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WASHINGTON, D.C. 20548

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gfr The Honorable Vance Hartke
United States Senate

Dear Senator Hartke:

This is in response to your November 29, 1973, request that we audit the current contract with ICI America, Inc. for operation of the Indiana Army Ammunition Plant (IAAP), Charlestown, Indiana. Also, you asked that we provide certain documents related to Army contracts for operation of IAAP and a summary of Government contracts awarded to ICI America.

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The records you requested would require reproducing a large number of documents. The Army Armament Command offered to furnish a summary of the circumstances leading to the award of the current contract to ICI America instead of reproducing the documents. Your office agreed to accept the Army's offer. Your office also agreed that our audit of the current contract would be limited to identifying the additional costs borne by the Government because of labor-management difficulties at IAAP.

On March 29, 1974, we delivered to your office a summary prepared by the Armament Command and a list of contracts awarded to ICI America which we extracted from Department of Defense and Army records.

SUMMARY

As of February 1974, ICI America had been paid about \$652,100 for costs incurred due to labor problems at IAAP. Of this amount, \$423,800 was for various costs, including legal services associated with a strike during September and October 1972. Additional legal costs are anticipated. The remaining \$228,300 represents our estimate of additional labor costs incurred by ICI America due to (1) a production slowdown and (2) increased union business conducted on company time.

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Additional costs which we estimate at about \$1,100,000 were incurred because the Army shifted the production of urgently needed items to another Army ammunition plant due to the labor problems at IAAP.

Details follow.

BACKGROUND

Contract DAAA09-72-C-0170 was awarded to ICI America on March 24, 1972, for transitional activities before take-over of the operation and management of IAAP on May 1, 1972, and for operation thereafter. This contract has been modified numerous times to add or change production requirements and extend the performance period. The latest modification, number 31, awarded in December 1973, extended the performance period through September 30, 1974, and increased the contract value to \$172,177,434.

The contract is a cost-plus-award-fee type which provides that the contractor at regular periods, currently biweekly, submit for payment an invoice of the allowable cost incurred in performing the contract. The contracting officer approves the invoice and, at any time before final payment, may have the contractor's invoices audited and any payments reduced for those costs found not to constitute allowable cost. Under the contract, the contractor is paid a specified fixed fee. In addition, the contractor is paid an award fee determined by a board of Army officials on the basis of their subjective judgment of the contractor's performance in such established categories as cost control, management, and quality. For the period, May 1, 1972, to February 19, 1974, ICI America has been paid \$110.3 million for costs incurred and fees of about \$1.5 million, including award fees of \$466,614.

The contracting officer at the Armament Command, Rock Island, Illinois, makes procurement and pricing decisions. The contracting officer's representative at IAAP administers the contract.

IAAP manufactures various sizes and types of cloth bags and loads them with propellants for the 81-, 105-, and 115-mm

charges. The plant has operated since World War II. Several contractors have operated the plant throughout the years, and employment levels have fluctuated depending on ammunition requirements. During the Vietnam war employment increased to a peak of about 19,000 in February 1969. In May 1972, when ICI America assumed control of the plant, there were about 4,000 employees, and in February 1974 there were about 4,300.

STRIKE AND LEGAL COSTS

As of February 5, 1974, the Army has reimbursed ICI America for costs totaling \$423,800, which were directly associated with labor problems at IAAP. About \$342,000 represents additional costs incurred because of a 7-week strike from September 5 through October 25, 1972. The remaining \$81,800 was for legal costs incurred during and since the strike.

