BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

The Congress Should Consider Repeal Of The Service Contract Act

The Congress should consider repeal of the act because:

--Inherent problems exist in the act's administration.

--Wage rates and fringe benefits set under the act are generally inflationary to the Government.

--Accurate determinations of prevailing wage rates and fringe benefits cannot be made using existing data sources.

--The data needed to accurately determine prevailing wage rates and fringe benefits would be very costly to develop.

--The Fair Labor Standards Act and administrative procedures implemented through the Federal procurement process could provide a measure of wage and benefit protection for employees the act now covers.

Proposed regulations would limit Labor's application of the act but leave unresolved the major underlying problems in accurately developing prevailing wage rates and fringe benefits.

GAO/HRD-83-4

JANUARY 31, 1983

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D.C. 20548

B-200149

To the President of the Senate and the
Speaker of the House of Representatives

This report provides the Congress a comprehensive look at the problems and impacts of the Service Contract Act of 1965, as amended, and its implementing regulations and procedures, as administered and enforced by the Department of Labor. The report points up the Department's inability to administer the act efficiently and effectively, and it recommends that consideration be given to repeal of the act. In view of the large numbers of service contracts, job classifications, and workers covered by the act, and the wide range of wage rates paid workers in most job classifications, it is impractical, in our opinion, to make "prevailing wage" determinations under the act in a consistently equitable manner. Any wage problems that might exist upon repeal of the act could, in our view, be more appropriately and efficiently dealt with administratively in the procurement process.

We made this review as part of our continuing program aimed at evaluating the need for various Federal labor standards laws enacted over the years, the impact of those laws, and their administration and enforcement. Our prior reviews under this programmed effort have focused on the Davis-Bacon Act and the Fair Labor Standards Act of 1938, as amended.

We are sending copies of this report to the Secretary of Labor; the Director, Office of Management and Budget; and the Chairman, Presidential Task Force on Regulatory Relief.

Charles A. Bowsher

Comptroller General
of the United States

COMPTROLLER GENERAL'S REPORT TO THE CONGRESS

THE CONGRESS SHOULD CONSIDER REPEAL OF THE SERVICE CONTRACT ACT

D I G E S T

Throughout the 17 years the Service Contract Act has been in effect, the Department of Labor has been unable to administer it efficiently and effectively. The Congress enacted this law to assure that service workers on Federal contracts over $2,500 receive the wages and fringe benefits prevailing in the locality where the work is performed, but no less than the Federal minimum wage. (See pp. 1 to 3.) On the basis of its extensive review, GAO believes the Congress should consider repealing the act because:

--Inherent problems exist in its administration.

--Wage rates and fringe benefits set under it are generally inflationary to the Government.

--Accurate determinations of prevailing wage rates and fringe benefits cannot be made using existing data sources.

--The data needed to accurately determine prevailing wage rates and fringe benefits would be very costly to develop.

--The Fair Labor Standards Act and administrative procedures implemented through the Federal procurement process could provide a measure of wage and benefit protection for employees the act now covers.

Proposed regulations, published for comment in August 1981 and still pending, would limit Labor's application of the act but leave unresolved the major underlying problems in accurately developing prevailing wage rates and fringe benefits--Labor's inadequate wage determination methodologies and data bases would remain unchanged. (See pp. 48 to 52.)

In providing for the development of wage rates and fringe benefits, the act requires that they be "prevailing" and "in the locality." These terms were not defined in the act, and their ambiguity has hampered Labor's ability to develop accurate wage rates and fringe benefits for service employees.

Amendments to the act in 1972 further complicated Labor's task by requiring that the Department issue collectively bargained wages and benefits in specific "successor" contractor situations and "give due consideration" to Federal employee wages and benefits in making determinations of the prevailing wages and benefits in a locality.

Tear Sheet

The "successorship" provision (1) precludes unionized successor contractors from paying their service employees on the basis of their own union agreements if the agreements provide lower wages and fringe benefits and (2) requires non-unionized successor contractors, and their subcontractors, to pay the union rates Labor specifies in its determinations.

When the "due consideration" provision is applied to Labor's wage determination process, the wage rates and fringe benefits adopted in the issued determinations generally vary substantially from those in the data sources used by Labor. (See pp. 9 to 15.)

GAO's review and analysis of a sample of 150 wage determinations showed that, with existing data sources, Labor cannot accurately develop prevailing wage rates and fringe benefits. In making its determinations, Labor must rely on whatever wage data are available. However, data for many job classifications of service workers are not available, and many of the data bases Labor uses are inappropriate. Developing the data needed to accurately set wage rates and fringe benefits for each location where a Federal service contract is to be performed would be impractical and very costly.

In addition, Labor made many adjustments to the available data bases, which resulted in material differences between the wage rates and fringe benefits it issued and those in the data bases. A major reason for the adjustments was the act's requirement to "give due consideration" to the wages that Labor believed would be paid the service workers if they were direct-hire Federal employees. (See pp. 16 to 33 and app. IX.)

In addition to reviewing 150 of Labor's wage determinations, GAO made surveys in different geographic areas to test the accuracy of 25 of Labor's determinations. 1/ These surveys showed that Labor's stipulated wage rates and fringe benefits were generally higher than those GAO found prevailing in the localities where the service contract work was performed. Although GAO could not statistically project its sample results

---

1/In determining the prevailing rates based on its survey data, GAO generally followed the principles and procedures Labor used but did not "give due consideration" to Federal employee wage rates, as Labor may have done, because the methods Labor used produced varying and inconsistent results and GAO had no reasonable bases for establishing its own method. Also, the sizes and types of establishments surveyed to develop wage rates for direct-hire Federal wage board or blue-collar employees were not representative of Federal service contractors.

to Labor's universe of issued determinations, it believes the results are indicative of Labor's wage determinations and that Labor's inflated rates could be adding hundreds of millions of dollars annually to Federal service contract costs.

Labor's wage determinations resulted in:

--Wage rates much higher than those GAO found prevailing in most surveyed localities. For 14 of 19 service contracts for which direct labor hour data were available, total contract costs were about $459,000 to $527,000 (9.9 to 11.6 percent) higher than they might have been if the prevailing rates GAO found had been used.

--Wage rates much lower than those GAO found prevailing in some localities. In some of these cases, the contractors paid rates higher than those Labor issued. In others, the contractors paid the wage rates Labor issued.

GAO's surveys also showed that Labor's fringe benefit determinations generally did not reflect benefits prevailing for service workers in the localities where the contract work was performed:

--In 15 of the 25 surveyed localities, the fringe benefits Labor required were much higher than those GAO found prevailing--in 1 of the 15 localities, no fringe benefits prevailed.

--In 4 of the surveyed localities, Labor's required benefits were much lower than those GAO found prevailing.

--The prevailing benefits were judged by GAO to be somewhat lower in 1 locality and somewhat higher in 2 localities.

--In the other 3 localities, Labor's issued benefits were about the same as those found to be prevailing. (See pp. 34 to 47 and apps. X and XI.)

While believing that competitive labor market forces should be allowed to establish wages and fringe benefits for service contract employees, GAO recognizes the need to afford a minimum of protection for all workers employed on Government service contracts. Repeal of the act may eliminate Federal minimum wage protection for employees of service contractors not otherwise subject to or covered by the Fair Labor Standards Act. Amending the Federal minimum wage law would remedy this situation.

Also, administrative procedures, implemented through the Federal procurement process, could provide a measure of wage and fringe benefit protection for employees now covered under the Service

Contract Act. Under such procedures, Federal contracting agencies recompeting existing service contracts would assess the personnel compensation packages of bidders or offerors to assure that their service employees would be properly and fairly compensated. Similar procedures already exist to protect the wages and fringe benefits of professional employees not covered by the act. (See pp. 53 to 56 and 58.)

GAO recognizes that there might be contractors that would try to gain advantage by paying unreasonably low wages to obtain Federal contracts. In the event of repeal of the Service Contract Act, it would be important that, in the procurement process, Federal departments and agencies be sensitive to the policy of the Federal Government (see p. 53) that all service employees employed by contractors providing services to the Government be fairly and properly compensated. GAO believes that the Administrator for Federal Procurement Policy should monitor the impact of repeal on service contract employees. If the Administrator determines that repeal of the act has an adverse impact on the employees, he should develop administrative policies or legislative recommendations to deal with the problem.

RECOMMENDATIONS TO THE CONGRESS

GAO recommends that the Congress consider repealing the Service Contract Act and amending the Fair Labor Standards Act to ensure continued Federal minimum wage coverage for all employees on Federal service contracts. (See p. 58.)

RECOMMENDATIONS TO THE ADMINISTRATOR FOR FEDERAL PROCUREMENT POLICY

If the Service Contract Act is repealed, GAO recommends that the Administrator implement administrative procedures to protect the wages and fringe benefits of all service employees on Federal service contracts. GAO recommends also that the Administrator monitor the impact of repeal on service contract employees. If he determines that repeal of the act has an adverse impact on the employees, the Administrator should develop administrative policies or legislative recommendations to deal with the problem. (See p. 59.)

BUDGETARY IMPACT OF GAO'S RECOMMENDATIONS

Implementing GAO's recommendations would affect the budgets of all Federal agencies that contract for services. The

specific amounts budgeted and obligated for such contract services Government-wide are unknown. However, unaudited data show that, in fiscal year 1981, Federal agencies awarded 46,461 contracts--valued at more than $10,000 each and totaling about $5.7 billion--that were subject to the Service Contract Act. In addition, a large portion of the 17.6 million procurements under $10,000 were probably subject to the act.

GAO believes the differences between its survey results and Labor's issued wage rates and fringe benefits are indicative of the inflated costs resulting from Labor's wage determinations. Thus, repealing the Service Contract Act could reduce annual Government expenditures for contract services by hundreds of millions of dollars. Also, the additional costs of implementing the recommended administrative procedures would be offset, in GAO's opinion, by other cost reductions and administrative efficiencies. (See p. 59.)

COMMENTS OF AGENCIES AND OTHERS

GAO asked the Department of Labor, the Office of Management and Budget, 6 other Federal agencies, a presidential task force, and 10 non-Federal organizations to review and comment on a draft of this report. Responding comments represented a wide range of views, from a strong endorsement of GAO's recommendation on repeal of the Service Contract Act and appreciation for GAO's diligence in revealing the costly deficiencies inherent in the act, to a strong criticism of GAO's review scope and methodology.

Despite some respondents' criticisms, which are discussed in the report, GAO continues to believe that for Labor to administer the act in a manner that would ensure accurate and equitable service wage determinations would be impractical and very costly and that the most logical alternative is to repeal the act. (See pp. 60 to 71 and apps. XIII to XXVII.)

- - - -

GAO made its review as part of its continuing program aimed at evaluating the need for various Federal labor standards laws enacted over the years, the impact of those laws, and their administration and enforcement. GAO's prior reviews focused on the Davis-Bacon Act and the Fair Labor Standards Act.

ABBREVIATIONS

ADP	automatic data processing
AFB	Air Force base
AFL-CIO	American Federation of Labor and Congress of Industrial Organizations
BLS	Bureau of Labor Statistics
DOD	Department of Defense
FLSA	Fair Labor Standards Act of 1938, as amended
GAO	General Accounting Office
GSA	General Services Administration
NAF	nonappropriated fund
NAS	Naval Air Station
NASA	National Aeronautics and Space Administration
NSC	Naval Supply Center
OFPP	Office of Federal Procurement Policy
OMB	Office of Management and Budget
SCA	Service Contract Act of 1965, as amended
VA	Veterans Administration

CHAPTER 1

INTRODUCTION

Over the past 10 years, we have issued 23 reports in which specific coverage, enforcement, or wage determination issues involving the Service Contract Act of 1965, as amended (SCA) (41 U.S.C. 351, et seq.), were discussed. (See app. I.) This report provides a comprehensive look at the problems and impacts of the act and its implementing regulations and procedures, as administered and enforced by the Department of Labor.

THE SERVICE CONTRACT ACT

SCA was enacted to provide labor standards protection to employees of contractors and subcontractors furnishing services to Federal agencies and the District of Columbia. The act applies when the contract's principal purpose is to provide such services in the United States using service employees. SCA requires that covered service employees under Federal contracts receive wages no less than the minimum specified under the Fair Labor Standards Act of 1938, as amended (FLSA) (29 U.S.C. 201, et seq.)--currently $3.35 an hour.

For covered contracts exceeding $2,500, the minimum wages and fringe benefits are to be based on the rates the Secretary of Labor determines as prevailing for service employees in the locality. In making these determinations, the Secretary is required to give due consideration to the wages and benefits that would be paid such service employees if they were Federal direct-hire employees (see ch. 3).

When a collective bargaining agreement covers the service employees, the wages and fringe benefits (and any accrued or prospective increases) it contains supplant those that may otherwise prevail in the locality for these employees, if it resulted from arm's-length negotiations and the wage rates it contains are no lower than the FLSA minimum. SCA also requires that successor contractors honor wage rates and fringe benefits in previously negotiated collective bargaining agreements of predecessor contractors, unless the Secretary finds, through a formal hearing process, that they "are substantially at variance with those which prevail for services of a character similar in the locality."

All covered service contracts exceeding $2,500 must contain provisions:

--Specifying the minimum wages to be paid and the fringe benefits to be furnished the various classes of service employees performing under the contract, or any subcontract thereunder, as determined by the Secretary or his authorized representative.

--Stating the rates that the Federal agency would pay the various classes of service employees if they were Federal direct-hire employees.

--Prohibiting any part of the SCA-covered services from being performed under working conditions that are unsanitary, hazardous, or dangerous to the health or safety of the service employees.

Violation of the wage and fringe benefit provisions renders the responsible party liable for any underpayments due the involved service employees. The Government can withhold accrued contract payments and, if necessary, sue to recover the wage and fringe benefit underpayments. In addition, the Federal contracting agency can terminate the contract and hold the contractor liable for any additional contract completion costs to the Government. Persons or firms found after a hearing to have violated SCA are debarred for 3 years from obtaining future Government contracts, unless the Secretary recommends otherwise because of unusual circumstances. (See app. II for a complete reprint of the act, as amended.)

WHY SCA WAS ENACTED

The service industry emerged in the early 1950s, when the Government began to contract for services previously performed by full-time Federal blue-collar employees. Service industry contracts were labor intensive; contractors were highly mobile and needed few facilities and little equipment. The Government furnished the facilities, and the contractor furnished the employees. As the industry grew, the pricing of contracts in the bidding process became intensely competitive. Because the Government usually accepted the lowest responsive bid from a responsible bidder, contractors had an incentive to pay the lowest possible wages to reduce their labor cost--the dominant cost of the contracts. In the ensuing competition, contractor employees frequently received lower pay than the Federal employees they replaced, even though they performed identical tasks. In addition, contractors often came from outside the area of the work and underbid a contractor paying the area's prevailing wage.

About 20 bills were introduced in the Congress between March 1952 and January 1964 to provide minimum wage protection to some, but not necessarily all, employees covered by Federal service contracts, but none was passed. In January and March 1964, the Special Subcommittee on Labor, House Committee on Education and Labor, held hearings on two of those bills. The hearings pointed out many problems in the Government's procurement of services. The Government often awarded service contracts to the lowest bidder; therefore, the successful bidder was usually the one that proposed to pay its service employees the lowest wages. It was alleged that these low wage rates (1) destroyed wage standards,

(2) exploited workers, (3) caused some contractors to stop bidding on Government contracts, (4) caused high personnel turnover, and (5) caused some local contractors to lose contracts to nonresident competitors not bound by labor agreements to maintain prevailing labor standards.

During the hearings, witnesses alleged that service employees (1) were few in number and lacked the strength to force their employing contractor to raise their wages or provide valuable fringe benefits; (2) worked in semi-isolation and during odd and irregular hours and, therefore, had difficulty communicating with each other or banding together for their mutual aid and protection; (3) were subject to pressure exerted by the contractors to refrain from self-organizational activities; (4) suffered from depressed wages because retirees and "moonlighters" were willing to work at substandard wages for supplemental income; and (5) often were not covered by the FLSA or State minimum wage laws.

Between April 1964 and August 1965, nine more bills were introduced in the Congress, and additional hearings were held. Ultimately, an amended House bill, H.R. 10238, was approved by the Congress and signed by the President on October 22, 1965, to become the Service Contract Act of 1965. The act became effective on January 20, 1966.

The intent of the Congress in enacting SCA was to protect service employees from unscrupulous employers, to ensure that service workers on Federal service contracts over $2,500 receive wages and fringe benefits commensurate with those being paid to workers performing similar tasks in their locality, and to extend the FLSA minimum wage to all Federal service contracts. In addition, the Congress did not want the Government to use its massive purchasing power to finance service contracts which undercut and depressed a locality's prevailing wage rates.

SCA ADMINISTRATION AND ENFORCEMENT

SCA authorizes the Secretary of Labor to make necessary rules and regulations to implement the act. The Secretary has delegated administration and enforcement responsibilities, except for the act's workplace and health safety standards, to the Deputy Under Secretary for Employment Standards, 1/ who heads Labor's Employment Standards Administration. Within this agency, day-to-day administration and enforcement of SCA are carried out by the Wage and Hour Division, through its Washington, D.C., headquarters organization, 10 regional offices, 71 area offices, and about 270 field stations nationwide. SCA's workplace safety and health standards are administered and enforced by Labor's Occupational Safety and Health Administration.

1/Formerly the Assistant Secretary for Employment Standards.

All SCA wage and fringe benefit determinations are prepared and issued centrally by staff at the Wage and Hour Division headquarters. The division enforces contractor compliance with SCA provisions and applicable wage and fringe benefit determinations through field investigations.

THE WAGE DETERMINATION PROCESS

Labor's SCA regulations (29 CFR 4) require that contracting agencies submit a "Notice of Intention to Make a Service Contract" (Standard Form (SF)-98) to Labor's Wage and Hour Division headquarters not less than 30 days before any invitation for bids, request for proposals, or commencement of negotiations for any contract exceeding $2,500 which may be subject to the act. The SF-98 requests Labor to give the agency a current wage determination for the occupational classes and geographical area(s) to be involved in the contract. About 11,000 SCA wage and fringe benefit determinations are currently in effect.

Wage determinations set forth the minimum wages or fringe benefits established by Labor for specific occupations in a geographic area. Before 1972, such determinations were normally based on local wage rate and fringe benefit data gathered through surveys by Labor's Bureau of Labor Statistics (BLS). However, when the act was amended in 1972 to provide for use of collective bargaining agreements, such agreements became a major source of data for wage determinations.

Labor has established a goal of responding to the procuring agency within 30 days of receipt of an SF-98 with either (1) an applicable wage determination, (2) a notice that SCA applies but no applicable wage determination exists 1/ and the employees must be paid at least the FLSA minimum wage, (3) a judgment that SCA does not apply to the contract the SF-98 is intended to cover, or (4) a request for additional information.

If Labor responds with a wage determination, the contracting agency is required to include it in the bid or proposal specifications and in the awarded contract. If no applicable wage determination exists or none is furnished to the requesting agency, the agency's awarded contract must specify that the contractor's employees working on the contract will be paid wages no less than the FLSA minimum wage.

After Labor initially issues determinations, it typically revises and updates them on an annual basis corresponding with procurement schedules, the timing of scheduled wage surveys, or

---

1/According to Labor, this situation may occur only when five or fewer service employees will be engaged in contract performance.

the negotiation of new or revised collective bargaining agreements. In fiscal year 1981, Labor issued 5,866 new or revised determinations.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of our review were to determine:

--Whether SCA is being administered in a manner that effectively fulfills its congressional intent of protecting the economic well-being of covered service workers through determinations reflecting the wages and fringe benefits prevailing for service employees in the localities where Federal service work is performed.

--Whether legislative and/or administrative changes would improve the act's effectiveness in fulfilling its intended purpose.

Our review was performed at the Department of Labor, nine other Federal departments, and nine independent Federal agencies in the executive branch. In making our review, we contacted 172 Federal agency installations in 21 States and the District of Columbia, including 96 defense, 40 civilian department, and 36 independent agency installations. We also contacted contracting officials of the Architect of the U.S. Capitol and the District of Columbia Government. Onsite visits were made to 58 of the agency installations contacted. (Apps. III and IV contain lists of Federal agency installations contacted and the States in which they were located.)

As part of our review, we spoke with officials of 10 union locals in six States, as well as officials of the Laborers' International Union of North America and the American Federation of Labor and Congress of Industrial Organizations (AFL-CIO). We also talked to representatives of various business and industry associations and several State employment agencies. (See apps. V to VII.) In addition, we interviewed selected incumbent Federal service contractors in 12 States and, where deemed necessary, reviewed their payroll records and interviewed service employees.

The purpose of these contacts was to obtain the views of Government, organized labor, industry, and Federal service contractor officials and service employees regarding SCA, its implementing regulations, and the wage and fringe benefit rate determinations issued by Labor under it. We also used these sources and others to obtain wage and fringe benefit data for specific job classifications in selected localities in our review.

An important element of our review was an in-depth evaluation of Labor's SCA wage and fringe benefit rate determinations, with emphasis on the procedures Labor uses to develop and issue wage and fringe benefit rates, the bases for the rates issued, and the job classifications and localities covered. To do this, we analyzed 150 determinations representing random samples of 30 each from five separate regional universes of wage determinations that were (1) current as of October 1979 and (2) had been issued by Labor to Federal contracting agencies between January 1 and September 30, 1979. The five regional universes included 3,533 wage determinations covering 19 States and the District of Columbia.

Using the information in Labor's docket files, we analyzed the data sources and bases, Labor's rationale, and the documentation supporting the 150 sampled wage rate and fringe benefit determinations. We identified all agency installations that had been furnished the wage determinations during the 9-month period and contacted procurement officials at each installation. We also contacted other agency installations, where necessary, to obtain additional or corroborating information.

From the sample of 150 determinations, we selected a subsample of 25 determinations--5 in each regional area--for which we performed wage surveys to determine the wage rates and fringe benefits actually prevailing in the localities where the service work was performed. Each of the 25 determinations was included in one or more awarded service contracts. In our selections we also considered the following additional characteristics:

--The dollar amount of the awarded contract.

--The type of service to be performed.

--The locality of contract performance.

--The job classification(s) involved.

--The basis(es) for the wage rates and fringe benefits issued.

The subsampled determinations covered 25 localities in 12 States and various services for which Labor routinely issues wage determinations, such as family housing maintenance, janitorial and custodial services, guard services, refuse collection, and vehicle repair and maintenance.

In our surveys we attempted to identify all private sector employers in the locality who employed service workers in the job classifications listed on Labor's issued determination. Each identified employer was then contacted by telephone or in person.

From employers who agreed to participate in our surveys, 1/ we obtained wage rate data for each of their workers in the job classifications being surveyed. The data collected usually reflected the wages being paid during the month before Labor's determination was issued. Wherever possible, we examined payroll records to verify the data furnished by the employers and interviewed employees to confirm the wages received and the duties performed.

Using the wage data collected for each job classification in each survey, we identified the range of wage rates and, where possible, the single rate paid the majority of surveyed service workers. We also attempted to identify or compute other indicators of the prevailing wage rates for each job classification using two generally accepted statistical measures of central tendency--mean (computed weighted average rate) and median (midpoint in the distribution of wage rates).

In our computations we did not give due consideration to the wage rates that might have been paid the surveyed workers if federally employed (as Labor is required to do under SCA). The act does not say how "due consideration" is to be given to Federal wage rates. As discussed in chapter 3 and appendix IX, to give due consideration to Federal wage rates, Labor used various inconsistent methods, which produced significantly different wage determinations. Because of the varying results produced by the different methods, we were not able to determine whether any method Labor used was appropriate for consistent use. Also, we had no reasonable bases for establishing our own method.

In addition, we believe it was appropriate to exclude Federal wage rates from our analysis because the sizes and types of establishments surveyed to develop wage rates for direct-hire Federal wage board or blue-collar employees were not representative of Federal service contractors. Surveys used in establishing such Federal wage rates excluded establishments employing fewer than 50 workers. Most SCA contracts involve service activities using fewer than 10 employees. Also, much of the wage survey data used to establish such Federal wage rates came from establishments in the manufacturing, transportation, communications, and wholesale trades industries. These industries were not representative of service industry contractors providing most Government services.

We compared our survey rates with the rates Labor issued, and where possible, we quantified the potential cost impacts of any identified rate differences on the awarded Government contracts.

1/Within the 25 identified employer survey universes, employer participation rates averaged 89.8 percent and ranged from 57.1 percent in 1 locality to 100 percent in 10 localities. For 23 of the 25 survey universes, employer participation rates were 80 percent or higher.

In each locality, we also attempted to collect data on the number and cost of fringe benefits surveyed employers provided their service employees. These data covered health and welfare benefits, paid holidays, paid vacations, and other bona fide fringe benefits. Employer cost data were not uniformly available; therefore, we could not always directly compare employer health and welfare benefit cost rates per hour with those Labor specified in its issued determinations. However, on the basis of the data that were made available to us, we were able to compare the relative level of health and welfare benefits prevailing in the localities surveyed.

In many instances we could not quantify the potential cost impact because of (1) the nature of the Government service contract involved (for example, those with indefinite dollar amounts), (2) the unavailability of contractor records documenting the direct labor hours involved, or (3) the lack of comparable fringe benefit cost data among the surveyed employers. (See apps. VIII, X, and XI for data on these regional samples and subsamples and on the results of our wage rate and fringe benefit surveys.)

Information we obtained from the agencies contacted revealed that 315 service contracts totaling more than $52 million had been awarded in fiscal years 1979 and 1980 incorporating wage determinations from our sample of 150. The 25 subsampled wage determinations were included in 42 service contracts valued at more than $21 million.

Because of the limited numbers of wage determinations in the above samples, and the sampling methodologies used, we cannot statistically project our sample results to Labor's universe of issued determinations. The time, cost, and staff resources needed to review wage determinations and perform independent wage surveys of statistically projectable samples would have been very high. However, based on our analyses and discussions with numerous officials in and out of Government, we have no reason to believe that our sampling results are not generally representative of Labor's wage determination activity under SCA and of the impact of that activity on Government service procurements, service contractors, and service employees.

Our review was performed in accordance with generally accepted government audit standards.

We initiated our in-depth field reviews and analyses of Labor's wage determinations in October 1979, performed our independent wage surveys between April and October 1980, and completed our data gathering and analysis in November 1981. Throughout this period, SCA and Labor's regulations, policies, and procedures for administering it have remained unchanged, although regulatory changes have been under consideration since at least December 1979.

CHAPTER 2

INHERENT PROBLEMS HAMPER LABOR'S ABILITY TO DEVELOP ACCURATE WAGE RATES AND FRINGE BENEFITS

In providing for the development of wage rates and fringe benefits, SCA requires that they be "prevailing" and "in the locality." The ambiguity of these terms has hampered Labor's ability to develop accurate wage rates and fringe benefits. The 1972 amendments to SCA further complicated Labor's task by requiring that Labor issue collectively bargained wages and benefits in specific successor contractor situations and give due consideration to Federal employee wages and benefits in making determinations of the prevailing wages and benefits in a locality.

Subsection 2(a)(1) of the act requires, in part, that all covered contracts in excess of $2,500 contain a provision specifying:

> "* * * the minimum monetary wages to be paid the various classes of service employees in the performance of the contract or any subcontract thereunder, as determined by the Secretary [of Labor], or his authorized representative, in accordance with prevailing rates for such employees in the locality, * * *." (Underscoring supplied.)

Likewise, subsection 2(a)(2) requires, in part, that such contracts also contain a provision specifying:

> "* * * the fringe benefits to be furnished the various classes of service employees, engaged in the performance of the contract or any subcontract thereunder, as determined by the Secretary or his authorized representative to be prevailing for such employees in the locality, * * *." (Underscoring supplied.)

Nowhere in SCA are the terms "prevailing" and "in the locality" defined or explained.

HOW LABOR DEFINES "PREVAILING"

In its March 1978 draft manual of policies and procedures for determinations of SCA wages and fringe benefits, 1/ Labor recognized the ambiguity of the term "prevailing." It states that:

> "* * *, it is clear that the objective in determining prevailing rates is to find the rates which * * * mirror those in fact furnished to the particular classes of service employees in a locality. The term, "prevailing," is not subject to any precise single formula nor to any exact definition which would be appropriate in all instances; it must be viewed in the light of all pertinent information regarding wage and fringe benefits in the locality." (Underscoring supplied.)

Labor also recognized its difficulties in developing prevailing rates. Labor's manual states:

> "The development of a prevailing wage rate, by its nature, cannot be an exacting science. The multiplicity of the services procured by the Federal government and the exhaustive list of classifications required in the performance of these services * * * precludes any definitive listing of the various criteria and factors that comprise a "prevailing" decision in each and every type of circumstance. Within the framework of the statutory concept, associated legislative purpose, and general implementing policy/guidelines, the final resolution of a prevailing wage rate must combine knowledge of job classifications, their duties and how they interrelate to each other; wage and salary administration schemes; survey technique and method; and the Federal government's procurement process with resourcefulness and good judgement. The task is compounded by limited available data sources and, as well [sic] by the limitations of the data that are available. * * *. Final resolution of the wage rate adopted in a predetermination

---

1/"The Predetermination of Wage Rates and Fringe Benefits under the Service Contract Act, A Manual of Policies and Procedures," prepared by the Wage and Hour Division, Employment Standards Administration, Department of Labor, March 1978 (draft). Although the manual had not been finalized, a Labor official confirmed that it reflected Labor's current policies and procedures for wage rate and fringe benefit determinations under SCA at the time of our review.

is subject to the statutory requirement to give "due consideration" to the rates established for employees of the Federal government * * * ." (Underscoring supplied.)

Accordingly, in order of preference, the basic principles for determining a prevailing rate, which Labor's manual states are typically followed, are:

1. Where a single rate is paid the majority of the employees in a classification in a locality, that rate is considered to prevail.

2. Where a single majority rate is not present, the prevailing rate will be based on statistical measurements of central tendency, such as the "median" or the "mean" rate. (Labor's manual states that the median rate is generally considered the better indicator of the prevailing rate.)

PREVAILING RATE CONCEPT

The "prevailing rate" concept, as Labor attempts to apply it in its wage determinations under SCA, involves setting a rate, at or near the middle of the full range of rates paid employees in a particular job classification, as being the minimum rate that can be paid any service employees working in the classification on a certain Federal service contract.

Such prevailing rates, by their nature, do not recognize the limited skills and experience of newly hired or entry-level workers and assume that all workers in a job classification are entitled to the same wage rate. Moreover, once a "prevailing" rate is established in a wage determination as the minimum that can be paid, it becomes the floor for adjusting the wage differentials for higher skilled and more experienced workers in the same job class and for later revising that rate in future determinations. This can quickly escalate wages paid service workers on Federal contracts and can create or widen a gap between the federally mandated rates on SCA-covered contracts and those being paid private sector workers in the same job classifications in the local labor market.

The methods Labor uses in setting prevailing wages illustrate the inherent uncertainties involved. Even for an individual job classification, there are factors, such as work experience, which affect the wages so that the so-called prevailing wage set by Labor may not be appropriate for the individual workers. Many other factors that cannot be quantified and may not even be identifiable also affect the prevailing wage determination. For example, factors such as (1) changes in the economy; (2) the technological obsolescence of an industry; (3) technological advances

within an industry; (4) working conditions, including weather and physical facilities; and (5) the presence or absence of tariffs illustrate the types of constantly changing conditions that can affect wages and thus add to the difficulties in determining a prevailing wage.

Problems also exist with respect to developing prevailing fringe benefits. During oversight hearings in 1974, one of the witnesses 1/ characterized the problem as follows:

> "* * * Although the labor market is dynamic and fluid, the methodology of the Bureau of Labor Statistics is still like that of a flash camera photographing a moving object rather than that of a movie camera.
>
> "Consequently, the Secretary of Labor is at a great disadvantage in making determinations of prevailing fringe benefits guaranteed to be relevant to any point of time excepting the instant when the BLS survey was taken. * * *"

HOW LABOR DEFINES "LOCALITY"

Labor in its regulations (29 CFR 4.163) implementing SCA recognized the ambiguity of the term "locality." The regulations defined and explained it as follows:

> "* * *. The term 'locality' has reference to geographic space. However, it has an elastic and variable meaning and, if the statutory purposes are to be achieved, must be viewed in the light of the existing wage structures which are pertinent to the employment by potential contractors of particular classes of service employees on the kinds of service contracts which must be considered, which are extremely varied. It is, accordingly, not possible to devise any precise single formula which would define the exact geographic limits of a 'locality' that would be relevant or appropriate for the determination of prevailing wage rates and prevailing fringe benefits in all situations under the Act. The locality within which a wage or fringe benefit determination is applicable is, therefore, defined in each such determination

---

1/President of the American Federation of Government Employees on H.R. 14371 before the Special Subcommittee on Labor, House Committee on Education and Labor, 93rd Cong., 2nd Sess., 83 (1974).

upon the basis of all the facts and circumstances pertaining to that determination. Each such determination applies only to contracts for the locality which it includes." (Underscoring supplied.)

In its wage determination manual, Labor amplified its definition of "locality":

"* * * 'locality' may be defined as a city, a county, several counties comprising a metropolitan area, an entire state, a geographic region, or the entire country. Pertinent determining factors would include the geographic scope of the data on which the determination was based, the nature of the services being procured, and the procurement method being used, i.e., a regional or national solicitation, performance at the location of the successful bidder unknown at the time of solicitation, performance at a specified facility/installation, among others. * * *" (Underscoring supplied.)

Thus, under such a broad and all-encompassing interpretation, Labor staff had wide discretion in defining the "locality" to be used in any given SCA wage rate and fringe benefit determination.

Courts limit definition of locality

This wide discretion in defining locality has, however, been somewhat limited by the courts. The U.S. Court of Appeals for the Fourth Circuit, in an April 1980 decision, 1/ held that the appropriate locality for determining the prevailing minimum wage was the standard metropolitan statistical area in which the company (service contractor) was located, not the entire Nation.

In its ruling, the court noted that SCA requires minimum wages to be paid in accordance with the rates prevailing "in the locality" and that, contrary to Labor's contention that it should be allowed to gather nationwide data and formulate one nationwide standard, "locality" is a particular spot, situation, or location--not the entire United States. The court concluded that Labor's nationwide wage standard is "too expansive, too unwieldly, and too unfair."

Moreover, in affirming the district court's decision in the case, the Court of Appeals noted that the lower court's reasoning was consistent with the ruling in Descomp, Inc. v. Sampson. 2/

1/Southern Packaging & Storage Company, Inc. v. U.S., 618 F. 2d 1088 (4th Cir. 1980).

2/Descomp, Inc. v. Sampson, 377 F. Supp. 254 (D. Del. 1974).

In that case, the Delaware Federal District Court held that "locality" refers to the area where services are actually performed.

Despite the court's ruling in the Descomp case, Labor has continued to make and apply SCA wage rate and fringe benefit determinations to multicounty, statewide, regionwide, and nationwide "localities."

The "locality" problem, as it relates to determining wage rates, would be somewhat alleviated if Labor's August 1981 proposed revisions to its SCA regulations are implemented. The proposed revisions recognize the Court of Appeals' ruling in the Southern Packaging case. (See ch. 5 for a discussion of Labor's proposed SCA regulations.) However, the problem of "locality" in determining fringe benefits is not addressed by the pending regulations.

1972 AMENDMENTS TO SCA COMPLICATED LABOR'S TASK

The 1972 amendments to SCA (Pub. L. No. 92-473, Oct. 9, 1972) complicated Labor's task of determining the prevailing wages and fringe benefits in a locality by mandating that Labor (1) issue collectively bargained wages and benefits in specified successor contractor situations and (2) give "due consideration" to Federal employee wages and benefits in making determinations under the "prevailing in the locality" concept.

Use of collectively bargained wages and benefits

The 1972 amendments, among other things, added to subsections 2(a)(1) and (2) a mandate that Labor issue determinations reflecting collectively bargained wage rates and fringe benefits, and any prospective increases in such wages and benefits, provided they resulted from arm's-length negotiations.

The amendments also added section 4(c), the "successorship" provision, to SCA. This section requires that a contractor or subcontractor which succeeds a union contractor and furnishes substantially the same services must pay its service employees working on the contract no less than the wages and fringe benefits, including accrued wages and benefits and any prospective increases, provided for in the predecessor contractor's collective bargaining agreement to which the service employees would have been entitled if they were still employed under the prior contract. Successor contractors and subcontractors are bound by these wages and benefits unless the Secretary of Labor finds after a hearing that they are "substantially at variance with those which prevail for services of a character similar in the locality."

The Congress enacted section 4(c) and the amendments to subsections 2(a)(1) and (2) because of labor-management instability believed to have resulted from Labor's failure to "take the existence of collective bargaining agreements into account in the wage and fringe benefit determination process."

"Due consideration" of Federal employee wages

The 1972 amendments also added subsection (5) to section 2(a) of SCA to require that (1) covered service contracts include a statement of the rates that would be paid by the Federal contracting agency to the various classes of service employees if they were direct-hire Federal wage board or blue-collar employees and (2) the Secretary of Labor give "due consideration" to such rates in making wage and fringe benefit determinations. 1/ The purpose of the "due consideration" requirement was to "narrow the gap" between the wages and fringe benefits of Federal direct-hire employees and those of service employees covered by SCA.

