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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

PROCUREMENT AND SYSTEMS
ACQUISITION DIVISION

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DECEMBER 11, 1979

RELEASED

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G The Honorable Robert J. Lagomarsino
House of Representatives

R Dear Mr. Lagomarsino:

Subject: [Contracting Out Base Operating Support Functions
at the Navy's Pacific Missile Test Center, Point
Mugu, California] (PSAD-80-19)

As you requested on July 10, 1979, we investigated allegations by Federal employee union representatives of inefficiencies in the contracting-out process at the Pacific Missile Test Center (PMTC), Point Mugu, California. We specifically considered allegations that (1) contracts for key-punch operations at the base and janitorial services on San Nicolas Island were more costly than those operations previously provided by civil service employees and (2) proposed contracts for guard and transportation services at PMTC and food services on San Nicolas Island were not cost effective.

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Since PMTC did not make cost estimates, we could not determine whether the contracting-out decisions were cost effective for the keypunch, janitorial, or guard service contracts. In addition, PMTC intended to contract out the food service (mess attendant) and one additional function without determining whether the decisions were cost effective. After we brought this matter to the attention of Navy headquarters officials, current efforts to contract out the functions were suspended. Concerning the transportation function (motor vehicle), PMTC canceled the contract solicitation because the Naval Audit Service would not certify to the accuracy of the Government in-house cost estimate and had also found ambiguities in the statement of work.

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PMTC officials justified the award of the keypunch, janitorial, and guard service contracts because of reduced personnel authorizations imposed by higher headquarters officials. They also stated that cost comparisons were not required because no civil service personnel were adversely affected by the contracting-out decisions. However, we do not agree with the PMTC position.

Contracting procedure
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Without such comparisons, there was no assurance that the lowest cost alternative was chosen to accomplish the base operating support functions. Moreover, the contracting decisions were made without approval of higher Navy authority.

The conversion of keypunch services to contract during fiscal year 1978 did not comply with the 1978 Department of Defense Appropriation Act, which prohibits the use of funds appropriated by the act to convert base operating support functions to commercial contract during the fiscal year.

The details of our review follow.

REQUIREMENT FOR COST COMPARISONS

Office of Management and Budget Circular No. A-76, revised, establishes policies for acquiring commercial or industrial products and services needed by the Government. The Department of Defense implements these policies using, when appropriate, a firm bid/offer procedure developed by the Air Force and adopted Defense-wide in late 1976. Prior to the firm bid/offer procedure, which is also now required by the Circular, the Government estimated the cost of contract performance as part of the comparative cost analysis. It soon became evident the Government's use of constructive estimates and informational quotes of contractor costs were unreliable.

The firm bid/offer procedure involves a formal procurement process which compares contractors' competitive bids and offers with a documented Government in-house cost estimate. In essence, a competition is held in which the Government develops a cost estimate and industry submits priced offers in accordance with a work statement in a bid solicitation. Based on the comparative costs of an in-house or contracted operation, the Government contracting officer will either cancel the solicitation and retain the function in-house or award the contract to industry. A modified version of this procedure was to be used by PMTC in evaluating proposed procurements under section 8(a) of the Small Business Act.

CONTRACTING OUT AT PMTC

We reviewed the following commercial and industrial functions contracted out at PMTC in 1978 and 1979.

Key-processing (keypunch) operations

In February 1978, the Navy awarded contract N00123-78-C-0503 to the Small Business Administration under the provisions of section 8(a) of the Small Business Act for key-processing operations. The effort was in turn sub-contracted to private industry. The contract provided for an estimated 10 million key strokes a month through September 30, 1978. The PMTC decision to contract out was based on reduced personnel authorizations imposed by higher Navy authority. No cost comparison was made.

In early calendar year 1977, prior to the award of contract -0503, about 21 permanent civil service employees performed the key-processing operation, providing approximately 18 million key strokes a month. At the same time, PMTC contracted with industry to provide about 4 million additional key strokes a month that could not be accomplished with the civil service work force.

Permanent civil service employment was reduced to 11 through attrition and reassignments prior to the award of contract -0503 in February 1978. After the contract was awarded, civil service employees performed key-processing operations on the day shift, and contractor personnel worked the second shift. In early calendar year 1979, additional attrition and reassignments ended the in-house key-processing capability.

