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

PROCUREMENT, LOGISTICS,
AND READINESS DIVISION

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APRIL 1, 1981

B-202326

RELEASED

The Honorable Doug Barnard
House of Representatives



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Dear Mr. Barnard:

Subject: [Army's Contracting Out of Installation Support Functions at Fort Gordon, Georgia] (PLRD-81-9)

In your letter of May 1, 1980, you requested that we review the Army's contracting practices at Fort Gordon, Georgia. On March 25, 1980, former Congressman Dawson Mathis had also requested us to perform this review. The Army compared the cost of doing work in-house with the cost of contracting out for 19 installation support functions, including maintenance, supply and service, transportation, and housing. The Army completed its cost comparison in January 1980 and announced that contracting out the functions would save the Government about \$32 million over a 58-month period, or about \$6.6 million annually. The Army awarded two contracts for the support functions to Pan American World Airways, Inc., on June 26, 1980. The contracts included a 2-month phase-in period during July and August and a 1-month full performance period during September 1980. The contracts also contained provisions for negotiated options during fiscal years 1981 through 1984.

SCOPE OF REVIEW

As agreed with your office, our objective was to identify any significant errors in the development of estimated in-house costs, giving primary attention to direct labor costs. To accomplish this objective, we reviewed (1) the instructions and guidance in the Office of Management and Budget Circular A-76 and its supplement, the Cost Comparison Handbook, (2) the detailed schedules supporting the study results, (3) the results and details of the Army Audit Agency's reviews of the study, (4) several Army guides and regulations, and (5) the Army's method of computing contract administration costs. We interviewed numerous officials at Fort Gordon and

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a representative of local 2017 of the American Federation of Government Employees.

RESULTS OF REVIEW

Although we identified the need for several adjustments to the cost comparison, we believe that contracting out is still more economical and will result in annual savings of about \$5.7 million. Our cost estimate compared with the Army's is shown in enclosure I.

The Army followed procedures prescribed in the Cost Comparison Handbook for computing contract administration costs, so we made no adjustment to that entry. Specifically, the Army entered \$716,000, which is 4 percent of the estimated contract price for contract administration. However, based on the Army's estimate of the staffing needed to serve as contracting officer representatives, we estimated that this function will cost \$1,157,000 annually, or \$441,000 more than the Army included in the study. This amount and related adjustments will reduce the annual savings by an additional \$500,000.

At the request of Fort Gordon officials, some of the data in enclosure I is limited to avoid compromising Fort Gordon's negotiations for the option years under the contract.

ANALYSIS OF ALLEGATIONS

Although we generally limited our review to direct labor costs of in-house performance, we did attempt to verify the substance of the local union's (and employee's) allegations to you. We found generally that the charges (1) could not be substantiated due to lack of documentation or (2) were based on misunderstandings of the cost comparison report. For example, the only pay records available were those alleged to have been altered and there were no specific records available to show that such documents were altered. It was also stated that the work was contracted out to avoid staffing ceilings, however, we found no documentation to support this allegation. Some cost data was alleged not to have been treated properly, but we found that such costs were handled the same on both sides of the cost comparison. Furthermore, our tests showed that even if the allegations were true, the effect would not have been significant enough to reverse the decision to contract out the support functions.

IMPACT ON EMPLOYEES

The Army announced that contracting out the base operation support functions would affect 672 civilian employees. However, based on information developed in late August 1980 by a Fort Gordon official, the action had affected 618 permanent employees, of which 94 lost their jobs. The remainder transferred to the same or similar positions, transferred at reduced grades, retired, or received some other Federal employment. In addition, 133 temporary employees lost their jobs. However, the contractor showed a need for about 1,000 employees in its proposal, so these employees have adequate employment opportunities in the area. Of the 94 permanent employees who became unemployed, 79 have already been offered jobs with the contractor. Army officials stated that many of the 133 temporary employees have also accepted employment with the contractor.

OTHER IMPACTS

In responding to allegations by a Fort Gordon employee, the Army acknowledged that Federal employees in the units being contracted out had previously provided opportunities for on-the-job training to students and Reserve components even though it was not an assigned mission. This mission was not included in the contract awarded. Army officials stated that if such training will be required in the future, the contracting officer can amend the contract to include this training. In our opinion, such an amendment to obtain training may increase contract costs for services previously provided at no cost. However, we did not evaluate the extent or necessity of this training, and therefore, we are unable to comment on the impact its absence may have on Reserve components.

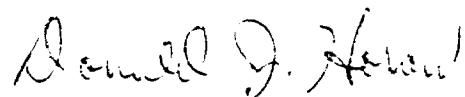
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We did not obtain Army comments, as agreed with your office. As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 5 days from the date of the report. At that time, we will send copies to the Secretaries of the Army and Defense and other interested parties and make copies available to others upon request.

B-202326

We are also sending this report today to the former
Congressman Dawson Mathis.

Sincerely yours,

A handwritten signature in cursive script that reads "Donald J. Horan".

