, 1986, and July 8, 1987, OPM placed 13 work orders with one contractor, University Research Corporation, to develop most of the materials at a total cost of \$568,884. Under these work orders, the contractor was required to

- develop and produce the FERS Pamphlet, which gave an overview of FERS, described the transfer eligibility requirements, and illustrated the benefits available from FERS and CSRS;
- develop and produce the FERS Transfer Handbook - A Guide to Making Your Decision, which provided a comprehensive explanation of the various CSRS and FERS features and contained the information OPM believed was necessary to make a transfer decision, including the key provisions of FERS and the benefits available from the pension plan, Social Security, and thrift plan;
- develop the script and make a master videotape for the videos "Today's News" (a 20-minute orientation video highlighting the provisions and benefits under FERS and CSRS) and "Today's News -Special Edition" (a 60-minute video in a news magazine format, which identified the differences between FERS and CSRS and illustrated career plans and circumstances that could cause employees to choose to stay in CSRS or transfer to FERS);
- modify and reproduce a Congressional Research Service computer program for comparing FERS and CSRS benefits; and
- develop and prepare materials for a decision advisor training course for employees designated by their agencies to assist coworkers in making FERS transfer decisions.

OPM also obtained a captioned copy of the video "Today's News" from another vendor (John Prescott & Associate) at a cost of \$2,000 and paid Commonwealth Films, Inc., \$1,080 for copies of the video "Today's News - Special Edition" for the initial decision advisor training course.

Printing Services

The Government Printing and Binding Regulations, published by the Joint Committee on Printing, prohibit agencies from printing more than 5,000 copies of any single page or 25,000 copies of multiple pages in-house. Because OPM needed over 3 million copies each of the FERS Pamphlet and FERS Transfer Handbook, it submitted its printing requirements to the Government Printing Office (GPO) as the regulations require. Based on the quantities needed and its own production schedules, GPO decided to have most of the materials printed by contractors.

OPM spent a total of about \$2.2 million for printing services (\$1.9 million to GPO and about \$0.3 million to UNICOR),¹ of which over \$1.4 million was for printing the 124-page FERS Transfer Handbook. The remaining

¹UNICOR is the trade name for the Federal Prison Industries, Inc.

printing costs were for the FERS Pamphlet, the election form for transferring to FERS, a decision advisor desk reference publication, and 20,000 copies of a Social Security handbook.

FERS Automated Recordkeeping System

An OPM official said that a fully automated recordkeeping system would enable OPM to handle FERS records more efficiently than the predominantly manual system used for CSRS records and that an automated system should be implemented while the volume of FERS records was relatively low. Full implementation of an automated recordkeeping system is planned in 1993. Until the proposed system is fully implemented, FERS records are being handled in the same manner as CSRS records. Because of the large number of hard copy CSRS records on file and the time-consuming process that would be required to convert the records to a computer-readable format, OPM officials expressed doubt that CSRS records would ever be fully automated.

A FERS task force official said OPM needed technical expertise from private companies to help it identify and document the enormous and complex recordkeeping and claims processing function shared by OPM and other federal agencies. Therefore, OPM competitively awarded three contracts to automate the FERS recordkeeping system:

- A \$230,967 contract was awarded in February 1987 to Watson, Rice and Company to study automating options.
- A \$302,523 contract was awarded in September 1987 to Arthur Andersen & Co. to develop a conceptual design of the FERS processing system.
- A contract was awarded in May 1988 to American Management Systems, Inc., to advise OPM on whether the recordkeeping systems under development meet OPM needs and federal and industry automated data processing standards and incorporate up-to-date equipment and practices. A total of \$211,778 had been spent on this contract as of December 1988.

An OPM official said OPM expects to solicit bids from contractors for the new system in February 1989.

Social Security Information

The Social Security Administration (SSA) was responsible for providing Social Security earnings and coverage information to federal employees so they could more completely assess the benefits of transferring to FERS. SSA anticipated that it would receive one-time requests for information from over 1.6 million federal employees, which would overwhelm

its system for handling inquiries for earnings and coverage information. Although requests for such information were normally processed using automated and manual record searches, SSA decided it could satisfy the majority of federal employee requests by developing a limited search system that would (1) search only the automated record system and (2) use a special machine-readable form designed specifically for federal employee inquiries.

SSA indicated that the predominant portion of the work involved printing about 3.6 million forms and that the form design and printing should be done by the organization responsible for processing the completed forms. As required by the Government Printing and Binding Regulations, SSA gave GPO its requirements, and GPO, in turn, competitively awarded a contract to National Computer Systems. The total cost of the contract was \$621,506.