- - - -

The "successorship" provision of SCA (1) precludes unionized successor contractors from paying service employees on the basis of their own collective bargaining agreements if their agreements provide for lower wages and fringe benefits and (2) requires non-unionized successor contractors, and their subcontractors, to pay service employees the union rates that Labor would specify in its wage and benefit determinations.

When the "successorship" provision is applied, union wage rates and fringe benefits are incorporated in Labor's determinations and imposed on successor contractors, even though such rates and benefits may not prevail in the locality and the successor contractor has not signed the collective bargaining agreement. Likewise, when the "due consideration" provision is applied to Labor's wage determination process, the wage rates and fringe benefits adopted in the issued determinations generally vary substantially from the wages and benefits purported as prevailing in the data sources used by Labor.

1/Amendments in 1976 (Pub. L. No. 94-489, Oct. 13, 1976) broadened the act's definition of "service employees" to include white-collar workers, except those employed in a bona fide executive, administrative, or professional capacity, and extended the provisions of subsection 2(a)(5) to them.

CHAPTER 3

INADEQUACIES IN DATA SOURCES FOR DEVELOPING ACCURATE WAGE RATES AND FRINGE BENEFITS

Our review and analysis of a sample of 150 wage determinations showed that Labor's existing data sources are not adequate to develop and issue accurate prevailing wage rate and fringe benefit determinations for service employees on Federal service contracts. Also, as discussed in chapter 4, developing the data needed to accurately set wage rates and fringe benefits for each location where a Federal service contract is to be performed would be very costly.

In carrying out its SCA responsibilities, Labor must rely on whatever wage data are available in determining wage rates that must be issued for the various classes of service workers in the thousands of localities where Federal service contracts are performed. It considers wage data available from BLS; other Federal, State, and local agencies; contracting agencies; contractors; trade associations; union organizations; and others. However, wage data for many classifications of service workers are not available. Also, many of the data bases Labor uses are inappropriate for service worker classifications.

In analyzing the 150 wage determinations, we found that Labor made many adjustments to the data bases it had available which resulted in material differences between the wage rates and fringe benefits it issued and those in the data bases. One of the reasons Labor adjusted the data was to give "due consideration," as required by SCA, to the wages that would be paid the service workers if they were direct-hire Federal employees. Our analysis disclosed numerous inconsistencies in the way Labor applied SCA's due consideration provisions.

DATA SOURCES AND BASES LABOR USED TO DEVELOP WAGE DETERMINATIONS IN SAMPLE WE REVIEWED

To evaluate Labor's wage determination policies, procedures, and data bases, we reviewed and analyzed a sample of 150 wage determinations Labor furnished to Federal agencies in 1979 in response to agency requests for wage rates for proposed service contracts. Our analysis of the sampled determinations showed that Labor used the following data sources and bases in determining wage rates for individual job classifications.

Data source or basis for wage rate issued	Number of wage rates issued	Number of sampled determinations
BLS area or SCA wage surveys:		
Reported rate adopted	66	
Reported rate adjusted	211	
Reported rate considered but believed too low--issued or increased prior wage determination rate	89	
	366	78
Union collective bargaining agreements	218	43
Davis-Bacon Act wage decisions	71	7
Nonappropriated fund wage schedules	56	16
FLSA minimum wage	19	5
State or local government rates	2	2
Incumbent nonunion contractor rate	1	1
Increased prior rate--no current data	34	15
Total	767	a/167

a/Labor used more than one data source for developing the individual wage rates in the 150 wage determinations in our sample.

Our review of the docket files supporting those 150 determinations and interviews with Labor's Wage and Hour Division officials disclosed that Labor relied on various data sources, which in many cases were not applicable to the job classifications or the localities for which wage rates were determined. We found that Labor

--relied heavily on BLS wage surveys that often were made for purposes other than SCA wage determinations and contained data not representative of most Government service contractors and their employees' wages and fringe benefits or of the localities for which determinations were requested;

--inappropriately used nonappropriated fund system wage rates in establishing SCA wage rates for job classifications involved in service work which, if not contracted, would have been performed by higher-paid Federal appropriated fund wage system employees;

--applied construction worker wage rates, developed for Davis-Bacon Act wage decisions, to service workers on nonconstruction jobs although job classifications were not comparable; and

--extended or applied collective bargaining agreement rates within and beyond specific localities on the basis of asserted union dominance in the localities covered by the determinations.

Labor generally adjusted its source data to arrive at hourly wage rates it purported to represent the "prevailing" rates for the localities covered by the issued determinations, except when a collective bargaining agreement rate or the FLSA minimum wage rate was adopted in a determination.

These inadequacies in the data sources and inappropriate adjustments are discussed in the following sections.

BLS WAGE SURVEY DATA INAPPROPRIATE FOR USE IN DEVELOPING SCA WAGE RATES

In reviewing Labor's use of BLS wage survey data, we found that the data were accumulated by BLS from establishments that were not similar in size and type to the Federal service contractors. Also, the BLS survey data did not cover many of the job classifications for which Labor issued wage determinations.

The primary BLS data sources used in the SCA wage determination program are:

--Area wage surveys, performed as part of BLS' regular data collection activities, that yield annual data on a cross-industry basis for selected occupations in about 70 standard metropolitan statistical areas.

--Additional area wage surveys, performed by BLS especially for use in Labor's SCA wage determination program, that yield annual data on a cross-industry basis for a more limited list of job classifications in about 115 survey areas.

--About 125 specific industry surveys in selected localities, also conducted for Labor's SCA wage determination program, that provide information on hourly earnings in such service industries as moving and storage, refuse hauling, laundry, or food service.

Sizes of BLS-surveyed establishments not representative of Federal service contractors

Labor frequently used BLS wage survey data obtained from business establishments employing large numbers of workers. Such large employers generally had wage rate structures different from those adopted by establishments employing the numbers of workers most often needed in performing Federal service contracts. In our wage surveys we found that organizations with large numbers of employees generally paid higher wages than those having smaller numbers of employees.

BLS area and SCA cross-industry wage surveys, which Labor used in administering SCA, excluded establishments employing fewer than 50 workers. Those employing fewer than 50 workers were included only in BLS' special SCA surveys of the laundry and dry cleaning, moving and storage, refuse hauling, and food service industries, where establishments with as few as 10 or 20 employees were surveyed. Moreover, in the Nation's 13 largest metropolitan areas, BLS area wage surveys generally excluded employers with fewer than 100 workers.

Our review of Federal agency requests (SF-98's) for the wage determinations included in our sample showed that the agencies generally estimated that they would need fewer than 50 workers on their proposed service contracts. In fact, for 241 (77.5 percent) of 311 SF-98's where the information was included on the form, 10 or fewer workers were estimated to be needed on the proposed contracts. For 193 of those 241 SF-98's, 5 or fewer workers were estimated to be needed. Only 16 (5.1 percent) of the 311 requests indicated that 50 or more workers would be needed.

Types of BLS-surveyed establishments not representative of Federal service contractors

Much of the BLS wage survey data Labor used to establish wages for specific classes of service employees came from establishments in industries that were not representative of service industry contractors providing most Government services. BLS area wage surveys covered establishments in six broad industry categories: manufacturing; transportation, communication, and other public utilities; wholesale trade; retail trade; finance, insurance, and real estate; and selected services. They usually excluded agriculture, mining, construction, educational and medical services, and government operations.

Published BLS wage survey reports generally showed a breakdown of wage data between only two broad industry categories in the surveyed localities--"manufacturing" and "nonmanufacturing"--without differentiating among the various industries surveyed. Service industries fall in the nonmanufacturing category. In five BLS wage survey reports we reviewed at random, the percentage of surveyed workers who were employed by manufacturing concerns ranged from 21 to 68 percent. Such workers generally received much higher wages than similar workers employed by nonmanufacturing concerns.

Moreover, in analyzing the bases for the 150 sampled determinations, we noted that, when Labor's wage analysts used BLS survey data in determining the wage rates, they consistently selected the "all-industry" wage rates shown for the listed job classifications even though substantial differences were evident for those job classes where BLS also reported the manufacturing and nonmanufacturing wage data.

Nonmanufacturing industries as a group, and the service industry in particular, are more representative of the service contractors that provide related Government contract work than are the manufacturing industries.

Following are examples in which data on nonmanufacturing industries, including some service industry data, were available but not used by Labor in making wage rate determinations for the cited localities.

BLS survey area and date, worker classification, and industry category	Number of workers surveyed	Hourly earnings		Percentage relationships	
		Mean	Median	Mean	Median
Houston, Texas--April 1978:					
Material handling laborers:					
All industries	2,819	$4.36	$4.01	100	100
Manufacturing	848	5.07	4.80	116	120
Nonmanufacturing	1,971	4.05	3.70	93	92
Guards:					
All industries	3,059	3.67	3.00	100	100
Manufacturing	358	7.01	7.14	191	238
Nonmanufacturing	2,701	3.23	2.93	88	98
(Services)	(2,340)	(3.10)	(2.86)	(84)	(95)
Janitors, porters, cleaners:					
All industries	13,131	3.01	2.65	100	100
Manufacturing	1,284	4.65	4.42	154	167
Nonmanufacturing	11,847	2.83	2.65	94	100
(Services)	(7,208)	(2.70)	(2.65)	(90)	(100)
Corpus Christi, Texas--July 1978:					
Secretaries:					
All industries	226	4.78	4.60	100	100
Manufacturing	51	5.24	4.84	110	105
Nonmanufacturing	175	4.64	4.46	97	97
Accounting clerks:					
All industries	230	3.86	3.65	100	100
Manufacturing	43	4.63	4.60	120	126
Nonmanufacturing	187	3.69	3.50	96	96
Computer operators:					
All industries	57	4.79	4.89	100	100
Manufacturing	15	6.09	5.99	127	122
Nonmanufacturing	42	4.33	4.18	90	85
Richmond, Virginia--June 1978:					
Janitors, porters, and cleaners:					
All industries	1,956	3.69	3.00	100	100
Manufacturing	633	5.02	5.28	136	176
Nonmanufacturing	1,323	3.05	2.75	83	92

Our analysis of nationwide summary data on the results of the 1978 BLS area wage surveys for 70 standard metropolitan statistical areas showed that the large wage rate differences between manufacturing and nonmanufacturing industries, illustrated in the above three localities, also held true nationwide.

BLS wage surveys did not cover all job classifications

BLS' regular and special SCA area wage surveys covered from 6 to 87 job classifications from among 120 standard job classifications--depending on the type of survey being performed--each with specifically defined job descriptions. However, such surveys did not and, as a practical matter, could not cover all possible job classifications of service workers that may have been employed under the tens of thousands of Federal service contracts awarded annually. As a result, when Labor received an agency request for wage rates for specific job classifications not covered by a BLS survey report or not included in the latest available BLS survey report for the locality involved, Labor often used rates for other job classifications or otherwise adjusted whatever data were available to establish rates for the requested job classes.

For example, BLS collected wage data for the "janitor, porter, cleaner" job classification in all of its 70 self-initiated area wage surveys and the more than 100 cross-industry SCA wage surveys. The job description for this classification, as used in these surveys, specifically stated that "Workers who specialize in window washing are excluded." To emphasize this point, the statement was underscored in the job description. Yet, for two of the wage determinations we sampled--in different localities--we noted that Labor used the janitor, porter, cleaner wage rates in available BLS survey reports to establish rates for window cleaners, on the basis that skill levels of the two classes are basically equivalent.

We noted other instances among our sampled determinations where Labor used janitor, porter, cleaner rates to set wages for such job classifications as "pest controller"; "laborer, refuse collection"; and "mess attendant." Each of these job classes had a distinct job description, and workers in these classes could have been expected to receive wages that differed from those of a janitor, porter, or cleaner.

Occasionally, BLS makes a survey that includes data on these various classes, resulting in reported wage rates that differ significantly from that of a janitor, porter, cleaner rate in the locality. For example, a 1977 contract cleaning industry wage survey in the Washington, D.C., metropolitan area showed the following:

Job classification	Average hourly rate
Janitor, porter, cleaner	$2.89
Pest controller	3.94
Window washer	4.19

Similarly, BLS area and SCA special industry wage surveys in the San Francisco-Oakland, California, locality during the same period showed the following:

Job classification	Average hourly rate
Janitor, porter, cleaner	$5.35
Refuse collector	7.70

LABOR'S ADJUSTMENTS OF BLS WAGE SURVEY DATA

In about half of the wage determinations in our sample (78 of 150), Labor used BLS wage surveys as the basis for the wage rates issued. However, most (211 of 366) of the issued rates reflected adjustments from the basic data BLS reported. For another 89 issued rates, the BLS-reported rates were not used because they were lower than the prior wage determination rates Labor had issued.

Labor, in its wage determination manual, recognized that data obtained by survey methods represented differing methods of compensation--rate ranges, flat pay, longevity steps, and entrance level steps, among others--and that these factors could contribute to "abnormalities" in the data reported and "inconsistent results" among the job classifications from one time period to another. For these reasons the manual provided that, to be "consistent and in accord with sound wage and salary administration practices," these survey "anomalies" must be adjusted. Another reason Labor adjusted the BLS data was to attempt to give "due consideration," as required by SCA, to the wages that would be paid the service workers if they were Federal direct-hire employees.

Labor's guidelines for giving due consideration to Federal wages are quite broad and vary in application from one determination to another. Labor's position is that the degree of discretion that will be exercised or deemed appropriate necessarily depends on the facts and circumstances surrounding each determination.

While Labor believes that no precise formula can be prescribed for each situation, it considers such factors as (1) whether a contract is for a new or first-time service that is currently provided by direct-hire employees or one that does not involve the displacement of direct-hires and (2) how great a disparity exists

between the wage rates that would be applied under Federal pay systems and those otherwise deemed to prevail, based on available data sources in the locality.

Our analysis of the 150 sampled determinations disclosed many inconsistencies in the way Labor applied the due consideration provision. For example, in some cases, Labor computed wage rates based on the combined weighted average of the BLS wage rates and the Government rates. In others, Labor computed a percentage representing the pay ratio between Government pay grades and applied that percentage to an already established rate for another job classification to determine a rate to be issued.

Labor's adjustments to its source data generally had the effect of significantly altering the wage rates BLS had found to prevail in the surveyed localities. We found that Labor, in making its determinations

--inconsistently used BLS mean, median, and middle range survey rates as the basis to develop individual wage determinations;

--combined BLS survey data from widely separated localities and issued one average rate for statewide or multistate applications even though rates for the job classifications varied substantially between locations;

--statistically commingled BLS survey data with wage rates established for Federal wage board employees with substantial variations in the resulting rates;

--averaged rates for groups of BLS-surveyed job classifications believed by Labor wage analysts to be equivalent to classes of Federal workers and adjusted such rates to conform to Federal wage board rates;

--maintained previously issued rates that exceeded more current BLS survey rates or adjusted the prior rates by a selected percentage to produce an upward movement in wages since the previous determination; and

--adjusted or conformed BLS survey rates to reflect national patterns which did not consider substantial differences in wage relationships in individual communities throughout the country.

The various types of adjustments to BLS survey data which Labor used to develop wage determinations are discussed in more detail in appendix IX.

INAPPROPRIATE USE OF NONAPPROPRIATED FUND SYSTEM WAGE RATES

Labor's wage determination manual describes wage rates determined under the Federal Nonappropriated Fund Wage System as important indicators of prevailing rates and sometimes the sole source of data, or the "best information available," for certain service industry segments, such as vending, laundry and dry cleaning, and tailoring. The wage rates in these schedules set the pay for employees hired directly by military exchange facilities, sometimes called nonappropriated fund (NAF) employees. The schedules are developed in a manner similar to those under the Federal Appropriated Fund (wage board) Wage System; however, in several wage determinations in our sample, the NAF wage rates in corresponding numerical pay grades were significantly lower than those determined and paid employees hired under the Federal wage board system.

Using these rates may be appropriate when the Federal contract services relate directly to contract work that had been or would normally be performed by NAF employees. However, it can result in two very different wage rates for the same classification of workers when Labor also predetermines rates from BLS wage surveys in the same locality. In our sample, Labor issued these NAF-based wage rates for Federal contract services that, if not contracted out, would have been performed by higher-paid Federal wage board, rather than NAF, employees.

For example, in requesting a wage rate for a "sewing machine operator," an agency indicated that, if federally employed, the service employee would be paid at the Federal wage board grade 5 rate of $5.50 an hour. The agency based the grade and rate on that being paid to employees working as sewing machine operators at the agency installation. However, Labor's wage analyst based the rate issued, $3.37 an hour, on a grade 5 under the NAF schedule--more than $2 an hour less than the cited Federal wage board rate. The contractor later paid the employee at the wage rate stipulated in the issued determination.

In another determination, Labor issued NAF schedule wage rates of $5.63 and $4.96 an hour, respectively, for "automotive mechanic" and "mechanic's helper" to be employed on Army and Air Force Exchange Service contracts. However, another wage determination with similar classifications in the same locality had been issued 8 months earlier, based on a BLS wage survey, with much higher rates. This determination provided for hourly rates of $7.68 for automotive mechanics and $5.97 for helpers--about $2 and $1 higher, respectively, than the NAF schedule rates. The higher rates applied to these same job classes on all other Federal service contracts in the locality.

USE OF DAVIS-BACON ACT WAGE RATES INAPPROPRIATE FOR ESTABLISHING SCA RATES

For 7 of the 150 sampled wage determinations, which contained almost 10 percent of the job classifications and wage rates in our sample, Labor based wage rates on those developed for issuance under the Davis-Bacon Act for employees working on Federal or federally assisted construction projects. In our opinion, using Davis-Bacon Act wage rates for service contracts is generally not appropriate. 1/ While contracting agencies may request wage rates for service employee classifications similar to those of construction workers, the service contract work is not always sufficiently comparable to justify use of the construction craft rates under SCA. Moreover, Labor's SCA staff adjusted the wage data to arrive at the SCA rates issued, by averaging rates from several localities.

Davis-Bacon Act wage decisions apply to Federal agency contracts over $2,000 for construction, alteration, and/or repair, including painting and decorating, of a public building or public work. Labor's SCA manual provides that adopting such wage rates and fringe benefits for service contracts may be considered appropriate when the service contract includes work of the type ordinarily provided by firms within the construction industry or work which typically and historically is of a type performed by construction-related employees. These criteria seldom applied to the service contract work for which Labor issued construction craft rates in the wage determinations in our review. Following are two examples in which we believe use of construction craft rates was inappropriate.

--In response to a request for wage rates for "horse wranglers" for a proposed agency-sponsored rodeo, Labor issued wage determination 79-771 in August 1979 with rates and fringe benefits for "truckdrivers" and "laborers." Labor adopted the rates from Davis-Bacon Act statewide rates for highway construction projects "in accordance with established

---

1/In addition to believing that Davis-Bacon Act wage rates are generally inappropriate for use in establishing wage rates for Federal service contracts, we believe the act should be repealed. Repeal is warranted because (1) there have been significant changes in the economy since 1931 which we believe make continuation of the act unnecessary; (2) after over 50 years, the Department of Labor has yet to develop an effective program to issue and maintain accurate wage determinations, and it may be impractical to ever do so; and (3) the act is inflationary and results in unnecessary construction and administrative costs of several hundred million dollars annually. (See GAO report to the Congress, "The Davis-Bacon Act Should Be Repealed," HRD-79-18, Apr. 27, 1979.)

policy," because these classes "perform services at the same skill level and of a similar nature." Labor's wage analyst did not explain which classification related to the "horse wrangler" class to be used on the contract.

--Labor adopted Davis-Bacon Act rates for truckdrivers, heavy equipment operators, and laborers--working on highway construction projects--for use on Federal service contracts for forestry, land management, and public use area cleaning services. Labor issued determination 74-1201 (Revision 5), prepared in March 1979, for use in service contracts for pumping out pits and pit toilets, controlling aquatic plants on a lake, eradicating hardwood trees and planting pine seedlings, and mowing grass.

Labor's wage analysts did not consistently use the wage data adopted from Davis-Bacon Act wage decisions. In some cases, the analysts adjusted the data by averaging rates for one or more classifications, and for the various localities or areas in one or more wage decisions, to determine the SCA rates to be issued.

RATES BASED ON "UNION DOMINANCE" ISSUED WITHOUT SUPPORT THAT THEY PREVAILED

With no evidence or only oral assurance from union representatives that union rates prevailed in the locality, Labor's wage analysts issued wage rates and fringe benefits in eight determinations in our sample based on collective bargaining agreements. Labor's basis sheets generally cited "union dominance;" each agreement purportedly covered the majority of workers in the cited job classifications in the locality. Labor's SCA staff did not require or obtain any other data or documentation to support the decision. In at least two determinations, this resulted in the issuance of wage rates substantially exceeding those that prevailed in the locality for work of a character similar to the Federal service contract work.

Labor's wage determination manual provides that wage rates for job classifications covered by union-negotiated collective bargaining agreements "may constitute the best information available for classes of service employees in a particular locality when it can be established that the agreement represents the wage rates and fringe benefits being paid to a majority of workers employed in the collectively bargained classifications." Such determinations must be supported by evidence that the agreement covers more than 50 percent of the worker classes in the locality. The SCA staff issues agreement rates when

(1) local union officials assert that the agreement covers the majority of workers in the locality or

(2) the majority of workers with similar job classifications under other service contracts at a Federal installation are covered by agreement rates issued under sections 2(a) and 4(c) of SCA, where the incumbent or predecessor contractor has signed the agreement.

In neither case does Labor attempt to determine the number of workers in the locality and those covered by the agreement. In (1) above, the wage analysts generally base their decisions to use agreement rates on telephone calls to local union officials who orally assure the analysts that their agreements cover the majority of workers in the localities involved. In (2) above, the Labor staff base their decisions on the number of employees covered by the agreement at the particular Federal installation. Labor does not attempt to verify the union officials' statements or assure that the agreement covers the majority of employees in the locality working in the job classification. Further, while the service worker job classifications were similar, the types of service and actual work performed were not always sufficiently comparable to warrant issuance of the union rates.

Following are two examples in which we believe collective bargaining agreement rates were inappropriate for the Federal service contract work to which they were applied.

WD68-499 (Rev. 11), August 20, 1979--
El Paso County, Colorado

In response to an agency request for wage rates on a contract for carpet cleaning services, Labor issued a determination with a union-negotiated collective bargaining agreement wage rate for a "carpet installer" at $11.18 an hour plus various fringe benefits rates totaling $2.00 an hour. Labor's basis sheet stated that the wage analyst had contacted the local union business manager by telephone and noted:

> "He asserted that the local [union] represents most of the workers employed on 'floor covering services' in El Paso County, Colorado."

The analyst did not request any data or documentation to verify or support the union representative's statement.

We reviewed the scope of the collective bargaining agreement and the work covered, and discussed the duties of a carpet installer with a union representative. The agreement covers all types of floor covering services, including cleaning rugs and carpets within Colorado. However, the union representative we contacted told us that none of the contractors that signed the agreement performed rug or carpet cleaning services--non-union contractors performed such services throughout the State.

We also noted that a General Services Administration contract for carpet cleaning services covering the same performance period contained "conformed" wage and fringe benefit rates for a carpet cleaner classification--approved by the employees, the contractor, and the contracting officer, as required in Labor's SCA regulations--totaling $3.50 an hour.

WD74-180 (Rev. 7), August 14, 1979--
Patrick Air Force Base in
Brevard County, Florida

Labor issued this determination with wage rates for such maintenance worker classifications as electricians, carpenters, painters, and plumbers, to be employed under a Federal service contract to maintain family housing units. Labor's wage analyst adopted the wage rates for similar classes of workers, as stipulated in a collective bargaining agreement between Pan American Airways, Inc., and the Transport Workers Union representing mechanics and ground service employees at the Air Force Eastern Test Range at Patrick Air Force Base.

The wage analyst adopted the agreement rates because the union represented the majority of the maintenance classes of employees at Patrick Air Force Base. In a prior determination, the analyst had also cited a BLS survey of the nearby Kennedy Space Center complex in Brevard County to support the position that the union rates prevailed at the base.

In our opinion the maintenance work involved in supporting the Nation's space program and launch facilities is very different from that involved in maintaining residential family housing units. The qualifications and job skill levels are sufficiently different to justify different wage rates. However, Labor's SCA staff made no attempt to determine the prevailing rates for housing maintenance workers on private projects within Brevard County. Our survey in the county showed that locally prevailing rates were significantly lower than those Labor issued. (See GAO wage survey No. 1 in app. X.)

AGENCY OFFICIALS CITED JOB CLASSIFICATION DEFICIENCIES IN LABOR'S WAGE DETERMINATIONS

At the many Federal installations we visited, a major complaint of agency officials who implement SCA in the Government's procurement of services was that job classification information received from Labor was deficient. Wage classifications in Labor's issued determinations were described as being difficult to match with those for which wage rates were requested, incomplete, inaccurate or inappropriate, confusing, inconsistent, and excessive. Seventy-six of the 255 officials we interviewed cited

problems with job classifications. These officials were involved with 91 of the 150 sampled wage determinations included in our review.

The problem most frequently mentioned was Labor's failure to provide wage rates for all job classifications. Examples of such determinations follow.

--An official of the Army Corps of Engineers in New Orleans, Louisiana, told us that job classification difficulties were her biggest problem. She stated that Labor issued wage determinations that did not cover all jobs requested. As a result, she did not know what contract wage rates to require for service employees in jobs not covered by the determination. In such cases she generally accepted the rates normally paid by the contractor as being the prevailing wages. In the absence of an issued wage rate, she lacked a basis for judging whether the service workers on the awarded contract were being paid the prevailing wage.

--An official of the Lower Mississippi Valley Army Corps of Engineer Division in Vicksburg, Mississippi, provided us the following examples for the Memphis, Tennessee, District:

a. One SF-98 requested wage rates for 11 job classes, but Labor provided a rate for only 1.

b. Another wage determination request, intended to cover 44 service employees, also listed 12 job classes, but Labor provided wage rates for only 5.

c. Another SF-98 requested wage rates for 13 job classes, involving 17 employees, but Labor furnished rates for only 5 classes.

d. A fourth SF-98 listed 6 job classes covering 11 employees, while Labor's determination provided rates for only 3 classes.

e. A fifth SF-98 listed 12 job classes covering 22 service employees; however, the determination listed wage rates for 24 classes. Of these 24, only 2 were identical to the classes on the submitted SF-98.

--An Army official at Fort Lee, Virginia, stated that Labor often does not provide determinations with sufficient wage classifications. She added that Labor's listed classifications are usually confusing and too generally defined to be used in proposed contracts. For example, for a proposed contract for computer operators, Labor provided a determination with wage rates for three classes of computer operators, but with an inadequate explanation of the differences in duties of the various job classifications.

ESTABLISHING FRINGE BENEFITS

Labor does not have adequate data on prevailing fringe benefits in locations where service contract work is performed, and we believe that it is not practical and would be very costly for Labor to develop accurate fringe benefit cost rates that prevail in the locality. Moreover, BLS has stopped collecting the nationwide fringe benefit cost data that were primarily used by Labor in setting its health and welfare benefit rates, and court decisions on Labor's use of nationwide rates have brought into question the appropriateness of using such rates.

The fringe benefit rates Labor issues in its service wage determinations are based on various data sources, similar to those used to establish wage rates. However, the two most prevalent sources used are collective bargaining agreements and published BLS surveys.

Labor issues collectively bargained fringe benefits in its service wage determinations when (1) a predecessor service contractor has a collective bargaining agreement covering its service employees working on a Federal service contract and the agreement was entered into by arm's-length negotiations or (2) Labor determines that "union dominance" exists because the majority of service workers in a locality in a particular job classification are purported to be covered by a collective bargaining agreement.

Typical fringe benefits cited in such agreements include health and welfare benefits, paid vacations and holidays, paid sick leave, pension or retirement plans and/or contributions, union apprenticeship and/or education and training fund contributions, and paid bereavement leave.

Labor's primary data sources for determining prevailing fringe benefits have been various BLS metropolitan area and nationwide surveys. Along with the wage data collected annually in these area wage surveys, noncost data on fringe benefits--such as the number of paid vacation days and holidays and the types of health and welfare benefits--received by surveyed plant and office workers are collected every 3 years. Although these surveys do not provide data on employers' fringe benefit costs, they do attempt to measure the "prevalence" of specific benefits among surveyed employers in the locality.

The BLS survey most used by Labor as a basis for determining employer fringe benefit costs and/or benefit contribution rates in service wage determinations has been the "Employee Compensation in the Private Nonfarm Economy" survey. This biennial nationwide and industrywide survey provided average employer expenditure or contribution data for establishments in the private nonfarm sector in all 50 States and the District of Columbia. The survey covered firms of varying sizes, including those with as few as four employees.

Although the survey had no breakdown of data by metropolitan area, Labor's SCA staff recognized it as "the major work in measuring actual expenditure amounts for various types of fringe benefits." The survey included employers' costs for fringe benefits. BLS' most recent data in this survey series were collected for 1977 and published in 1979. Labor used these data in March 1980 to set a nationwide $.32 per hour health and welfare benefit rate.

Labor originally chose the BLS Private Nonfarm Economy survey because there was no other reliable and easily accessible Federal or non-Federal source for nationwide health and welfare benefit cost data. However, due to budget cuts and limited resources, among other reasons, BLS has discontinued this survey. Without these data, Labor has no data base on which it can rely for future revisions of its current health and welfare benefit rates.

Nationwide fringe benefit rates applied to many service contracts

When locality data are not available, Labor will often issue the latest available national averages for paid vacation days and holidays, as reported in published summaries of BLS annual area wage surveys, as the minimums to be provided the covered service workers. The national averages Labor currently uses, which were adopted on January 7, 1980, include 9 paid holidays annually, 1 week's annual paid vacation after 1 year's service with a contractor or successor, and 2 weeks' annual paid vacation after 2 years' service.

Labor also assumes that some health and welfare benefits prevail for most classes of employees on service contracts. Labor's basis for this position is 1966-67 BLS data 1/ which indicated that the vast majority of non-office employees in the United States were employed in firms that provided some combination of life, accident, and health insurance. The actual health and welfare rate Labor issues is based on 1977 data taken from the line item, "Employer expenditures for life, accident, and health insurance--dollar per work hour," as reported in BLS' most recent, but now discontinued, nationwide Private Nonfarm Economy survey. The current rate of $.32 per hour has been in effect only since March 20, 1980, but it is based on 5-year-old data.

Labor makes seven general exceptions to its use of the $.32 nationwide health and welfare benefit rate, including contracts for laundry and drycleaning services and for major support services which may involve large contract dollar values, large numbers of employees, and nationally recognized contractors.

1/BLS Bulletin No. 1530-87, "Wages and Related Benefits: Metropolitan Areas, United States and Regional Summaries, 1966-67, Part II," and various BLS area wage surveys.

Variations from the nationwide rate for the seven general exceptions are substantial. For example, the rate for laundry and dry-cleaning services is only $.09 per hour, but the rate for major support services is $1.08 per hour. The exceptions to Labor's use of the nationwide rate and examples of their applications are discussed more fully in appendix XII.

Appropriateness of using nationwide fringe benefits is questionable

Labor relies heavily on nationwide data and often issues nationwide average fringe benefit rates in its general wage determinations. However, SCA does not specifically authorize such use of national averages. In the absence of such specific authority, the appropriateness of Labor's issuance of national average fringe benefits is questionable.

In April 1980, the U.S. Court of Appeals for the Fourth Circuit ruled that the Government cannot generally use a nationwide wage determination in procurements subject to SCA, except perhaps in a "rare and unforeseen service contract." 1/ We believe the principles the court applied in that case may also apply to Labor's nationwide fringe benefit rate determinations.

SCA requires that Labor's fringe benefit determinations be based on those prevailing "in the locality." No distinction is made in the act in applying the "prevailing in the locality" concept to either wages or fringe benefits. It has the same meaning and intent in both situations. Thus, we believe Labor's general application of nationwide average fringe benefit rates (whether for health and welfare, paid vacations, or paid holidays) in determinations intended to be applied to a specified locality, is inconsistent with the intent of the act and, therefore, inappropriate.

CONCLUSIONS

On the basis of our review and analyses, we believe that Labor's available data sources, either individually or collectively, are not sufficient to develop and issue determinations for service employees on Federal service contacts that accurately reflect the wages and fringe benefits prevailing in the locality.

We also believe that Labor cannot administer SCA efficiently and ensure that accurate and equitable wage and fringe benefit determinations are made for the hundreds of thousands of service workers, in a myriad of job classifications, employed under the tens of thousands of Federal service contracts awarded annually by the Government (see p. 59). To do so, in our opinion, would

---

1/See detailed discussion of this ruling on pages 13 and 14.

require an army of wage analysts and wage survey specialists performing special wage surveys for every Federal service contract to be awarded. As discussed in chapter 4, such an effort would be very costly and impractical.

CHAPTER 4

LABOR'S SCA DETERMINATIONS DO NOT ACCURATELY ESTABLISH PREVAILING WAGE RATES AND FRINGE BENEFITS

Our surveys of 25 SCA determinations showed that Labor usually issued determinations with wage rates and fringe benefits higher than those we found prevailing in the localities where the service contract work was performed. We cannot statistically project our sample results to Labor's universe of issued determinations because of the limited numbers of wage determinations in our sample and the sampling methodologies used. However, care was taken to assure the randomness of our samples of 30 determinations in each of five geographic areas. The subsamples of five determinations in each of the areas were selected from them. Accordingly, we believe that our sample results are indicative of Labor's wage determinations. Thus, Labor's inflated wage determination rates could be adding hundreds of millions of dollars annually to Federal service contract costs.

Labor also issued some wage rates and fringe benefits that were lower than those we found prevailing. Only a few of Labor's issued wage rates and fringe benefits matched those we found to prevail for the localities surveyed.

Labor's wage determinations we reviewed resulted in the following:

--Wage rates substantially higher than those we found prevailing in the surveyed localities increased Federal service contract costs. For 14 of 19 service contracts for which direct labor hour data were available, total contract costs were about $459,000 to $527,000 (9.9 to 11.6 percent) higher than they might have been if the prevailing rates we found had been used.

--Some wage rates were from 1 to 36 percent lower than those we found prevailing. In some of these cases, the contractors paid rates higher than those Labor issued. In other instances, the contractors paid the issued wage rates.

Our surveys also showed that Labor's fringe benefit determinations generally did not reflect benefits prevailing for service workers in the localities where the contract work was performed. In summary:

--In 15 of the 25 surveyed localities, the fringe benefits Labor required service contractors to provide to their service workers on Federal contracts were significantly

higher than those we found prevailing--in 1 of the 15 localities, no fringe benefits prevailed.

--In 4 of the surveyed localities, Labor's fringe benefit determinations were significantly lower than those we found prevailing.

--The prevailing fringe benefits were judged to be somewhat lower in 1 locality and somewhat higher in 2 localities than Labor's fringe benefit determinations.

--In the other 3 localities, Labor's issued fringe benefits were about the same as those we found prevailing for service workers.

INACCURATE WAGE RATES ESTABLISHED

Labor's issued wage rates generally did not accurately reflect the rates prevailing in the localities we surveyed. Our wage surveys of 66 service job classifications involved 25 issued SCA wage determinations for 42 service contracts. From the data available, we were able to compute mean rates for each of the 66 job classifications, identify median rates for 65, and identify majority rates for 17. The majority rate in each of the 17 job classifications was the same rate as the one we identified as the median rate. We found that Labor issued wage rates that were 0.3 to 103.8 percent higher than the prevailing wage rates we identified for comparable job classifications. Labor also issued wage rates that were 1 to 36 percent lower than the prevailing rates we identified.

For 19 of the 42 service contracts, sufficient direct labor hour data were available to allow us to compare our mean and median rates with Labor's issued rates for the job classifications in the individual contracts. The higher wage rates Labor issued for 14 of the 19 contracts resulted in costs that were from $459,000 to $527,000 higher than the costs that might have been incurred if the wage rates we identified as prevailing had been used.

Because of the inherent ambiguities involved in developing prevailing wage rates, the rates we identified as prevailing are subject to some of the same uncertainties as Labor's rates. However, we believe our rates are more representative of the prevailing wages in the localities where the contracts' work was performed because we performed specific wage surveys of the contracts' individual job classifications in those localities. Accordingly, we also believe that the estimated cost differences we identified above for the 14 contracts are indicative of the inflated costs that the Government may be incurring generally as a result of Labor's SCA wage determinations. (See the table on the next page for a breakdown of our cost estimates by individual contract.)