Section 852(a) of the 1978 Department of Defense Appropriation Act prohibits the use of funds appropriated by the act to convert base operating support functions to commercial contract during the fiscal year. The key-processing services, which PMTC performed substantially in-house prior to enactment of the restriction, were converted to contractor performance of almost the entire function during the period covered by the restriction. Thus, we believe that the conversion of this function did not comply with section 852(a).

We also question the contracting-out decision made without the required cost comparison. Defense and Navy policy guidance permitted the award of a contract without a cost comparison if adequate competition existed. For contract -0503, the selection of a single contractor under section 8(a) of the Small Business Act effectively precluded adequate competition. Therefore, a cost study would have been required if the congressional moratorium were not in effect during fiscal year 1978.

Guard service

In July 1979, contract N00123-79-C-0016 was amended to include gate guards at PMTC. The contract was awarded under the provisions of section 8(a) of the Small Business Act, without competition. Prior to July 1979, an equivalent of seven permanent civil service employees guarded the gates as part of a larger Government guard force at PMTC. Due to retirements, voluntary separations, and reassignments in 1979, the guard force was reduced by about seven permanent employees.

Similar to the key-processing contract, the decision to contract out gate guards was based on reductions in personnel authorizations. No cost comparison was made. In addition, the Navy required fact sheets be submitted to the Office of the Chief of Naval Operations (CNO) for approval to study the conversion of commercial and industrial activities to contract. A fact sheet prepared by PMTC for the gate guard function was not submitted by Navy headquarters officials to the CNO. Therefore, approval was not granted to study the function for possible conversion to contract. We believe that had the CNO approved the function for study, a cost comparison would have been required since there was no competition.

Janitorial service on San Nicolas Island

In March 1979, contract N62474-79-C-1579 was awarded under the provisions of section 8(a) of the Small Business Act for janitorial services on San Nicolas Island. Prior to the award, four permanent civil service employees performed the function. Reductions in personnel authorizations caused PMTC to realign the Island maintenance function and reclassify the janitors as laborers. The personnel vacancies permitted PMTC to contract the janitorial function.

As discussed above for the key-processing and gate guard functions, the required cost comparison was not made. Since the janitorial function was not listed on the 1979 national announcement of commercial and industrial activities to be studied for conversion to contract, the contracting-out decision was made without approval of the CNO.

Commercial and industrial functions
under consideration for contracting out

At the time of our review, PMTC was considering contracting out (1) a data coordination and computer peripheral

equipment function and (2) mess attendant services on San Nicolas Island. These functions are currently being performed by nine and five permanent civil service employees, respectively. The conversion to contract was to be made without a cost comparison. PMTC planned to reassign the Government personnel to other duties and contract out the functions.

Upon discussing the PMTC plans with Navy headquarters officials, the contracting-out decisions were suspended until the functions are made a part of the national announcement and submitted to the CNO for study approval.

The operation and maintenance of the transportation (motor vehicle) function at PMTC and outlying locations was also being studied for possible conversion to contract. A Government in-house cost estimate was made under the firm bid/offer procedure and invitations for bid solicited from industry. The contract solicitation was canceled on November 7, 1979, because the Naval Audit Service would not certify to the accuracy of the Government cost estimate and had also found ambiguities in the statement of work. PMTC officials stated that the function is currently being done with fewer employees because personnel authorizations were reduced on the assumption that the function would be contracted out.

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We are not making any recommendations to the Navy on the matters discussed in the report because proposed Defense guidelines for implementing the newly revised Circular A-76 should help insure more appropriate management decisions on future commercial and industrial activities studied for conversion.

As directed by your office, we did not obtain written comments from Defense or Navy officials. However, the results of our review were discussed with Navy officials, and their comments were considered in preparing this report. As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 7 days from the date of the report. At that time, copies

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will be sent to the Secretaries of Defense and the Navy and the Director, Office of Management and Budget. Copies will also be sent to the chairmen of the Senate and House Committees on Appropriations and Armed Services.

Sincerely yours,


for J. H. Stolarow
Director

Walter H. Sheley, Jr