Thrift Plan Implementation

The newly created Federal Retirement Thrift Investment Board is responsible for administering the thrift savings plan, a retirement savings and investment plan providing tax deferral advantages to all contributions to the plan. It provides eligible employees with periodic opportunities to participate in the plan, change their levels of contributions, or redistribute their investments among three available investment funds.

Through August 1988, the Thrift Board spent about \$14.6 million, of which about \$14.3 million was paid to other agencies for printing thrift plan information and for designing and operating the automated record-keeping system. (We did not include in our review contracts for administrative items, such as rent, office supplies, or office equipment.)

Thrift Board officials said they obtained services and products from contractors or other agencies because the Board lacked the large amount of data processing equipment and personnel needed to design and operate the recordkeeping system. The Board had only 10 staff members by January 1, 1987. Also, outside printing of thrift plan materials was necessary because of the Government Printing and Binding Regulations and because independent audits and assessments, by their nature, could be made only by outside sources.

Services From Other Agencies

On October 1, 1986, the Office of Management and Budget advised federal agencies that it had requested the Department of Agriculture's National Finance Center to maintain individual employees' thrift plan account records. A Thrift Board official said the preliminary decision to use the National Finance Center was made in close consultation with Board officials in the interest of expediency since

- delays occurred in appointing Board members,
- the recordkeeper was required to coordinate with over 600 payroll offices,
- the recordkeeper would need a large computer operation and staff, and
- the thrift plan was initially scheduled to be implemented by January 1, 1987.

The decision to use the National Finance Center was officially confirmed at the Board's meeting in November 1986.

In fiscal year 1987, the Thrift Board entered into two agreements with the National Finance Center. Under one agreement, the Center developed the recordkeeping system at an estimated cost of about \$1.7 million, and under the second agreement, it operated the system at a cost of about \$1.3 million. The two agreements were renewed for fiscal year 1988 at a cost of about \$1.9 million to continue developing the recordkeeping system and about \$4.6 million to operate the system. The two agreements will be extended for fiscal year 1989.

In February 1987, the Board competitively awarded a \$24,500 contract to Price Waterhouse to study the adequacy and auditability of the recordkeeping system under development and the feasibility of contracting the system to a private company in the future. The study found that the system could be contracted out once it is fully designed and operational. A Thrift Board official said in November 1988 that no immediate plans existed to use another recordkeeper.

Booklet Preparation and Printing Contracts

Following its establishment, the Thrift Board had about 4 months to develop, print, and distribute thrift plan information to federal employees before the initial open season began. Because of this short time and because the Thrift Board had not hired graphics specialists or obtained equipment, the Board contracted for the design, organization, and typesetting of the first open season booklet at a total cost of \$46,024 (\$27,951 to Alexander & Alexander, Inc., and \$18,073 to its subcontractor, David Lausch Graphics).

Because the Board wanted to maintain the first booklet's design style, format, and illustrations, it awarded sole-source purchase orders to prepare later open season booklets to David Lausch Graphics—the company that designed the first booklet. The cost of preparing and typesetting the second, third, and fourth open season booklets totaled \$31,870.

The Thrift Board also issued seven purchase orders at a total cost of \$3,785 to Publication Design Center, Inc., to design and typeset various materials, including loan and annuity booklets and forms.

The Government Printing and Binding Regulations allow agencies to obtain printing services from UNICOR in addition to GPO. A Thrift Board official said the Board contracted with UNICOR to print open season booklets, forms, and other materials because UNICOR permitted the Board to revise the documents up to the time printing began. Board officials said they would not have this flexibility under GPO contracts.

Through August 1988, the Thrift Board spent about \$4.9 million for printing services. Over 85 percent of these funds (\$4.2 million) was spent for open season booklets and forms. The Board procured 3.3 million copies of the first open season booklet, enrollment, and beneficiary forms. About 3.5 million booklets and 5 million election forms were purchased for the second open season, and about 3.4 million enrollment forms and booklets were obtained for the third, fourth, and fifth open seasons.

Other Contracts and Purchase Orders

The Thrift Board also awarded contracts and purchase orders for other services and products, including asset management, a master annuity contract, and an independent audit of Thrift Board financial operations, as discussed below.

- **Asset Management:** During 1987, the FERS legislation required all employee and agency contributions to the thrift plan to be invested solely in nonmarketable securities issued by the U.S. Treasury, called the G fund. This fund is managed by the Thrift Board staff. Beginning in January 1988, FERS employees were permitted to invest a portion of their contributions in two additional investment options—a common stock index investment fund (C fund) and a fixed-income investment fund (F fund). Because of the level of skills, experience, and expertise

needed to trade on the stock and bond markets, the legislation authorized the Thrift Board to select qualified professional asset managers to manage the C and F funds.