Our Estimates of Increased Direct Labor Costs
Resulting From Labor's SCA Wage Rates

GAO wage survey number	Wage determination number	Location (and Federal facility)	Total contract cost (estimated or actual)	Our estimates of increased direct labor costs		Percentage increase reflected in total cost	
				Mean	Median	Mean	Median
1	74-180(R-7)	Brevard County, FL (Patrick AFB)	$ 486,153	$ 46,884	$ 51,215	10.7	11.8
2	74-945(R-3)	Okaloosa and Walton Counties, FL (Eglin AFB)	342,141	50,264	54,410	17.2	18.9
5	76-176(R-2)	Anderson County, TN (Department of Energy facilities)	109,728	9,808	20,556	9.8	23.1
6	76-382(R-4)	Bexar County, TX (Brooks AFB)	452,988	54,036	63,550	13.5	16.3
9	74-1242(R-7)	Kingsville, TX (Kingsville NAS)	230,910	25,605	27,627	12.5	13.6
10	76-379(R-3)	Tom Green County, TX (Goodfellow AFB)	625,915	86,310	82,846	16.0	15.3
11	78-1151(R-1)	El Paso County, CO (Peterson AFB)	266,004	35,285	41,701	15.3	18.6
17	76-132(R-5)	Riverside and San Bernardino Counties, CA (March AFB and George AFB)	a/439,628	15,541	14,084	3.7	3.3
21	73-301(R-6)	Prince George County, VA (Fort Lee)	347,984	20,303	20,494	6.2	6.3
22	76-1261(R-3)	Prince Georges County, MD (Andrews AFB)	785,479	55,692	77,607	7.6	11.0
23	73-1393(R-4)	Hampton Roads, VA (Norfolk NSC)	570,048	7,688	7,500	1.4	1.3
24	68-525(R-12)	Durham, Orange, and Wake Counties, NC (Research Triangle Park)	429,924	51,539	65,544	13.6	18.0
Total			$5,086,902	$458,955	$527,134	9.9	11.6

a/Three contracts were involved.

Comparison of our survey median rates with Labor's issued wage rates

Our surveys showed that Labor's issued wage rates were higher for 44 of 65 job classifications for which a median wage rate could be identified. 1/ The dollar differences between Labor's issued wage rates and our identified survey median rates ranged from $.18 to $3.17 an hour higher and averaged $1.30 an hour higher. The percentage differences among these 44 rates ranged from 2.5 to 103.8 percent higher and averaged 31.5 percent higher. Thus, when compared to the median wage rates developed from our wage surveys, Labor's higher wage rates may have increased Federal service contract labor costs, on the average, by over 31 percent.

Our surveys also showed that Labor issued wage rates lower than our identified median rates for 12 of 65 job classifications for which median rates could be identified. The dollar differences between Labor's issued wage rates and our survey median rates ranged from $.14 to $1.61 an hour lower and averaged $.70 an hour lower. The percentage differences among these 12 rates ranged from 3.2 to 30.2 percent lower and averaged 12.2 percent lower. For the other nine job classifications, the rates Labor issued and those we found prevailing were the same.

Two examples in which Labor's issued wage rates varied substantially from the median rates identified in our surveys follow.

--Wage determination 76-176, Revision 2, was issued in May 1979 for janitorial services at the Department of Energy's Oak Ridge facility in Anderson County, Tennessee. It established a wage rate for the "janitor" classification at $4.50 an hour, effective July 1, 1979. This was $1.47 an hour higher than our identified survey median rate of $3.03 and $1.60 an hour higher than the existing FLSA minimum wage of $2.90 an hour. Likewise, Labor's issued rate of $4.75 an hour, also effective July 1, 1979, for the "group leader" job classification was $1.50 higher than our identified survey median rate of $3.25. Based on these median rates, Labor's wage determination rates may have increased contract costs for janitorial services at the Oak Ridge facility by $20,556, or 23.1 percent.

Our survey of the janitor classification included 1,359 service workers employed in Anderson, Blount, and Knox

---

1/For one additional classification, we were unable to identify a specific median rate because some of the surveyed employers provided us only with average wage rate data for their service employees.

Counties, Tennessee, and covered a broad range of enterprises employing janitors, including janitorial contractors and non-janitorial concerns. When wage data for only janitorial contractors were considered, our survey results indicated that the janitor classification was a predominantly FLSA minimum wage occupation in the area. Labor's basis for its rates was a collective bargaining agreement between the incumbent contractor and Local 150-T of the Service Employees International Union, pursuant to section 4(c) of SCA. (For more details, see GAO wage survey no. 5 in app. X.)

--Wage determination 74-983, Revision 4, was issued in August 1979 for refuse collection services at Vandenburg Air Force Base in Santa Barbara County, California. It established an hourly wage rate for a "laborer" at $3.72. This rate was $1.61 (30.2 percent) lower than our identified survey median rate of $5.33 an hour. The service contractor paid the wage rate Labor issued.

We surveyed 7 employers, employing 48 laborers (refuse collectors) in Santa Barbara County. All but one (98 percent) of these workers received an hourly wage rate higher than Labor's wage determination rate. Labor's basis for the wage rate issued was BLS data for a "janitor, porter, cleaner" job classification. (For more details, see GAO wage survey no. 16 in app. X.)

Comparison of our survey mean rates with Labor's issued wage rates

Our surveys showed that, for 50 of the 66 job classifications we surveyed, Labor's issued wage rates were higher than our computed mean wage rates. The dollar differences between Labor's issued wage rates and our comparable mean rates ranged from $.02 to $3.11 an hour higher and averaged $1.08 an hour higher. The percentage differences among these 50 rates ranged from 0.3 to 92.5 percent higher and averaged 24.5 percent higher. Thus, when compared to the mean wage rates developed from our wage surveys, Labor's wage determination rates exceeded the prevailing wage rates for 50 job classifications and may have increased service contract direct labor costs, on the average, by over 24 percent.

Our surveys showed that Labor issued wage rates lower than our computed mean rates for 16 of the 66 job classifications surveyed. The dollar differences between Labor's issued wage rates and our comparable mean rates ranged from $.03 an hour to as much as $2.09 an hour lower and averaged $.45 an hour lower. The percentage differences among these 16 rates ranged from 1 to 36 percent lower and averaged 8.5 percent lower.

Following are two examples of job classifications for which Labor's issued rates varied substantially from the mean rates in the localities we surveyed.

--Wage determination 76-945, Revision 3, was issued in April 1979 for bus transportation services at Eglin Air Force Base, Okaloosa and Walton Counties, Florida. It established an hourly rate for a "bus driver" classification at $6.85. This was $1.94 an hour higher than our computed mean rate of $4.91 and $3.95 an hour higher than the existing FLSA minimum wage of $2.90. When compared to our mean survey rate, Labor's wage rate may have increased total contract costs by $50,264, or 17.2 percent. The contractor paid the rate Labor issued.

We surveyed 105 bus drivers in Panama City and Pensacola, Florida, and Mobile, Alabama. We expanded our survey area beyond the two Florida counties of actual contract performance to obtain additional wage data and thus covered the same geographic area covered by the applicable BLS wage survey. The vast majority, 93 of the 105 bus drivers in our survey area, were members of the Amalgamated Transit Union. The highest hourly rate any bus driver in our survey received was $5.55. This was $1.30 an hour less than Labor's wage determination rate of $6.85.

Our analysis of Labor's basis for its wage determination showed that Labor derived its "bus driver" rate by applying a percentage (85 percent) to the wage rate it established for an "auto mechanic" job classification in the same determination. This percentage was derived by comparing Federal wage board schedule rates and grades that Labor believed would have applied to these job classifications if the employees in those classes were Federal direct-hires. However, Labor established the auto mechanic rate at $8.06 an hour, instead of the BLS survey mean rate of $6.22 an hour for this job classification. If the bus driver rate had been computed as 85 percent of the BLS survey rate of $6.22 for auto mechanics, Labor would have issued an hourly rate of $5.29, which would still have been high, but more in line with our survey results. (For further details, see GAO wage survey no. 2 in app. X.)

--Wage determination number 76-55, Revision 5, was issued in June 1979 for refuse collection and disposal services at the Naval Air Station, Dallas, Texas. It established hourly wage rates for the "truck driver" and "laborer, refuse collection" classifications at $4.89 and $3.42, respectively. These rates were $1.01 (17.1 percent) and $.62 (15.3 percent) lower, respectively, than our computed survey mean rates of $5.90 and $4.04 an hour for the truckdriver and laborer classifications.

We surveyed 362 truck drivers and 362 laborers involved in refuse collection and disposal services in the Dallas-Fort Worth area. We found that 88 percent of the truck drivers and 97 percent of the laborers surveyed received hourly wage rates higher than Labor's wage determination rates. Labor's bases for its issued wage rates were two previously issued wage determinations. In arriving at the wage rates for those determinations, Labor had commingled BLS wage survey mean rates with the rates paid direct-hire Federal wage board employees in the locality. The contractor paid its only employee on this contract, a driver/collector, at higher wage rates than those Labor issued. (For more details, see GAO wage survey no. 8 in app. X.)

- - - -

In many instances, Labor's SCA wage determinations established new wage scales which did not reflect those prevailing in the locality of contract performance. For 19 of the 66 job classifications we surveyed, Labor issued wage rates that fell outside the entire ranges of rates paid any employees we surveyed. For 18 of the job classifications, Labor's issued wage rates were 3.5 to 35.6 percent--an average of 16.4 percent--higher than the highest rates identified in our wage surveys.

Our examination of Labor's supporting docket files disclosed that, for 4 of the 18 job classifications, Labor's previous wage determination rates also exceeded the highest rates identified in our independent wage surveys. Our examination indicated that, once Labor determined and set a wage rate at a particular level, it generally adjusted the rate upward in later revised issuances even when survey or other wage data indicated that the prevailing rates for the specified job classifications had decreased or remained unchanged during the interim period.

Labor also issued a wage rate of $2.90 for one job classification, a "housekeeper," that was lower than the lowest wage rate--$2.95--identified in our wage survey for that job class (see GAO wage survey no. 25 in app. X). Although Labor's wage rate, which reflected the FLSA minimum wage, did not differ greatly from our lowest survey rate, it was 16.9 to 17.6 percent below that generally prevailing in the locality for this job classification.

INACCURATE FRINGE BENEFITS ESTABLISHED

Our surveys of fringe benefits received by service workers in 25 selected localities showed that, in 19 of the 25 localities, Labor issued fringe benefit rates that were significantly higher or lower than those prevailing in the localities to which its determinations were applied. In only 3 of the 25 surveyed localities did we find the prevailing fringe benefits to be about the same as those Labor issued.

Labor's issuance of higher than prevailing fringe benefit rates in its SCA wage determinations may have increased the fringe benefit costs of contractors awarded the Federal service contracts covered by those determinations. The contractors would have passed such cost increases on to the Government in their contract prices, thus increasing the Government's costs of procuring needed services.

The results of our fringe benefit level comparisons for each of the 25 wage determinations selected for independent surveys in the localities of contract performance are summarized in appendix XI. The following examples illustrate the differences we noted between the fringe benefits Labor stipulated in its determinations and those we found to prevail and, where possible, the potential cost impact of those differences.

--Wage determination 76-382, Revision 4, was issued in July 1979 for custodial services at Brooks Air Force Base in San Antonio, Texas. This determination was based on the incumbent small business contractor's collective bargaining agreement with Local 1095 of the City, County, and Public Service Employees Union, AFL-CIO, and provided for the following fringe benefits as of October 1, 1979: a health and welfare benefits rate of $.30 an hour; 9 paid holidays annually; 6 days' paid sick leave annually; 3 days' paid bereavement leave; and 1 week's paid vacation after 1 year of employment, 2 weeks' after 2 years, and 3 weeks' after 3 years.

  Our survey of the fringe benefits provided to 2,233 custodial workers in the San Antonio area disclosed that, as of October 1, 1979, 70.4 percent of the surveyed workers received no health and welfare benefits, 73.1 percent received no paid holiday benefits, 77.7 percent received no paid sick leave, none received bereavement leave, and 60.2 percent received no paid vacation.

  On the basis of these figures, we believe the collectively bargained fringe benefits Labor adopted in its issued determination did not prevail for custodial workers in the San Antonio area. Because Labor's issued determination prescribed such benefits, the Government's costs for contracted custodial services at Brooks Air Force Base in fiscal year 1980 may have been increased by $38,600.

--Wage determination 74-1242, Revision 8, was issued in December 1979 for service workers involved in the general maintenance of family housing at the Kingsville, Texas, Naval Air Station. The determination was based on a BLS area wage survey of the Corpus Christi, Texas, metropolitan area, which did not include the Kingsville area.

Labor's determination stipulated the following fringe benefits: a health and welfare benefit rate of $.21 an hour (Labor's then-current nationwide rate); 7 paid holidays annually; and 1 week's paid vacation after 1 year of service with a contractor or successor and 2 weeks' after 2 years (the same as Labor's current nationwide vacation rates).

Our survey of 25 establishments employing 215 or the majority of general and licensed maintenance workers in the Kingsville area disclosed that, as of December 1979, the prevailing fringe benefits were generally lower. Only 44 percent of the surveyed employers provided health and welfare benefits in the form of employer contributions to a hospitalization and/or life insurance program. (These employers, however, employed 82 percent of the surveyed workers.) The average employer contribution rate was $.16 an hour, or 24 percent less than that stipulated in Labor's determination. Only 60 percent of the surveyed employers provided paid holiday benefits. Among those that did, however, the average was 7 paid holidays, or the same as Labor required. Sixty-four percent of the employers surveyed provided 1 week or more of paid vacation after 1 year of service, but only 32 percent provided 2 weeks or more of paid vacation after 2 years' service. Because most of the firms we surveyed did not have readily available data on their fringe benefit costs, we could not quantify the cost impact of Labor's higher fringe benefit rates on the awarded contract.

--Wage determination 76-1261, Revision 3, was issued in December 1979 for hospital aseptic management (housekeeping) services to be performed at the U.S. Air Force Medical Facility at Andrews Air Force Base in Prince Georges County, Maryland. The determination incorporated the wage rates and fringe benefits s t forth in the incumbent contractor's collective bargaining agreement with Local 82 of the Service Employees International Union, AFL-CIO. The agreement provided for the following fringe benefits as of January 1, 1980: a health and welfare benefit rate of $.41 an hour, including a union pension fund contribution of $.12 an hour; 11 paid holidays, including Inauguration Day; 5 days' paid vacation after 1 year of service, 10 days' after 2 years, and 15 days' after 5 years; up to 3 days' paid bereavement leave; and up to 12 days' paid sick leave annually.

Our survey of fringe benefits provided 262 housekeeping workers--21 group leaders and 241 aides--at seven hospitals in Prince Georges County showed that the fringe benefits stipulated in Labor's determination did not prevail in the locality--the prevailing fringe benefits were generally lower. For example, for health and welfare benefits, the

average (mean) rates per hour were $.53 for group leaders, $.38 for aides, and $.39 overall for the surveyed housekeeping employees, as compared to the $.41 an hour in Labor's determination. Four of six hospitals having comparable data on paid vacation benefits provided more days of paid vacation to their housekeeping employees at each of the specified years-of-service levels.

None of the surveyed employees received more than 10 paid holidays annually--the average for 247 employees at six surveyed hospitals was less than 9-1/2 paid holidays. Employees at the seventh surveyed hospital did not receive separately paid holidays; rather, they had to charge such days off against their accumulated paid vacation or leave days.

If the locally prevailing fringe benefits had been applied, the Government's costs on this 3-year contract might have been about $15,320 less.

AGENCY OFFICIALS' AND CONTRACTORS' COMMENTS ON SCA WAGE DETERMINATIONS

Some of the agency officials we contacted commented that Labor's SCA wage determinations did not represent prevailing wages in the local area, but were higher and, therefore, inflationary. This was also one of the major complaints of contractors that we contacted.

While some officials based their claims of inflationary wage determinations on either general "feelings" or contractors' complaints, others provided specific examples to illustrate the higher than prevailing wage rates.

Characterizations of the degree to which SCA wage determinations were high ranged from "slightly higher" to "far above" the rates prevailing in the cited locality--one official said compliance with SCA causes the cost of some contracts to almost double due to the hourly rates required. Some officials cited percentages to illustrate their point, ranging from 10 to 70 percent higher. At the Kennedy Space Center in Florida, National Aeronautics and Space Administration (NASA) officials had performed a special wage survey and determined that SCA wage rates averaged 54 percent higher than prevailing wages in the local area. The agency projected this percentage to the value of its SCA-covered contracts and estimated the higher SCA wage rates were costing the Government up to $30 million a year.

In some cases the asserted inflationary wage determinations were attributed to such factors as (1) the "transporting of wages" from high-wage urban areas to lower-wage rural areas and (2) union

involvement in the rate establishment process through use of collective bargaining agreements. Two examples of inflationary wage determinations cited by agency officials and contractors follow.

--A service contractor, working on a contract for maintenenance of family housing at Patrick Air Force Base, said he did not believe the wage rates in Labor's wage determination were those prevailing in the locality. However, he said the rates were not questioned because he knew all other businesses must bid service contracts based on the same minimum wage rates. The contractor provided several examples of differences between Labor's issued wage rates and those believed prevailing in the locality. For example, he stated that all of his carpenters working on a Federal service contract had to be paid Labor's wage determination rate of $8.58 an hour, whereas his top carpenter on private sector work was paid $8.00 an hour and his other carpenters, about $6.00 or less an hour. He believed other contractors in the area were paying about the same wage rates. (Our wage survey in this locality found carpenters' wages as low as $5 an hour and averaging $6.88. See GAO wage survey no. 1 in app. X.)

--The Vice-President, General Services, of the Federal Reserve Bank in Richmond, Virginia, documented a situation in which a statewide, cross-industry wage rate was imposed by Labor even though it did not fit the local situation. In this case, the Federal Reserve Bank's Charleston, West Virginia, office had a guard service contract which was to be renewed. The incumbent contractor's renewal proposal included an hourly wage rate of $3.40 for guards, representing a 15-percent increase over the existing rate; however, Labor subsequently responded with a statewide rate of $5.33, about 57 percent above the proposed $3.40 rate. The bank extended the contract for 90 days, on the basis of the contractor's proposed renewal rate, and informally challenged Labor's rate. An informal telephone survey in the bank's locality showed that Labor's issued rate was too high, with local rates ranging from $3.50 to $4.25. Labor rejected the bank's informal challenge, stating, among other reasons, that, because the $5.33 rate was a statewide rate that had application to other Federal contracts in West Virginia, it would be difficult to justify an exception for the bank. The contractor, based on Labor's statewide wage rate, increased its original renewal proposal price by 53 percent. The total annual contract cost was thus increased by about $28,000, from $52,000 to $80,000.

DEVELOPING PREVAILING WAGE RATES AND FRINGE BENEFITS WOULD BE VERY COSTLY

On the basis of our review and our experiences in conducting wage and fringe benefit surveys in 25 localities, we believe it would be very costly for Labor to develop the data needed to accurately set prevailing wage rates and fringe benefits for each location where a Federal service contract is to be performed.

Labor's SCA workload statistics show that, in fiscal year 1981, Labor responded to 35,113 Federal agency requests (SF-98's) with specific wage determinations, of which 5,866 were newly issued or revised determinations. By the end of the fiscal year, Labor had on file about 10,700 active SCA wage determinations.

To assure that each wage determination Labor sends to a contracting agency reflects the currently prevailing wage rates and fringe benefits for the specific job classifications in the localities to which the determinations are applied, we believe that current wage surveys would have to be made. Moreover, to assure that collective bargaining agreement wage rates and fringe benefits, which Labor adopts in determinations under the section 4(c) successorship provision of SCA, do not vary substantially from those prevailing in the locality, 1/ special wage surveys would also be needed. In our view, the thousands of wage surveys that would be needed annually to support Labor's development and issuance of accurate prevailing wage rates and fringe benefits would be very costly.

As stated in chapter 3, as part of its regular data collection activities, BLS annually conducts area wage surveys on a cross-industry basis in 70 of the 323 standard metropolitan statistical areas throughout the United States. Labor uses these

---

1/The determinations Labor issues pursuant to section 4(c) of SCA reflect the wage rates and fringe benefits contained in the incumbent (predecessor) contractor's collective bargaining agreement, including any prospective increases in those wages and benefits, regardless of their relationship to the wages and benefits that may otherwise prevail in the locality. Labor believes it has no discretion under the act to do otherwise, as long as the collective bargaining agreement resulted from arm's-length negotiations and did in fact govern the wages and benefits furnished service employees on the predecessor contract. However, section 4(c) does provide a variance hearing process for challenging collective bargaining agreement rates believed to substantially vary from prevailing rates, but under Labor's regulations, a hearing must be formally requested by an affected or interested person. The process has been used infrequently.

surveys in its wage determination program. In addition, BLS annually conducts 115 cross-industry and 125 specific industry wage surveys more limited in scope in selected localities for Labor's use in making wage determinations under SCA. The estimated annual costs of these 310 surveys are about $4.3 million, or about $13,870 per survey--BLS' 70 area wage surveys cost about $2.6 million annually, or about $37,140 per survey, and its special SCA wage surveys cost about $1.7 million, or about $7,080 per survey.

If BLS' wage survey cost figures are representative, the costs of performing separate wage surveys to support each of the thousands of new or revised determinations Labor issues annually could reach into the hundreds of millions of dollars annually. According to one BLS official, the cost to collect data to support the prevailing wage rates and fringe benefits for all job classifications and localities for which Labor must issue determinations would exceed BLS' total budget of $103.7 million for fiscal year 1980. Many more BLS survey specialists would also be required to conduct the many wage surveys that would be involved. Moreover, Labor's Wage and Hour Division would need to substantially increase its staff of wage analysts/economists to analyze the many additional BLS wage survey reports and to develop and issue new or revised determinations.

Other factors might also affect the cost of accumulating data needed to develop accurate SCA wage rates and fringe benefits, such as a change in the Government's policy to encourage contracting out of more commercial-type functions now being performed by Federal employees. 1/ Such a policy change would, in our view, significantly increase the number of Federal service contracts awarded annually and the number of surveys needed to support SCA wage rate and fringe benefit determinations. Such additional surveys would necessarily entail additional costs to the Government. Also, as discussed in chapter 3, the BLS wage survey data Labor currently uses are inappropriate. The establishments and job classifications BLS surveys would have to be specifically tailored to more appropriately reflect the types of services to

---

1/In April 1982, the Office of Management and Budget (OMB) released for comment a proposed revision of Circular A-76, entitled "Policies and Procedures for Acquiring Commercial Products and Services Needed by the Government." Under the proposed revision, Federal agencies would be directed to convert all in-house commerical-type activities, involving fewer than 10 full-time-equivalent employees, to contract performance as soon as possible, but not later than September 30, 1983. Other commercial activities involving 10 or more employees could be converted to contract performance unless a cost comparison justified continued in-house performance. Agency heads or their deputies would be given authority to waive the cost-comparison requirement.

be contracted out by the Government and the types of contractors and employees that would perform those services. In addition, private sector employers may be reluctant to voluntarily participate in so many wage surveys each year.

CONCLUSIONS

The lack of adequate data prevents Labor from developing accurate wage rates and fringe benefits. Our wage surveys of 66 job classifications in 25 SCA wage determinations Labor applied to 42 service contracts showed that, for 14 of 19 contracts for which direct labor hour data were available, total contract costs may have been increased by $459,000 to $527,000 as a result of Labor's wage rate determinations being higher than those prevailing in the locality. Of the 66 individual job classifications surveyed, at least 44 had higher wage rates and at least 12 had lower rates than the median prevailing rates we identified in the surveyed localities. In many of the cases in which Labor had set lower-than-prevailing wage rates, the contractors paid those rates.

Our surveys also indicated that (1) most of the fringe benefit rates Labor issues are substantially higher or lower than those prevailing for the service worker classifications involved and (2) the contractors generally pay the rates Labor stipulates. Because Labor's issued rates are much more often substantially higher than those prevailing, the Government's contracting costs for needed services are often unnecessarily inflated.

Labor has proposed changes to its SCA regulations in an attempt to alleviate some of the "locality" problems that arise in issuing determinations when the place of contract performance is initially unknown. However, the pending regulations do not address any of the underlying problems involved in establishing accurate prevailing wage rates and fringe benefits. (See ch. 5 for a discussion of the impact of Labor's pending SCA regulations.)

In our opinion, the only way to consistently develop wage rates and fringe benefits that represent those prevailing in the locality where the service contract work is performed is to make current surveys. Such surveys would need to be made in the locality whenever a service contract is to be issued and current wage and fringe benefit data are not available for that locality. However, because of the large number of surveys that would have to be made and the amount of data involved in each, we believe it would be impractical and very costly for Labor to accumulate and analyze the data needed to develop accurate wage rates and fringe benefits.

CHAPTER 5

PROPOSED SCA REGULATIONS WOULD LIMIT LABOR'S APPLICATION OF THE ACT BUT LEAVE UNRESOLVED THE PROBLEMS IN DEVELOPING ACCURATE PREVAILING WAGE RATES AND FRINGE BENEFITS

As shown in chapters 2 through 4 of this report and in a prior GAO report, 1/ there are major problems in establishing wage rates and fringe benefits that accurately reflect those that prevail in the localities where service workers perform work under Federal service contracts. Labor's pending revisions to its SCA regulations would correct or alleviate some longstanding contract coverage problems and certain administrative problems but leave unresolved the underlying problems in developing accurate prevailing wage rates and fringe benefits.

The pending regulations would (1) remove from SCA coverage contracts for which the principal purpose is not to provide services and where services are not performed principally by service employees, (2) establish a two-step procedure for determining wage rates when the geographic place of service contract performance is initially unknown, (3) clarify whether SCA or the Walsh-Healey Public Contracts Act 2/ applies to specific contracts, and (4) exempt from SCA coverage certain contracts for the maintenance and

---

1/Report to the Chairman, House Committee on Government Operations, entitled "Service Contract Act Should Not Apply to Service Employees of ADP and High-Technology Companies" (HRD-80-102, Sept. 16, 1980).

2/The Walsh-Healey Public Contracts Act of 1936 (41 U.S.C. 35, et seq. (1976)) provides labor standards protection to employees of contractors manufacturing or furnishing materials, supplies, articles, and equipment to the Government. It applies to all Government contracts for supplies and equipment exceeding $10,000. The act requires that the employees be paid wages not lower than the minimum wages determined by the Secretary of Labor to be prevailing in the locality in which the materials, supplies, articles, or equipment are to be manufactured or furnished under the contract. However, Labor has not issued wage determinations under this act since 1964 because of a Federal court ruling (Wirtz v. Baldor Electric Co., 337 F. 2d 518 (D.C. Cir. 1964)), and in the absence of such determinations, the minimum wage specified in FLSA has applied.

repair of automatic data processing (ADP) and other high-technology commercial product-support services. The pending regulations would also limit application of SCA's "successorship" provision to situations in which the successor contractor performs the contract in the same locality as the predecessor contractor and alleviate other administrative problems. However, the pending regulations do not address and, accordingly, would not resolve or alleviate the problems involved in developing accurate prevailing wage rates and fringe benefits.

STATUS OF SCA REGULATIONS

The existing SCA regulations were issued in 1968 to provide guidance to contractors, contracting agencies, and the public in complying with the act's provisions and to provide rules on issuing wage determinations and enforcing the act.

The first major proposed revisions to the SCA regulations, which were published as a "final rule" in January 1981, principally would have updated the existing regulations to incorporate numerous Labor interpretative opinions and administrative rulings. However, implementation was deferred pending a review in accordance with Executive Order 12291 issued on February 17, 1981, on improved regulatory management. The executive order stated that (1) regulatory decisions should be based on adequate information, (2) actions should not be undertaken unless the potential benefits to society outweigh potential costs, and (3) agencies should determine the most cost-effective approach for achieving regulatory objectives, consistent with the statute's purpose.

In considering the January 1981 regulations in compliance with Executive Order 12291, Labor found that they had generated considerable controversy. In particular, the procuring agencies and segments of the public perceived that Labor was expanding SCA coverage to include contracts not previously covered, especially contracts for purchase and/or lease of ADP and high-technology equipment that provided for maintenance and repair of the equipment, research and development contracts, and timber sales contracts. Concerns were raised regarding the potential inflationary impact of these new coverage provisions on Government contracting costs.

As a result of its reconsideration of the January 1981 regulations, Labor concluded that exempting these as well as other types of contracts from SCA coverage was appropriate. Accordingly, on August 14, 1981, Labor published additional proposed regulations for SCA. In taking this action, Labor delayed the effective date of the January 1981 regulations until action is taken on the August 1981 proposed regulations.

MAJOR PROPOSED REVISIONS

The proposed regulations would revise Labor's interpretation of SCA's "principal purpose" provision 1/ in two important respects. First, SCA would not apply to a contract as a result of a bid specification being principally for services unless the principal purpose of the entire contract is for services. Thus, individual specifications principally for services as part of a larger contract which is principally for some other purpose would no longer be covered by SCA under the proposed regulations. Also, the proposed regulations clarify that, when the principal purpose of the contract is to furnish materials, supplies, articles, or equipment to the Government, the Walsh-Healey Public Contracts Act, rather than SCA, would apply.

Second, SCA would not apply to a contract unless the services are performed principally through the use of service employees. The test to be applied would be whether the service employees comprise a majority of the total projected employment or staff years on the contract. Also, SCA coverage would be removed from contracts primarily for supply or lease of equipment which contain service specifications for the maintenance and repair of such equipment, including many ADP and other high-technology supply contracts which contain such service specifications. In addition, SCA coverage would generally be excluded when service specifications for incidental purposes--such as custodial services in contracts for leased space or erosion control in contracts for timber sales--are included in Government contracts.

The August 14, 1981, proposed regulations would help resolve the problem of the proper locality for issuance of wage determinations where the place of performance is not identified before award of a contract. In such situations, Labor has generally issued composite wage determinations encompassing all of the locations in which potential bidders would be located. The composite area could have been a cluster of counties, a State, a region, or even the entire country. However, the use of such composite rates has been greatly restricted by the decision of the Court of Appeals for the Fourth Circuit in the Southern Packaging case. 2/ In this case the court held that a nationwide wage determination normally is

---

1/Section 2(a) of SCA provides, in effect, that the act applies to every contract (and any bid specifications therefore) in excess of $2,500 for which the principal purpose is to furnish services in the United States through the use of service employees.

2/See pages 13 and 14.

not permissible under SCA but that "there may be the rare and unforeseen service contract which might be performed at locations throughout the country and which would generate truly nationwide competition."

Recognizing the Court of Appeals' decision and the fact that composite rates have tended to raise costs on many Government contracts, Labor, through the pending regulation, is proposing a different procurement process when the place of contract performance is not known. First, the contracting agency would issue a bid solicitation with no wage determinations to identify contractors interested in submitting bids. The agency would then advise Labor of the potential bidders and their localities. Second, Labor would issue individual wage determinations for each of the various localities of the bidders. The contracting agency would select the successful bidder and incorporate in the contract the applicable wage rates and fringe benefits Labor provided.

Labor also included in the pending regulations a limitation on application of the successorship provision of SCA. Under this provision, Labor had required a successor contractor performing contract services at its own facility in a different locality from its predecessor contractor to pay the collectively bargained rates of the predecessor contractor. Under the pending regulations, for the successorship provision to apply, the successor contract must be performed in the same locality as the predecessor contract.

In addition to providing new proposals for revisions to the SCA regulations, the August 14, 1981, proposed regulations included certain changes that had been adopted in the now-deferred January 1981 SCA regulations. These changes included:

--Labor's requirement that, if the wage determination it issues to a Federal agency does not list some classes of employees to be used on the contract, the contractor must classify and set wage rates and fringe benefits for the unlisted positions in such a way as to provide a reasonable relationship with the classes listed (referred to as "conformance").

--The timeliness of Labor's rulings on protests that the wage rates or fringe benefits included in a predecessor contractor's collective bargaining agreement vary substantially from those which prevail for services of a character similar in the locality.

The proposed revisions in these areas would alleviate some of the administrative problems but would not resolve the basic concerns Federal agencies and contractors have about these requirements in SCA or Labor's regulations. (See chs. 3 and 4.) Moreover, the proposed revisions would not change Labor's basic methodology or

its data bases for making SCA wage rate and fringe benefit determinations. Therefore, Labor will continue to be unable to develop accurate prevailing wage rates and fringe benefits under SCA.

- - - -

Labor estimates that implementing the proposed regulations should result in substantially lower labor costs on Federal contracts with savings of about $240 million annually. In addition, Labor believes there will be important, but unquantified savings in administrative costs and in other areas, such as implementing the proposed two-step procedures for assuring that SCA determinations reflect the proper locality.

Labor is currently considering the numerous comments on the proposed revisions received from other Federal agencies, Government contractors, trade associations, labor organizations, and others.

CHAPTER 6

ADMINISTRATIVE PROCEDURES COULD PROVIDE A MEASURE OF PROTECTION FOR SERVICE CONTRACT EMPLOYEES

Administrative procedures implemented through the Federal procurement process could provide a measure of wage and fringe benefit protection for employees now covered under SCA. Such procedures already exist to protect the wages and benefits of professional employees not covered by SCA. Our reviews of agency applications of these procedures have found them to be effective in preventing "wage busting" 1/ on Federal service contracts employing professionals.

GOVERNMENT POLICY ON SERVICE EMPLOYEE COMPENSATION PRACTICES

On March 29, 1978, the Office of Federal Procurement Policy (OFPP) set forth the policy of the Federal Government 2/ that all service employees--including professional employees--employed by contractors providing services to the Government be fairly and properly compensated. OFPP directed that Federal procurement procedures be developed to assure equitable compensation for all such employees. It stated that the policy clearly recognizes that a predictable and essential link exists between personnel compensation and work performance. Therefore, evaluation of bids and proposals for service contract work must take into account the realism of the offeror's proposed personnel compensation plan to assure that the offeror properly understands the resources required to perform high-quality work on an uninterrupted basis.

Because SCA does not cover professional employees, OFPP attached to the policy letter the specific language that must be included in all bid solicitations whenever professional employees are expected to be needed to perform the services. It provides the evaluation factors and criteria to be used in assessing the total compensation package submitted by each bidder to assure that professional employees are properly and fairly compensated.

1/The practice of lowering employee wages and fringe benefits by incumbent or successor contractors (in an attempt to be low bidders or offerors on Government service contracts) when the employees continue to perform the same jobs.

2/Policy Letter No. 78-2 to the heads of executive departments and establishments, entitled "Preventing 'Wage Busting' for Professionals: Procedures for Evaluating Contractor Proposals for Service Contracts."

GAO REVIEWS OF SPECIAL PROCUREMENT PROCEDURES

Before the OFPP policy was issued, we reported 1/ on the effectiveness of the Air Force and NASA procurement procedures to stop wage busting of professional employees working on service contracts in the Cape Canaveral, Florida, area. Allegations of wage busting had been made by employees of service contractors as a result of recompetition for Federal contracts at Cape Canaveral.

During the period covered by that review--January 1 to October 1, 1977--three major service contracts were awarded at NASA's Kennedy Space Center and the Air Force's Patrick Air Force Base. For these contracts, special procurement procedures, used to prevent wage busting, encouraged contractors to

--propose a suitable compensation structure and realistic payment plan for professional employees,

--maintain a stable work force, and

--employ professionals from the local labor market area.

The procedures included criteria for the agencies to evaluate each offeror's total plan for employee compensation and to reject any offer they believed nonresponsive because of low wages proposed.

We reviewed the wages and fringe benefits of 881 of 1,034 employees not covered by SCA. We did not find any cases of wage busting on the three contracts. Contractor and agency officials and representatives of a labor organization and a professional employees organization in the Cape Canaveral area generally agreed that wage busting had not occurred on the three contracts.

The procedures used by NASA and the Air Force generally influenced contractors to submit proposals based on paying wages and fringe benefits comparable to those paid under the prior contracts. Some contractors told us they would have proposed lower wages and benefits had the requests for proposals not contained the procedures. The procedures did not deter firms from submitting proposals on the three contracts.

The special procurement procedures and NASA's and the Air Force's emphasis on wages and fringe benefits, both before and during proposal evaluation and contract negotiation, resulted

---

1/Report to the Chairman, Subcommittee on Federal Spending Practices and Open Government, Senate Committee on Governmental Affairs, entitled "Special Procurement Procedures Helped Prevent Wage Busting Under Federal Service Contracts in the Cape Canaveral Area" (HRD-78-49, Feb. 28, 1978).

in the three contracts being awarded to contractors that agreed to pay incumbent contractor employees not covered by the act the same salaries paid by the incumbent if they did the same jobs. We noted that NASA rejected the proposal of one offeror, which included a provision to pay low salaries, as technically unacceptable.

Because of the effectiveness of NASA's and the Air Force's special procurement procedures, we recommended that OFPP establish a Government-wide policy to discourage wage busting of professional employees not covered by the act and require Federal agencies to include appropriate implementing language in their procurement regulations and service contracts. OFPP agreed with our recommendation and on March 29, 1978, established a Government-wide policy to prevent wage busting on the recompetition of Federal service contracts.

About 2 years after OFPP established that Government-wide policy, we were asked to look into allegations of wage busting of professional employees under two NASA service contracts, one at its Scientific and Technical Information Facility near Baltimore-Washington International Airport in Maryland 1/ and the other at Marshall Space Flight Center in Huntsville, Alabama. 2/

NASA had implemented the OFPP policy and, as a result, the requests for proposal contained a provision requiring fair and equitable compensation for professional employees. The provision stated that it was in the Government's best interest that professional employees be properly and fairly compensated, and it required offerors to submit a total compensation plan--covering salaries and fringe benefits for professional employees. We found no evidence of wage busting.