Strike costs

Several items of additional costs were incurred during or because of the 7-week strike, as follows:

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Overtime for nonunion personnel working during the strike to produce some of the urgently needed bag charges, assist in plant security, and perform various services	\$130,300
Overtime for uniformed guards during the strike to maintain plant security	67,500
Storage of material that could not be brought into the plant during the strike	35,800
Special production run of 105-mm bags by IAAP after the strike to complete the Army requirement temporarily transferred to the Lone Star Ammunition Plant during the strike	35,000
Meals provided to employees required to remain in the plant during the strike	32,700
Travel of ICI America management personnel in connection with the strike	11,000
Transportation of material by IAAP to a commercial manufacturer in Roxboro, N.C. for use in manufacturing 105-mm bags for Lone Star Ammunition Plant	10,600
Rental of beds and linen for use of personnel remaining in the plant during the strike	7,400
Supplies and photographic services used during the strike	6,100
Personal convenience items for personnel required to remain at the plant during the strike	2,200
Miscellaneous	<u>3,400</u>
Total	<u>\$342,000</u>

Legal costs

The legal costs the company incurred because of the strike and various arbitrations of grievances filed by union members were \$81,754 as of February 5, 1974. Of this, \$72,463 represents fees for outside legal services and \$9,291 was for related travel and arbitration expenses. Company officials said substantial additional legal expenses are anticipated in the future because of two pending lawsuits and the current backlog of union grievances. As of January 18, 1974, the company had about 180 arbitrations pending and another 363 grievances in various stages of resolution.

As of February 1974, the contracting officer had not requested an audit of the strike or legal costs. However, his representative at IAAP said an audit will be made when all arbitrations are completed. At that time any costs found to be unallowable will be credited against costs claimed on future invoices. Since the Army had not audited the strike and legal costs, we were not in a position to consider the Army's final disposition of such costs.

INCREASED PRODUCTION COST

In two areas the labor problems at IAAP may have affected the labor productivity and increased the production cost. These areas involve an alleged work slowdown and an increase in the time devoted to union business. We estimated that, on the basis of past experience, these factors may have increased production labor costs by about \$228,300.

Work slowdown

Army and ICI America officials told us that a work slowdown occurred in the bag manufacture and load areas after the company suspended the union president on October 3, 1973. The company's monthly production reports showed that production was lower than scheduled from October through December 1973. In its reports to the Army, the company stated that lower production in October and November 1973 was the direct result of a production slowdown by union personnel.

To measure the impact of the reported slowdown, we compared the unit production labor hours as shown on the monthly production report for September 1973 with the same data shown on the reports for October 1973 through January 1974. This comparison indicated that the unit production labor had increased in the bag manufacture area during October to December 1973 and in the load area during October 1973.

Using the September 1973 average production labor rates, we estimated that the increased production labor hours for the periods discussed above had increased production costs by about \$184,900. We could not determine whether all or any portion of the increase in production hours and costs were the result of the alleged slowdown.

Union business

ICI America pays the salaries of production employees for time spent conducting union business. This cost is included in the overhead costs which are allocated to the cost of items produced.

For ICI America's first 4 months of operation, the labor cost recorded for time spent conducting union business averaged about \$4,610 a month. Following the strike during September and October 1972, however, the monthly cost increased steadily to a high of about \$12,320 in October 1973. For the 14-month period from November 1, 1972, to December 31, 1973, the average monthly cost of time spent conducting union business was about \$7,710. This is about \$3,100 greater than the average cost before the strike and represents an increase for the 14-month period of about \$43,400.

ADDITIONAL COST AT ANOTHER LOCATION

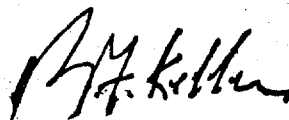
Because of the strike and the Army's urgent need for 105-mm bag charges during this period, the Army redirected a requirement for producing about 3.1 million charges to the Government-owned Lone Star Ammunition Plant. This plant incurred costs of \$2,378,168 to complete this requirement, consisting of \$199,146 for new equipment, \$808,160 for making bags under a subcontract, and \$1,370,862 for additional labor to load the bags. We estimated that these bags could have been made at IAAP for \$1,268,827, or \$1,109,341 less than the Lone Star Plant cost. This difference of about \$1.1 million represents an additional cost to the Army although it did not increase the costs under the IAAP contract.

As requested by your office, we did not obtain written comments from any of the parties discussed; however, we discussed our findings informally with ICI America and Government representatives at IAAP.

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We do not plan to distribute this report further unless you agree or publicly announce its contents.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "A. F. Keller".

Comptroller General
~~Acting~~ of the United States