The Thrift Board awarded three purchase orders for assistance in developing C and F fund solicitation packages and analyzing the proposals to manage the funds. A sole-source purchase order was awarded for \$25,000 in May 1987 to a consultant, Edward P. Snyder. The purchase order was modified, and he was paid \$45,979 for technical assistance concerning the design of the C and F funds and for an independent review of the fund proposals. In August 1987, Wilshire Associates was competitively selected to receive two \$10,000 purchase orders, one to review the C fund solicitation package and independently analyze the C fund manager proposals and the second for similar work concerning the F fund.

In September 1987, the Board solicited proposals from private firms for investment management and custody services of the C and F funds. Based on the analysis of proposals by the above contractors and the Thrift Board staff, the Board awarded two contracts in December 1987 to Wells Fargo Bank, one to manage the C fund and one to manage the F fund. Although the contracts were for \$10,000 each, the specific charges are assessed quarterly on the basis of assets managed, which is consistent with standard industry practice. Actual charges were substantially lower than the potential charge of \$20,000 and were estimated by the Board to total about \$1,000 for calendar year 1988.

- Annuities: Employees leaving the federal government and eligible for retirement benefits have the option of withdrawing their account balances by (1) transferring the account balance to an individual retirement account or other eligible plan; (2) receiving the account balance in a lump-sum payment; (3) receiving the account balance in equal monthly installments over a fixed time, such as 5, 10, or 15 years, or (4) receiving a life annuity based on the account balance. The FERS act requires the Board to make at least five basic types of annuities available to participants and requires the Board to contract with a business that sells and provides annuities. A contract for administering the annuity function was competitively awarded in December 1987 to Metropolitan Life Insurance Company based on the best interest rate offered on the annuities. The cost is borne by annuitants through reduced annuities.
- Annual Thrift Plan Audit: The FERS act requires an annual examination of thrift fund accounts by an independent qualified public accountant. In May 1988, the Board competitively awarded a \$40,300 contract to

Appendix I
Use of Contractors in FERS Implementation

Arthur Andersen & Co. to examine the accounts, books, and records of the fund (established in April 1987) through December 31, 1987.

Cost of Services Provided by Contractors and Other Agencies to Implement FERS

Office of Personnel Management	
Contractor	Amount
Advanced Technology, Inc. (personnel management)	\$9,130
American Management Systems, Inc. (verification of recordkeeping system)	211,778
Arthur Andersen & Co. (conceptual design of recordkeeping system)	302,523
Commonwealth Films, Inc. (copies of video)	1,080
Human Technology, Inc. (personnel management)	2,096
John Prescott & Associate (captioned copies of video)	2,000
Mercer-Meidinger (actuarial support)	319,892
University Research Corporation (personnel management)	568,884
Watson, Rice and Company (study of recordkeeping system)	230,967
Agency	
Government Printing Office (printing)	1,906,005
UNICOR (printing)	276,851
Total services obtained by OPM	\$3,831,206
Social Security Administration	
Agency	
Government Printing Office (contract to National Computer Systems for designing, printing, and processing forms)	\$621,506
Federal Retirement Thrift Investment Board	
Contractor	
Alexander & Alexander, Inc. (consultants for recordkeeping)	\$29,279
Arent, Fox, Kintner, Plotkin & Kahn (attorneys)	17,923
Arthur Andersen & Co. (certified public accountants)	40,300
Bogart & Associates, Inc. (graphic design)	3,490
Conrad & Associates (certified public accountants)	17,330
Coopers & Lybrand (technical assistance)	15,251
David Lausch Graphics (graphics/typesetting)	49,943
Edward P. Snyder (consultant - investments)	45,979
Metropolitan Life Insurance Company (annuities)	0 ^a
Price Waterhouse (certified public accountants)	45,095
Publication Design Center, Inc. (graphics/typesetting)	3,785
The Wyatt Company (actuary assistance)	41,000
Wells Fargo Bank (C and F fund asset manager)	1,000 ^b
Wilshire Associates (C and F fund consultants)	20,000
Agency	
National Finance Center (design and operation of recordkeeping system)	9,412,984
UNICOR (printing)	4,855,913
Total services obtained by Thrift Board	\$14,599,272

^aContract was awarded by Thrift Board, but cost is borne by annuitants.

^bFees are calculated quarterly on the basis of assets managed and are estimated at about \$1,000 in calendar year 1988.

Major Contributors to This Report

**General Government
Division, Washington,
D.C.**

Bernard L. Ungar, Associate Director (202) 275-4232
Thomas A. Eickmeyer, Group Director
Robert J. McGraw, Evaluator-in-Charge
Jeffrey W. Dawson, Evaluator
Tyra J. DiPalma, Evaluator
Ernestine B. Burt, Typist