We noted that, during NASA's evaluation of the contractors' proposals for one of the contracts, the fringe benefit costs were understated in two of the proposals, one of which was from the successful offeror. NASA increased the two estimates to provide for the minimum acceptable fringe benefits. For the other contract, NASA noted that one of the proposals did not provide

---

1/Report to the Chairman, Subcommittee on Labor-Management Relations, House Committee on Education and Labor, and Representative Gladys Noon Spellman entitled "Review of Contractors' Pension and Other Benefits for Employees Working at National Aeronautics and Space Administration's Scientific and Technical Information Facility" (HRD-81-49, Jan. 30, 1981).

2/Report to Senator Howell Heflin entitled "Review of Pension and Fringe Benefits for Contractors' Employees at the National Aeronautics and Space Administration's Marshall Space Flight Center" (HRD-81-142, Sept. 28, 1981).

equitable compensation for 8 of 21 of the predecessor contractor's professional employees it planned to hire if it became the successful offeror--which it did. Because the proposal included a statement that the salaries of incumbents it would employ would not be reduced, NASA adjusted the offeror's cost estimate upward to provide salaries for the eight professionals equivalent to those paid by the predecessor contractor. Thus, in these two contracts, NASA used OFPP procurement procedures to eliminate potential wage busting.

CONCLUSION

On the basis of our three reviews of special procurement procedures to prevent wage busting of professional employees under Federal service contracts, we believe that the procedures are an effective and efficient alternative to legislation in protecting the wages and fringe benefits of professional employees. We believe that similar procedures could be applied to provide a measure of wage and fringe benefit protection for employees now covered under SCA.

CHAPTER 7

CONCLUSIONS, RECOMMENDATIONS, AND AGENCY AND OTHER COMMENTS

CONCLUSIONS

The Congress enacted SCA in 1965 to extend labor standards protections to service workers on Federal service contracts and to assure that those workers on contracts over $2,500 receive the wages and fringe benefits prevailing in the locality where the work is performed, but in no event less than the Federal minimum wage. SCA, as amended, also is intended to protect from wage busting all contractor service employees, except bona fide executives, administrators, and professionals.

Labor has been unable to effectively and efficiently administer this labor standards law. We believe that the Congress should consider repealing SCA because:

--There are inherent problems in the act's administration.

--It is impractical to develop and issue accurate prevailing wage rates and fringe benefits for all covered employees on Federal service contracts with existing data sources.

--Wage rates and fringe benefits set under the act are generally inflationary to the Government and could be adding hundreds of millions of dollars to Federal service contract costs.

--It would be very costly to develop the data needed to accurately set wage rates and fringe benefits for each location where a Federal service contract is to be performed.

--FLSA and administrative procedures implemented through the Federal procurement process could provide a measure of wage and fringe benefit protection for employees now covered under SCA.

The proposed SCA regulations, which were published for comment in August 1981 and are still pending, would limit Labor's application of the act but would leave unresolved the major underlying problems in developing accurate prevailing wage rates and fringe benefits.

We believe Labor cannot administer SCA in an efficient manner that would ensure that accurate and equitable service wage determinations are made for the hundreds of thousands of service workers, in a myriad of job classifications, employed under the tens of

thousands of Federal service contracts awarded annually by the Government. To do so, in our opinion, would require an army of analysts and survey specialists performing special wage and fringe benefit surveys for each Federal service contract to be awarded. Such an effort would be impractical and very costly.

The most logical alternative, we believe, is to repeal SCA and allow competitive labor market forces to establish wages and fringe benefits for service contract employees. We recognize, however, the need to afford a minimum of protection for all workers employed on Government service contracts. We recognize also that repeal of SCA may eliminate FLSA minimum wage protection for those employees of Federal service contractors not otherwise subject to or covered by FLSA. 1/ We therefore believe FLSA minimum wage coverage should be continued for all employees working on Federal service contracts. We believe also that administrative procedures implemented through the Federal procurement process could provide a measure of wage and fringe benefit protection for employees now covered under SCA.

We recognize that there might be contractors that would try to gain advantage by paying unreasonably low wages to obtain Federal contracts. In the event of repeal of SCA, it would be important that, in the procurement process, Federal departments and agencies be sensitive to the policy of the Federal Government (see p. 53) that all service employees employed by contractors providing services to the Government be fairly and properly compensated. We believe that OFPP should monitor the impact of repeal on service contract employees. If OFPP determines that repeal of SCA has an adverse impact on the employees, it should develop administrative policies or legislative recommendations to deal with the problem.

RECOMMENDATIONS TO THE CONGRESS

We recommend that the Congress consider repealing the Service Contract Act of 1965 and amending section 6(e) of the Fair Labor Standards Act to ensure continued Federal minimum wage coverage for all employees of employers providing contract services to the United States or the District of Columbia. Suggested amendatory language for section 6(e) follows:

1/As we pointed out in chapter 1, one of the purposes in enacting SCA was to extend FLSA minimum wage coverage to all Federal service contracts.

"Sec. 6. (a) * * *."

* * * * *

"(e) Notwithstanding the provisions of section 13 of this Act (except subsections (a)(1) and (f) thereof), every employer providing any contract services under a contract entered into by the United States or the District of Columbia, or any subcontract thereunder, shall pay to each of his or her employees, wages at rates not less than the rates provided for in subsection (a)(1) of this section."

RECOMMENDATIONS TO THE ADMINISTRATOR FOR FEDERAL PROCUREMENT POLICY

If the Service Contract Act is repealed, we recommend that the Administrator--in keeping with the existing Government-wide policy--encourage Federal agencies to include provisions in their procurement regulations and service contracts, similar to those already required for professional employees, to discourage wage busting of all service employees on Federal service contracts. We recommend also that the Administrator monitor the impact of repeal on service contract employees. If he determines that repeal of SCA has an adverse impact on the employees, the Administrator should develop administrative policies or legislative recommendations to deal with the problem.

BUDGETARY IMPACT OF OUR RECOMMENDATIONS

Implementation of our recommendations would affect the budgets of all Federal agencies that contract for services. The specific amounts budgeted and obligated for such contract services Government-wide are unknown. Unaudited Federal Procurement Data System data show, however, that in fiscal year 1981, Federal agencies awarded 46,461 contracts--valued at more than $10,000 each and totaling about $5.7 billion--that were subject to SCA. Contract awards valued at $10,000 or less in fiscal year 1981 totaled about $11.1 billion and represented more than 17.6 million individual procurement actions, but information on the number and amount of such contracts subject to SCA is not available. However, a significant portion of these contracts probably were valued at more than $2,500 and were subject to SCA.

For 14 of 19 service contracts for which labor hour data were available, we found that total contract costs may have increased by about $459,000 to $527,000 (9.9 to 11.6 percent). Although we cannot statistically project our sample results, we believe the differences between our survey results and Labor's issued wage rates and fringe benefits are indicative of the inflated costs

resulting from Labor's SCA determinations. Thus, repealing SCA could reduce annual Government expenditures for contract services by hundreds of millions of dollars.

Implementation of the recommended administrative procedures, in our opinion, would result in additional administrative costs for the procuring agencies during the bid evaluation process. However, we believe such costs would be offset by other cost reductions and efficiencies in administration. For example, repealing SCA could substantially reduce the lead time required for awarding Federal service contracts by eliminating the preparation, submission, and processing of requests for wage determinations before solicitations of bids, requests for proposals, or commencement of contract negotiations. Further, Labor's costs of about $7 million annually to administer and enforce SCA would be eliminated.

AGENCY AND OTHER COMMENTS AND OUR EVALUATION

We provided copies of a draft of this report for review and comment to eight Federal agencies, the Presidential Task Force on Regulatory Relief, and 10 organizations outside of the Federal Government that are involved with SCA by representing either service employees, Federal contracting officials, or service contractors (see app. XIII). Responding comments (see apps. XIV to XXVII) represent a wide range of views from (1) a strong endorsement by the General Services Administration (GSA) of our recommendation on repeal of SCA, (2) appreciation from the National Council of Technical Service Industries for our diligence in revealing in detail the costly deficiencies inherent in SCA, to (3) a strong criticism by the AFL-CIO of our review scope and methodology.

Comments by Federal agencies and others on our draft report and our evaluation of them follow.

Office of Management and Budget

By letter dated September 17, 1982 (see app. XIV), OMB stated that this report is a careful analysis and detailed compilation of some of the problems associated with administering SCA. OMB stated, however, that our recommendation on repeal of SCA appeared premature because Labor is making changes in its regulations that would correct or alleviate many of the problems of coverage and administration of SCA. According to OMB, Labor estimates that these changes would produce Federal contract savings of about $240 million annually. OMB explained that it is required to review Labor's proposed changes, and as a part of the rulemaking process, it would be inappropriate for OMB to comment more specifically on our report at this time.

We agree with OMB that Labor's proposed SCA regulations--if implemented--would correct or alleviate many of the problems of contract coverage and administration. However, we do not agree that our recommendation on repeal of SCA is premature because, as stated in chapter 5 of this report, Labor's proposed SCA regulations would leave unresolved the underlying problems of developing accurate prevailing wage rates and fringe benefits.

Department of Labor

By letter dated August 20, 1982 (see app. XV), Labor stated that it did not find sufficient foundation in the draft report to conclude whether the public interest would best be served by repeal of SCA and therefore made no comment on our legislative recommendation. Labor did, however, raise questions concerning the adequacy of our sample and the geographic area it covered, the methods we used in conducting prevailing wage surveys, and the reasons the procuring agencies or contractors did not exercise their right under section 4(c) of SCA to request "substantial variance" hearings.

We disagree with Labor that this report does not provide sufficient data to conclude whether SCA should be repealed. We performed this review at 19 Federal agencies and the District of Columbia Government, contacted 172 Federal agency installations in 21 States and the District of Columbia, analyzed 150 of Labor's wage determinations, and performed independent surveys for 25 of the determinations. The time, cost, and staff resources needed to analyze wage determinations and perform independent wage surveys sufficient to statistically project the results would have been very high and, in our opinion, unnecessary. Care was taken to assure the validity of the randomness of our samples comprising the 150 determinations, and the 25 independent surveys we performed were selected from them. Moreover, all wage rate and fringe benefit determinations were and continue to be prepared and issued centrally by the same staff applying the same policies, procedures, and practices.

We realize that we cannot statistically project our sample results to Labor's universe of issued determinations because of the limited numbers of wage determinations in our samples and the sampling methodologies used. However, we believe that our sample results--which showed that Labor usually issued determinations with wage rates and fringe benefits higher than those we found prevailing in localities where the service contract work was performed--are indicative of Labor's problems in making accurate wage determinations.

Labor noted that, while SCA determinations are issued for locations throughout the country, our sample was concentrated in "Sun Belt" States. Our primary objective in selecting geographic

areas to be covered by our review was to include those areas with the greatest concentration of service contracts. Accordingly, because the Department of Defense (DOD) and NASA account for a major portion of Federal service contracts issued, we selected the geographic areas where installations of both DOD and NASA were most concentrated.

Labor questioned whether the comparison of its wage determination rates and the survey rates we developed was valid because we did not consider the wages that would have been paid to service workers if they had been "direct hire" Federal employees. As discussed in chapter 3 and appendix IX of this report, Labor used various methods--without consistency--to give consideration to Federal wage rates which produced significantly different wage determinations. We were not able to determine whether any individual method Labor used was appropriate for consistent use. Also, we had no reasonable basis for establishing our own method.

In addition, as we pointed out in chapter 1, we believe it was appropriate to exclude Federal wage rates from our analysis because the sizes and types of establishments surveyed to develop wage rates for direct-hire Federal wage board or blue-collar employees were not representative of Federal service contractors. Surveys used in establishing such Federal wage rates excluded establishments employing fewer than 50 workers. Most SCA contracts involve service activities using fewer than 10 employees. Also, much of the wage survey data used to establish such Federal wage rates came from establishments in the manufacturing, transportation, communications, and wholesale trades industries. These industries were not representative of service industry contractors providing most Government services.

Labor further questioned the validity of our wage rate comparison because it said that at least 8 of the 25 wage determinations we sampled were issued in accordance with section 4(c) of SCA. As previously discussed in this report, this section of the act mandates, in general, that successor contractors pay no less than the wage rates and fringe benefits contained in a predecessor contractor's collective bargaining agreement, unless such rates or benefits are found, after a hearing, to be "substantially at variance" with those prevailing in the locality. Labor stated that under SCA, it can modify the rates to be paid by a successor contractor only if there is a hearing and questioned why the contracting agencies or contractors who appeared to have taken exception to the rates in these determinations did not pursue their prerogatives to request "substantial variance" hearings as provided in SCA and the regulations.

We recognize that many of Labor's wage determinations reflect collectively bargained rates of precedecessor contractors and are issued in accordance with section 4(c) of SCA. We also recognize

that SCA provides for relief from use of such rates when, after a hearing, they are found to be "substantially at variance" with rates prevailing for similar services in the same area. Although our review showed that many of Labor's wage determinations were substantially at variance with rates we found to prevail in the localities, the variance hearing process was not used in any of the 150 sampled wage rate and fringe benefit determinations we reviewed.

A number of Federal agency officials told us that the variance hearing process under SCA is time-consuming, costly, and ineffective. As a result, we were told, many agency officials do not bother to use the process even when they are convinced the wage determination Labor issued is inflationary and varies substantially from wages prevailing in the area. According to a February 2, 1979, Labor statement, only 36 variance hearing requests had ever been received, and only 20 of those requests had been referred to an administrative law judge for hearing. Following is an example of what can happen when the variance hearing process is used.

In 1977, an incumbent contractor at NASA's Dryden Flight Research Center, Edwards Air Force Base, California, negotiated a 3-year collective bargaining agreement providing wage rates which NASA found to be from 18 to 122 percent above comparable wages in the locality as determined from a BLS area wage survey. On February 6, 1978, NASA sought relief through Labor's variance hearing process. After 23 months, countless staff-hours, and about $175,000 in administrative and legal costs, NASA finally won the case. Labor, however, in effect, set aside the administrative law judge's decision by issuing a revised wage determination which restored wage and benefit levels close to those originally protested.

- - - -

We continue to believe that it would be impractical and very costly for Labor to administer SCA in a manner that would ensure accurate and equitable service wage determinations. Accordingly, we believe the most logical alternative is to repeal the Service Contract Act.

Department of Defense

By letter dated September 8, 1982 (see app. XVI), DOD, in commenting on our draft report, generally agreed with the findings in our report and stated that for some time it has supported revision of the implementing regulations issued by Labor. DOD stated that--as noted in our report--Labor is proposing revised regulations, but although these would improve application of SCA, major underlying problems would remain unresolved.

DOD further stated that, while it favors the thrust of our recommendation, it defers to OMB for the administration's position on outright repeal.

National Aeronautics and Space Administration

By letter dated August 17, 1982 (see app. XVII), NASA stated that its experience with SCA is generally in accord with our analysis of Labor's methodology in making wage determinations and its limited data base. NASA agreed that Labor's lack of resources has not allowed accomplishment of the original intent of the Congress.

NASA generally concurred with the findings of our draft report but had concerns regarding our suggested administrative policies that would substitute the SCA protection of wages and fringe benefits for all service employees. However, NASA said it would not oppose repeal of SCA provided that a phase-in plan was established which would provide reasonable protection for the service employees and have some assurance the agencies would not require their contractors to pay excessive labor rates and fringe benefits. NASA believes that any sudden repeal of SCA without an interim phase-in plan could cause serious labor problems among contractors which would be disruptive to the agency's major programs.

NASA, therefore, suggested that repeal of SCA should be stayed until a study group could complete an in-depth study of various alternatives and make formal recommendations. NASA also suggested that the alternatives to be studied could include:

--Continue SCA and reduce the scope of coverage and increase Labor's resources.

--Repeal section 4(c) of SCA and continue SCA with reduced scope of coverage.

--Repeal SCA and legislate new statutes that would provide wage protection to service employees by establishing minimum rates paid in the various industries on a State or regional basis.

--Any alternatives should be applicable only to service contracts in excess of $500,000.

--Any other alternatives or recommendations that would provide reasonable protection to service employees as well as the Federal Government.

NASA's suggestion for an in-depth study of alternatives to SCA has merit in that some elements of the alternatives encompass reducing the scope of coverage and limiting the dollar amount of contracts covered. However, none of the alternatives addresses what would be the continuing underlying problem of developing accurate prevailing wage rates and fringe benefits. In the absence of a means of economically and effectively establishing accurate

prevailing wage rates and fringe benefits, we continue to believe that the most logical alternative is to repeal SCA and allow competitive labor market forces to prevail with FLSA, and the administrative procedures we are recommending, providing a measure of wage protection to employees.

General Services Administration

By letter dated August 20, 1982 (see app. XVIII), GSA agreed with the draft report's major conclusions that (1) inherent problems exist in the administration of SCA which cannot be fully resolved through improvements in implementing regulations, (2) accurate wage rates and fringe benefits for incorporation in Federal contracts are difficult to obtain and are generally inflationary to the Government, and (3) alternative means are available to provide adequate wage and benefit protection for service employees which are preferable to the existing statutory mechanism. GSA strongly endorsed the draft report's primary recommendation on repeal of SCA.

Department of Energy

By letter dated August 19, 1982 (see app. XIX), the Department said that it neither questions nor challenges the findings in our report. The Department also stated, however, that SCA and its administration had not caused it any major difficulties.

Veterans Administration

By letter dated August 16, 1982 (see app. XX), the Veterans Administration (VA) stated that our recommended special procurement procedures would create an enormous administrative burden for contracting agencies and cause them to incur significant costs. Rather than repeal SCA, VA stated it would be more appropriate to adjust the dollar threshold at which SCA's wage determination provisions become effective. VA suggested a purchase threshold of $25,000 instead of the current $2,500. With this method, VA stated, the number of contract actions for which Labor must set wage rates and fringe benefits would be substantially reduced, enabling Labor to administer SCA more efficiently and effectively. In addition, VA stated that the data used to set wage rates and fringe benefits should be limited to service trades and crafts and should not include white-collar wage and fringe benefit data.

VA's suggestions for changes in administration, like NASA's suggestions, have merit in that they would result in a substantial reduction in the number of contracts requiring wage and fringe benefit determinations. However, VA's suggestions for change, like NASA's, would also not address the continuing underlying problem of developing accurate prevailing wage rates and fringe benefits for contracts in excess of the threshold.

We agree with VA that implementation of the recommended administrative procedures could result in additional administrative costs for the procuring agencies during the bid evaluation process. However, as explained under the "Budgetary Impact of Our Recommendations" section of this chapter (see p. 59), we believe such costs would be offset by other cost reductions and efficiencies in administration.

Postal Service

By letter dated August 11, 1982 (see app. XXI), the Postmaster General stated that, although the Postal Service's experiences with SCA are not specifically discussed in the report, they conform with our overall findings and the Postal Service would benefit if SCA is repealed.

American Federation of Labor and Congress of Industrial Organizations

By letter dated August 19, 1982 (see app. XXII), the President of AFL-CIO disagreed with our report and raised questions, similar to those raised by the Department of Labor, on our review scope and research methodology.

AFL-CIO pointed out that our sample was drawn from a universe of 3,533 wage determinations representing determinations from so-called "Sun Belt" States. It was noted that there were about 9,000 wage determinations covering the entire country in effect at the time of our study.

As discussed in our response to the Department of Labor's comments on a draft of this report, we believe the results of our samples are generally representative of the management and implementation of SCA wage determinations. With respect to our selection of wage determinations from so-called "Sun Belt" States, we selected the geographic areas where DOD and NASA installations are concentrated because they were believed to account for a major portion of Federal service contracts issued. This method was used because, at the time our study began, statistical data on the numbers of Federal service contracts awarded in each State by each Federal agency were not available.

Data are now accumulated by OFPP's Federal Procurement Data Center operated by GSA which do provide a breakdown, by agency and by State, of procurement actions over $10,000 subject to SCA. The following table shows the 46,491 such procurement actions in fiscal year 1981 broken down by the 19 States and the District of Columbia covered by our sample and the remaining States not covered. The statistics confirm that the geographic areas covered by the wage determinations in our review include the major portion of both the number and dollar amount of SCA procurement actions.

	Procurement actions subject to SCA			
	Number	Percent	Amount	Percent
			(000 omitted)	
19 States and District of Columbia covered by our review	28,202	60.7	$3,982,120	69.7
31 States not covered by our review	18,289	39.3	1,730,558	30.3
	46,491	100.0	$5,712,678	100.0

AFL-CIO also questioned the appropriateness of including two enclave determinations in the three independent wage surveys we performed in Florida. It indicated that these represented 66-2/3 percent of our sample for Florida and were a statistical imbalance because SCA enclave determinations represent only 23 percent of the SCA determinations in Florida. AFL-CIO noted that Labor's use of the enclave concept has been a source of continual complaints by the NASA and DOD procurement community notwithstanding that the concept is used in relatively few situations and those are mostly in Florida.

We agree with AFL-CIO that Labor's enclave determinations are used at relatively few geographical locations involving major NASA and DOD installations, but do not agree that including two SCA enclave determinations in our independent surveys of 25 wage determinations was inappropriate. As AFL-CIO noted, enclave determinations are a source of continual concern to the procurement community, and because of this, we believe special analysis is warranted. However, the question of a statistical imbalance in our 25 independent surveys, by including two enclave determinations, is moot because our initial classification of Labor's wage determination No. 76-945, Revision 3, dated April 6, 1979 (see GAO wage survey no. 2, app. X), as an enclave determination in our draft report was in error. Our further analysis of Labor's determination showed that, in making the determination, Labor used BLS wage survey data covering a locality outside the Federal enclave. Thus, only 1 of our 25 independent wage surveys involved a Labor SCA enclave determination.

The Institute of Electrical and Electronics Engineers, Inc.

By letter dated August 20, 1982 (see app. XXIII), the Institute stated that experience indicates regulations can be used to alleviate wage busting problems only if there is a supportive administrator and that "fringe benefit busting" continues to be a

problem with or without regulations. The Institute therefore does not support repeal of SCA. In addition, the Institute observed that our calculations were, on the average, within 10 percent of Labor's and, realistically, that is probably good enough.

Concerning the Institute's observation that wage busting problems would be alleviated only if administrators are supportive, we have no reason to believe that agency officials responsible for procurement matters would not support preventive wage busting procedures. In fact, as discussed in chapter 6, our three reviews of alleged wage busting of employees has shown that the administrative procedures were adhered to by agency officials.

The Institute's statement--that in at least two previous GAO reports 1/ fringe benefit busting was documented--is misleading in that it refers to a pension benefit issue outside the sphere of SCA.

In the two reports, we stated:

--There is no overall Government policy regarding whether, or to what extent, Federal agencies should attempt to protect the pension benefits of contractors' employees working at Government installations.

--Contractor employees at Federal installations have lost, and will probably continue to lose, pension benefits because their employers change even though their jobs do not.

--Contracts are often for less time than is needed for employees to obtain a nonforfeitable right to pension benefits, and new contractors do not usually give credit for service with prior contractors.

We recommended that, if the Congress determines that the pension benefits of contractor employees who work for long periods of time at Federal installations should be protected, it direct the Administrator for Federal Procurement Policy to establish a Government-wide policy and implementing regulations to help ensure such protection.

1/Report to the Congress entitled "Pension Losses of Contractor Employees at Federal Installations Can Be Reduced" (HRD-81-102, Sept. 3, 1981).

Report to Senator Howell Heflin entitled "Review of Pension and Fringe Benefits for Contractors' Employees at the National Aeronautics and Space Administration's Marshall Space Flight Center (HRD-81-142, Sept. 28, 1981).

We do not agree with the Institute that a 10-percent variance in Labor's wage determinations from the wages that prevail in a locality is reasonable. As illustrated from our 25 wage surveys, such a variance results in substantial increased costs to the Government. Moreover, our wage surveys of 66 job classifications showed that Labor's issued wage rates, in some instances, were as much as 103.8 percent higher than those we found to more nearly prevail in the localities surveyed. Such extreme differences can significantly distort and adversely influence the wage structure for service workers in a locality.

Chamber of Commerce of the United States

By letter dated September 17, 1982 (see app. XXIV), the Chamber of Commerce wholeheartedly agreed that SCA should be repealed. It stated that SCA (1) is contrary to the public interest, (2) is injurious to America's international competitive position, (3) is discriminatory against small business, (4) is inconsistent with a non-inflationary economic policy, (5) unduly increases the cost of service contracts, (6) arbitrarily inflates wages, and (7) creates added burdens on contractors doing business with the Government. It noted that our report is well researched and provides a solid base of information for an obscured, yet important law.

National Council of
Technical Service Industries

By letter dated August 26, 1982 (see app. XXV), the Executive Director of the National Council of Technical Service Industries stated that our study was welcome because it focused on the highly inflationary aspects of SCA, which is a defect that the Council believes cannot be remedied by patching up SCA or expanding the bureaucracy.

The Executive Director also stated that the general inflationary impact of SCA has been magnified by the administrative practices which allowed wage rates in one locality to be imposed upon other localities. He explained that the Council has supported Labor's proposed regulations which it believed took great steps toward a remedy--wage determinations should apply in one and only one locality. However, he stated that, since this is a costly process, the Council also concludes that it would be a more efficient use of Federal resources to make adjustments in the procurement process which will assure decent wages for employees of the Council's members without the vast bureaucratic overlay required by SCA.

Coalition for Common Sense in Government Procurement

By letter dated August 26, 1982 (see app. XXVI), the Coalition for Common Sense in Government Procurement stated that the Coalition concurs that SCA should be repealed based on our findings.

The Coalition also stated that an additional reason for repeal was Labor's attempts in past years to extend SCA far beyond the intent of the Congress. It cited, as an example, Labor's attempt to extend SCA coverage to ADP and high-technology companies and our September 1980 report 1/ on the attempt. It stated that, while much of the problem would be alleviated by Labor's proposed regulations, the problem of overapplication of SCA will undoubtedly recur in the future.

Computer and Business Equipment Manufacturers Association, Scientific Apparatus Makers Association, and American Electronics Association

By letter dated August 18, 1982 (see app. XXVII), the Manager of the Computer and Business Equipment Manufacturers Association provided joint comments on the draft report on behalf of his Association, the Scientific Apparatus Makers Association, and the American Electronics Association. The Associations agreed with certain sections of the draft report but had some reservations about our overall recommendation on repeal of SCA. According to the Associations, the Congress never intended SCA to cover the types of product support services offered by the Associations' industry. The Associations further stated that there is a need for protection for unskilled and semiskilled nonmobile workers against the practice of "wage-busting" in those industries which have a history of such practices.

We agree that there is a need to protect workers against wage busting. However, as discussed in chapter 6 of this report, we do not believe that SCA is needed to provide such protection.

Committee on Contracting Out

The Committee on Contracting Out declined to comment on our draft report. The Chairman of its Steering Committee explained that the Committee on Contracting Out is a loose coalition of industry associations. The associations have member companies which support them financially but in no way does this convey authority

---

1/See footnote 1 on page 48.

to speak for any member company unless specifically so instructed or through authorized channels such as special committees.

Although not commenting on the draft report on its own behalf, the Committee on Contracting Out made the draft report available to its subscribing associations and encouraged them to respond directly to us on the report. One of the subscribing associations in turn made the cover summary and digest of the draft report available to its member companies. As a result, we received comments from six of the subscribing associations 1/ and five of the member companies, each of which supported our recommendation on repeal of SCA. The comments from the following associations and companies are available for inspection at GAO's Human Resources Division in Washington, D.C.

1. Aerospace Industries Association of America, Inc.
2. American Consulting Engineers Council
3. Electronic Industries Association
4. National Audio-Visual Association, Inc.
5. National Small Business Association
6. Private Sector Fire Association
7. CDI Corporation
8. Hewlett Packard Company
9. Martin Marietta Aerospace
10. McDonnell Douglas Corporation
11. United Technologies Corporation

1/In addition, we asked one of the Committee's subscribing associations--National Council of Technical Service Industries--to comment on the draft report. Its comments are included as app. XXV and are discussed on page 69. Another subscribing association--American Electronics Association--joined the Computer and Business Equipment Manufacturers Association and the Scientific Apparatus Makers Association in commenting on our draft report (see p. 70 and app. XXVII).

PRIOR GAO REPORTS DEALING WITH OR INCLUDING SERVICE CONTRACT ACT ISSUES

1. Report to the Assistant Secretary for Administration and Management, Department of Labor, on "Procedures Used to Prescribe Minimum Wage Rates and Fringe Benefits for Drivers on Star Route Mail Hauling Contracts Awarded by the U.S. Postal Service" (Sept. 29, 1972).

2. Report to the Secretary of Labor entitled "Propriety of Minimum Wage Determinations for Clerical and Other Office Employees Under the Service Contract Act" (B-151261, Nov. 30, 1973).

3. Report to Representative Patricia Schroeder entitled "Use, Administration, and Enforcement of Davis-Bacon Act and Service Contract Act Labor Standards Provisions by Selected Federal Agencies in Colorado for Carpetlaying Contracts" (MWD-76-44, Nov. 24, 1975).

4. Report to the Chairman, Nonappropriated Fund Panel, Subcommittee on Investigations, House Committee on Armed Services, entitled "Contracting for Military Exchange Concessions" (FPCD-77-79, Nov. 30, 1977), pp. 7 and 8.

5. Report to the Chairman, Subcommittee on Labor-Management Relations, House Committee on Education and Labor, entitled "Review of Compliance With Labor Standards for Service Contracts by Defense and Labor Departments" (HRD-77-136, Jan. 19, 1978).

6. Report to the Chairman, Subcommittee on Federal Spending Practices and Open Government, Senate Committee on Governmental Affairs, entitled "Special Procurement Procedures Helped Prevent Wage Busting Under Federal Service Contracts in the Cape Canaveral Area" (HRD-78-49, Feb. 28, 1978).

7. Report to the Congress entitled "Development of a National Make-or-Buy Strategy--Progress and Problems" (PSAD-78-118, Sept. 25, 1978), pp. 53-57.

8. Report to the Congress entitled "The Davis-Bacon Act Should Be Repealed" (HRD-79-18, Apr. 27, 1979), pp. 27-28.

9. Report to the Congress entitled "GSA's Personal Property Repair and Rehabilitation Program: A Potential for Fraud?" (PSAD-80-5, Nov. 14, 1979), pp. ii and 12-19.

10. Report to the Chairman, Subcommittee on Resource Protection, Senate Committee on Environment and Public Works, and the Chairman, Subcommittee on Natural Resources and Environment, House Committee on Science and Technology, entitled "Is Adequate Support Provided for Environmental Protection Agency In-House Research?" (CED-80-50, Feb. 4, 1980), pp. 5-6.

11. Report to the Chairman, House Committee on Government Operations, entitled "Service Contract Act Should Not Apply to Service Employees of ADP and High-Technology Companies" (HRD-80-102, Sept. 16, 1980).

12. Report to the Administrator, Office of Federal Procurement Policy, Office of Management and Budget, entitled "Should Small Purchases Be Exempt from Complying with Social and Economic Program Requirements?" (PSAD-80-77, Sept. 26, 1980).

13. Report to the Chairman, Subcommittee on Human Resources, House Committee on Post Office and Civil Service, and Representative Benjamin A. Gilman entitled "Contracting Out of Selected In-House Commercial and Industrial-Type Activities at the U.S. Military Academy, West Point, New York" (PSAD-81-4, Dec. 4, 1980).

14. Report to the Chairman, Subcommittee on Labor-Management Relations, House Committee on Education and Labor, and Representative Gladys Noon Spellman entitled "Review of Contractors' Pension and Other Benefits for Employees Working at National Aeronautics and Space Administration's Scientific and Technical Information Facility" (HRD-81-49, Jan. 30, 1981).

15. Report to Representatives Henry S. Reuss and Stewart B. McKinney entitled "Federal Reserve Security Over Currency Transportation Is Adequate" (GGD-81-27, Feb. 23, 1981).

16. Report to the Chairman, House Committee on Government Operations, entitled "Service Contract Act Should Not Apply to Service Employees of ADP and High-Technology Companies--A Supplement" (HRD-80-102(A), Mar. 25, 1981).

17. Report to the Chairmen, Senate and House Committees on Armed Services, entitled "Factors Influencing DOD Decisions to Convert Activities from In-House to Contractor Performance" (PLRD-81-19, Apr. 22, 1981), pp. iii, 21, 22, and 25-27.

18. Report to the Congress entitled "GSA's Cleaning Costs Are Needlessly Higher Than in the Private Sector" (AFMD-81-78, Aug. 24, 1981), p. 6.

19. Report to the Chairman, Subcommittee on Defense, House Committee on Appropriations, entitled "Review of DOD Contracts Awarded Under OMB Circular A-76" (PLRD-81-58, Aug. 26, 1981), pp. 2, 15, 18, 20, 21, 23, 27, and 30.

20. Report to the Congress entitled "Pension Losses of Contractor Employees at Federal Installations Can Be Reduced" (HRD-81-102, Sept. 3, 1981).

21. Report to Senator Howell Heflin entitled "Review of Pension and Fringe Benefits for Contractors' Employees at the National Aeronautics and Space Administration's Marshall Space Flight Center" (HRD-81-142, Sept. 28, 1981).

22. Report to Representative Paul Simon entitled "Flaws in Contractor Support for the Department of Labor's Black Lung Program" (PLRD-82-43, Apr. 2, 1982), pp. 6 and 7.

23. Report to the Chairman, Subcommittee on Labor-Management Relations, House Committee on Education and Labor, entitled "Assessment of Federal Agency Compliance with the Service Contract Act" (GAO/HRD-82-59, July 21, 1982).

APPENDIX II

SERVICE CONTRACT ACT OF 1965, AS AMENDED [1]

(41 U.S.C. 351, *et seq.*)

(Revised text [1] showing in italics new or amended language provided by Public Law 92-473, as enacted October 9, 1972, and in bold face new or amended language provided by Public Law 94-489, as enacted October 13, 1976.)

AN ACT To provide labor standards for certain persons employed by Federal contractors to furnish services to Federal agencies, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Service Contract Act of 1965".

SEC. 2. (a) Every contract (and any bid specification therefor) entered into by the United States or the District of Columbia in excess of $2,500, except as provided in section 7 of this Act, whether negotiated or advertised, the principal purpose of which is to furnish services in the United States through the use of service employees shall contain the following:

(1) A provision specifying the minimum monetary wages to be paid the various classes of service employees in the performance of the contract or any subcontract thereunder, as determined by the Secretary, or his authorized representative, in accordance with prevailing rates for such employees in the locality, *or, where a collective bargaining agreement covers any such service employees, in accordance with the rates for such employees provided for in such agreement, including prospective wage increases provided for in such agreement as a result of arm's-length negotiations. In no case shall such wages be lower than the minimum specified in subsection (b).*

(2) A provision specifying the fringe benefits to be furnished the various classes of service employees, engaged in the performance of the contract or any subcontract thereunder, as determined by the Secretary or his authorized representative to be prevailing for such employees in the locality, *or, where a collective-bargaining agreement covers any such service employees, to be provided for in such agreement, including prospective fringe benefit increases provided for in such agreement, as a result of arm's-length negotiations.* Such fringe benefits shall include medical or hospital care, pensions on retirement or death, compensation for injuries or illness resulting from occupational activity, or insurance to provide any of the foregoing, unemployment benefits, life insurance, disability and sickness insurance, accident insurance, vacation and holiday pay, costs of apprenticeship or other similar programs and other bona fide fringe benefits not otherwise required by Federal, State, or local law to be provided by the contractor or subcontractor. The obligation under this subparagraph may be discharged by furnishing any equivalent combinations of fringe benefits or by making equivalent or differential payments in cash under rules and regulations established by the Secretary.

(3) A provision that no part of the services covered by this Act will be performed in buildings or surroundings or under working conditions, provided by or under the control or supervision of the contractor or any subcontractor, which are unsanitary or hazardous or dangerous to the health or safety of service employees engaged to furnish the services.

(4) A provision that on the date a service employee commences work on a contract to which this Act applies, the contractor or subcontractor will deliver to the employee a notice of the compensation required under paragraphs (1) and (2) of this subsection, on a form prepared by the Federal agency,

[1] Public Law 89-286, 79 Stat. 1034, as amended by Public Law 92-473, 86 Stat. 789; by Public Law 93-67, 87 Stat. 140; and by Public Law 94-489, 90 Stat. 2358.

SOURCE:
U.S. DEPARTMENT OF LABOR
Employment Standards Administration
Wage and Hour Division

APPENDIX II

or will post a notice of the required compensation in a prominent place at the worksite.

(5) A statement of the rates that would be paid by the Federal agency to the various classes of service employees if section 5341 **or section 5332** *of title 5, United States Code, were applicable to them. The Secretary shall give due consideration to such rates in making the wage and fringe benefit determinations specified in this section.*

(b)(1) No contractor who enters into any contract with the Federal Government the principal purpose of which is to furnish services through the use of service employees and no subcontractor thereunder shall pay any of his employees engaged in performing work on such contracts less than the minimum wage specified under section 6(a)(1) of the Fair Labor Standards Act of 1938, as amended (52 Stat. 1060; 29 U.S.C. 201, et seq.).

