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COMPTROLLER GENERAL OF THE UNITED STATES

WASHINGTON, D.C. 20548

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OCT 4 1974

B-180966

a/r The Honorable Henry B. Gonzalez
House of Representatives

Dear Mr. Gonzalez:

In your April 12, 1974, letter you asked us to review the Air Force's recent decision to contract for food service operations at Lackland Air Force Base. Specifically, you asked that we (1) determine the validity of the cost comparisons used by the Air Force, (2) identify the basis for its estimated savings, and (3) compare the cost of contracting for this service with the cost of using Government civilian or military personnel. 35

BACKGROUND

BEST DOCUMENT AVAILABLE

Office of Management and Budget Circular No. A-76, "Policies for Acquiring Commercial or Industrial Products and Services for Government Use," August 30, 1967, sets forth the Government's general policy of relying on the private enterprise system to supply its needs. Executive departments and establishments must rely on commercial sources for products and services, unless this results in higher costs, impairs military training or readiness, or disrupts or materially delays programs. Department of Defense (DOD) Instruction 4100.33, dated July 16, 1971, implements this policy and establishes procedures and criteria for the military departments and Defense agencies to use in making determinations concerning commercial or industrial activities which they operate. Such activities must be reviewed periodically to determine whether the least costly method is being used.

In March 1971 Air Force Headquarters asked the Air Training Command (ATC) to determine whether it would be less costly to provide food services at Lackland using civilian personnel rather than a private firm. Previously, food services were provided primarily by military personnel. Because Lackland is a basic training facility, it was decided that, as part of their military training, approximately 220 airmen basic trainees would be used in the food service operation, in addition to Air Force civilian or contractor personnel.

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Food services at Lackland include preparing food for and operating 15 dining halls, operating a central meat plant, and performing related services. About 15 million meals were served in 1973.

ANALYSIS OF COST SAVINGS RESULTING
FROM CONTRACTING FOR FOOD SERVICE

ATC's review showed that the Air Force could save about \$2.8 million over a 3-year period by contracting for food services at Lackland instead of using civilian personnel.

We reviewed the basis for the savings the Air Force estimated, including the procedures, rationale, and assumptions it used in computing costs under each method. Generally, ATC's review was acceptable and its estimate of savings by contracting for food services was realistic.

Savings result from lower wage rates
and fewer fringe benefits

The contractor will employ about the same number of persons the Air Force estimated it would need to provide this service. The contractor plans to employ the equivalent of 642 full-time employees during the second contract year. The Air Force estimated it would require 649 civilian employees during the same period. Savings under the contract method are due primarily to the contractor's lower wage rates and fewer employee fringe benefits. The following table illustrates these differences.

	<u>Contractor</u>	<u>Civil service</u>
Average hourly wage	\$ 3.20	\$ 4.13
Paid absences (a year)		
Holidays	5 days	9 days
Vacation (1-year service)	5 days	13 days
Sick leave	None	13 days

The difference of 93 cents an hour (\$4.13 versus \$3.20) is the result of different wage determination methods applicable to civil service and contractor employees. Most of the civil service employees would be paid according to Wage Board rates for the Lackland area. However, hourly wages the Department of Labor established under the Service Contract Act of 1965 (Public Law 89-286), as amended, are applicable

if the service is performed under contract. An Air Force study of comparative wages and fringe benefits at 24 Air Force installations showed that, at every installation, Labor's wage rates were less than Wage Board rates. We did not attempt to determine specific reasons for these wage differences.

Using military personnel most costly method

We also estimated the cost of providing food services at Lackland before the contract, when the service was performed principally by military personnel. Using the average assigned military and civilian personnel in 1973 and average cost tables from the March 1974 DOD report entitled, "Economic Cost of Military and Civilian Personnel in the Department of Defense," we estimated that, during a 3-year period, the previous method of providing food service at Lackland would cost over \$6 million more than the contract method. The higher cost of using military personnel results from (1) higher economic costs of military personnel because of housing, subsistence, and other support costs and (2) less on-the-job time for military personnel because of time lost to military training and other military-related requirements.

Effect of contract on
former civilian employees

Lackland employed, on the average, 164 civilians in the food service operation during 1973. Data available on 150 employees indicated that 92 would transfer to lower-grade civil service positions at Lackland, 36 would transfer to other Government agencies, 19 would retire, and 3 would resign.

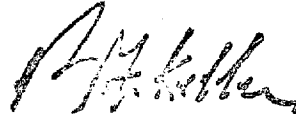
According to Air Force officials, this was a reduction-in-force action and affected employees were entitled to the saved-pay provisions of the Federal Wage System. Under these provisions an employee downgraded three grades or less is entitled to his former rate of pay for 2 years, unless he is separated or promoted to a scheduled rate of pay equal to or higher than the saved rate. An employee downgraded more than three grades is entitled to a prorated pay adjustment which sets his pay rate at a level below his former rate but usually much higher than his new grade rate. The provisions also direct that after 2 years the employee's rate of pay will be adjusted to the maximum scheduled rate for the grade held. In addition, downgraded employees receive priority consideration


for repromotion to the grade or position previously held or for any intervening grades.

The contractor plans to employ about 642 equivalent full-time employees. There is some concern that the contractor plans to hire back the same people at lower wages. However, at the time of our review the contractor had hired only one former Lackland employee.

As your office requested, we discussed this report with Air Force officials but did not request them to review or formally comment on it. We do not plan to distribute this report further unless you agree or publicly announce its contents.

Sincerely yours,



 Deputy Comptroller General
of the United States

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