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NATIONAL SECURITY AND
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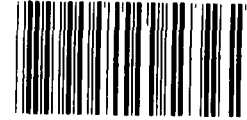
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The Honorable Carl M. Levin
United States Senate

The Honorable Donald W. Riegle
United States Senate

The Honorable David E. Bonior
House of Representatives

The Honorable Dennis M. Hertel
House of Representatives



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Subject: Army's Contracting of Activities at the Selfridge
Air National Guard Base and the Tank-Automotive
Command in Michigan (GAO/NSIAD-84-97)

In your letter of November 22, 1983, you expressed concern about activities contracted out at the Selfridge Air National Guard Base, Mt. Clemens, Michigan, and the Tank-Automotive Command (TACOM), Warren, Michigan, for operating and maintaining buildings, grounds, and roads. These activities were contracted out because cost studies showed there would be savings to the government by contracting rather than using government employees. Regarding the Selfridge contract, you requested that we review allegations that (1) contract modifications had increased the amount of the overall contract and the cost to the government, (2) government personnel were used to perform some of the contracted work, and (3) government equipment was used for contracted activities. You also requested that we determine the procedures used by the Army to monitor performance of the Selfridge contract and whether there were any adverse effects on the services from contracting under either the Selfridge or the TACOM contracts.

SCOPE AND METHODOLOGY

We reviewed modifications and cost increases on the Selfridge contract and the costs incurred under a blanket purchase agreement issued as a supplement to the contract. We relied to a large extent on interviews with the Army, Air Force, union, and contractor personnel to ascertain the extent government personnel and equipment were used for contracted services at Selfridge, the extent to which Army personnel monitored the Selfridge contract,

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and the effect contracting had on services at Selfridge and TACOM. We also reviewed contract provisions and a TACOM internal audit report on the monitoring of the Selfridge contractor's performance. In addition, we observed contractor activities at Selfridge and TACOM and looked for signs of any adverse effect from contracting.

As discussed with your office, we are making a nationwide review of contracting under the Office of Management and Budget (OMB) Circular A-76. That review covers two areas of concern to you--contract modifications after contracts are awarded and the effect on displaced employees from contracting. We will send you a copy of the resulting report when it is issued.

Our review, done during the period January through April 1984, was made in accordance with generally accepted government auditing standards.

FINDINGS AND CONCLUSIONS

Our review of the allegations regarding the Selfridge contract showed that:

- There have been contract cost increases, but most of these increases would not affect the estimated savings. While some cost increases were attributable to incomplete performance work statements in the basic contract, the effect on savings is minimal.
- Government personnel did work in contracted areas, but the work performed was outside the scope of the contract.
- Government equipment used by the contractor was authorized by the contract.

We also found that the Army does have procedures to ensure compliance with terms of the contract. In addition, we found no evidence that services were adversely affected by contracting out at Selfridge or TACOM.

CONTRACTED ACTIVITIES AT SELFRIDGE

The Air Force and the Army share the responsibility for operating and maintaining buildings, grounds, and roads in specific areas of the Selfridge Air National Guard Base. The Air Force uses government employees to perform its work while the Army contracts out its work.

The Army, using OMB Circular A-76 and implementing Army instructions, made a comparison of the in-house cost with the cost of contractor performance to do the Army work. (The Air Force

plans to perform cost comparisons of commercial activities at air national guard bases over the next several years.) The comparison showed that the Army could save about \$3 million over a 3-year period by contracting for the work¹. Accordingly, a contract totaling \$6.9 million for the 3-year period (basic year plus two option years) was awarded effective December 1, 1980. The contract covered operations and maintenance of the Army's housing units, administrative buildings, and buildings and grounds devoted to morale-support activities, such as the base exchange, commissary, clubs, library, and golf course.

Contract price increases

As of December 20, 1983, contract increases amounted to \$3.98 million for the 3-year basic contract period as shown in the table below.²

<u>Contract increases</u>	<u>Amount</u>
Materials, supplies, and equipment	\$2,119,000
Labor rate increases	1,152,000
Work over and above the contract	585,000
Work resulting from incomplete performance work statements	<u>124,000</u>
Total	<u><u>\$3,980,000</u></u>

With the exception of the \$124,000, the increases would not affect the estimated savings. Materials, supplies, and equipment were to be provided by the government and, therefore, costs for these items were not included in the contractor's bid price. However, the Army decided not to provide materials, supplies, and equipment and asked the contractor to purchase these items. The contract price was increased \$2.1 million to cover these purchases. The contractor's bid price was based on the labor costs for work to be performed at Selfridge for the 3-year period

¹We evaluated the Army cost comparison in response to a June 11, 1980, request from Senator Carl M. Levin, Chairman, Subcommittee on Oversight of Government Management, Senate Committee on Governmental Affairs, and concluded that the Army could achieve a potential savings of about \$3.8 million over a 3-year period by contracting the activities at Selfridge (PSAD-80-79).