(2) The provisions of sections 3, 4, and 5 of this Act shall be applicable to violations of this subsection.

SEC. 3. (a) Any violation of any of the contract stipulations required by section 2(a) (1) or (2) or of section 2(b) of this Act shall render the party responsible therefor liable for a sum equal to the amount of any deductions, rebates, refunds, or underpayment of compensation due to any employee engaged in the performance of such contract. So much of the accrued payment due on the contract or any other contract between the same contractor and the Federal Government may be withheld as is necessary to pay such employees. Such withheld sums shall be held in a deposit fund. On order of the Secretary, any compensation which the head of the Federal agency or the Secretary has found to be due pursuant to this Act shall be paid directly to the underpaid employees from any accrued payments withheld under this Act.

(b) In accordance with regulations prescribed pursuant to section 4 of this Act, the Federal agency head or the Secretary is hereby authorized to carry out the provisions of this section.

(c) In addition, when a violation is found of any contract stipulation, the contract is subject upon written notice to cancellation by the contracting agency. Whereupon, the United States may enter into other contracts or arrangements for the completion of the original contract, charging any additional cost to the original contractor.

SEC. 4. (a) Sections 4 and 5 of the Act of June 30, 1936 (49 Stat. 2036), as amended, shall govern the Secretary's authority to enforce this Act, make rules, regulations, issue orders, hold hearings, and make decisions based upon findings of fact, and take other appropriate action hereunder.

(b) The Secretary may provide such reasonable limitations and may make such rules and regulations allowing reasonable variations, tolerances, and exemptions to and from any or all provisions of this Act *(other than section 10), but only in special circumstances where he determines that such limitation, variation, tolerance, or exemption is necessary and proper in the public interest or to avoid the serious impairment of government business, and is in accord with the remedial purpose of this Act to protect prevailing labor standards.*

(c) No contractor or subcontractor under a contract, which succeeds a contract subject to this Act and under which substantially the same services are furnished, shall pay any service employee under such contract less than the wages and fringe benefits, including accrued wages and fringe benefits, and any prospective increases in wages and fringe benefits provided for in a collective-bargaining agreement as a result of arm's-length negotiations, to which such service employees would have been entitled if they were employed under the predecessor contract: Provided, *That in any of the foregoing circumstances such obligations shall not apply if the Secretary finds after a hearing in accordance with regulations adopted by the Secretary that such wages and fringe benefits are substantially at variance with those which prevail for services of a character similar in the locality.*

(d) Subject to limitations in annual appropriation Acts but notwithstanding any other provision of law, contracts to which this Act applies may, if authorized by the Secretary,

APPENDIX II

be for any term of years not exceeding five, if each such contract provides for the periodic adjustment of wages and fringe benefits pursuant to future determinations, issued in the manner prescribed in section 2 of this Act no less often than once every two years during the term of the contract, covering the various classes of service employees.

SEC. 5. (a) The Comptroller General is directed to distribute a list to all agencies of the Government giving the names of persons or firms that the Federal agencies or the Secretary have found to have violated this Act. Unless the Secretary otherwise recommends *because of unusual circumstances,* no contract of the United States shall be awarded to the persons or firms appearing on this list or to any firm, corporation, partnership, or association in which such persons or firms have a substantial interest until three years have elapsed from the date of publication of the list containing the name of such persons or firms. *Where the Secretary does not otherwise recommend because of unusual circumstances, he shall, not later than ninety days after a hearing examiner has made a finding of a violation of this Act, forward to the Comptroller General the name of the individual or firm found to have violated the provisions of this Act.*

(b) If the accrued payments withheld under the terms of the contract are insufficient to reimburse all service employees with respect to whom there has been a failure to pay the compensation required pursuant to this Act, the United States may bring action against the contractor, subcontractor, or any sureties in any court of competent jurisdiction to recover the remaining amount of underpayments. Any sums thus recovered by the United States shall be held in the deposit fund and shall be paid, on order of the Secretary, directly to the underpaid employee or employees. Any sum not paid to an employee because of inability to do so within three years shall be covered into the Treasury of the United States as miscellaneous receipts.

SEC. 6. In determining any overtime pay to which such service employees are entitled under any Federal law, the regular or basic hourly rate of pay of such an employee shall not include any fringe benefit payments computed hereunder which are excluded from the regular rate under the Fair Labor Standards Act by provisions of section 7(d) thereof.

SEC. 7. This Act shall not apply to—

(1) any contract of the United States or District of Columbia for construction, alteration and or repair, including painting and decorating of public buildings or public works;

(2) any work required to be done in accordance with the provisions of the Walsh-Healey Public Contracts Act (49 Stat. 2036);

(3) any contract for the carriage of freight or personnel by vessel, airplane, bus, truck, express, railway line or oil or gas pipeline where published tariff rates are in effect;

(4) any contract for the furnishing of services by radio, telephone, telegraph, or cable companies, subject to the Communications Act of 1934;

(5) any contract for public utility services, including electric light and power, water, steam, and gas;

(6) any employment contract providing for direct services to a Federal agency by an individual or individuals; and

(7) any contract with the Post Office Department, the principal purpose of which is the operation of postal contract stations.

SEC. 8. For the purposes of this Act—

(a) "Secretary" means Secretary of Labor.

(b) The term "service employee" means any person engaged in the performance of a contract entered into by the United States and not exempted under section 7, whether negotiated or advertised, the principal purpose of which is to furnish services in the United States (other than any person employed in a bona fide executive, administrative, or professional capacity, as those terms are defined in part 541 of title 29, Code of Federal Regulations, as of July 30, 1976, and any subsequent revision of those regulations); and shall include all such persons

regardless of any contractual relationship that may be alleged to exist between a contractor or subcontractor and such persons.

(c) The term "compensation" means any of the payments or fringe benefits described in section 2 of this Act.

(d) The term "United States" when used in a geographical sense shall include any State of the United States, the District of Columbia, Puerto Rico, the Virgin Islands, Outer Continental Shelf lands as defined in the Outer Continental Shelf Lands Act, American Samoa, Guam, Wake Island, Eniwetok Atoll, Kwajalein Atoll, Johnston Island, and Canton Island,[2] but shall not include any other territory under the jurisdiction of the United States or any United States base or possession within a foreign country.

SEC. 9. This Act shall apply to all contracts entered into pursuant to negotiations concluded or invitations for bids issued on or after ninety days from the date of enactment of this Act.

Sec. 10. It is the intent of the Congress that determinations of minimum monetary wages and fringe benefits for the various classes of service employees under the provisions of paragraphs (1) and (2) of section 2 should be made with respect to all contracts subject to this Act, as soon as it is administratively feasible to do so. In any event, the Secretary shall make such determinations with respect to at least the following contracts subject to this Act which are entered into during the applicable fiscal year:

(1) For the fiscal year ending June 30, 1973, all contracts under which more than twenty-five service employees are to be employed.

(2) For the fiscal year ending June 30, 1974, all contracts, under which more than twenty service employees are to be employed.

(3) For the fiscal year ending June 30, 1975, all contracts under which more than fifteen service employees are to be employed.

(4) For the fiscal year ending June 30, 1976, all contracts under which more than ten service employees are to be employed.

(5) For the fiscal year ending June 30, 1977, and for each fiscal year thereafter, all contracts under which more than five service employees are to be employed.

Approved October 22, 1965 (Public Law 89-286).

Approved October 9, 1972 (Amendments, Public Law 92-473).

Approved October 13, 1976 (Amendments, Public Law 94-489).

[2] Canton Island added by Public Law 90-57, 87 Stat. 140.

Legislative History (Public Law 89-286):
House Report No. 948 (Comm. on Education & Labor).
Senate Report No. 798 (Comm. on Labor & Public Welfare).
Congressional Record, Vol. 111 (1965):
Sept. 20, Considered and passed House.
Oct. 1, Considered and passed Senate, amended.
Oct. 6, House concurred in Senate amendment.

Legislative History (Public Law 92-473):
House Report No. 92-1251 (Comm. on Education and Labor).
Senate Report No. 92-1131 (Comm. on Labor and Public Welfare).
Congressional Record, Vol. 118 (1972):
Aug. 7, considered and passed House.
Sept. 19, considered and passed Senate, amended.
Sept. 27, House concurred in Senate amendments.

Legislative History (Public Law 94-489):
House Report No. 94-1571 (Comm. on Education and Labor).
Congressional Record, Vol. 122 (1976):
Sept. 21, considered and passed House.
Sept. 30, considered and passed Senate.

FEDERAL AGENCY INSTALLATIONS CONTACTED BY GAO IN EVALUATING SAMPLED WAGE DETERMINATIONS

Department of Defense

U.S. Air Force

1. Maxwell Air Force Base, Alabama
2. Luke Air Force Base, Arizona
3. Edwards Air Force Base, California
4. George Air Force Base, California
5. Headquarters, Space Division, Los Angeles Air Force Station, Los Angeles, California
6. Norton Air Force Base, California
7. Vandenberg Air Force Base, California
8. 4614 Contracting Squadron, Peterson Air Force Base, Colorado
9. Lowry Air Force Base, Colorado
10. U.S. Air Force Academy, Colorado Springs, Colorado
11. Armament Development and Test Center, Eglin Air Force Base, Florida
12. MacDill Air Force Base, Florida
13. Patrick Air Force Base, Florida
14. Tyndall Air Force Base, Florida
15. England Air Force Base, Louisiana
16. Washington Area Contracting Center, Andrews Air Force Base, Maryland
17. Keesler Air Force Base, Mississippi
18. Nellis Air Force Base, Nevada
19. Cannon Air Force Base, New Mexico
20. Holloman Air Force Base, New Mexico

U.S. Air Force (cont.)

21. Kirtland Air Force Base, New Mexico
22. Pope Air Force Base, North Carolina
23. Seymour Johnson Air Force Base, North Carolina
24. Headquarters, 2750 Air Base Wing, Wright-Patterson Air Force Base, Ohio
25. Air Training Command, Randolph Air Force Base, Texas
26. Brooks Air Force Base, Texas
27. Carswell Air Force Base, Texas
28. Goodfellow Air Force Base, Texas
29. Laughlin Air Force Base, Texas
30. San Antonio Air Logistics Command, Kelly Air Force Base, Texas
31. San Antonio Contracting Center, Kelly Air Force Base, Texas
32. Sheppard Air Force Base, Texas
33. Hill Air Force Base, Utah

U.S. Army

1. Fort McClellan, Anniston, Alabama
2. U.S. Army Engineer District, Mobile, Alabama
3. U.S. Army Missile Command, Redstone Arsenal, Alabama
4. Headquarters, U.S. Army Communications Command, Fort Huachuca, Ft. Huachuca, Arizona
5. Yuma Proving Ground, Yuma, Arizona
6. Procurement Division, Presidio of San Francisco, California
7. Fort Carson, Colorado Springs, Colorado
8. U.S. Army Engineer District, Jacksonville, Florida
9. Fort Polk, Leesville, Louisiana

U.S. Army (cont.)

10. U.S. Army Engineer District, New Orleans, Louisiana
11. Fort George G. Meade, Maryland
12. U.S. Army Engineer Division, Lower Mississippi Valley, Vicksburg, Mississippi
13. U.S. Army Engineer District, Albuquerque, New Mexico
14. Fort Bragg, North Carolina
15. U.S. Army Engineer District, Nashville, Tennessee
16. Brooke Army Medical Center, Fort Sam Houston, San Antonio, Texas
17. Fort Bliss, El Paso, Texas
18. Fort Sam Houston, San Antonio, Texas
19. U.S. Army Depot, Corpus Christi, Texas
20. William Beaumont Army Medical Center, El Paso, Texas
21. Fort Lee, Virginia
22. U.S. Army Computer Systems Selection and Acquisition Agency, Alexandria, Virginia

U.S. Navy

1. Long Beach Naval Shipyard, Long Beach, California
2. Marine Corps Base, Camp Pendleton, Oceanside, California
3. National Parachute Test Range, El Centro, California
4. Naval Regional Contracting Office, Long Beach, California
5. U.S. Naval Public Works Center, San Diego, California
6. U.S. Naval Supply Center, San Diego, California
7. U.S. Naval Weapons Center, China Lake, California
8. U.S. Naval Weapons Station, Seal Beach, California
9. Naval Training Equipment Center, Orlando, Florida

U.S. Navy (cont.)

10. U.S. Naval Air Station, Cecil Field, Florida
11. U.S. Naval Air Station, Pensacola, Florida
12. Naval Support Activity, New Orleans, Louisiana
13. U.S. Naval Academy, Annapolis, Maryland
14. U.S. Naval Air Station, Patuxent River, Maryland
15. U.S. Naval Air Station, Meridian, Mississippi
16. U.S. Naval Supply Center, Charleston, South Carolina
17. U.S. Naval Air Station, Chase Field, Beeville, Texas
18. U.S. Naval Air Station, Dallas, Texas
19. U.S. Naval Air Station, Kingsville, Texas
20. Military Sealift Command, U.S. Naval Station, Norfolk, Virginia
21. Naval Audit Service Headquarters, Falls Church, Virginia
22. Naval Surface Weapons Center, Dahlgren, Virginia
23. Norfolk Naval Shipyard, Portsmouth, Virginia
24. U.S. Naval Supply Center, Norfolk, Virginia

Defense Agencies

1. Defense Communications Agency, Defense Commercial Communications Office, Scott Air Force Base, Illinois
2. Defense Logistics Agency, Defense Personnel Support Center, Alameda, California
3. Defense Logistics Agency, Defense Personnel Support Center, Philadelphia, Pennsylvania
4. Defense Logistics Agency, Ogden Defense Depot, Ogden, Utah
5. Defense Nuclear Agency, Headquarters, Washington, D.C.

Defense Nonappropriated Fund Activities

1. Army and Air Force Exchange Service, Southeast Exchange Region, Montgomery, Alabama

2. Army and Air Force Exchange Service, Golden Gate Exchange Region, San Francisco, California

3. Army and Air Force Exchange Service, Southern California Area Exchange, Norton Air Force Base, California

4. Army and Air Force Exchange Service, Western Distribution Region, Oakland, California

5. Army and Air Force Exchange Service, Colorado Warehouse, Rocky Mountain Arsenal, Aurora, Colorado

6. Army and Air Force Exchange Service, Rocky Mountain Area Exchange, Fort Carson, Colorado Springs, Colorado

7. Army and Air Force Exchange Service, Ohio Valley Exchange Region, Charlestown, Indiana

8. Army and Air Force Exchange Service, Southwest Area Exchange, El Paso, Texas

9. Army and Air Force Exchange Service, Alamo Exchange Region, Fort Sam Houston, San Antonio, Texas

10. Army and Air Force Exchange Service, Capitol Exchange Region, Cameron Station, Alexandria, Virginia

11. Marine Corps Exchange, Marine Corps Base, Camp Pendleton, Oceanside, California

12. Navy Exchange Service Center, San Diego, California

Civilian Departments

Department of Agriculture

1. Farmers Home Administration, Richmond, Virginia

2. U.S. Forest Service, Rocky Mountain Region, Lakewood, Colorado

3. U.S. Forest Service Office, Pueblo, Colorado

Department of Agriculture (cont.)

4. U.S. Forest Service, Arapahoe and Roosevelt National Forests, Fort Collins, Colorado

5. U.S. Forest Service, Grand Mesa, Uncompahgre, and Gunnison National Forests, Delta, Colorado

6. U.S. Forest Service, Rio Grande National Forest, Monte Vista, Colorado

7. U.S. Forest Service, San Juan National Forest, Durango, Colorado

8. U.S. Forest Service, Southern Region, Atlanta, Georgia

9. U.S. Forest Service, Oconee National Forest, Gainesville, Georgia

10. U.S. Forest Service, Lincoln National Forest, Alamogordo, New Mexico

11. U.S. Forest Service, Manti-LaSal National Forest, Price, Utah

12. U.S. Forest Service, George Washington National Forest, Harrisonburg, Virginia

Department of Energy

1. Albuquerque Operations Office, Albuquerque, New Mexico

2. Nevada Operations Office, Las Vegas, Nevada

3. Oak Ridge Operations Office, Oak Ridge, Tennessee

4. Strategic Petroleum Reserve Project Management Office, New Orleans, Louisiana

Department of Health and Human Services

1. U.S. Public Health Service, Centers for Disease Control, Atlanta, Georgia

2. U.S. Public Health Service Hospital, New Orleans, Louisiana

3. U.S. Public Health Service, National Institutes of Health, Bethesda, Maryland

Department of Housing and Urban Development

1. Office of the Secretary, Headquarters, Washington, D.C.
2. Headquarters, Region IV, Atlanta, Georgia

Department of the Interior

1. Bureau of Land Management, Canon City, Colorado
2. Bureau of Mines, Avondale, Maryland
3. Bureau of Reclamation, Boulder City, Nevada
4. National Park Service, Grand Canyon, Arizona
5. U.S. Geological Survey, National Center, Reston, Virginia
6. U.S. Geological Survey, Denver, Colorado

Department of Justice

1. Bureau of Prisons, Los Angeles, California
2. Immigration and Naturalization Service, Western Regional Office, Terminal Island, San Pedro, California

Department of Labor

1. Bureau of Labor Statistics, Southwest Region, Dallas, Texas
2. Region III, Office of the Regional Solicitor, Philadelphia, Pennsylvania
3. Regional Headquarters, Region VI, Dallas, Texas
4. Region VI, Wage and Hour Division Area Office, Dallas, Texas
5. Region VI, Wage and Hour Division Area Office, Fort Worth, Texas
6. Region VI, Wage and Hour Division Area Office, San Antonio, Texas

Department of Transportation

1. Federal Aviation Administration, Southern Region, Atlanta, Georgia
2. Federal Aviation Administration, Southwest Region, Fort Worth, Texas

Department of Transportation (cont.)

3. Federal Aviation Administration, Rocky Mountain Region, Aurora, Colorado

4. Federal Railroad Administration, Transportation Test Center, Pueblo, Colorado

Department of the Treasury

1. Headquarters, U.S. Customs Service, Washington, D.C.

Independent Agencies

Environmental Protection Agency

1. Contracts Management Division, Research Triangle Park, North Carolina

Federal Emergency Management Agency

1. Acquisition Management Division, Headquarters, Washington, D.C.

2. Wichita Falls Disaster Field Office, Wichita Falls, Texas

Federal Reserve System

1. Federal Reserve Bank of Richmond, Richmond, Virginia

2. Federal Reserve Bank of San Francisco, Los Angeles Branch, Los Angeles, California

General Services Administration

1. Office of the Inspector General, Headquarters, Washington, D.C.

2. Regional Headquarters, Region 3, Washington, D.C.

3. Regional Headquarters, Region 4, Atlanta, Georgia

4. Regional Headquarters, Region 7, Fort Worth, Texas

5. Regional Headquarters, Region 8, Denver, Colorado

6. West Los Angeles Field Office, Region 9, Los Angeles, California

7. Regional Headquarters, Region 9, San Francisco, California

National Aeronautics and Space Administration

1. Contracts and Grants Division, Headquarters, Washington, D.C.
2. Johnson Space Center, Houston, Texas
3. Kennedy Space Center, Cape Canaveral, Florida
4. Lewis Research Center, Cleveland, Ohio
5. Marshall Space Flight Center, Huntsville, Alabama
6. Wallops Flight Center, Wallops Island, Virginia

U.S. Postal Service

1. Procurement Services Office, Phoenix, Arizona
2. Procurement Services Office, Denver, Colorado
3. Procurement Services Office, Columbia, Maryland
4. Procurement Services Office, Greensboro, North Carolina
5. Procurement Services Office, Memphis, Tennessee
6. Transportation Management Office, Pittsburgh, Pennsylvania
7. Transportation Management Office, Dallas, Texas
8. U.S. Post Office, Los Alamos, New Mexico

Veterans Administration

1. VA Medical Center, Birmingham, Alabama
2. VA Medical Center, Montgomery, Alabama
3. VA Medical Center, Tuskegee, Alabama
4. VA Medical Center, Loma Linda, California
5. VA Medical Center, Long Beach, California
6. VA Medical Center, Sepulveda, California
7. VA Medical Center, Grand Junction, Colorado
8. VA Medical Center, San Antonio, Texas

Veterans Administration (cont.)

9. Veterans Canteen Service Field Office, VA Regional Office, San Francisco, California

10. Veterans Canteen Service Field Office, VA Regional Office, Atlanta, Georgia

Legislative Branch Agencies

Architect of the Capitol

1. Contracts Branch, Washington, D.C.

Non-Federal Agencies

Government of the District of Columbia

1. Department of General Services, Bureau of Materiel Management, Construction Contract Branch, Washington, D.C.

APPENDIX IV

STATES IN WHICH FEDERAL AGENCIES GAO CONTACTED WERE LOCATED

1. Alabama
2. Arizona
3. California
4. Colorado
5. Florida
6. Georgia
7. Illinois
8. Indiana
9. Louisiana
10. Maryland
11. Mississippi
12. Nevada
13. New Mexico
14. North Carolina
15. Ohio
16. Pennsylvania
17. South Carolina
18. Tennessee
19. Texas
20. Utah
21. Virginia

(Selected Federal and District of Columbia Government contracting agencies within Washington, D.C., were also contacted.)

BUSINESS AND INDUSTRY ORGANIZATIONS CONTACTED BY GAO

1. Chamber of Commerce of the United States, Washington, D.C.
2. Chamber of Commerce, Calhoun County, Alabama
3. Chamber of Commerce, Dothan, Alabama
4. Chamber of Commerce, Mobile, Alabama
5. Chamber of Commerce, Fort Walton Beach, Florida
6. Chamber of Commerce, Panama City, Florida
7. Chamber of Commerce, Orlando, Florida
8. Chamber of Commerce, Meridian, Mississippi
9. Chamber of Commerce, Knoxville, Tennessee
10. Coalition for Common Sense in Government Procurement, Washington, D.C.
11. Committee on Contracting-Out, Arlington, Virginia
12. Computer and Business Equipment Manufacturers Association, Washington, D.C.
13. Electronic Industries Association, Washington, D.C.
14. Mechanical Contractors Association of New Mexico, Inc., Albuquerque, New Mexico
15. National Audio-Visual Association, Inc., Fairfax, Virginia
16. National Council of Technical Service Industries, Washington, D.C.
17. National Micrographics Association, Silver Spring, Maryland
18. Nevada Resort Association, Las Vegas, Nevada
19. Scientific Apparatus Makers Association, Washington, D.C.

LABOR ORGANIZATIONS CONTACTED BY GAO

1. Headquarters, American Federation of Labor and Congress of Industrial Organizations, Washington, D.C.
2. Laborers' International Union of North America (AFL-CIO), Fort Worth, Texas
3. Local 349, Window Cleaners Union, Los Angeles, California
4. Local 542, International Brotherhood of Teamsters, Chauffeurs, Warehousemen and Helpers of America, San Diego, California
5. Local 578, Laborers' International Union of North America (AFL-CIO), Colorado Springs, Colorado
6. Local 25, International Union of Elevator Constructors (AFL-CIO), Denver, Colorado
7. Local 208, United Association of Journeymen and Apprentices of the Plumbing and Pipe Fitting Industry of the United States and Canada (AFL-CIO), Denver, Colorado
8. Local 14, Hotel and Restaurant Employees' and Bartenders' International Union (AFL-CIO), Denver, Colorado
9. Local 385, International Brotherhood of Teamsters, Chauffeurs, Warehousemen and Helpers of America, Orlando, Florida
10. Local 917, International Brotherhood of Electrical Workers (AFL-CIO), Meridian, Mississippi
11. Local 226, Culinary Workers Union, affiliate of Hotel and Restaurant Employees' and Bartenders' International Union (AFL-CIO), Las Vegas, Nevada
12. Local 1095, City, County, and Public Service Employees Union, affiliate of Laborers' International Union of North America (AFL-CIO), San Antonio, Texas

APPENDIX VII

STATE AGENCIES CONTACTED BY GAO

1. Mississippi State Employment Service, Meridian, Mississippi
2. Nevada Development Authority, Las Vegas, Nevada
3. Nevada Employment Security Department, Las Vegas, Nevada
4. Texas Employment Commission, Kingsville, Texas
5. Texas Employment Commission, San Angelo, Texas
6. Texas Employment Commission, San Antonio, Texas
7. University of Nevada, Center for Business and Economic Research, Las Vegas, Nevada

STATISTICAL DATA ON

GAO'S SAMPLING OF SCA WAGE DETERMINATIONS

	Number of SCA wage determinations			
	In the regional universe	In the computer-generated random numbers	In GAO's random sample	In GAO's judgment subsample
Regional universe "A":				
Alabama	174	22	10	1
Florida	308	53	12	3
Georgia	226	30	5	-
South Carolina	131	11	1	-
Tennessee	86	9	2	1
	925	125	30	5
Regional universe "B":				
Arkansas	73	9	-	-
Louisiana	119	13	6	-
Mississippi	121	10	3	1
Texas	501	68	21	4
	814	100	30	5
Regional universe "C":				
Colorado	170	48	13	4
New Mexico	118	34	12	1
Utah	59	18	5	-
	347	100	30	5
Regional universe "D":				
Arizona	159	19	6	-
California	463	70	18	4
Nevada	89	11	6	1
	711	100	30	5
Regional universe "E":				
Maryland (note a)	268	40	12	1
North Carolina	164	24	7	2
Virginia	260	30	10	2
West Virginia	44	6	1	-
	736	100	30	5
Total	3,533	525	150	25

a/Includes SCA wage determinations that also cover combined localities in Maryland, Virginia, and the District of Columbia.

APPENDIX IX

SUMMARY OF GAO'S ANALYSES OF LABOR'S ADJUSTMENTS OF BLS WAGE SURVEY DATA TO DEVELOP SCA WAGE RATE DETERMINATIONS

Our analyses of 150 wage determinations disclosed that Labor based, at least in part, 78 of the determinations--about half of our sample--on data from various BLS wage surveys. Moreover, our analyses disclosed that, in attempting to give "due consideration" to the wage rates of Federal direct-hire employees--which SCA requires--or to overcome "anomalies" in reported BLS survey data, Labor adjusted the BLS survey data to develop wage rates for use in Federal service contracts. This significantly altered the wage rates BLS had found to prevail in the surveyed localities.

We found that Labor

--inconsistently used BLS survey mean and median rates;

--inconsistently used BLS survey middle range rates;

--combined rates from two or more BLS surveys covering widely separated localities;

--commingled BLS survey data and Federal wage rate data;

--adjusted BLS survey rates to conform to Federal wage board rates;

--maintained previously issued rates that exceeded more current BLS survey rates or adjusted the previous rates by a selected percentage to produce an upward movement in wages since the previous determination; and

--adjusted or conformed BLS survey rates to SCA staff study results, particularly for the "electronic technician" classification.

Each of these questionable practices is discussed and illustrated below using examples from the 150 determinations we reviewed. As pointed out in chapter 3, most BLS wage surveys and reported wage rates did not provide an adequate basis for service worker classifications used on most Federal service contracts.

APPENDIX IX

INCONSISTENTLY USED BLS SURVEY MEAN OR MEDIAN RATES

Labor's wage determination procedural manual 1/ states that the median rate is generally considered the better indicator of the prevailing rate. However, the adoption of this rate is subject to various considerations, one of which is the due consideration that SCA requires to be given to the Federal direct-hire wage rate for a similar class of Federal employees. The manual suggests that, where a wide disparity (gap) exists between a Federal wage rate and the BLS survey mean or median rate, the survey rate which provides the smaller difference may be selected. However, we noted that this procedure was not followed consistently. In some cases, the rate Labor selected widened rather than narrowed the wage rate gap, with the lower of the two BLS rates being selected and issued. In other cases, where the Federal rate was lower than the BLS mean or median rate, the higher BLS rate was selected and issued. Following are some examples of Labor's inconsistent use of BLS survey mean and median rates:

Wage determination number and date	Job classification	Federal direct-hire rate	BLS survey rates		BLS rate Labor issued	Percent of Federal rate
			Mean	Median		
78-677 (Rev. 1), 6/21/79	Truckdriver	$6.36	$4.20	$4.05	$4.05	64
76-1311 (Rev. 4), 9/27/79	Secretary	4.33	4.54	4.48	4.54	105
	File clerk	2.93	3.14	3.03	3.14	107
	Keypunch operator, class B	3.29	3.62	3.50	3.50	106
79-30, 1/9/79	Forklift operator	6.22	6.39	5.57	6.39	103
78-433, 5/11/78	Typist	4.29	4.02	3.29	3.29	77
68-70 (Rev. 14), 4/30/79	Mechanic, maintenance (motor vehicles)	9.02	8.74	9.04	8.74	97

None of the basis sheets Labor used to explain its rationale for the selected rate indicated that consideration had been given to the Federal rates paid. Instead, they noted either that the rate selected provided a reasonable increase over the prior wage determination rate issued--i.e., maintenance mechanic (7 percent), secretary (4.8 percent), and file clerk (7.2 percent)--or that

---

1/See footnote on page 10.

50 percent or more of the employees in the BLS survey earned at least the rate selected. For the truckdriver classification, the BLS median rate Labor used represented a 16-percent increase over the rate issued about 1 year earlier. The mean rate, if used, would have represented a 20-percent increase.

INCONSISTENTLY USED BLS SURVEY MIDDLE RANGE RATES

In addition to reporting survey mean and median wage rates, BLS also reports a middle range of rates paid to workers surveyed. BLS defines the middle range by two rates--one-fourth of the workers earn the same or less than the lower of these rates and one-fourth earn the same or more than the higher rate. Our sample included two determinations in which Labor selected the upper and the lower middle range wage rate for issuance. The following example shows use of the upper middle-range rate by Labor.

WD75-487 (Rev. 3), June 26, 1979

In response to an agency request for a "bus cleaner" wage rate to be used on a service contract in rural Imperial County, California, Labor issued the upper limit of the middle range reported by BLS in an area wage survey of highly populous San Diego, California. The survey, completed in November 1978, showed the following wage rates for janitors, porters, and cleaners:

Industry category	Mean	Median	Middle range
All industries	$3.85	$3.25	$2.90 - $4.53
Manufacturing	5.92	6.35	5.25 - 6.97
Nonmanufacturing	3.51	3.10	2.80 - 4.26

Labor's basis sheet for the determination showed that the wage analyst selected the $4.53 hourly rate because that "* * * figure is the upper limit of the 'mid range,' the only measure of central tendency greater than the old rate of $3.94 an hour." Labor established the prior rate more than 2 years earlier, in March 1977. A note in the docket file, prepared in 1978, after receipt of the prior BLS survey completed in November 1977, indicated that a revision to the prior rate had been considered, but that the prior rate was "* * * being retained because the latest data reveals that the prevailing rate is lower than the rate that has already been established * * *." While the rate issued was 29 and 46 percent higher than the mean and median rates, respectively, paid to workers in the private, nonmanufacturing sector (that which was most similar to the Federal contract work), it was $1.29 an hour lower than the rate that would have been paid to equivalent direct-hire Federal workers.

COMBINED BLS SURVEY RATES

Occasionally, Labor combined BLS survey data from widely separated localities and issued one average rate for statewide or multistate application, even though rates for the classifications varied substantially between localities. In some cases, Labor also adopted these rates for issuance in new determinations applicable to one locality only.

WD79-335, April 18, 1979--
Greene County, Georgia

For this wage determination, covering "survey" services in rural Greene County, Labor adopted rates from another determination, WD74-632 (Rev. 9), issued on October 5, 1978. Labor's earlier determination covered workers to be employed on contracts for drafting, engineering, mapping, and/or surveying services within the civil boundaries of the Savannah District, U.S. Army Corps of Engineers, which included portions of Florida, Georgia, and North and South Carolina. To develop wage rates for three classes of drafters, Labor combined wage data from three BLS area wage surveys in widely separated urban communities--Greenville-Spartanburg, South Carolina, dated June 1978; Jacksonville, Florida, December 1977; and Atlanta, Georgia, May 1978. A weighted average mean wage rate for a drafter, class A, was computed as follows from the BLS survey data:

BLS survey area	Number of surveyed workers		BLS mean hourly rate		Total	Weighted average rate issued
Greenville-Spartanburg, SC	91	x	$8.30	=	$ 755.30	
Jacksonville, FL	48	x	6.54	=	313.92	
Atlanta, GA	360	x	7.35	=	2,646.00	
Total	499	divided into			$3,715.22	= $7.44

Labor performed similar computations for class B and C drafters to determine rates of $5.80 and $4.95, respectively.

Application of the combined rate of $7.44 to class A drafters in the Greenville-Spartanburg area represented an $.86 an hour (10.4-percent) reduction from the BLS survey mean rate for the locality. In the Jacksonville area, it represented a $.90 an hour (13.8-percent) increase over the BLS mean wage rate reported for the locality.

COMMINGLED BLS SURVEY DATA AND FEDERAL RATES

Labor's wage determination manual prescribes one method of giving due consideration to Federal wages as a statistical commingling of direct-hire wage rates with those surveyed by BLS in the private sector. Following is an example where this technique significantly increased the rates obtained in the BLS survey.

WD74-993 (Rev. 4), January 23, 1979-- North Carolina (10 counties) and South Carolina (Horry County)

A BLS SCA survey dated March 1978, for the New Bern-Jacksonville, North Carolina, area, showed that the mean and median hourly rates for 11 surveyed motor vehicle maintenance mechanics were $5.80 and $5.25, respectively. Labor's wage analyst determined that the equivalent pay grade for a direct-hire Federal employee in this job classification in the same locality to be wage grade 10, step 2--$7.85 an hour, or about 35 percent and 50 percent above the BLS survey mean and median rates, respectively, for the private sector. In giving due consideration to the Federal wage rate, the wage analyst selected the BLS survey mean rate of $5.80 (even though 73 percent of the surveyed employees were paid less) and commingled it with data on Federal wage board workers in the locality deemed equivalent to Federal wage grade 10, to determine a weighted average of all rates, as follows:

Survey sources and job classification	Number of employees		Survey mean wage rates		Total	Weighted average rate issued
BLS survey:						
Maintenance mechanic	11	x	$5.80	=	$ 63.80	
Federal wage survey:						
Electrician	126	x	7.558	=	952.308	
Auto mechanic	15	x	7.901	=	118.515	
Sheet metal mechanic	46	x	7.286	=	335.156	
Pipefitter	94	x	7.713	=	725.022	
Welder	47	x	7.871	=	369.937	
Machinist	34	x	7.359	=	250.206	
Total	373	divided into			$2,814.944	= $7.55

The rate issued, $7.55 an hour, was $.30 (4 percent) an hour less than the rate for the Federal wage grade 10, step 2, employees, but 30 percent and 44 percent more than the BLS survey mean and median rates, respectively, paid to motor vehicle maintenance mechanics in the private sector in the locality.

ADJUSTING BLS SURVEY RATES TO CONFORM TO FEDERAL WAGE BOARD RATES

When BLS survey data show substantial variations in the mean or median wage levels for similarly skilled job classifications, Labor's wage determination manual instructs the wage analysts to adjust the reported survey rates to maintain strict consistency and continuity, in accordance with "sound wage and salary administration practices." Accordingly, Labor's staff has developed a technique of averaging all BLS survey rates of job classifications believed equivalent to a Federal wage schedule classification. The staff then applies the average to all equivalent job classes in the BLS survey. In addition, other rates may be adjusted upward or downward and assigned to other classifications not surveyed, based on the pay ratios existing in the wage board system, with the adjusted rate adopted as prevailing.

The BLS survey rates for the equivalent classes of Federal workers in the higher pay grade levels, such as wage grades 9 and 10, are generally in line with the Federal wage rate. Conversely, BLS survey rates for the lower graded equivalent classes tend to be below the Federal wage rates. Occasionally, averaging BLS survey rates results in wage rates which require still more adjustment because Labor's SCA staff considers them to be out of line with rates previously issued. Following are two examples which illustrate Labor's adjustment of published BLS survey rate data to conform to Federal wage board rates.

WD74-1242 (Rev. 7), October 4, 1978-- Texas (Bee, Jim Wells, Kleberg, Nueces, and San Patricio Counties)

For this determination, Labor's wage analyst, after analyzing and adjusting BLS survey data for 5 classifications equivalent to wage grade 10, computed wage rates for 16 job classifications.

The wage analyst initially computed an $8.10 weighted average of all mean wage rates of the five job classifications in the BLS survey believed equivalent to Federal wage grade 10 jobs. However, he stated in his analysis that this rate would provide an excessive increase over the prior rate of $7.22 an hour Labor issued in May 1978. The corresponding Federal wage rate of a wage grade 10, step 2, was $8.16.

Since BLS also reported that the all-industry rates of skilled maintenance trades had increased 8.2 percent over prior survey rates, Labor's analyst determined a new $7.81 an hour wage equivalent rate by applying this percentage increase to the prior rate of $7.22 an hour. The analyst then established wage rates for other job classifications deemed equivalent to Federal wage board grades 3, 5, 8, and 9 by applying the respective percentage relationships of the Federal wage rates for these grades, as compared to the wage grade 10 rate, to the newly adopted "equivalent" rate of $7.81 for wage grade 10.

