



UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D C 20548

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COMMUNITY AND ECONOMIC
DEVELOPMENT DIVISION

NOV 23 1981

Mr. Howard Dugoff
Administrator, Research and Special
Programs Administration
Department of Transportation

Dear Mr. Dugoff:

Subject: Procurement of Support Services At
the Transportation Systems Center

We recently began a review of the role, functions, and management of the Transportation Systems Center in Cambridge, Massachusetts. However, we have been informed by the Department's Assistant Secretary for Administration that the Department is reevaluating its research objectives, programs and funding levels and that the Transportation Systems Center is likely to receive substantial cutbacks in both funding and personnel. We are, therefore, terminating our audit work at the Center until such time as the impact of this reevaluation is known and the Center's future is stabilized.

Although we did not complete our audit, [we did identify certain deficiencies in the Center's procurement of support services which warrant your attention.

The Center currently uses seven support service contracts to (1) support its technical staff, (2) provide certain employee services, and (3) assist in the operation of the facility. The contractors provide the Center with the following:

- computer programmers and operators;
- information analysis, documentation support, editorial services, graphics services, conference planning and logistical support, and technical reference center;
- equipment inspection and repair technicians;
- guards;
- custodians;
- health unit; and
- movers.



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[The cost of these contracts for Fiscal Year 1981 was approximately \$8.3 million. The first two accounted for \$7.7 million or 93 percent of the total.]

[During our review, we noted that costs for the Center's health unit are excessive.]

--The contract calls for services that are more extensive than those offered other Federal employees

--The contractor is receiving payments for these extensive services under a firm-fixed price contract while actually providing substantially less services.]

[Additionally, the Center did not prepare the cost comparisons required by the Office of Management and Budget Circular A-76 before awarding its two largest support service contracts.]

HEALTH UNIT CONTRACT
COSTS ARE EXCESSIVE

In October 1979, the Center awarded an \$83,000 firm-fixed price contract for employee health services from November 1, 1979 through October 31, 1980. The contract offered the Center the option to extend the services for two additional 12-month periods for \$89,000 and \$96,000, respectively. The Center has exercised both of these options and the contract currently has been extended to October 31, 1982.

The contract provides funds for both the services of a physician for a period of 3 hours a day and a full-time registered nurse, and for the various tests which are part of the physical examinations and the general health screenings provided to Center employees. ^{1/} Many of these tests are administered by other contractor employees at the contractor's medical facility. The contract provides for other services such as emergency care, health education programs, and psychiatric counseling and evaluation. Under the terms of the contract, every permanent Center employee-- 625 at time of contract award--is eligible annually for either a physical examination or a general health screening. The contract estimated 425 of these examinations would be given as follows:

--225 physicals for employees over 40,

--25 physicals for Center executives,

^{1/}A general health screening includes all the tests and procedures of a physical examination except an electrocardiogram, proctosigmoidoscopy, chest X-ray and stress test (if considered necessary by the electrocardiogram).

--25 special physicals for such purposes as preemployment and overseas travel, and

--150 general health screenings for employees under 40.

Our review indicates that the number of physical examinations and health screenings contracted for are greater than those offered other Federal employees in the Boston area. All of the Center's permanent employees are eligible to receive these examinations. In contrast, other Federal agencies in the Boston area usually provide funds for approximately 10 percent of their employees to receive these services. For example, the Public Health Service operates a health unit in a Boston Federal building which serves approximately 7,000 employees. The unit's medical officer stated he provides about 500 physical examinations to these employees annually. Upon reviewing the Center's health services contract, he stated the types of services are identical, with the exception of the stress test, to those provided by the Public Health Service's health unit, but the number of physicals and tests provided appears excessive

In addition, the Center is not receiving all the health services it is paying for. From November 1979 through October 1980, only 249 annual physicals and health screenings were provided--less than 60 percent of the 425 estimated in the contract. Through the first 7 months of the second year, only 141 of the examinations had been provided.

Although we did not determine the exact amount, substantial cost savings would result if the health services offered Center employees were comparable to those offered other Federal employees and the Center paid only for services provided. Most of the cost savings that would result from reducing the number of physicals and health screenings to be provided would be related to the reduction in the number of tests.

We discussed both of the questions regarding the health clinic with the Chief of the Center's Human Resources Management Division, who is the technical monitor for this contract. He believed that the services to be provided under the contract were reasonable and that other Federal employees should receive comparable services. He also stated that a firm-fixed price contract was awarded because the Center has always awarded this type of contract.

We recommend that you require the Director of the Center, in future health service contracts, to provide services comparable to those offered other Federal employees and to select an appropriate type of contract to ensure that the Center only pays for services actually provided. A firm-fixed price contract

should only be used where requirements for services can accurately be predicted prior to contract award]

LACK OF COMPLIANCE WITH THE
REQUIREMENTS OF CIRCULAR A-76

[The Office of Management and Budget Circular A-76 established the Federal Government's policies for acquiring certain products and services. One of the Circular's policies is that the Government should acquire products or services in the most economical manner possible. Thus, when performance by private enterprise is possible and no major factor requires performance by Federal employees, the Circular requires a detailed comparison of contract versus in-house costs to determine which would be more economical.]

In those cases where the products or services are already being purchased under contract, the Circular requires the agency to determine the likelihood that the work can be performed in-house at a savings in personnel costs of at least 10 percent over similar contract costs.^{1/} If such savings are likely, the agency is then required to perform a detailed comparison of contract versus in-house costs. An exception to this requirement occurs when contract performance would be under an authorized small business set-aside program.

In 1979, the Center awarded two major support service contracts without performing the required preliminary or detailed cost comparisons. One of these contracts was a \$7.7 million, 3-year contract awarded in July 1979 for a variety of functions including analytical services, documentation support, editorial services, and conference planning. The other was a 3-year, \$14.6 million contract awarded in September 1979 for data processing services. The Center also contracted for these services in 1976. Before awarding the earlier contracts, the Center did perform the cost comparisons required by Circular A-76 to ensure the services could not be performed more economically in-house. Center officials said the cost comparisons for the most recent contracts were not necessary because the Department of Labor had designated Cambridge, Massachusetts, a labor surplus area at the time the two contracts were awarded. The Chief of the Center's Acquisition Division, the official responsible for awarding the contracts, decided that contracts for performance in a labor

^{1/}The Circular adds "plus 25% of the costs of ownership of equipment and facilities." In the Center's case, equipment and facilities are government-owned and, therefore, not a factor.

surplus area came under an authorized set-aside program and thus, the cost comparisons were not required.

(Contrary to the position of Center officials, an Office of Management and Budget official told us that awarding a contract for performance in a labor surplus area does not exempt an agency from performing a cost comparison as required by Circular A-76.) He said only contracts awarded under the Federal Government's small business set-aside program are exempt. Notwithstanding the confusion on the part of Center officials as to whether a labor surplus area would exempt the Center from the cost comparison requirements of Circular A-76, their reasoning in this case is questionable, in that, regardless of who performs the work--the Center or a contractor--the work would be performed in the labor surplus area primarily by people residing in that general area.

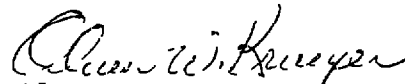
(We recommend that you require the Director of the Center to comply with the provisions of Circular A-76 in future procurement actions.)

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Please let us know what actions you take or plan to take on our recommendations. If you have any questions or wish to discuss these issues, please contact John L. Vialet on 447-6259.

We are sending copies of this letter to the Department's Office of Inspector General, the Assistant Secretary for Administration, and the Director of your Transportation Systems Center.

Sincerely yours,


Oliver W. Krueger
Associate Director