²The \$3.98 million does not include \$3.7 million for a 1-year optional extension of the contract which would have no bearing on the savings estimate for the 3-year period of the basic contract.

of the basic contract. The contract authorized wage increases based on the Department of Labor wage determinations; the contract was increased \$1.2 million for this purpose. The contract was increased by \$585,000 for work such as maintaining new buildings, and installing a new fire alarm system that was not previously performed by the government.

Contract increases of \$124,000 were for work that should have been included in the performance work statements³, but was inadvertently left out. Also, \$43,000 in costs included in a separate blanket purchase agreement resulted from work that should have been included in the performance work statements in the basic contract. Therefore, the in-house cost estimate may have included costs for these activities whereas the contractor's bid did not. As a result, the estimated savings of \$3.8 million was probably overstated by \$167,000; this would still leave an estimated savings of \$3.6 million by contracting.

Government personnel worked in
contracted areas, but the
contractor was not paid for the work

Air Force personnel at Selfridge have worked in areas contracted by the Army, but the work performed was not within the scope of the contract. According to various Air Force, Army, and contractor personnel, Air Force employees did work on buildings, grounds, and equipment which were in the Army's areas at Selfridge. We reviewed work orders provided by the union workers from the time the Army contract was awarded until July 1982, and confirmed that Air Force personnel did work in Army areas. This work, however, was of an emergency nature and under the provisions of the contract, the contractor was not required to do this work. If Air Force personnel had not done the work, the contractor or someone else would have been hired to do it.

Government equipment used by the
contractor was authorized

Contractor employees at Selfridge use Army equipment and, in a few instances, have used Air Force equipment to perform work at contracted activities. However, use of government-furnished equipment is authorized under the provisions of the contract.

³Performance work statements describe the essential requirements for items, materials, or services to be performed and are used as a basis for developing bids.

The Army and contractor officials stated that Army pickup trucks, street sweepers, tractors, lawnmowers, snowplows, and other equipment are used by the contractor. Further, the contractor stated that Air Force equipment has occasionally been used when Army equipment was broken or a need existed for special equipment which the Air Force had available but the Army did not. Since the Army must furnish equipment under the provisions of the contract, using Air Force equipment is less costly to the government than renting the equipment from a commercial source.

Procedures existed to ensure compliance with the terms of the Selfridge contract

As provided for in the contract, a team of Army personnel is located at Selfridge to monitor contractor activities. This team, which has varied from three to eight persons over the life of the contract, is responsible for carrying out tasks according to a monitoring plan approved by the contracting officer. Initially, the plan was vague. However, monitors began using checklists in April 1983 for contractor surveillance. The checklists included monitoring the use of materials and supplies, observing contractor activities, spot-checking records, reviewing reports, investigating tenant complaints, and inspecting completed work.

NO APPARENT ADVERSE EFFECT ON SERVICES CAUSED BY CONVERSION TO CONTRACT AT SELFRIDGE OR TACOM

We found no evidence that activities have been adversely affected by contracting out at Selfridge or TACOM. According to various Army officials and employees, work previously done by government personnel at Selfridge continues to be done. They commented that grass is still mowed, snow-covered roads are still plowed, and buildings are still cleaned and repaired. Some officials believe that the work has improved while some union workers believe the quality has deteriorated. However, in comparing areas at Selfridge currently maintained by Air Force personnel to those maintained by contractor personnel, we did not observe any differences in the quality of work done.

In April 1983, an Army traffic management evaluation done by personnel independent of TACOM concluded that the contractor is providing good transportation service to the military personnel in the area. In addition, in September 1983 a contractor survey of tenants living in the Selfridge housing units indicated that they were satisfied with the service provided. Of 38 questionnaires filled out by tenants, 30 had positive comments and 8 had no comments. The following are some of the comments made.

--Personnel were courteous and friendly.

--Personnel's services were great.

--Personnel's cooperation and can do attitude were admirable.

--Personnel were excellent in taking care of us.

At the time of our review, the TACOM contract had only been in operation for about 3 months, but we found no evidence that the services have been adversely affected. According to Army officials and employees, the contractor has been able to perform the services required under the TACOM contract. They noted that some backlogs in work developed during the first few weeks of the contract but attributed these backlogs to the timing of the transition--over the Christmas holidays--and to government personnel falling behind in their work before the contractor started. They said some of the government personnel used leave or quit to find other employment. Also, the contractor was hampered in its start-up efforts because about 30 employees who had agreed to work for the contractor decided shortly before start-up to accept other TACOM jobs instead. Again, in our observations at TACOM, we did not notice any problems with the quality of work being done by the contractor.

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As requested by your office, we did not request official agency comments on this report. However, our findings were discussed with Army officials responsible for the contracted activities and their comments were considered in preparing the report.

Unless you publicly announce its contents earlier, we plan no further distribution of this report until 5 days from the date of the report. At that time we will send copies to the Secretaries of Defense, the Army, and the Air Force; the Director, Office of Management and Budget; and the Administrator, Office of Federal Procurement Policy. We will also make copies available to others upon request.

Sincerely yours,



Frank C. Conahan
Director