The computations resulted in reducing the hourly wage rates for four of five equivalent wage grade 10 classifications in the BLS survey by amounts ranging from $.68 to $1.17 an hour. These represented reductions of 8 percent and 13 percent, respectively. The fifth rate was raised by $2.31 an hour, a 42-percent increase.

The following schedule shows the methodology Labor used for determining wage rates under this technique:

Classifications designated as equivalent to WG-10	Number of workers	BLS survey rates Mean	BLS survey rates Median	Total (workers x mean rate)
Maintenance electrician	105	$8.49	$9.12	$ 891.45
Maintenance machinist	62	8.92	9.31	553.04
Maintenance mechanic (machinery)	200	8.26	9.12	1,652.00
Maintenance mechanic (motor vehicles)	71	5.50	4.90	390.50
Maintenance pipefitter	69	8.98	9.12	619.62
Total	507			$4,106.61

Weighted average: $8.10 (Rejected as excessive--provided a 12.2-percent increase over prior rate of $7.22.)

Average wage rate increase in skilled maintenance trades over prior BLS survey--8.2 percent

New wage grade 10 equivalent rate adopted--
$7.22 x 108.2% = $7.81

The analyst then applied this new rate in the wage determination to 10 classifications of workers: air-conditioning/heating/refrigeration mechanic, maintenance electrician, electronics mechanic, maintenance pipefitter, maintenance machinist, maintenance mechanic, sheet metal mechanic, maintenance welder, diesel engine mechanic, and heavy mobile equipment mechanic.

The wage analyst determined that two classes of workers in the survey would be equivalent to wage grade 9 under the Federal wage schedule--"maintenance carpenter," with mean and median rates of $8.60 and $8.93, and "maintenance painter," with rates of $7.95 and $8.64, respectively. The mean rate of the maintenance carpenter exceeded the BLS survey mean rate for three of the classes Labor deemed equivalent to wage grade 10; however, the analyst reduced the maintenance carpenter and painter rates to $7.46, as follows:

WG-9 rate: $7.79 / WG-10 rate: $8.16 X $7.81 = $7.46

In addition to these two job classes in the survey, the analyst applied the above computed rate to the maintenance plumber classification which had not been surveyed by BLS.

Similar computations provided wage rates for other classes not surveyed but covered by the determination as follows:

Federal wage grade	Classification	Computation and rate issued
8	Appliance mechanic	WG-8: $7.42 / WG-10: $8.16 X $7.81 = $7.10
5	Helper, maintenance trades	WG-5: $6.31 / WG-10: $8.16 X $7.81 = $6.04
3	Laborer	WG-3: $5.57 / WG-10: $8.16 X $7.81 = $5.33

The rates issued for the equivalent wage grades amounted to about 96 percent of the Federal wage rate for each of these classes.

The following schedule shows other classes BLS surveyed, the equivalent Federal wage grades, and the impact on the wage rates in the locality for those grades, by applying the above methodology:

Equivalent Federal grade	Job classification surveyed	Federal wage grade rate	BLS survey mean rate	Computed SCA rate	Percentage relationship: BLS mean rate to Federal rate	Percentage relationship: Computed rate to Federal rate	Percent BLS survey mean rate increased
3	Material handling laborer	$5.57	$3.98	$5.33	71	96	34
5	Forklift operator	6.31	4.56	6.04	72	96	32
5	Warehouseman	6.31	5.11	6.04	81	96	18
6	Truckdriver, medium	6.68	6.27	6.39	94	96	2
8	Truckdriver, tractor-trailer	7.42	6.73	7.10	91	96	5

WD 76-174 (Rev. 3), February 15, 1979--
Colorado (El Paso and Teller Counties)

Applying the wage/grade relationship to the adopted rates in the higher Federal wage grade classes, where BLS survey rates are close to or exceed the Federal wage board rates, results in the BLS survey rates for all other classes being adjusted to or above the equivalent Federal wage board rate. However, under an alternate approach, Labor's SCA staff may adopt an adjusted rate for the lowest job class, where the gap between the BLS survey rate and the Federal wage board rate is generally the widest, and apply this rate, through wage/grade relationships, to higher paying job classes. This application results in extending a wage gap to higher job classes where such a gap may not exist. For example, the BLS and Federal wage board surveys for this determination showed the following on job classes Labor deemed equivalent to Federal wage grades 2, 7, and 10:

Equivalent Federal wage grade	Job classification	BLS survey		Federal wage board rate	Percent BLS survey rate to Federal rate
		Number of workers surveyed	Survey mean rate		
2	Janitor, porter, cleaner	621	$3.03	$5.58	54
7	Truckdriver, heavy	81	7.48	6.59	114
10	Maintenance electrician	9	5.51	7.19	77
10	Maintenance mechanic (machinist)	50	6.40	7.19	89
10	Maintenance mechanic (motor vehicle)	26	7.13	7.19	99

In response to an agency request for wage rates on a "truckdriver, heavy" and a "laborer, refuse," for a contract for refuse collection and disposal services, the Labor wage analyst adopted the BLS survey rate of the janitor, porter, cleaner classification (a wage grade 2 equivalent), after adjustment, as the laborer rate and determined a rate for the truckdriver classification (a wage grade 7 equivalent) based on the Federal wage relationship of a grade 7 to a grade 2. The janitor, porter, cleaner rate of $3.03 in the BLS survey was adjusted to $3.52 after commingling it with

the rates of Federal direct-hire janitors, porters, and cleaners in the locality. The analyst then made the following computation for the truckdriver rate:

$$\frac{\text{WG-7}}{\text{WG-2}} = \frac{\$6.59}{\$5.58} \times \$3.52 = \$4.15$$

While the corresponding BLS survey rate for the truckdriver classification was 14 percent above the equivalent Federal wage board rate, as indicated in the previous schedule, the rate Labor issued was 37 percent below the Federal wage rate.

If Labor's wage analyst had determined the rate under Labor's traditional method, based on the weighted average of the BLS survey mean rates in the survey that were deemed equivalent to wage grade 10, the rate Labor issued for the truckdriver classification would have been $5.98, or 9 percent below the equivalent wage board rate.

PROCEDURES FOLLOWED WHEN RATE REVISIONS WOULD RESULT IN REDUCING A PRIOR RATE

For several of the wage determinations in our sample, we noted that, when the preceding techniques for using or adjusting BLS survey data resulted in a rate lower than a prior rate issued, the prior rate was either maintained or raised by a percentage reflecting (1) increases in the overall survey wage data for the locality, (2) increases in certain nationwide wage data published by BLS, or (3) the pay increase granted Federal employees during the period. The following example illustrates this technique.

WD68-657 (Rev. 16), March 16, 1979--Louisiana (Jefferson, Orleans, Plaquemines, St. Bernard, and St. Tammany Parishes)

Labor issued this determination with a rate for "mess attendant" at $3.55 an hour. For this classification, Labor made an initial computation using the wage rate reported in a BLS survey for the "janitor, porter, cleaner" classification, since BLS does not generally collect or report wage rate data on mess attendants. The BLS survey, dated January 1978, reported mean and median rates for the janitor, porter, cleaner class at $2.93 and $2.65, respectively--less than the prior mess attendant rate Labor issued of $3.27 an hour. Adjusting all below-minimum-wage survey rates upward to the then-current FLSA minimum wage ($2.90), and commingling the adjusted survey mean rates with the wage rates of Federal direct-hire janitors, porters, and cleaners in the locality, resulted in a computed rate of $3.12, still lower than the prior rate.

However, the BLS survey also showed that, overall, unskilled plant workers' wages in the locality had increased at an average annual rate of 8.67 percent between 1972 and 1978. Therefore, Labor's wage analyst applied this percentage increase to the $3.27 prior rate for mess attendants and issued a revised rate of $3.55 an hour. A subsequent BLS survey showed janitor, porter, and cleaner mean and median rates as of October 1979--7 months after the issued determination--at $3.30 and $2.90, respectively.

ADJUSTED OR CONFORMED SURVEY RATES TO SCA STAFF STUDY RESULTS-- ELECTRONIC TECHNICIANS

Because of a recurring requirement for wage data on electronic technicians, classes A, B, and C, and the limited amount of published BLS data on these classes, Labor's SCA staff made a study in 1973 of the wage relationships among the classes, including combined wage data for all three classes and wage data for the individual classes A, B, and C. BLS survey data from 13 survey areas (7 in the East and 6 in the West) were compiled to arrive at wage rate percentage relationships of the individual classes to the overall combined wage data. The staff study concluded that these relationships would enable the staff to establish "prevailing rates" for all classes of electronic technicians in localities where BLS had published data for only the overall class. The study stated that:

> "[The] resulting wage rates should be considered accurately representative of wages being paid in the locality for subject services since they are based on local direct survey data applied to a wage structure indicative of national patterns."

Our review of the staff study showed that substantial differences in wage relationships existed throughout the country. Also, because of the substantial numbers of surveyed workers in the Boston survey area in the East and the Los Angeles survey area in the West, the percentage relationships at these locations, which were similar as to rates and ranges, weighed heavily in the study results. In many of the localities where fewer workers had been surveyed, significant differences in the percentage relationships were evident.

From the data in the 13 BLS area wage surveys, the following wage percentage relationships were established.

Job classification	Wage percentage relationship
Electronic technicians - all	100
Class A	109.5
Class B	94
Class C	79

The Boston and Los Angeles area wage surveys showed wage relationships similar to those above. However, these two surveys accounted for nearly half of the total technicians in the 13 surveys--4,432 of 9,186. Other BLS surveys among the 13 studied, with fewer workers, showed substantially different wage percentage relationships, as illustrated from the following surveyed relationships.

Job classification	Corpus Christi, TX	Cleveland, OH	Columbus, OH	Oxnard-Ventura, CA	Pittsburgh, PA	Melbourne/Titusville/Cocoa Beach, FL
Electronic technician - all	100	100	100	100	100	100
Class A	119	107	108	106	105	107
Class B	102	98	90	96	87	94
Class C	68	93	62	93	84	57
(Workers in survey)	(67)	(259)	(208)	(140)	(463)	(760)

Applying the staff study wage percentage relationships to the BLS survey data for the overall electronic technician wage rate in any of the above localities would distort one or more of the existing wage relationships.

Our review showed that the percentage relationships were not used in all applicable determinations and, when used, were not necessarily applied to all classes. The following example illustrates how the percentage relationship was used.

WD73-1286 (Rev. 7), January 30, 1979--
Texas (Dallas, Tarrant,
and nine other counties)

A BLS survey of the Dallas-Fort Worth, Texas, standard metropolitan statistical area, dated October 1979, showed the following wage rates for electronic technicians, in comparison to rates derived by applying Labor's staff study percentage relationships:

	BLS survey rates		Percentage relationship for BLS mean rates	Staff study	
	Mean	Median		Percentage relationships	Resulting computed rates
Electronic technicians - all	$7.24	$7.18	100	100	$7.24
Class A	8.21	8.16	113.4	109.5	7.93
Class B	7.11	7.05	98.2	94	6.81
Class C	(None reported)		-	79	5.72

It would appear that a reasonable wage relationship already existed between the BLS survey mean rates for classes B and A. Labor's wage analyst adopted the BLS mean rate of $7.11 for class B, which was $.30 an hour higher than the class B rate the analyst computed using the staff study relationship. However, for classes A and C, the analyst used the staff study wage percentage relationships, thereby adopting the computed rate of $7.93 for class A and, in the absence of BLS data, establishing a rate of $5.72 for class C. A comparison of prior rates Labor issued in September 1978 for this locality with those issued in this determination showed that the class A technician received an increase of 8 percent; class B, 7 percent; and class C, 11 percent. According to Labor's basis sheet, these adjustments were necessary to maintain a reasonable wage relationship among the three classes.

RESULTS OF GAO'S WAGE RATE SURVEYS

GAO WAGE SURVEY NO. 1

LABOR WAGE DETERMINATION NO. & DATE: 74-180, Revision 7 8/14/79

TYPE OF SERVICE: Family Housing Maintenance TYPE OF DETERMINATION: Enclave

Job classification surveyed	Rate Labor issued	Rate contractor paid	GAO wage survey results: Rate range (low-high)	Mean rate	Median rate	Majority rate	Differences between GAO's rate and Labor's rate: Amount/(percent) Mean	Median	Majority
Air conditioning mechanic, maintenance	$8.58	$8.58	$4.75-$8.00	$6.12	$6.00	None	$+2.46 (40.2)	$+2.58 (43.0)	N/A
Carpenter, maintenance	8.58	8.58	5.00--9.31	6.88	7.00	None	+1.70 (24.7)	+1.58 (22.6)	N/A
Electrician, maintenance	8.58	8.58	4.50--9.85	6.96	6.75	None	+1.62 (23.3)	+1.83 (27.1)	N/A
Painter, maintenance	8.58	8.58	3.50--9.50	6.94	7.00	None	+1.64 (23.6)	+1.58 (22.6)	N/A
Plumber, maintenance	8.58	8.58	4.25--9.00	6.29	6.00	$6.00	+2.29 (36.4)	+2.58 (43.0)	$+2.58 (43.0)
Laborer	5.75	5.75	3.00--6.25	3.99	3.50	None	+1.76 (44.1)	+2.25 (64.3)	N/A

Locality covered by wage determination: Patrick Air Force Base, Brevard County, Florida

Locality of contract performance: Patrick Air Force Base

Locality covered by GAO wage survey: Brevard County

Date of GAO wage survey data: 7/79 (Month before determination date)

Basis for Labor's issued wage rates: Collective bargaining agreement rates paid to employees on Federal service contracts in the enclave were adopted as prevailing on the basis of asserted "union dominance."

Potential cost impact:

Total contract cost of $486,153 was $46,884 to $51,215 (10.7 to 11.8 percent) higher than it might have been if GAO's survey mean or median rates, respectively, had applied to the contract.

APPENDIX X

GAO WAGE SURVEY NO. 2

LABOR WAGE DETERMINATION NO. & DATE: 76-945, Revision 3 4/6/79

TYPE OF SERVICE: Bus Transportation TYPE OF DETERMINATION: General

Job classification surveyed	Rate Labor issued	Rate contractor paid	GAO wage survey results: Rate range (low-high)	Mean rate	Median rate	Majority rate	Differences between GAO's rate and Labor's rate: Amount/(percent) Mean	Median	Majority
Bus driver	$6.85	$6.85	$2.90-$5.55	$4.91	$4.75	None	$+1.94 (39.5)	$+2.10 (44.2)	N/A

Locality covered by wage determination: Eglin Air Force Base, Okaloosa and Walton Counties, Florida

Locality of contract performance: Eglin Air Force Base

Locality covered by GAO wage survey: Panama City and Pensacola, Florida; Mobile, Alabama

Date of GAO wage survey data: 2/79 (About 2 months before the determination date)

Basis for Labor's issued wage rates: Determined weighted average of BLS survey rates for certain skilled job classifications, assumed to be equivalent to a Federal Wage Board Grade 10, Step 2, and applied a percentage (85%) to that weighted average rate on the assumption that a "bus driver" was equivalent to a Grade 7, Step 2, if federally employed.

Potential cost impact:

Total contract cost of $342,141 was $50,264 to $54,410 (17.2 to 18.9 percent) higher than it might have been if GAO's survey mean or median rates, respectively, had applied to the contract.

APPENDIX X

GAO WAGE SURVEY NO. 3

LABOR WAGE DETERMINATION NO. & DATE: 76-856, Revision 2 8/30/78

TYPE OF SERVICE: Tailoring and Alteration TYPE OF DETERMINATION: General

Job classification surveyed	Rate Labor issued	Rate contractor paid	GAO wage survey results: Rate range (low-high)	Mean rate	Median rate	Majority rate	Differences between GAO's rate and Labor's rate: Amount/(percent) Mean	Median	Majority
Sewing machine operator	$3.37	a/$3.37	$2.90-$3.90	$3.67	(b)	None	$-.30 (8.2)	(b)	N/A

Locality covered by wage determination: Calhoun County, Alabama

Locality of contract performance: Fort McClellan in Calhoun County

Locality covered by GAO wage survey: Calhoun County

Date of GAO wage survey data: 3/79 (Month before date determination was sent to the contracting agency in response to its SF-98)

Basis for Labor's issued wage rates: Department of Defense nonappropriated fund schedule wage rate.

Potential cost impact: Not applicable. Overall, Labor's issued rate was lower than the mean rate developed in GAO's wage survey.

a/One employee was found to be receiving $.01 less than the specified Labor rate. The contractor corrected this oversight at the time of our visit.

b/Some wage data provided by employers were based on average hourly rates for their employees in this job classification. Therefore, a median rate could not be accurately determined.

APPENDIX X

GAO WAGE SURVEY NO. 4

LABOR WAGE DETERMINATION NO. & DATE: 78-292, Revision 1 7/16/79

TYPE OF SERVICE: Warehousing and Material Handling TYPE OF DETERMINATION: General

Job classification surveyed	Rate Labor issued	Rate contractor paid	GAO wage survey results: Rate range (low-high)	Mean rate	Median rate	Majority rate	Differences between GAO's rate and Labor's rate: Amount/(percent) Mean	Median	Majority
Forklift operator	$4.82	(a)	$3.00-$7.07	$5.31	$5.93	$5.93	$-.49 (9.2)	$-1.11 (18.7)	$-1.11 (18.7)
Warehouseman	4.82	(a)	3.66--7.07	5.29	5.75	5.75	-.47 (8.9)	-.93 (16.2)	-.93 (16.2)
Laborer, material handling	4.15	(a)	3.00—6.56	3.99	3.62	None	+.16 (4.0)	+.53 (14.6)	N/A

Locality covered by wage determination: Orange, Osceola, and Seminole Counties, Florida

Locality of contract performance: City of Orlando in Orange County

Locality covered by GAO wage survey: Orange County

Date of GAO wage survey data: 6/79 (Month before date determination issued)

Basis for Labor's issued wage rates: An 8/78 BLS area wage survey, with adjustments for Federal wage board schedule rates and 1/1/79 change in FLSA minimum wage.

Potential cost impact:

Not applicable. The service contractor's wage rates were higher than the rates Labor issued and those found in our wage survey.

a/The contractor did not employ workers in any of the job classifications covered by Labor's issued wage determination. The classification actually used was "material coordination assistant," which encompassed all of the duties that would be performed by the individual job classes listed on the determination. Two workers were employed in this job classification, one at $6.075 an hour and the other at $5.775 an hour.

APPENDIX X

GAO WAGE SURVEY NO. 5

LABOR WAGE DETERMINATION NO. & DATE: 76-176, Revision 2 5/7/79

TYPE OF SERVICE: Janitorial TYPE OF DETERMINATION: Section 4(c)

Job classification surveyed	Rate Labor issued	Rate contractor paid	GAO wage survey results: Rate range (low-high)	Mean rate	Median rate	Majority rate	Differences between GAO's rate and Labor's rate: Amount/(percent) Mean	Median	Majority
Custodian (Janitor)	a/$4.50	$4.50	$2.70-$5.71	$3.77	$3.03	None	$+.73 (19.4)	$+1.47 (48.5)	N/A
Group leader	a/4.75	4.75	3.00--7.50	4.27	3.25	None	+.48 (11.2)	+1.50 (46.2)	N/A

Locality covered by wage determination: Anderson County, Tennessee

Locality of contract performance: Department of Energy's Oak Ridge facility in Anderson County

Locality covered by GAO wage survey: Anderson, Blount, and Knox Counties, Tennessee

Date of GAO wage survey data: 4/79 (1 month before date determination issued)

Basis for Labor's issued wage rates: Predecessor (incumbent) contractor's collective bargaining agreement rates, pursuant to section 4(c) of SCA.

Potential cost impact:

Total contract cost of $109,728 was $9,308 to $20,556 (9.8 to 23.1 percent) higher than it might have been if GAO's survey mean or median rates, respectively, had applied to the contract.

a/These rates became effective on July 1, 1979. As of May 7, 1979, when the determination was issued, the wage rates for the custodian and group leader job classifications were $4.00 and $4.25, respectively.

APPENDIX X

GAO WAGE SURVEY NO. 6

LABOR WAGE DETERMINATION NO. & DATE: 76-382, Revision 4 7/31/79

TYPE OF SERVICE: Custodial TYPE OF DETERMINATION: Section 4(c)

Job classification surveyed	Rate Labor issued	Rate contractor paid	GAO wage survey results: Rate range (low-high)	Mean rate	Median rate	Majority rate	Differences between GAO's rate and Labor's rate: Amount/(percent) Mean	Median	Majority
Custodian	a/$3.94	b/$3.94	$2.90-$4.48	$3.06	$2.90	$2.90	$+.88 (28.8)	$+1.04 (35.9)	$+1.04 (35.9)
Stripper/scrubber	a/4.06	b/4.06	3.05--3.60	3.21	3.15	None	+.85 (26.5)	+.91 (28.9)	N/A
Crew leader	a/4.24	b/4.24	3.05--5.85	4.08	3.80	None	+.16 (3.9)	+.44 (11.6)	N/A

Locality covered by wage determination: Brooks Air Force Base, San Antonio (Bexar County), Texas

Locality of contract performance: Brooks Air Force Base

Locality covered by GAO wage survey: San Antonio locality

Date of GAO wage survey data: 10/79 (Month contract was modified to incorporate revised determination)

Basis for Labor's issued wage rates: Predecessor (incumbent) contractor's collective bargaining agreement rates, pursuant to section 4(c) of SCA.

Potential cost impact:

Total contract cost of $452,988 was $54,036 to $63,550 (13.5 to 16.3 percent) higher than it might have been if GAO's survey mean or median rates, respectively, had applied to the contract.

a/These rates became effective on October 1, 1979. The wage determination provided lower rates through September 30, 1979, as stipulated in the incumbent contractor's collective bargaining agreement.

b/The service contractor's wage rates were not specifically identified; however, because Labor's determination rates were based on a collective bargaining agreement which the contractor signed, the agreement rates were probably being paid.

APPENDIX X

GAO WAGE SURVEY NO. 7

LABOR WAGE DETERMINATION NO. & DATE: 72-83, Revision 9 5/7/79

TYPE OF SERVICE: Family Housing Maintenance TYPE OF DETERMINATION: General

Job classification surveyed	Rate Labor issued	Rate contractor paid	GAO wage survey results: Rate range (low-high)	Mean rate	Median rate	Majority rate	Differences between GAO's rate and Labor's rate: Amount/(percent) Mean	Median	Majority
General maintenance and repair person (note a)	b/$5.56 and 5.27	$5.80	$3.54-$7.15	$4.65	$4.49	None	$+.91 (19.6)	$+1.07 (23.8)	N/A
							+.62 (13.3)	+.78 (17.4)	N/A
General maintenance helper (laborer)	4.05	4.25	2.90--3.80	3.52	3.48	None	+.53 (15.1)	+.57 (16.4)	N/A
Janitor, porter, cleaner	3.83	c/3.25	2.90--3.64	3.07	2.90	$2.90	+.76 (24.8)	+.93 (32.1)	$+.93 (32.1)

Locality covered by wage determination: Lauderdale County, Mississippi, and Sumter County, Alabama

Locality of contract performance: Naval Air Station, Meridian (Lauderdale County)

Locality covered by GAO wage survey: Meridian area

Date of GAO wage survey data: 5/79 (Month determination was issued)

Basis for Labor's issued wage rates: An 11/78 BLS area wage survey and Federal wage board schedule rates.

Potential cost impact:

Not applicable. The service contractor's wage rates were higher than Labor's issued rates for all but one employee working on the contract (see note c).

See footnotes on next page.

APPENDIX X

GAO WAGE SURVEY NO. 7 (cont.)

Footnotes:

a/Labor's determination did not contain a wage rate for this particular job class; however, it was used by the contractor on the contract reviewed. Also see note b below.

b/Labor issued these rates for various job classes involving skilled maintenance trades. We used them here for comparison purposes. The contractor generally did not use skilled trades; however, most of the workers were skilled in air conditioning repairs as well as being general maintenance persons.

c/This rate was less than Labor's wage determination rate; however, at the time of our visit, a representative of the contractor agreed to correct the wage underpayment. Only one employee was involved.

APPENDIX X

GAO WAGE SURVEY NO. 8

LABOR WAGE DETERMINATION NO. & DATE: 76-55, Revision 5 6/21/79

TYPE OF SERVICE: Refuse Collection and Disposal TYPE OF DETERMINATION: General

Job classification surveyed	Rate Labor issued	Rate contractor paid	GAO wage survey results: Rate range (low-high)	Mean rate	Median rate	Majority rate	Differences between GAO's rates and Labor's rates: Amount/(percent) Mean	Median	Majority
Truckdriver	$4.89	(a)	$2.90-$20.47	$5.90	$5.50	None	$-1.01 (17.1)	$-.61 (11.1)	N/A
Laborer, refuse collection	3.42	(a)	2.90 - 4.50	4.04	3.90	$3.90	-.62 (15.3)	-.48 (12.3)	$-.48 (12.3)

Locality covered by wage determination: Collin, Dallas, Denton, Ellis, Erath, Jack, Johnson, Kaufman, Lamar, Montague, Navarro, Palo Pinto, Rockwall, Tarrant, and Wise Counties, Texas

Potential cost impact:

Not applicable. Labor's issued rates were lower than those found in the GAO wage survey.

Locality of contract performance: Naval Air Station, Dallas, Texas

Locality covered by GAO wage survey: Dallas-Fort Worth area

Date of GAO wage survey data: 6/79 (Month determination was issued)

Basis for Labor's issued wage rates: Previously issued wage determinations.

a/A total of 13 "refuse truckdrivers/collectors" were employed by the contractor; however, only one was assigned to service the Federal contract. That employee was paid a variety of wage rates which fluctuated each 2-week pay period under a wage formula that depended on the numbers of hours worked, cubic yards of refuse dumped, and miles driven during the period. For the 10 pay periods from December 16, 1979, to May 3, 1980, for example, his hourly rates ranged from $4.80 to $5.92 and averaged $5.20.

APPENDIX X

GAO WAGE SURVEY NO. 9

LABOR WAGE DETERMINATION NO. & DATE: 74-1242, Revision 8 (note a) 12/11/79

TYPE OF SERVICE: Family Housing Maintenance TYPE OF DETERMINATION: General

Job classification surveyed	Rate Labor issued	Rate contractor paid	GAO wage survey results: Rate range (low-high)	Mean rate	Median rate	Majority rate	Differences between GAO's rate and Labor's rate: Amount/(percent) Mean	Median	Majority
General maintenance person (note b)	c/$8.51 and 8.13	d/$7.86 and 7.51	$3.86-$10.75	$5.80	$5.61	None	$+2.71 (46.7) +2.33 (40.2)	$+2.90 (51.7) +2.52 (44.9)	N/A N/A
Helper, maintenance trades	6.67	d/6.09	2.90--5.61	3.56	3.50	None	+3.11 (87.4)	+3.17 (90.6)	N/A
Laborer	5.93	d/5.38	2.90--4.49	3.08	2.91	2.91	+2.85 (92.5)	+3.02 (103.8)	+3.02 (103.8)

Locality covered by wage determination: Bee, Jim Wells, Kleberg, Nueces, and San Patricio Counties, Texas

Locality of contract performance: Naval Air Station, Kingsville (Kleberg County)

Locality covered by GAO wage survey: Kingsville area

Date of GAO wage survey data: 12/79 (Month that Revision 8 to Labor's wage determination was issued)

Basis for Labor's issued wage rates: A BLS wage survey for the Corpus Christi, Texas, standard metropolitan statistical area (Nueces and San Patricio counties only), and Federal wage board schedules.

Potential cost impact:

Total contract cost of $230,910 was $25,605 to $27,627 (12.5 to 13.6 percent) higher than it might have been if GAO's survey mean or median rates, respectively, had applied to the contract.

See footnotes on next page.

APPENDIX X

GAO WAGE SURVEY NO. 9 (cont.)

Footnotes:

a/Revision 7, dated 10/4/78, was included in our sample; however, before the proposed contract could be awarded, Labor issued Revision 8. This revision should have been included in the contract awarded on 1/31/80, but was not. Because Revision 8 should have applied, we used its rates here for comparison purposes.

b/Labor's determination did not contain wage rates for this particular job classification; however, it was used by the contractor on the contract reviewed. Also, see note c below.

c/Labor issued these rates in Revision 8 for various job classifications involving skilled maintenance trades. We used them here for comparison purposes. The contractor did not generally use skilled trades.

d/The contractor paid rates that were $.05 higher than those called for in Labor's Revision 7, which was included in the awarded contract.

APPENDIX X

GAO WAGE SURVEY NO. 10

LABOR WAGE DETERMINATION NO. & DATE: 76-379, Revision 3 7/2/79

TYPE OF SERVICE: Complete Food Service Operation TYPE OF DETERMINATION: Section 4(c)

Job classification surveyed	Rate Labor issued	Rate contractor paid	GAO wage survey results				Differences between GAO's rate and Labor's rate: Amount/(percent)		
			Rate range (low-high)	Mean rate	Median rate	Majority rate	Mean	Median	Majority
First cook	a/$5.28	$5.28	$3.52-$4.53	$4.06	$4.10	None	$+1.22 (30.0)	$+1.18 (28.8)	N/A
Second cook	a/4.75	4.75	3.28--3.60	3.47	3.47	None	+1.28 (36.9)	+1.28 (36.9)	N/A
Cook	a/4.28	4.28	3.13--3.35	3.28	3.35	$3.35	+1.00 (30.5)	+.93 (27.8)	$+.93 (27.8)
Baker	a/5.56	5.56	3.33--4.10	3.87	3.97	None	+1.69 (43.7)	+1.59 (40.1)	N/A
Salad attendant	a/4.28	4.28	3.08--3.74	3.41	3.35	None	+.87 (25.5)	+.93 (27.8)	N/A
Mess attendant	a/3.76	3.76	2.90--3.89	3.15	3.20	None	+.61 (19.4)	+.56 (17.5)	N/A
Mess attendant supervisor/leader	a/3.96	3.96	3.03--3.38	3.26	3.325	None	+.70 (21.5)	+.635 (19.1)	N/A
Cashier	a/3.86	3.86	3.03--3.73	3.21	3.13	None	+.69 (21.8)	+.73 (23.3)	N/A
Supply/storeroom clerk I	a/4.44	4.44	3.53--4.95	3.75	3.58	None	+.69 (18.4)	+.86 (24.0)	N/A

See comments and footnote on next page.

APPENDIX X

GAO WAGE SURVEY NO. 10 (cont.)

Locality covered by wage determination:	Goodfellow Air Force Base, Tom Green County, Texas	Potential cost impact:
Locality of contract performance:	Goodfellow Air Force Base	Total contract cost of $625,915 was $82,946 to $86,310 (15.3 to 16.0 percent) higher than it might have been if GAO's survey median or mean rates, respectively, had applied to the contract.
Locality covered by GAO wage survey:	San Angelo (Tom Green County) locality	
Date of GAO wage survey data:	10/79 (Month contract performance started)	
Basis for Labor's issued wage rates:	Predecessor (incumbent) contractor's collective bargaining agreement rates, pursuant to section 4(c) of SCA.	

a/These rates became effective on October 1, 1979. Labor's wage determination also contained lower rates for these job classifications that were applicable prior to October 1. The cited rates represented an across-the-board increase of 8 percent, as provided in the incumbent contractor's collective bargaining agreement.

APPENDIX X

GAO WAGE SURVEY NO. 11

LABOR WAGE DETERMINATION NO. & DATE: 78-1151, Revision 1 7/3/79

TYPE OF SERVICE: Mess Attendant TYPE OF DETERMINATION: Section 4(c)

Job classification surveyed	Rate Labor issued	Rate contractor paid	GAO wage survey results: Rate range (low-high)	Mean rate	Median rate	Majority rate	Differences between GAO's rate and Labor's rate: Amount/(percent) Mean	Median	Majority
Mess attendant	$4.04	$4.04	$2.00-$4.50	$3.16	$3.00	None	$+.88 (27.8)	$+1.04 (34.7)	N/A

Locality covered by wage determination: Peterson Air Force Base, Colorado Springs (El Paso County), Colorado

Locality of contract performance: Peterson Air Force Base

Locality covered by GAO wage survey: Colorado Springs area of El Paso County

Date of GAO wage survey data: 6/79 (Month before wage determination issue date)

Basis for Labor's issued wage rates: Predecessor contractor's collective bargaining agreement rates, pursuant to section 4(c) of SCA.

Potential cost impact:

Total contract cost of $266,004 was $35,285 to $41,701 (15.3 to 18.6 percent) higher than it might have been if GAO's survey mean or median rate, respectively, had applied to the contract.

APPENDIX X

GAO WAGE SURVEY NO. 12

LABOR WAGE DETERMINATION NO. & DATE: 78-213, Revision 1 1/9/79

TYPE OF SERVICE: Air-Conditioning Equipment Maintenance TYPE OF DETERMINATION: Section 4(c)

Job classification surveyed	Rate Labor issued	Rate contractor paid	GAO wage survey results: Rate range (low-high)	Mean rate	Median rate	Majority rate	Differences between GAO's rate and Labor's rate: Amount/(percent) Mean	Median	Majority
Air-conditioning serviceman	$11.17	$11.17	$5.00-$11.45	$10.48	$11.17	$11.17	$+.69 (6.6)	None	None

Locality covered by wage determination: Building 53, Denver Federal Center, Jefferson County, Colorado

Locality of contract performance: Building 53

Locality covered by GAO wage survey: Greater Denver metropolitan area

Date of GAO wage survey data: 12/78 (Month before wage determination issue date)

Basis for Labor's issued wage rates: Predecessor (incumbent) contractor's collective bargaining agreement rates, pursuant to section 4(c) of SCA

Potential cost impact:

Cost impact could not be estimated because labor hour data was not available. However, the impact would probably have been negligible due to the small dollar amount of the contract involved ($9,500).

APPENDIX X

GAO WAGE SURVEY NO. 13

LABOR WAGE DETERMINATION NO. & DATE: 76-1351 12/2/76

TYPE OF SERVICE: Forestry, Land Management, and Public Use Area Cleaning TYPE OF DETERMINATION: General

Job classification surveyed	Rate Labor issued	Rate contractor paid	GAO wage survey results: Rate range (low-high)	Mean rate	Median rate	Majority rate	Differences between GAO's rate and Labor's rate: Amount/(percent) Mean	Median	Majority
Laborer (note a)	$4.34	(a)	$2.65-$4.59	$3.57	$3.50	None	$+.77 (21.6)	$+.84 (24.0)	N/A
Truckdriver (note a)	5.80	(a)	4.00--5.00	4.55	4.91	None	+1.25 (27.5)	+.89 (18.1)	N/A
Heavy equipment operator (note a)	5.80	(a)	4.50--5.50	5.02	5.00	None	+.78 (15.5)	+.80 (16.0)	N/A

Locality covered by wage determination: Colorado

Locality of contract performance: Rio Grande National Forest, Monte Vista, Colorado

Locality covered by GAO wage survey: Rio Grande, Sagauche, Alamosa, and Comejos Counties in the San Luis Valley area of Colorado

Date of GAO wage survey data: 12/78 (Month before Labor's earliest SF-98 response in 1979 with this wage determination)

Basis for Labor's issued wage rates: (See note b)

Potential cost impact:

Cost impact could not be determined because none of the job classifications listed on the wage determination were used by the contractor (see note a).

See footnotes on next page.

APPENDIX X

GAO WAGE SURVEY NO. 13 (cont.)

Footnotes:

a/The contractor did not employ any workers in these job classifications which were listed on the issued wage determination. Instead, the contractor employed workers in the following classifications: "forester 1" and "forester 2." They received hourly wage rates of $4.75 and $5.20, respectively. The contractor also employed a "forester trainee" who was compensated at the rate of "$7.00 per survey sample point" worked.

b/The "truckdriver" rate was derived by computing the weighted average of the rates for this classification as reported in three 1975 BLS wage surveys for the Colorado Springs, Pueblo, and Denver-Boulder, Colorado, metropolitan areas. The "heavy equipment operator" classification was deemed by Labor to have "wage parity" with the "truckdriver" classification; therefore, the same rate was issued for both classifications. The "laborer" rate was computed as a percentage of the $5.80 rate based on the wage relationship of the "laborer" and "heavy equipment operator" classifications in a withdrawn 1974 wage determination for all Colorado counties.

APPENDIX X

GAO WAGE SURVEY NO. 14

LABOR WAGE DETERMINATION NO. & DATE: 66-262, Revision 15 6/5/79

TYPE OF SERVICE: Vehicle Repair and Maintenance TYPE OF DETERMINATION: General

Job classification surveyed	Rate Labor issued	Rate contractor paid	GAO wage survey results: Rate range (low-high)	Mean rate	Median rate	Majority rate	Differences between GAO's rate and Labor's rate: Amount/(percent) Mean	Median	Majority
Auto mechanic	$7.55	a/$7.55	$5.40-$10.00	$8.22	$9.00	None	$-.67 (8.2)	$-1.45 (16.1)	N/A
Mechanic's helper	5.61	a/5.61	2.90 - 5.00	3.61	3.50	None	+2.00 (55.4)	+2.11 (60.3)	N/A

Locality covered by wage determination: Bernalillo, Los Alamos, Rio Arriba, Sandoval, and Santa Fe Counties, New Mexico

Locality of contract performance: City of Los Alamos

Locality covered by GAO wage survey: Los Alamos area

Date of GAO wage survey data: 5/79 (Month before wage determination issue date)

Basis for Labor's issued wage rates: Previously issued wage determination rates, increased by a percentage factor related to Federal wage board rate increases.

Potential cost impact:

Cost impact could not be determined because, at the time of our review in 1980, little or no costs had been incurred under the two awarded contracts involved.

a/These rates were paid by one of the two contractors awarded vehicle repair and maintenance contracts containing this wage determination; however, very little work had been performed by the contractor that was paying these rates. The other contractor was paying lower wage rates but had not performed any services under its contract at the time of our review.

APPENDIX X

GAO WAGE SURVEY NO. 15

LABOR WAGE DETERMINATION NO. & DATE: 68-499, Revision 11 8/20/79

TYPE OF SERVICE: Floor Covering TYPE OF DETERMINATION: General

Job classification surveyed	Rate Labor issued	Rate contractor paid	GAO wage survey results: Rate range (low-high)	Mean rate	Median rate	Majority rate	Differences between GAO's rate and Labor's rate: Amount/(percent) Mean	Median	Majority
Carpet installer (journeyman)	$11.18	(a)	$5.31-$11.18	$9.93	$11.18	$11.18	$+1.25 (12.6)	None	None

Locality covered by wage determination: El Paso County, Colorado

Locality of contract performance: U. S. Air Force Academy, Colorado Springs (El Paso County)

Locality covered by GAO wage survey: El Paso County

Date of GAO wage survey data: 8/79 (Month wage determination was issued)

Basis for Labor's issued wage rate: Collective bargaining agreement rates, on the basis of oral assurance from a union official that union rates prevailed for the stated job classification (union dominance).

Potential cost impact: Cost impact could not be determined because the contracting firm's owner said he did the work called for by the listed job classification (see note a).

a/The owner of the service contracting firm stated that he performed the carpet laying work himself. We were unable to confirm or refute his statement; however, if he actually did the work himself, he would have been exempt from the wage determination's requirements.

APPENDIX X

GAO WAGE SURVEY NO. 16

LABOR WAGE DETERMINATION NO. & DATE: 74-983, Revision 4 8/20/79

TYPE OF SERVICE: Refuse Collection

TYPE OF DETERMINATION: General

Job classification surveyed	Rate Labor issued	Rate contractor paid	GAO wage survey results: Rate range (low-high)	Mean rate	Median rate	Majority rate	Differences between GAO's rate and Labor's rate: Amount/(percent) Mean	Median	Majority
Truckdriver (note a)	$6.26	$6.26	$4.50-$7.26	$6.13	$5.71	None	$+.13 (2.1)	$+.55 (9.6)	N/A
Laborer	3.72	3.72	3.67--6.76	5.81	5.33	None	-2.09 (36.0)	-1.61 (30.2)	N/A

Locality covered by wage determination: Santa Barbara County, California

Locality of contract performance: Vandenberg Air Force Base, Santa Barbara County

Locality covered by GAO wage survey: Santa Barbara County

Date of GAO wage survey data: 7/79 (Month before wage determination issue date)

Basis for Labor's issued wage rates: A BLS wage survey for "truckdriver" and "janitor, porter, cleaner" job classifications. Percentage increases were added based on the increase in the "janitor, porter, cleaner" wage rate since the previous BLS survey.

Potential cost impact:

Not applicable. Labor's higher "truckdriver" rate was more than offset by its significantly lower "laborer" rate, when compared to GAO's wage survey results.

a/None of the surveyed refuse collection companies employed "truckdrivers," but rather "driver/collectors." All employees in this job classification not only drove the refuse trucks, but they also helped the laborers collect the refuse. Therefore, GAO's wage survey results reflect the wage rates paid to driver/collectors in the locality's refuse collection industry.

APPENDIX X

GAO WAGE SURVEY NO. 17

LABOR WAGE DETERMINATION NO. & DATE: 76-132, Revision 5 5/23/79

TYPE OF SERVICE: Hospital Aseptic Management TYPE OF DETERMINATION: General

Job classification surveyed	Rate Labor issued	Rate contractor paid	GAO wage survey results: Rate range (low-high)	Mean rate	Median rate	Majority rate	Differences between GAO's rate and Labor's rate: Amount/(percent) Mean	Median	Majority
Housekeeping aide	$4.29	$4.29	$3.25-$4.92	$3.97	$4.00	None	$+.32 (8.1)	$+.29 (7.3)	N/A

Locality covered by wage determination: Riverside and San Bernardino Counties, California

Locality of contract performance: March Air Force Base in Riverside County and George Air Force Base in San Bernardino County

Locality covered by GAO wage survey: Approximate 50-mile radius of cities of Riverside and San Bernardino within Riverside and San Bernardino Counties, respectively

Date of GAO wage survey data: 4/79 (Month before wage determination issue date)

Basis for Labor's issued wage rate: Wage rate Labor adopted for the "janitor, porter, cleaner" job classification in another issued wage determination.

Potential cost impact:

Total contract costs of $439,628 were $14,084 to $15,541 (3.3 to 3.7 percent) higher than they might have been if GAO's survey median or mean rate, respectively, had applied to the three contracts involved.

APPENDIX X

GAO WAGE SURVEY NO. 18

LABOR WAGE DETERMINATION NO. & DATE: 79-167, Revision 1 7/2/79

TYPE OF SERVICE: Window Cleaning TYPE OF DETERMINATION: General

Job classification surveyed	Rate Labor issued	Rate contractor paid	GAO wage survey results: Rate range (low-high)	Mean rate	Median rate	Majority rate	Differences between GAO's rate and Labor's rate: Amount/(percent) Mean	Median	Majority
Window cleaner, regular	$7.25	(a)	$3.50-$8.00	$6.38	$7.25	$7.25	$+.87 (13.6)	None	None
Window cleaner, on extension ladder 32 feet or over or acid work	7.50	(a)	6.00--8.59	7.40	7.50	7.50	+.10 (1.4)	None	None
Window cleaner, with manually operated scaffold or bosun chair	8.25	(a)	6.00--8.59	8.03	8.25	8.25	+.22 (2.7)	None	None

Locality covered by wage determination: Los Angeles and Orange Counties, California

Locality of contract performance: Federal Building and U. S. Post Office in West Los Angeles (Los Angeles County)

Locality covered by GAO wage survey: Los Angeles County

Date of GAO wage survey data: 6/79 (Month before wage determination issue date)

Basis for Labor's issued wage rates: Collective bargaining agreement rates adopted as prevailing on the basis of asserted "union dominance" for these job classifications in the cited locality.

Potential cost impact:

Cost impact could not be determined because the contractor did not keep an accurate record of the labor hours spent in performing on the contract.

a/In performing this contract, the service contractor employed one supervisory person at a weekly salary of $300 or the equivalent of $7.50 an hour (based on a 40-hour work week) and subcontracted some of the work to another person at a guaranteed minimum rate of $11.00 an hour. For non-Government work, the contractor paid his employees in the listed job classifications about $6.00 to $7.00 an hour, considerably less than Labor's issued wage rates.

APPENDIX X

GAO WAGE SURVEY NO. 19

LABOR WAGE DETERMINATION NO. AND DATE: 72-70, Revision 8 4/9/79

TYPE OF SERVICE: Mess Attendant TYPE OF DETERMINATION: General

Job classification surveyed	Rate Labor issued	Rate contractor paid	GAO wage survey results: Rate range (low-high)	Mean rate	Median rate	Majority rate	Differences between GAO's rate and Labor's rate: Amount/(percent) Mean	Median	Majority
Mess attendant (note a)	$4.78	$4.78	b/$3.53-$5.68	e/$4.61	N/A	N/A	$+.17 (3.7)	N/A	N/A
			c/3.73--6.18	e/5.00	N/A	N/A	-.22 (4.4)	N/A	N/A
			d/3.50--5.15	d/4.17	d/$4.15	None	+.61 (14.6)	$+.63 (15.2)	N/A

Locality covered by wage determination: Clark and Nye Counties, Nevada

Locality of contract performance: Nellis Air Force Base, Las Vegas (Clark County)

Locality covered by GAO wage survey: Las Vegas area

Date of GAO wage survey data: 3&4/79 (Month before and month of wage determination issue date)

Basis for Labor's issued wage rate: A BLS wage survey for the "janitor, porter, cleaner" job classification.

Potential cost impact:

Not applicable. GAO's computed composite union rate of $5.00 for the "mess attendant" job classification as of 4/1/79 was higher than Labor's issued rate on 4/9/79. Union rates dominated in this locality, despite Labor's basis.

See footnotes on next page.

APPENDIX X

GAO WAGE SURVEY NO. 19 (cont.)

Footnotes:

a/This job classification was not directly comparable to any individual classification in the locality. Therefore, we surveyed kitchen workers, dishwashers, bus persons, pantry persons, kitchen and buffet runners, and kitchen helpers to develop composite rates that would most nearly represent wages paid to workers performing the various duties encompassing Labor's "mess attendant" job classification.

b/This range of rates represented collective bargaining agreement rates as of 3/79 for an estimated 3,000 workers performing the various duties encompassing Labor's "mess attendant" job classification.

c/This range of rates, also under the collective bargaining agreement, became effective on 4/1/79.

d/These wage rates represented the rates paid to 251 non-union workers surveyed in the locality who were performing the various duties encompassing Labor's "mess attendant" job classification.

e/These rates represent the GAO-computed simple, unweighted averages of the various rates paid under the collective bargaining agreement to workers performing the various duties encompassing the "mess attendant" job classification. Union employers contacted during the survey were unwilling to provide data on the numbers of employees paid the various wage rates in the union agreement.

APPENDIX X

GAO WAGE SURVEY NO. 20

LABOR WAGE DETERMINATION NO. & DATE: 74-1006, Revision 5 9/13/79

TYPE OF SERVICE: Moving and Storage TYPE OF DETERMINATION: Section 4(c)

Job classification surveyed	Rate Labor issued	Rate contractor paid	GAO wage survey results: Rate range (low-high)	Mean rate	Median rate	Majority rate	Differences between GAO's rate and Labor's rate: Amount/(percent) Mean	Median	Majority
Foreman	$8.10	(a)	$7.50-$10.28	$8.59	$8.66	None	$-.49 (5.7)	$-.56 (6.5)	N/A
Driver	7.85	(a)	3.75 - 8.70	7.97	8.15	None	-.12 (1.5)	-.30 (3.7)	N/A
Packer	7.45	(a)	4.50 - 8.70	7.63	7.70	None	-.18 (2.4)	-.25 (3.2)	N/A
Helper	6.65	(a)	3.75 - 7.50	6.63	6.65	None	+.02 (0.3)	None	N/A

Locality covered by wage determination: Camp Pendleton Marine Corps Base, San Diego County, California

Locality of contract performance: 50-mile radius of Camp Pendleton

Locality covered by GAO wage survey: San Diego County

Date of GAO wage survey data: 9/79 (Month wage determination issued)

Basis for Labor's issued wage rates: Predecessor (incumbent) contractor's collective bargaining agreement rates, pursuant to section 4(c) of SCA.

Potential cost impact:

Not applicable. Labor's slightly higher "helper" rate was more than offset by its lower rates for the other job classes, when compared to GAO's wage survey results.

a/All three contractors were paying their employees at wage rates that were equal to or higher than Labor's issued rates for these job classifications.

APPENDIX X

GAO WAGE SURVEY NO. 21

LABOR WAGE DETERMINATION NO. & DATE: 73-301, Revision 6 6/29/79

TYPE OF SERVICE: Refuse Collection and Removal TYPE OF DETERMINATION: General

Job classification surveyed	Rate Labor issued	Rate contractor paid	GAO wage survey results: Rate range (low-high)	Mean rate	Median rate	Majority rate	Differences between GAO's rate and Labor's rate: Amount/(percent) Mean	Median	Majority
Truckdriver	$5.23	$5.23	$3.05-$5.74	$4.02	$3.92	None	$+1.21 (30.1)	$+1.31 (33.4)	N/A
Laborer	4.52	4.52	2.78---4.19	3.42	3.55	None	+1.10 (32.2)	+.97 (27.3)	N/A

Locality covered by wage determination: Prince George County, Virginia

Locality of contract performance: Fort Lee in Prince George County

Locality covered by GAO wage survey: Prince George, Dinwiddie, and Chesterfield Counties, Virginia; cities of Colonial Heights, Hopewell, and Petersburg, Virginia

Date of GAO wage survey data: 5/79 (Month before wage determination issue date)

Basis for Labor's issued wage rates: Wage rates in previous Revision 5 were increased by a percentage factor derived from BLS wage survey data for unskilled plant workers.

Potential cost impact:

Total contract cost of $347,984 was $20,203 to $20,494 (6.2 to 6.3 percent) higher than it might have been if GAO's survey mean or median rates, respectively, had applied to the contract.

APPENDIX X

GAO WAGE SURVEY NO. 22

LABOR WAGE DETERMINATION NO. & DATE: 76-1261, Revision 3 (note a) 12/10/79

TYPE OF SERVICE: Hospital Aseptic Management TYPE OF DETERMINATION: Section 4(c)

Job classification surveyed	Rate Labor issued	Rate contractor paid	GAO wage survey results: Rate range (low-high)	Mean rate	Median rate	Majority rate	Differences between GAO's rate and Labor's rate: Amount/(percent): Mean	Median	Majority
Housekeeping group leader	$5.54	$5.54	$4.13-$7.92	$5.72	$5.95	None	$-.18 (3.1)	$-.41 (6.9)	N/A
Housekeeping aide	5.14	5.14	3.25--6.43	4.42	4.12	None	+.72 (16.3)	+1.02 (24.8)	N/A

Locality covered by wage determination: Andrews Air Force Base in Prince Georges County, Maryland

Locality of contract performance: Andrews Air Force Base

Locality covered by GAO wage survey: Prince Georges County

Date of GAO wage survey data: 11/79 (Month before wage determination issue date)

Basis for Labor's issued wage rates: Predecessor (incumbent) contractor's collective bargaining agreement rates, pursuant to section 4(c) of SCA.

Potential cost impact:

Option year contract cost for 1980 of $785,479 was $55,692 to $77,607 (7.6 to 11.0 percent) higher than it might have been if GAO's survey mean or median rates, respectively, had applied to the contract.

a/Revision 2 of this wage determination, dated 1/24/79, was included in our sample; however, because we believed most surveyed employers would not have retained wage records for the desired survey month of 12/78, we decided to make our survey using Revision 3 and the month of 11/79 as the basis for our wage rate comparisons. In this regard, Revision 3 was incorporated into the awarded contract by amendment and applied to the 1980 contract option year.

APPENDIX X

GAO WAGE SURVEY NO. 23

LABOR WAGE DETERMINATION NO. & DATE: 73-1393, Revision 4 5/29/79

TYPE OF SERVICE: Tug and Towing TYPE OF DETERMINATION: Section 4(c)

Job classification surveyed	Rate Labor issued	Rate contractor paid	GAO wage survey results: Rate range (low-high)	Mean rate	Median rate	Majority rate	Differences between GAO's rate and Labor's rate: Amount/(percent) Mean	Median	Majority
Captain	$8.30	a/$8.30	$5.00-$10.42	$7.92	$7.78	None	$+.38 (4.8)	$+.52 (6.7)	N/A
Engineer	8.30	a/8.30	4.58 - 8.50	6.74	6.67	None	+1.56 (23.1)	+1.63 (24.4)	N/A
Mate	7.26	a/7.26	5.42 - 7.92	6.68	7.08	None	+.58 (8.7)	+.18 (2.5)	N/A
Deckhand	6.67	a/6.67	3.58 - 6.67	5.09	5.00	None	+1.58 (31.0)	+1.67 (33.4)	N/A

Locality covered by wage determination: Hampton Roads, Virginia

Locality of contract performance: Hampton Roads area and contiguous intrastate waters

Locality covered by GAO wage survey: Hampton Roads area

Date of GAO wage survey data: 4/79 (Month before wage determination issue date)

Basis for Labor's issued wage rates: Predecessor (incumbent) contractor's collective bargaining agreement rates, pursuant to section 4(c) of SCA.

Potential cost impact:

Total contract cost of $570,048 was $7,500 to $7,688 (1.3 to 1.4 percent) higher than it might have been if GAO's survey median or mean rates, respectively, had applied to the contract.

a/These were the hourly rates the contractor had agreed to pay its employees in these job classifications during the period October 1, 1978, to September 30, 1979, pursuant to its collective bargaining agreement. Our review of the contractor's payroll records in July 1980, about mid-way through the contract performance period (November 16, 1979, to November 15, 1980), disclosed that the contractor was paying the following rates: Captain and engineer, $9.20; mate, $8.06; and deckhand, $7.40, reflecting the agreement's second-year wage rates plus a required cost-of-living adjustment.

APPENDIX X

GAO WAGE SURVEY NO. 24

LABOR WAGE DETERMINATION NO. & DATE: 68-525, Revision 12 7/26/79

TYPE OF SERVICE: Security

TYPE OF DETERMINATION: General

Job classification surveyed	Rate Labor issued	Rate contractor paid	GAO wage survey results: Rate range (low-high)	Mean rate	Median rate	Majority rate	Differences between GAO's rate and Labor's rate: Amount/(percent) Mean	Median	Majority
Security guard	$4.52	$4.52	$2.90-$6.53	$3.60	$3.35	None	$+.92 (25.6)	$+1.17 (34.9)	N/A

Locality covered by wage determination: Durham, Orange, and Wake Counties, North Carolina

Locality of contract performance: Environmental Protection Agency facilities in Durham and Research Triangle Park (Durham County) and in Chapel Hill (Orange County)

Locality covered by GAO wage survey: Durham, Orange, and Wake Counties

Date of GAO wage survey data: 6/79 (Month before wage determination issue date)

Basis for Labor's issued wage rate: An upward percentage adjustment was applied to the wage rate in the previous wage determination for this locality. The percentage adjustment was computed on the basis of BLS wage survey data.

Potential cost impact:

Option year contract cost for fiscal year 1980 of $429,924 was $51,539 to $65,544 (13.6 to 18.0 percent) higher than it might have been if GAO's survey mean or median rate, respectively, had applied to the contract.

APPENDIX X

GAO WAGE SURVEY NO. 25

LABOR WAGE DETERMINATION NO. & DATE: 74-961, Revision 8 11/28/78

TYPE OF SERVICE: Billeting (Lodging) TYPE OF DETERMINATION: General

Job classification surveyed	Rate Labor issued	Rate contractor paid	GAO wage survey results: Rate range (low-high)	Mean rate	Median rate	Majority rate	Differences between GAO's rate and Labor's rate: Amount/(percent) Mean	Median	Majority
Porter	$2.90	(a)	$2.90-$3.04	$2.99	$3.04	$3.04	$-.09 (3.0)	$-.14 (4.6)	$-.14 (4.6)
Bellhop	2.90	(a)	2.90--3.05	2.93	2.90	2.90	-.03 (1.0)	None	None
Yardworker	2.90	(a)	2.90--3.15	2.93	2.90	2.90	-.03 (1.0)	None	None
Maid	2.90	(a)	2.90--3.25	2.94	2.90	2.90	-.04 (1.4)	None	None
Housekeeper	2.90	(a)	2.95-4.375	3.52	3.49	None	-.62 (17.6)	-.59 (16.9)	N/A

Locality covered by wage determination: Cumberland, Durham, Guilford, Orange, and Wake Counties, North Carolina

Locality of contract performance: Fayetteville (Cumberland County) area

Locality covered by GAO wage survey: Fayetteville area

Date of GAO wage survey data: 5/79 (Month before date Labor responded to the agency with the issued determination)

Basis for Labor's issued wage rates: FLSA minimum wage rate as of 1/1/79.

Potential cost impact:

Not applicable. Labor's issued wage rates were the same as or below those GAO found to be prevailing in the locality.

a/Twelve employees were used on the awarded contract, all of whom were paid at or above the issued wage rates.

APPENDIX X

RESULTS OF GAO'S

FRINGE BENEFIT SURVEYS

GAO wage survey number	Wage determination number (issue date) and type of benefit	Labor's basis for issued fringe benefits: Collective bargaining agreement	Labor's basis for issued fringe benefits: BLS data or other basis	In comparison to Labor's issued determination, the prevailing fringe benefits were found to be: Higher	About same or higher	About same	About same or lower	Lower	None or not applicable
1.	74-180, Rev. 7 (8/24/79):	X							
	Health and welfare							X	
	Paid holidays								X
	Paid vacations							X	
	Other benefits								X
	Overall benefits							X	
2.	76-945, Rev. 3 (4/6/79):		X						
	Health and welfare			X					
	Paid holidays			X					
	Paid vacations			X					
	Other benefits					X			
	Overall benefits			X					

APPENDIX XI

GAO wage survey number	Wage determination number (issue date) and type of benefit	Labor's basis for issued fringe benefits: Collective bargaining agreement	Labor's basis for issued fringe benefits: BLS data or other basis	In comparison to Labor's issued determination, the prevailing fringe benefits were found to be: Higher	About same or higher	About same	About same or lower	Lower	None or not applicable
3.	76-856, Rev. 2 (8/30/78):		X						
	Health and welfare							X	
	Paid holidays							X	
	Paid vacations							X	
	Other benefits					X			
	Overall benefits							X	
4.	78-292, Rev. 1 (7/16/79):		X						
	Health and welfare							X	
	Paid holidays							X	
	Paid vacations							X	
	Other benefits								X
	Overall benefits							X	
5.	76-176, Rev. 2 (5/7/79):	X							
	Health and welfare							X	
	Paid holidays							X	
	Paid vacations							X	
	Other benefits							X	
	Overall benefits							X	

APPENDIX XI

GAO wage survey number	Wage determination number (issue date) and type of benefit	Labor's basis for issued fringe benefits: Collective bargaining agreement	Labor's basis for issued fringe benefits: BLS data or other basis	In comparison to Labor's issued determination, the prevailing fringe benefits were found to be: Higher	About same or higher	About same	About same or lower	Lower	None or not applicable
6.	76-382, Rev. 4 (7/31/79):	X							
	Health and welfare							X	
	Paid holidays							X	
	Paid vacations							X	
	Other benefits								X
	Overall benefits							X	
7.	72-83, Rev. 9 (5/7/79):		X						
	Health and welfare							X	
	Paid holidays					X			
	Paid vacations				X				
	Other benefits			X					
	Overall benefits					X			
8.	76-55, Rev. 5 (6/21/79):		X						
	Health and welfare			X					
	Paid holidays							X	
	Paid vacations					X			
	Other benefits								X
	Overall benefits					X			

APPENDIX XI

CAO wage survey number	Wage determination number (issue date) and type of benefit	Labor's basis for issued fringe benefits: Collective bargaining agreement	Labor's basis for issued fringe benefits: BLS data or other basis	In comparison to Labor's issued determination, the prevailing fringe benefits were found to be: Higher	About same or higher	About same	About same or lower	Lower	None or not applicable
9.	74-1242, Rev. 8 (12/11/79):		X						
	Health and welfare							X	
	Paid holidays					X			
	Paid vacations							X	
	Other benefits								X
	Overall benefits							X	
10.	76-379, Rev. 3 (7/2/79):	X							
	Health and welfare							X	
	Paid holidays							X	
	Paid vacations							X	
	Other benefits			X					
	Overall benefits							X	
11.	78-1151, Rev. 1 (7/3/79):	X							
	Health and welfare							X	
	Paid holidays							X	
	Paid vacations							X	
	Other benefits							X	
	Overall benefits							X	

APPENDIX XI

GAO wage survey number	Wage determination number (issue date) and type of benefit	Labor's basis for issued fringe benefits: Collective bargaining agreement	Labor's basis for issued fringe benefits: BLS data or other basis	In comparison to Labor's issued determination, the prevailing fringe benefits were found to be: Higher	About same or higher	About same	About same or lower	Lower	None or not applicable
12.	78-213, Rev. 1 (1/9/79):	X							
	Health and welfare						X		
	Paid holidays					X			
	Paid vacations						X		
	Other benefits				X				
	Overall benefits						X		
13.	76-1351 (12/2/76):		X						
	Health and welfare								X
	Paid holidays								X
	Paid vacations								X
	Other benefits								X
	Overall benefits								X
14.	66-262, Rev. 15 (6/5/79):		X						
	Health and welfare								X
	Paid holidays							X	
	Paid vacations					X			
	Other benefits					X			
	Overall benefits							X	

APPENDIX XI

GAO wage survey number	Wage determination number (issue date) and type of benefit	Labor's basis for issued fringe benefits: Collective bargaining agreement	Labor's basis for issued fringe benefits: BLS data or other basis	In comparison to Labor's issued determination, the prevailing fringe benefits were found to be: Higher	About same or higher	About same	About same or lower	Lower	None or not applicable
15.	68-499, Rev. 11 (8/20/79):	X							
	Health and welfare					X			
	Paid holidays					X			
	Paid vacations					X			
	Other benefits					X			
	Overall benefits					X			
16.	74-983, Rev. 4 (8/20/79):		X						
	Health and welfare			X					
	Paid holidays				X				
	Paid vacations			X					
	Other benefits			X					
	Overall benefits			X					
17.	76-132, Rev. 5 (5/23/79):		X						
	Health and welfare				X				
	Paid holidays					X			
	Paid vacations			X					
	Other benefits			X					
	Overall benefits			X					

APPENDIX XI

GAO wage survey number	Wage determination number (issue date) and type of benefit	Labor's basis for issued fringe benefits: Collective bargaining agreement	Labor's basis for issued fringe benefits: BLS data or other basis	In comparison to Labor's issued determination, the prevailing fringe benefits were found to be: Higher	About same or higher	About same	About same or lower	Lower	None or not applicable
18.	79-167, Rev. 1 (7/2/79):	X							
	Health and welfare							X	
	Paid holidays							X	
	Paid vacations							X	
	Other benefits							X	
	Overall benefits							X	
19.	72-70, Rev. 8 (4/9/79):		X						
	Health and welfare			X					
	Paid holidays				X				
	Paid vacations			X					
	Other benefits								X
	Overall benefits			X					
20.	74-1006, Rev. 5 (9/13/79):	X							
	Health and welfare							X	
	Paid holidays							X	
	Paid vacations							X	
	Other benefits							X	
	Overall benefits							X	

APPENDIX XI

GAO wage survey number	Wage determination number (issue date) and type of benefit	Labor's basis for issued fringe benefits: Collective bargaining agreement	Labor's basis for issued fringe benefits: BLS data or other basis	In comparison to Labor's issued determination, the prevailing fringe benefits were found to be: Higher	About same or higher	About same	About same or lower	Lower	None or not applicable
21.	73-301, Rev. 6 (6/29/79):		X						
	Health and welfare			X					
	Paid holidays			X					
	Paid vacations						X		
	Other benefits								X
	Overall benefits				X				
22.	76-1261, Rev. 3 (12/10/79):	X							
	Health and welfare							X	
	Paid holidays						X		
	Paid vacations			X					
	Other benefits								X
	Overall benefits							X	
23.	73-1393, Rev. 4 (5/29/79):	X							
	Health and welfare							X	
	Paid holidays							X	
	Paid vacations							X	
	Other benefits						X		
	Overall benefits							X	

APPENDIX XI

GAO wage survey number	Wage determination number (issue date) and type of benefit	Labor's basis for issued fringe benefits: Collective bargaining agreement	Labor's basis for issued fringe benefits: BLS data or other basis	In comparison to Labor's issued determination, the prevailing fringe benefits were found to be: Higher	About same or higher	About same	About same or lower	Lower	None or not applicable
24.	68-525, Rev. 12 (7/26/79):		X						
	Health and welfare							X	
	Paid holidays							X	
	Paid vacations							X	
	Other benefits						X		
	Overall benefits							X	
25.	74-961, Rev. 8 (11/28/78):		X						
	Health and welfare					X			
	Paid holidays					X			
	Paid vacations			X					
	Other benefits					X			
	Overall benefits				X				
Summary - all surveyed localities:									
	Health and welfare			5	1	2	1	14	2
	Paid holidays			2	2	6	1	12	2
	Paid vacations			6	1	3	2	12	1
	Other benefits			4	1	5	2	4	9
	Overall benefits	11	14	4	2	3	1	14	1

APPENDIX XI

GAO wage survey number	Wage determination number (issue date) and type of benefit	Labor's basis for issued fringe benefits: Collective bargaining agreement	Labor's basis for issued fringe benefits: BLS data or other basis	In comparison to Labor's issued determination, the prevailing fringe benefits were found to be: Higher	About same or higher	About same	About same or lower	Lower	None or not applicable
Summary - determinations based on collective bargaining agreements:									
	Health and welfare			-	-	1	1	9	-
	Paid holidays			-	-	2	1	7	1
	Paid vacations			1	-	1	1	8	-
	Other benefits			1	1	1	1	4	3
	Overall benefits	11	-	-	-	1	1	9	-
Summary - determinations based on BLS data or other bases:									
	Health and welfare			5	1	1	-	5	2
	Paid holidays			2	2	4	-	5	1
	Paid vacations			5	1	2	1	4	1
	Other benefits			3	-	4	1	-	6
	Overall benefits	-	14	4	2	2	-	5	1

APPENDIX XI

GAO'S ANALYSIS OF LABOR'S EXCEPTIONS TO USE OF THE $.32 NATIONWIDE HEALTH AND WELFARE BENEFIT RATE

Labor makes seven exceptions to its use of the $.32 nationwide health and welfare benefit rate. These exceptions involve Federal service contracts

--for laundry and drycleaning,

--for major support activities,

--at certain DOD and NASA installations determined by Labor to be Federal enclaves,

--performed in Hawaii,

--for the types of work performed by the construction industry,

--performed by State and local governments or certain sole-source contractors, and

--performed by service workers paid at or near the FLSA minimum wage.

Following is a discussion and analysis of each of these exceptions.

LOWER NATIONWIDE RATE ISSUED FOR LAUNDRY AND DRYCLEANING EMPLOYEES

According to Labor officials, a lower nationwide health and welfare benefit rate is applied to laundry and drycleaning service contracts because nationwide historical data support lower wages and benefits being paid to employees on such contracts. Over the past 14 years, Labor has issued three health and welfare benefit hourly rates covering laundry and drycleaning service employees, as indicated in the following schedule:

Date issued	Hourly rate	BLS study used
10/4/68	$.06	Private Nonfarm Economy
3/20/70	.02	Employee Compensation and Payroll Hours: Laundries and Cleaning and Dyeing Plants
2/11/80	.09	Private Nonfarm Economy

Although data were available in 1967 on a national, metropolitan, and regional basis 1/ showing that some level of health and welfare benefits was generally provided to laundry and drycleaning employees, no data were available on the employers' costs of those fringe benefits other than on an all-industries or national level. Thus, Labor's original issued rate of $.06 an hour in late 1968, which was applied nationwide to most SCA determinations, including those for laundry and drycleaning employees, was based on the national average employer expenditure for life, accident, and health insurance for all classes of nonoffice employees, as reported in a 1966 BLS Private Nonfarm Economy survey. But, in March 1970, after BLS published a special report on wages and fringe benefits paid specifically to employees in the laundry, drycleaning, and dyeing industry 2/ which supported a reduction in benefits, Labor lowered the nationwide rate to $.02 an hour.

However, the current rate of $.09 an hour, adopted in February 1980, was not based on that special industrywide report because BLS did not update and reissue it. Because undated special industry data were not available, Labor assumed that the rate of change (increase) in the ratio of health and welfare benefit costs to average hourly earnings for the laundry and drycleaning industry was the same as that for the private nonfarm economy as a whole and adjusted the laundry and drycleaning rate accordingly.

MUCH HIGHER RATE ISSUED FOR EMPLOYEES ON "MAJOR SUPPORT" CONTRACTS

Since at least 1973, Labor has been issuing a special, much higher nationwide health and welfare benefits rate per hour for proposed Federal contracts on which Labor assumes the support services will be of a significant nature--i.e., high contract dollar value and large number of employees required. Also, the special rate applies when the level of competition may consist of nationally recognized major contractors. The contracts are usually to provide major support services for DOD and NASA missions and installations.

These benefits are expressed in the determinations in terms of the employer's average costs per hour per employee, computed on the basis of all employees (or alternatively, all service employees) working on the contract. The benefit level (average cost per hour) is developed from the average nationwide expenditures for selected compensation (fringe benefit) items, such as

---

1/BLS Bulletin No. 1544, "Industry Wage Survey: Laundry and Cleaning Services, Mid-1966" (May 1967).

2/BLS Report No. 367, "Employee Compensation and Payroll Hours, Laundries and Cleaning and Dyeing Plants, 1967" (Nov. 1969).

various types of insurance, pensions, and severance pay, as reported in BLS' Private Nonfarm Economy surveys.

Labor originally developed this rate concept, in cooperation with contracting agencies, contractors, and trade associations, to take into account (1) the multiple fringe benefit practices among major Government service contractors, (2) the fact that such contractors' employees are generally furnished levels of benefits higher than those provided by most service contractors, and (3) the adverse impact Labor's fixed-amount-per-hour approach was having on major contractors' health and welfare plans. The current health and welfare rate applied to major support contracts is $1.08 an hour.

SPECIAL RATES IMPOSED ON SERVICE CONTRACTORS AT FEDERAL "ENCLAVES"

At certain DOD and NASA installations deemed by Labor to be Federal "enclaves," Labor imposes special fringe benefit rates on all service contracts employing non-unionized service workers. Such fringe benefits exceed not only those prevailing in the surrounding localities, but also those imposed on the so-called "major support" contracts.

For example, at the Federal installations in Brevard County, Florida--which include NASA's Kennedy Space Center, Patrick Air Force Base, Cape Canaveral Air Force Station, and the Eastern Test Range Satellite Sites--Labor is imposing an "enclave" health and welfare rate of $1.16 an hour for all non-unionized service workers employed on Federal service contracts. This $1.16 rate was originally established in January 1977 for application to Kennedy Space Center and was later extended to the other facilities within the Federal "enclave." At that time, Labor's nationwide health and welfare rate for major support contracts was $.67 an hour, or about 42 percent less, and its nationwide rate for most wage determinations in Brevard County and elsewhere in the continental United States was $.21 an hour, or about 82 percent less.

Supporting documents in Labor's docket file for fringe benefit (and wage rate) determinations at the Kennedy space complex showed that Labor derived the $1.16 rate by computing the weighted average hourly rate for health and welfare benefits paid by 15 incumbent service contractors within the enclave to their 4,863 union and 873 non-union service workers. Our analysis of Labor's supporting data showed that the $1.16 rate was higher than the collective bargaining agreement rates applicable to 59 percent of the service workers in the enclave covered by union agreements.

SPECIAL RATE GENERALLY APPLIED IN HAWAII

For general wage determinations covering proposed service contracts in Hawaii, Labor applies a special low health and

welfare benefit rate of $.055 an hour. This rate, which is even lower than the current $.09 nationwide rate applied to laundry and drycleaning service contracts, was adopted in 1970 on the basis of a Hawaii Employers' Council survey of employee benefit plans in Hawaii that showed such benefits were made available to the majority of surveyed workers. In 1981, Labor was still applying this $.055 rate in all determinations covering services in Hawaii except those Labor deemed to be "major support" services, to which it applied the much higher $1.08 rate.

RATES BASED ON DAVIS-BACON ACT WAGE DECISIONS FOR CONSTRUCTION WORKERS ADOPTED FOR CERTAIN SERVICE CONTRACTS

According to Labor's draft manual of policies and procedures 1/ and as we pointed out in chapter 3 (see p. 25), wage rates and fringe benefits in issued Davis-Bacon Act wage decisions are considered appropriate for adoption under SCA when:

> "* * * the Federal agency contract, although within the purview of this Act, involves work of the type ordinarily provided by firms within the construction industry and/or work which typically and historically is of a type performed by construction related employees."

Our analysis of Labor SCA wage determination procedures disclosed that, when Labor bases its determinations on existing Davis-Bacon Act wage decisions applicable to construction workers, it issues either very high fringe benefit rates or none at all, regardless of the fringe benefits that may otherwise prevail for service workers in the specified locality.

For example, during the first 3 months of 1981, Labor issued at least 23 new wage determinations based on Davis-Bacon Act wage decisions. Twelve of the 23 contained fringe benefit rates for individual job classifications ranging from $.50 to $6.54 an hour. Ten determinations did not impose any fringe benefit requirements on prospective contractors. The other determination, covering Army Corps of Engineers contracts for "services to protect life and property during floods" in Idaho, Montana, and Washington, cited three statewide Davis-Bacon Act wage decisions for the respective States and pointed out that the wage rates and fringe benefits in those decisions would be applicable. Specific job classifications, wage rates, and fringe benefits were not listed on the issued SCA determination.

1/See footnote on page 10.

CONTRACTORS' EXISTING FRINGE BENEFITS ADOPTED AS PREVAILING FOR CERTAIN SCA DETERMINATIONS LABOR ISSUES

For SCA determinations covering service contracts with State or local government agencies or instrumentalities and with certain sole-source contractors, Labor's practice is to accept and adopt the existing fringe benefits (and wages) paid by them to their service employees. Such determinations do not cite specific wage and fringe benefit rates. Instead, they will typically contain a statement similar to the following:

> "The wage rates and fringe benefits paid by the * * * [State or local agency or specified contractor] to employees engaged in the performance of the above contract are adopted as prevailing for the purposes of this determination."

Two of the 150 determinations in our sample, covering services to be provided by local government agencies in New Mexico and North Carolina, contained this type of statement in lieu of citing specific rates. Both determinations, however, contained an additional stipulation requiring wage rates no less than the FLSA minimum wage.

NO FRINGE BENEFITS INCLUDED IN CERTAIN DETERMINATIONS CITING WAGES AT OR NEAR THE FLSA MINIMUM

For certain SCA wage determinations that cite wage rates at or near the FLSA minimum wage, Labor does not include any fringe benefit requirements. Seven of the 150 determinations in our sample, citing the FLSA minimum wage, did not contain fringe benefit rates. Of the seven determinations, three were for food and lodging services. The other four involved food concession, barber/beautician, musician, and clerical services.

FEDERAL ENTITIES AND NON-FEDERAL ORGANIZATIONS THAT GAO ASKED TO REVIEW AND COMMENT ON DRAFT REPORT

FEDERAL ENTITIES

1. Office of Management and Budget
2. Presidential Task Force on Regulatory Relief
3. Department of Defense
4. Department of Energy
5. Department of Labor
6. General Services Administration
7. National Aeronautics and Space Administration
8. U.S. Postal Service
9. Veterans Administration

NON-FEDERAL ORGANIZATIONS

1. American Federation of Labor and Congress of Industrial Organizations
2. Chamber of Commerce of the United States
3. Coalition for Common Sense in Government Procurement
4. Committee on Contracting Out
5. Computer and Business Equipment Manufacturers Association
6. Institute of Electrical and Electronics Engineers
7. International Brotherhood of Teamsters, Chauffeurs, Warehousemen and Helpers of America
8. National Contract Management Association
9. National Council of Technical Service Industries
10. Scientific Apparatus Makers Association

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

SEP 17 1982

Honorable Charles A. Bowsher
Comptroller General of the
United States
Washington, D.C. 20548

Dear Mr. Bowsher:

You have requested our comments on a draft of your proposed report to Congress entitled, "The Service Contract Act Should be Repealed." The report is a careful analysis and detailed compilation of some of the problems associated with administering the Service Contract Act. However, the report's recommendation--that the Act should be repealed--appears premature, because, as the report itself points out, the Department of Labor is currently in the midst of making changes in its regulations that would correct or alleviate many of the problems of coverage and administration of the Act. The Department of Labor estimates that these changes would produce federal contract savings of about $240 million annually.

Under E.O. 12291 the Department of Labor must submit its final proposed changes to OMB 30 days prior to publication in the Federal Register. At that time, the proposed changes will be reviewed for consistency with the regulatory principles of the E.O. 12291. Since we are a part of this ongoing rulemaking process, it would be inappropriate for us to comment more specifically on your report at this time.

Sincerely,

Joseph R. Wright, Jr.
Deputy Director

APPENDIX XV

U.S. Department of Labor

Deputy Under Secretary for
Employment Standards
Washington, D.C. 20210

AUG 20 1982

Mr. Gregory J. Ahart
Director
Human Resources Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Ahart:

This is in reply to your letter to the Secretary requesting comments on the draft GAO report entitled: "The Service Contract Act Should Be Repealed."

The Department's response is enclosed.

The Department appreciates the opportunity to comment on this report.

Sincerely,

Robert B. Collyer
Deputy Under Secretary

Enclosure

APPENDIX XV

U.S. Department of Labor's Response to the Draft General Accounting Office Report Entitled---

"The Service Contract Act Should Be Repealed"

The Department is appreciative of GAO's recognition in this draft report of the difficulties of administering the Service Contract Act as well as the acknowledgement that the proposed changes to the Act's Regulations would go far to improve the Act's administration and more accurately reflect Congressional intent. However, there is concern with the lack of an adequately documented and substantiated basis to support the report's conclusion that the Act should be repealed.

According to the draft report, GAO began this study in October 1979 and completed their analysis in November 1981. The draft report is dated July 19, 1982, so this effort has thus far taken approximately three years. The major basis for recommending repeal is a result of a focused review of a total of 25 wage determinations. DOL issues approximately 6,000 wage determinations annually. GAO acknowledges that the size of their sample and their methodology precludes any meaningful results. On page 50, the report states "we cannot statistically project our sample results to Labor's universe of issued determinations because of the limited numbers of wage determinations in our sample and the sampling methodologies used". Even though GAO itself considers the results to be inconclusive, the report concludes with a recommendation for repeal.

With respect to GAO's survey sample, the Department is troubled by the selection techniques GAO utilized. While SCA determinations are issued for locations throughout the country, GAO's small sample was somewhat concentrated in "Sun Belt" states. No explanation is provided for the concentration in these states.

Although GAO does not clearly explain the methodology or guidelines utilized in conducting its own prevailing wage surveys, it does say that it disregarded the requirements in section 2(a)(5) of the Act to give "due consideration" to the wages which would have been paid service workers if they had been "direct hire" federal employees. Irrespective of whether GAO otherwise used the same rules DOL uses in conducting wage surveys, omitting this statutorily mandated consideration could result in different prevailing wages.

As best as can be asceratained from the report, GAO has also overlooked the fact that at least eight of the 25 wage determinations sampled were issued in accordance with section 4(c) of the Act which mandates, in general, that successor contractors pay no less than the wage rates and

fringes contained in a predecessor contractors' collective bargaining agreement, unless such rates or benefits are found, after a hearing, to be "substantially at variance" with those prevailing in the locality.

Thus, a comparison between DOL's 4(c) determinations and GAO's prevailing wage determinations is an "apples and oranges" comparison. Under the statutory mandate of the Act, the Department can only modify the rates to be paid by a successor contractor, if there is a hearing. GAO does not explain why the contracting agencies or contractors who appear to have taken exception to the rates in these determinations did not pursue their prerogatives to request "substantial variance" hearings as provided for in the statute and the regulations.

Finally, in reaching the conclusion that the Act be repealed, GAO did not give any consideration to the benefits derived from the Service Contract Act to the Government, contractors, and the affected employees.

Conclusion

Whether or not the public interest would be best served by repealing the Service Contract Act, as recommended by GAO, is a decision which should be well documented, based on substantial facts and supported by firm data. The Department does not find sufficient foundation in the report to conclude whether or not repeal of the Act is in order and therefore, makes no comment on that legislative recommendation.

THE UNDER SECRETARY OF DEFENSE
WASHINGTON, D.C. 20301

RESEARCH AND
ENGINEERING

8 SEP 1982

Mr. Gregory J. Ahart
Director, Human Resources Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Ahart:

This is in reply to your letter of July 19 to the Secretary of Defense forwarding for comment a draft report, "The Service Contract Act Should Be Repealed." Code 201540 (OSD Case #5536-B)

Your report recommends that Congress repeal the Service Contract Act. The report states, among other matters, that wage rates set under the Act are generally inflationary, accurate determinations of prevailing wage rates cannot be made using existing data sources, and the Act cannot be administered in an efficient manner. As you suggest, the Fair Labor Standards Act and administrative procedures, implemented through the Federal procurement process, could provide a measure of wage and benefit protection to contractor employees if the Act is repealed.

We are in general agreement with the findings in the report and have supported for some time revision of the implementing regulations issued by the Department of Labor (DOL). As your report notes, the DOL is proposing revised regulations, but, although these would improve application of the Act, major underlying problems would remain unresolved.

While we favor the thrust of your recommendation, we defer to the Office of Management and Budget for the Administration's position on outright repeal. We appreciate the opportunity to comment on the report.

Sincerely,

James P. Wade, Jr.
Principal Deputy Under Secretary
of Defense for Research and Engineering

APPENDIX XVII

NASA

National Aeronautics and
Space Administration

Washington, D.C.
20546

Reply to Attn of N

AUG 17 1982

Mr. W. H. Sheley, Jr.
Director
Mission Analysis and Systems
Acquisition Division
U.S. General Accounting Office
Washington, DC 20548

Dear Mr. Sheley:

Thank you for the opportunity to review the draft GAO report entitled, "The Service Contract Act Should be Repealed." Specific agency comments are provided in the enclosure to this letter.

Sincerely,

Walter B. Olstad
Associate Administrator
for Management

Enclosure

GAO DRAFT REPORT ENTITLED, "THE SERVICE CONTRACT ACT SHOULD BE REPEALED," CODE 201540

Senior managers of NASA who are familiar with the Service Contract Act (SCA) have reviewed your study report and have held informal meetings with members of the GAO staff. Mr. Beggs has asked that I assemble their comments and respond on this matter.

Essentially all maintenance, operation and program support at the various NASA centers are accomplished through support service contracts subject to the Service Contract Act. As you know, the current $2,500 SCA threshold will buy less than one-sixth of a man year of effort which means that most purchase orders for services up to $10,000 are covered by the Act. We suggest that the GAO consider expanding its study to include the substantial costs associated with the administration of the Act by DOL, agencies and contractors. This study should also evaluate raising the present threshold of contracts subject to the Act.

Our experience with the SCA is generally in accord with your analysis of the Department of Labor (DOL) methodology in making wage determinations and their limited data base. We

agree with your conclusions that the SCA is very complex in its present form and we believe that the lack of resources of the DOL has not allowed the Act to accomplish the original intent of Congress. We generally concur with the findings of your draft report; however, we have serious concerns regarding your suggested administrative policies which would substitute the SCA protection of wages and fringes for all service employees. NASA representatives in their meeting with members of your staff explained in great detail the problems associated with applying the current procurement policy for professional employees to all of the employees now covered by the SCA.

We would not oppose repeal of the SCA provided that a phase-in plan be established which would provide reasonable protection for the service employees and have some assurance that the agencies would not require their contractors to pay excessive labor rates and fringes compared to those for similar services in the private sector. It is our opinion that any sudden repeal of SCA without an interim phase-in plan could cause serious labor problems among our contractors which would be disruptive to the major programs of the agency. We recommend

that the GAO consider a phase-in plan which would stay the repeal of SCA until a study group completed an in-depth study of various alternatives and made formal recommendations. We would suggest that this committee would include members with extensive expertise in this field from management, government and possibly public members. Some of the alternatives to be studied could include:

(1) Continue SCA and reduce the scope of coverage and increase DOL resources.

(2) Repeal Sec. 4(c) and continue SCA with reduced scope of coverage.

(3) Repeal SCA and legislate new statutes that would provide wage protection to service employees by establishing minimum rates paid in the various industries on a State or Regional basis.

(4) Any alternative should only be applicable to service contracts in excess of $500,000.

(5) Any other alternatives or recommendations that would provide reasonable protection to service employees as well as the Federal Government.

APPENDIX XVII

NASA would be happy to participate and contribute any experience that would be helpful in such a committee.

We hope these comments will be helpful and if you have any further questions on this matter, please let me know.

Robert E. King
Director, Industrial Relations

APPENDIX XVIII

General
Services
Administration

Washington, DC 20405

AUG 20 1982

Honorable Charles A. Bowsher
Comptroller General of the United States
U.S. General Accounting Office
Washington, DC 20548

Dear Mr. Bowsher:

Thank you for the opportunity to comment on the draft General Accounting Office (GAO) report, "The Service Contract Act Should be Repealed."

The General Services Administration agrees with the draft report's major conclusions that: (1) inherent problems exist in the administration of the Service Contract Act which cannot be fully resolved through improvements in the Act's implementing regulations; (2) accurate wage rates and fringe benefits for incorporation in Federal contracts are difficult to obtain and are generally inflationary to the Government; and (3) alternative means are available to provide adequate wage and benefit protection for service employees which are preferable to the existing statutory mechanism. We, therefore, strongly endorse the draft report's primary recommendation that the Service Contract Act be repealed.

Sincerely,

Ray Kline
Deputy Administrator

APPENDIX XIX

Department of Energy
Washington, D.C. 20585

Mr. J. Dexter Peach
Director, Energy and Minerals Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Peach:

The Department of Energy (DOE) appreciates the opportunity to comment on the draft of a proposed report entitled "The Service Contract Act Should Be Repealed" by the Comptroller General to the Congress.

We neither question nor challenge the findings in the subject report that, under present circumstances, the Department of Labor does not have available to it the resources to develop data necessary to make accurate prevailing wage rate and fringe benefit determinations in many instances. However, the Service Contract Act and its administration have not caused the Department of Energy any major difficulties.

Sincerely,

William S. Heffelfinger
Assistant Secretary
Management and Administration

APPENDIX XX

**Office of the
Administrator
of Veterans Affairs**

**Veterans
Administration**

Mr. Gregory J. Ahart
Director, Human Resources Division
U.S. General Accounting Office
Washington, DC 20548

Dear Mr. Ahart:

Thank you for the opportunity to review the July 19, 1982, draft report, "The Service Contract Act Should Be Repealed." The report details the difficulties the Department of Labor (DOL) experiences in determining the prevailing wage rates and fringe benefits for service workers on Federal contracts over $2,500. As an alternative, GAO recommends that special procurement procedures be developed which would make contracting agencies responsible for determining a suitable compensation structure for each service contract.

Imposing such a requirement on each contracting agency would create an enormous administrative burden and incur significant costs. In addition, contracting officers who do not possess the necessary expertise to determine wages would require training.

Rather than repeal the Act, it would be more appropriate to adjust the dollar threshold at which the provisions of the Act become effective. I would suggest that the provisions become effective at the purchase threshold of $25,000, as proposed by the Uniform Federal Procurement System in their submission to the Congress pursuant to Public Law 96-83. With this method, the number of contract actions for which the DOL must set wage rates and fringe benefits would be substantially reduced, enabling DOL to administer the Act more efficiently and effectively.

If the Service Contract Act is not repealed as proposed by GAO, I believe that the data used to set wage rates and fringe benefits should be limited to service trades and crafts and should not include white collar wage and fringe benefit data. I would also suggest that rates of wages and benefits be established for each actual class of trade and craft rather than by general groupings.

Sincerely,

John P. Murphy
for and in the
absence of
ROBERT P. NIMMO
Administrator

THE POSTMASTER GENERAL
Washington DC 20260-0010

August 11, 1982

Dear Mr. Anderson:

This refers to your proposed report entitled, "The Service Contract Act Should Be Repealed," upon which you requested Postal Service comments.

Although the Postal Service's own experiences with the Act are not specifically discussed in the report, they are in conformity with your overall findings and we would benefit if the Act is repealed.

Sincerely,

William F. Bolger

Mr. William J. Anderson
Director, General
Government Division
U.S. General Accounting Office
Washington, D.C. 20548

American Federation of Labor and Congress of Industrial Organizations

815 Sixteenth Street, N.W.
Washington, D.C. 20006
(202) 637-5000

August 19, 1982

Hon. Charles A. Bowsher
Controller General
General Accounting Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Mr. Bowsher:

This is in response to your invitation to the American Federation of Labor and Congress of Industrial Organizations (AFL-CIO) to comment on a draft report titled "The Service Contract Act Should be Repealed." In essence, our reaction is that the draft report represents one political point of view rather than a balanced analysis of the Service Contract Act (SCA). The authors have emphasized the interests of the procurement community while ignoring the legitimate income maintenance and job security interests of workers directly employed by the government and those indirectly employed through service contractors -- the individuals Congress intended to protect in enacting the SCA.

The report (page 5) states that its purpose is to determine "whether the Service Contract Act is being administered in a manner that effectively fulfills its congressional intent of protecting the economic well-being of covered service workers..." The report then all but ignores this sound and constructive beginning and concentrates on the Act's cost to the government, the enforcement burden on procurement officers and the compliance problems of service contractors. It is as if a study of the crime of murder looked to the cost of maintaining the police, the difficulties of apprehending felons and the inconvenience the law enforcement system causes criminals. Because it proceeds the wrong way around, the report concludes that the economic security workers deserve is that provided by the provisions of the Fair Labor Standards Act which provides only the minimum wage and no job security or fringe benefits protections. In fact, the report's costing result is achieved by excluding from the calculation the basic protections provided workers by negotiated labor contracts and recognized by Subsection 4(c) of the SCA. This is done even though 12 of the wage determinatioins studied were based on Subsection 4(c)'s recognition of labor contract wages.

The report's authors state that "we cannot statistically project our sample results..." and then go ahead and make projections. This is only the beginning of the study's methodological imperfections; I note three more as illustrated. The report's data cannot be checked because the authors provide only sketchy information on the persons contacted. The definition of locality used in the report

GAO note: Page reference has been changed to correspond to page number in the final report.

for the purpose of a survey is not consistent; in some cases, it is an enclave, while in others, it is a county. Finally, there is no documentation as to actual wage rates obtained from each source and the weights assigned.

The only basis on which the authors claim that the study is representative is their own judgment and "discussions with numerous officials in and out of the government." We would appreciate the names of the "numerous officials in and out of the government contacted" who would stake their professional reputations on the validity and reliability of this report as it relates to the nation as a whole.

The "research" on which the report is based is at the least unintentionally biased. Although there are other examples, an analysis of Appendix VIII titled "Statistical Data on GAO Sampling of the Service Contract Act Wage Determinations" suffices to make the point.

These samples of Wage Determinations are the basis, to the extent there is one, for most of the report's conclusions. What is described as the "universe" from which the sample is drawn, includes 3,533 wage determinations. This "universe" is an arbitrary slice of the lowest wage portion of the country. The shaded area of the attached map represents the authors' "universe." At the time of this study, there were approximately 9,000 wage determinations in effect covering the entire country. Yet, GAO considers the "universe" to include only 3,533 such determinations from 21 so called "sunbelt" states. Given that there are 29 other states in this "universe" it would be interesting to know how it was determined that only southern tier states should be included and that all other states were to be considered outside of GAO's "universe."

The research methodology then uses "computer generated random samples" of the above preselected "universe." The computer, however, did not work alone, that admirable machine was instructed by the study's authors to pull 125 wage determinations per state from the following group of states -- Alabama, Florida, Georgia, South Carolina and Tennessee -- while for each of the other 4 groups drawn from the other 16 states the computer was instructed to pull 100. No explanation is provided for these groupings or for the weighting factor; none of any substance is apparent to us. The study's authors, not the computer, then pulled a second "random sample" of 30 from each of the foregoing 5 groups of states and then a second sub-sample of 5 from each of the groups. The result is that for the

APPENDIX XXII

purpose of analysis, the 5 wage determinations from the group consisting of Colorado, New Mexico and Utah are given the same weight as the five from Alabama, Florida, Georgia, South Carolina and Tennessee. This, despite the fact that there were one third as many wage determinations made in the first of these groups as in the second.

Another aspect of the studies' methodology that begs for explanations is the number of "enclave" determinations analyzed in Florida. The Department of Labor's use of the enclave concept has been a source of continual complaints by the NASA and DOD procurement community. Yet, the concept is used in relatively few situations and those are mostly in Florida. Our attention was drawn to the fact that while Florida's wage determinations were 33% of the total in GAO's "Regional Universe 'A'," those determinations turned out to be 60% of GAO's sub-sample for the Region. And of the three wage determinations GAO studied in Florida, two "just happened to be" enclave determinations from two separate areas.

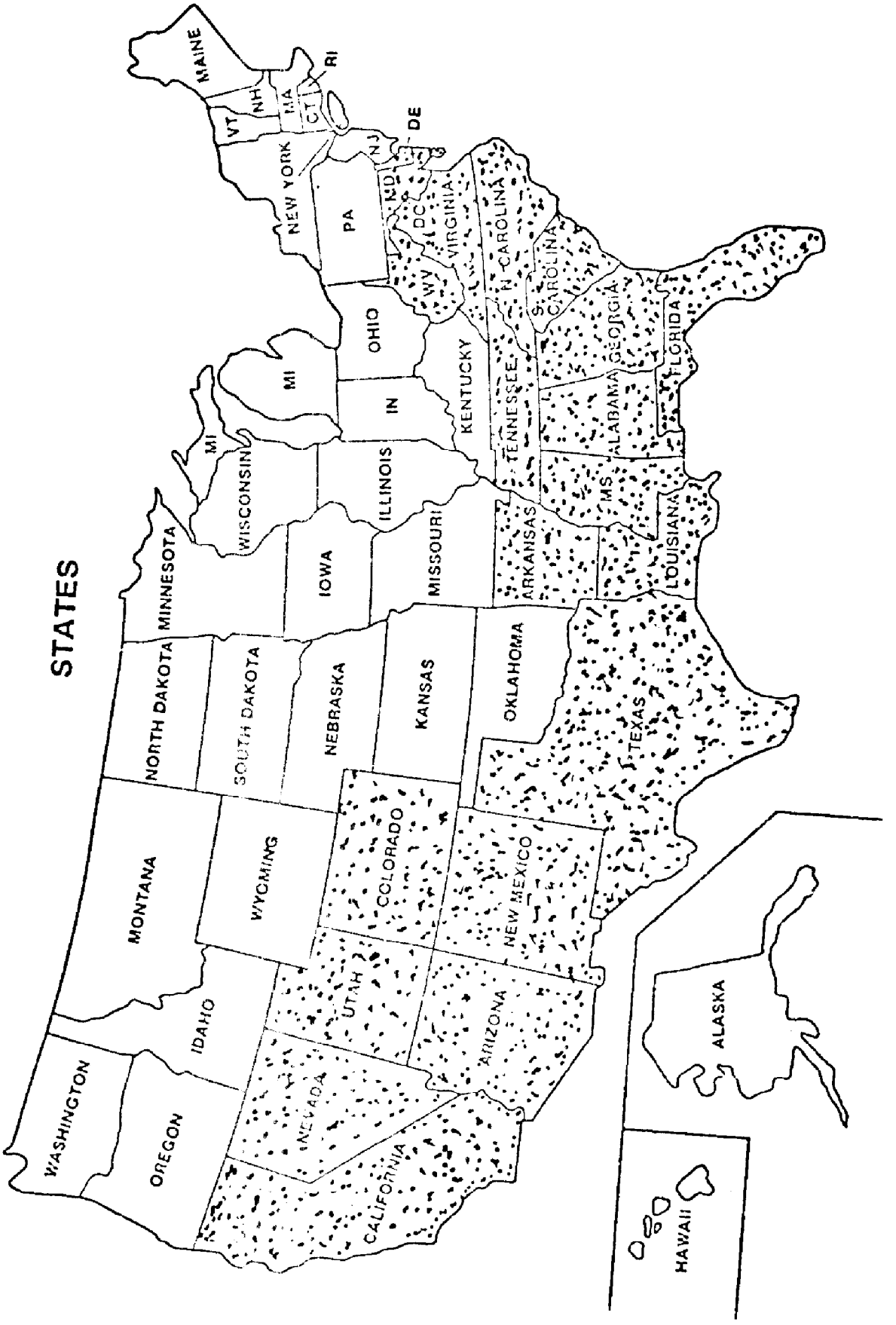
We checked with the Department of Labor and found that there were 359 wage determinations in Florida at the time in question (the report shows 308), and there were 51 enclave determinations in Breverd County, and 14 in Santa Rosa, Okaloosa and Walton Counties. These enclave determinations represent 23% of the wage determinations in Florida. Yet, the final drawing turned up 66% enclave wage determinations. Because the report does not give the criteria for sub-sample selection, an exact statement of the probability of the outcomes cannot be made. However, the simple statistical probability of the Florida sample containing two enclave determinations is about five in 100. Those odds provide more than a suspicion that the study was designed to yield a given result.

Publication and circulation of this type of shoddy and unbalanced work, we suggest, is not consistent with the General Accounting Office's responsibility to act as an impartial advisor to Congress.

Sincerely,

Lane Kirkland
President

APPENDIX XXII



APPENDIX XXIII

THE INSTITUTE OF ELECTRICAL AND ELECTRONICS ENGINEERS, INC.
UNITED STATES ACTIVITIES BOARD

1111 - 19th. Street, NW
Washington, D.C. 20036
(202) 785-0017

Telecopier: (202) 785-0835
USAB Information Line: (202) 785-2180

August 20, 1982

Gregory J. Ahart
Director
Human Resources Division
U.S. General Accounting Office
Washington, D.C. 20548

RE: GAO Draft Report: "The Service Contract Act Should Be Repealed"

Dear Director Ahart:

The Institute of Electrical and Electronics Engineers, Inc. (IEEE), the world's largest professional, technical association, appreciates the opportunity afforded it to comment on the General Accounting Office (GAO) draft report referenced above. As you are aware, the IEEE United States Activities Board (USAB) has long been concerned about some negative effects of the service contracting industry on our membership, numbering approximately 215,000 world-wide. We believe that the perspective of our membership is reflected through this response from the Service Contracts Task Force of the IEEE/USAB.

1. TARGETED COMMENTS: "Chapter 6, Administrative Procedures Could Provide A Measure of Protection for Service Contract Employees," and "Chapter 7, Conclusions and Recommendations."

On pages 53, and 56, the GAO contends:

> Our reviews of agency applications of these procedures [those covering professional employees not covered by the SCA] have found them to be effective in preventing wage busting on Federal service contracts employing professionals; [and] .... we believe that the procedures are an effective and efficient alternative to legislation in protecting the wages and fringe benefits of professional employees.

GAO note: Page references have been changed to correspond to page numbers in the final report.

The Service Contracts Task Force of the IEEE United States Activities Board finds these contentions to be unjustified.

(1) We believe that the relief accorded to professional employees from wage busting has been a relatively recent phenomenon. As referenced in the GAO report in March, 1978, an Office of Management and Budget (OMB) Circular #78-2 was issued establishing a government-wide policy aimed at preventing wage busting on the recompetition of Federal service contracts. However, it has been only in the past year that we have become aware that the inclusion of such preventive language was having any positive effect on the occurrences of wage busting. At present we feel that the incorporation of such prohibitive language in all RFPs is totally dependent upon a sympathetic attitude from administrators and thus is characteristically very tenuous and speculative. We believe that professional employees need the special legal protections afforded by legislation.

(2) The assumptions promulgated in Chapter 6 have tacitly ignored fringe benefit busting problems of professionals who work on service contracts. These problems are not addressed through these existing administrative remedies. The existence of "fringe benefit busting" has been documented in at least two previous GAO reports [Report to Congress, entitled "Pension Losses of Contractor Employees at Federal Installations Can Be Reduced" (HRD-81-102, September 3, 1981); and, Report to Senator Howell Heflin, entitled "Review of Pension and Fringe Benefits for Contractors' Employees at the National Aeronautics and Space Administration's Marshall Space Flight Center" (HRD-81-142, September 28, 1981)].

Therefore we disagree with GAO findings that existing remedies are adequate, and are opposed to the Chapter 7 recommendations that such administrative provisions as currently affecting professional employees be extended to the entire service contract population as replacement for the Service Contract Act. We feel that regulations do not have the required binding force of legislation and that the legal protections afforded by legislation are necessary and desirable.

II. GENERAL COMMENTS ON DRAFT REPORT

In addition to the specific comments we have made on the sections of the draft report which specifically mention professional employees under service contracts, we would like to make the following observations regarding the report in its entirety.

(1) The report generally lacks perspective and a sense of the realities associated with service contracting, the operation of government agencies, and especially the operations of the Department of Labor (DOL) offices that support the Service Contract Act through wage determinations. For example, the report states that the SCA was passed to protect service contract employees, when in fact the act was also passed to protect scrupulous employers who would be put out of business from competition that engaged in wage busting activities.

(2) The SCA is really a piece of socio-business legislation, and not a law of science. Hence, it is reasonable to expect that the SCA functions approximately well on the average and not exactly right all of the time. Thus, GAO complaints that the wage determinations are off by 9.9% to 11.5% on the average, should not be cause for alarm. If the system is working to roughly 10%, that is probably good enough.

APPENDIX XXIII

(3) The GAO claim that DOL determinations were high or low rested largely on GAO calculations which were executed using their own procedures. Given that there is no "right" way to arrive at a correct wage determination short of a massive survey, our conclusion is that the GAO figures are no more "correct" than the DOL figures. However, we were surprised to note that the two different models used, the GAO and DOL models, agreed to within 10% on the average.

(4) It appears that the GAO investigators were completely unrealistic in their expectations as to what the DOL could provide. The number of wage determination requests received by the DOL each year is staggering. It is not surprising to us that all requests are not filled in an optimal way. Furthermore, given the staggering work load, it is inevitable that a small fraction of the determinations will be in error to some significant extent. However, we again point out that the average variance associated with the two wage determination processes is only roughly 10%.

(5) The GAO's analyses of fringe benefits represents a fixation on minutiae. The hard fact is that the characteristics of the work environment can be fixed to only some rough level; thus, the concern that individuals should be receiving 24 cents per hour versus 32 cents per hour is largely a waste of time.

(6) Finally, the GAO has a responsibility to estimate the level of savings which would accrue if their findings were adopted. No bottom line was presented.

III. SUMMARY

The Service Contracts Task Force of the IEEE United States Activities Board feels that the recommendations presented by the GAO are not warranted either by data or by experience. Our experience indicates that regulations can be used to alleviate wage busting problems only if there is a supportive administrator. Fringe benefit busting continues to be a problem with or without regulations. We therefore do not support repeal of the Service Contract Act as recommended in this GAO report.

Carlton A. Bayless, Chairman
Service Contracts Task Force
IEEE United States Activities Board

Chamber of Commerce of the United States
HUMAN AND COMMUNITY RESOURCES DIVISION
LABOR LAW SECTION
~~202-659-6104~~
(202) 463-5517

September 17, 1982

The Honorable Charles A. Bowsher
Controller General
General Accounting Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Mr. Bowsher:

This is to comment briefly on the General Accounting Office's proposed report entitled, "The Service Contract Act Should Be Repealed."

The U.S. Chamber of Commerce represents more than 255,000 business firms that are vitally concerned with inflation, unnecessary government regulations, and government waste.

The Service Contract Act is contrary to the public interest, injurious to America's international competitive position, discriminatory against small business, and inconsistent with a non-inflationary economic policy.

A law which controls wages and fringe benefits for services is undesirable and unnecessary. This act unduly increases the cost of service contracts, arbitrarily inflates wages and creates added burdens on contractors doing business with the government.

Therefore, the U.S. Chamber wholeheartedly agrees with the proposed report that this act should be repealed.

We would also add that this report is well researched and provides a solid base of information for an obscured, yet important law.

Sincerely,

Christopher Luis

Christopher Luis
Labor Law Attorney

8024/8282

APPENDIX XXV

National Council of Technical Service Industries

INTERNATIONAL SQUARE • 1850 K STREET N.W. • [illegible] • 202-[illegible]

August 26, 1982

Comptroller General
U.S General Accounting Office
Washington, D.C.

Gentlemen:

I recently had an opportunity to review your report to the Congress entitled The Service Contract Act Should Be Repealed and I wanted you to know on behalf of the members of the National Council of Technical Service Industries, that we applaud your conclusions and appreciate your diligence in revealing in detail the costly deficiencies inherent in the SCA.

For at least 8 years, we have actively testified and commented in Congressional hearings and Labor Department proceedings as to the variety of administrative and financial problems our members encountered with the SCA during the course of their work for the government. While rule-making and oversight proceedings allowed us to comment on details, we never had the appropriate opportunity and forum to bring home the highly inflationary aspects of this law. Your study is welcome because it has focused on this basic defect. It is a defect that we too do not believe can be remedied by patching up the act or expanding the bureaucracy. Therefore, we think that the Report's conclusion that the Act should be repealed, should be widely supported.

Of course, the general inflationary impact of the law has been magnified by the administrative practices which allowed wage rates in one locality to be imposed upon other localities. While this practice was convenient for the administrators, it really had no basis in the law. We have supported the proposed regulations which took great steps toward a remedy -- wage determinations should apply in one and only one locality. Since this is necessarily a costly process, we too conclude that it would be a more efficient use of federal resources to make the adjustments in the procurement process that will assure decent wages for our members' employees without the vast bureaucratic overlay required by the SCA.

APPENDIX XXV

In our experience with the SCA, it has been rare that as thorough and all encompassing look has been made of the burdens of this legislation as is reflected in your Report. Our members, from time to time, have complained of wage rates in DOL wage determinations that were vastly in excess of those prevailing in a particular locality. Despite these personal experiences, our statements were too often discounted as being those of self-interested parties. We are pleased and relieved to have independent confirmation of the deficiencies which we have had to deal with over the years. We commend you and your staff for making these very valuable and public spirited investigations.

Sincerely,

George Daoust
Executive Director

APPENDIX XXVI

Coalition
for
Common
Sense
in
Government
Procurement

1990 M Street, N.W. Suite 570
Washington, DC 20036
(202) 331-0975

August 26, 1982

Mr. Gregory J. Ahart
Director
Human Resources Division
U. S. General Accounting Office
441 G Street, N. W.,
Washington, D. C. 20548

Dear Mr. Ahart:

The Coalition for Common Sense in Government Procurement wishes to thank you for this opportunity to comment on GAO's draft report entitled "The Service Contract Act Should Be Repealed."

We concur with your recommendation that the Service Contract Act should be repealed based on your findings that inherent problems exist in the act's administration, wage rates and fringe benefits set are inflationary and inaccurate and that other wage and fringe benefit protection for employees now covered under the act provide fair protection.

To that list of reasons for repeal, we add the Department of Labor's attempts in past years to extend the act far beyond the intent of Congress. We cite as evidence GAO's 1980 report entitled "The Service Contract Act Should Not Apply to Service Employees of ADP and High-Technology Companies" (HRD-80-102). In that report, it is stated that ". . . Labor's application of the act to contractor services sold primarily in the commercial sector, such as provided by ADP and other high-technology industries, in GAO's view, is inappropriate." While much of this problem would be alleviated under proposed regulations currently under consideration by Labor, this problem of over-application of the act will undoubtedly happen again in the future.

Again, thank you for seeking the Coalition's views on the draft report. We look forward to seeing the final report and future congressional action.

Sincerely,

Gloria C. Gamble

Gloria C. Gamble
Executive Vice President

APPENDIX XXVII

CBEMA

August 18, 1982

Mr. Gregory J. Ahart
Director Human Resources Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Ahart:

On behalf of the Computer and Business Equipment Manufacturers Association, Scientific Apparatus Makers Association, and the American Electronics Association I have enclosed our joint response to your draft report entitled "The Service Contract Act Should Be Repealed".

Thank you for the opportunity to comment on the report. If you require any additional information, please contact me.

Sincerely,

Gregory Kilgore
Manager

APPENDIX XXVII

Mr. Gregory J. Ahart
Director Human Resources Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Ahart:

This is in response to your request for comments on the draft GAO Report entitled "The Service Contract Act Should Be Repealed".

The Computer and Business Equipment Manufacturers Association, the Scientific Apparatus Makers Association, and the American Electronics Association appreciate your fine efforts on this and the two previous reports entitled, "Service Contract Act Should Not Apply to Service Employees of ADP and High-Technology Companies" and "The Service Contract Act Should Not Apply to Service Employees of ADP and High-Technology Companies - A Supplement".

While we agree with certain sections of your most recent draft report, i.e., that the imposition of the Service Contract Act to certain industries would have a detrimental effect, we have some reservations about your overall recommendation to repeal the Act.

As we have stated in testimony before the House Labor-Management Relations Subcommittee and at the Department of Labor's hearings we believe that the Congress never intended the Act to cover the types of product support services offered by our industry. We do, however, believe that there is a need for protection for unskilled and semi-skilled non-mobile workers against the practice of "wage-busting" in those industries which have a history of such practices.

Although we differ with the General Accounting Offices' conclusion that the Act should be repealed, we support the proposed regulations issued by the Department of Labor on August 14, 1981. As you know, the proposed regulations are being reviewed by the Department of Labor in preparation for the Office of Management and Budgets' regulatory review.

We feel that another way to ensure that the remedial purpose of the Act is upheld is through legislative clarification. We support amending the Service Contract Act along the lines recommended by the General Accounting Office in its previous reports.

Thank you for the opportunity to comment on your report. If you require any additional information, please contact us.

Computer and Business Equipment Manufacturers Association
Scientific Apparatus Makers Association
American Electronics Association

*U.S. GOVERNMENT PRINTING OFFICE: 1983-0-381-843/25

(201540)

Request for copies of GAO reports should be sent to:

U.S. General Accounting Office
Document Handling and Information
Services Facility
P.O. Box 6015
Gaithersburg, Md. 20760

Telephone (202) 275-6241

The first five copies of individual reports are free of charge. Additional copies of bound audit reports are $3.25 each. Additional copies of unbound report (i.e., letter reports) and most other publications are $1.00 each. There will be a 25% discount on all orders for 100 or more copies mailed to a single address. Sales orders must be prepaid on a cash, check, or money order basis. Check should be made out to the "Superintendent of Documents".