Donald J. Horan
Director

Enclosure

COMPARATIVE COST OF IN-HOUSE PERFORMANCE VERSUS
CONTRACTING OUT FOR INSTALLATION SUPPORT FUNCTIONS

| <u>Cost element</u> | <u>Estimated annual costs in study</u> | <u>GAO adjustments</u> | <u>Adjusted estimated annual costs</u> | <u>Basis for adjustment(s)</u> |
|--|--|------------------------|--|---|
| <u>In-House</u> | | | | |
| Direct material | \$ 9,388,736 | \$ - | \$ 9,388,736 | - |
| Material overhead | 187,100 | - | 187,100 | - |
| Direct labor | 16,137,528 | -690,750 | 15,446,778 | Reduction of 50 cooks. |
| Fringe benefits on labor | 4,150,572 | -177,660 | 3,972,912 | Related to above. |
| Operations overhead | 2,446,160 | - | 2,446,160 | - |
| Other direct costs | 5,155,725 | 2,000 | 5,157,725 | Correction of duplicate adjustment. |
| General and administrative expense (G&A) | 5,151,550 | -93,510 | 5,058,040 | Rate adjusted by adding staff to G&A pool. New rate applied to total of costs above. |
| Cost of capital | 704,363 | - | 704,363 | - |
| Other costs | <u>99,319</u> | <u>-99,319</u> | <u>-</u> | Included the cost of staff increase in G&A pool, not as a direct cost in the cost comparison. |
| Total | <u>43,421,053</u> | <u>-1,059,239</u> | <u>42,361,814</u> | |

| <u>Cost element</u> | <u>Estimated annual costs in study</u> | <u>GAO adjustments</u> | <u>Adjusted estimated annual costs</u> | <u>Basis for adjustment(s)</u> |
|--|--|------------------------|--|--|
| <u>Contracting out</u> | | | | |
| Contract price | 17,907,962 | - | 17,907,962 | - |
| Transportation | 44,000 | - | 44,000 | - |
| Contract administration | 716,318 | (a) | 716,318 | - |
| Government-furnished property | 12,157,014 | 25,064 | 12,182,078 | Increased to match amount included in direct material, material overhead, and operations overhead, but omitted here. |
| General and administrative expense | 1,776,143 | 12,496 | 1,788,639 | Applied adjusted rate to adjusted cost for Government-furnished property. |
| Cost of capital on Government-furnished facilities | 704,363 | - | 704,363 | - |
| Utilization of Government capacity | 3,374,422 | -188,991 | 3,185,431 | Recomputed installation pool, added staffing and adjusted G&A rate. |
| One-time conversion costs | 328,137 | - | 328,137 | - |
| Federal income taxes | <u>-179,080</u> | <u>-</u> | <u>-179,080</u> | - |
| Total | <u>36,829,279</u> | <u>-151,431</u> | <u>36,677,848</u> | |
| Cost savings by contracting out (note b) | <u>\$ 6,591,774</u> | <u>\$-907,808</u> | <u>\$ 5,683,966</u> | |

a/ Fort Gordon analysts followed available guidance and used 4 percent of the contract price as estimated costs for contract administration. However, they estimated that 46 civilian and military staffmembers would be involved in this function. Costing these positions out yields total costs of \$1,157,000, or an increase of about \$440,700. We did not adjust the cost study by this amount, but believe the more accurate estimated costs should be used.

b/ Savings should be at least 10 percent of Government personnel costs. This computes to \$2,373,414.

Explanations of GAO Adjustments
to Cost Comparison

Direct labor and
benefits costs

Army officials estimated that direct labor costs for in-house performance would total \$16,137,528 and related employee benefits--retirement, insurance, etc.--would total \$4,150,572. These amounts include the costs associated with an all-civilian work force to manage and operate about 16 Army dining facilities. Army officials determined the number of cooks necessary from the Department of the Army's staffing guide for dining facilities, but supplemented this basic requirement by 86 cooks to cover conditions the guide did not address.

We reduced the Army's estimated staffing needs by 50 cooks as follows:

- The Army included eight cooks (based on the staffing guide) for a dining facility that was scheduled to be closed during the evaluation period.
- The Army included 86 cooks to cover considerations such as extended service hours, field feeding, and quality of life factors. We reduced this supplement by 42 cooks because (1) only one facility routinely experienced extended service hours, (2) no additional personnel were previously used in field feedings, and (3) some quality of life activities, e.g., ethnic food nights, would affect only one shift of employees, not all persons assigned to a facility.

Applying the Army's average cost factors and eliminating these 50 cooks will reduce in-house direct labor costs by \$690,750 and related employee benefit costs by \$177,660.

Army officials disagreed with our reduction to their estimate of cooks. One official stated that the Army Audit Agency argued the study included too few cooks, whereas we claimed there were too many; therefore, he prefers to remain neutral and stick with the original study estimate.

We rejected the Army Audit Agency's computations for several reasons. First, it used the number of cooks assigned as of the date of their review rather than the Army's staffing guide. We found that the number of cooks assigned fluctuated frequently and had no correlation to the workload which is the weighted average of the number of meals served. Second, they accepted the contention of Fort Gordon officials that the cooks worked

56 hours a week and applied this factor to the number of cooks assigned. As a result, the number of cooks they showed were needed bore no relationship to the number of people being served at the various dining facilities. We based our computations on the Army's staffing guide, which relates the number of cooks to the number of people being served.

General and administrative
expense and other costs

Army officials estimated that in-house performance of the support functions with an all-civilian work force would require five additional staffmembers in the Civilian Personnel Office (CPO) and contracting out the functions would reduce CPO staffmembers by five. In our opinion, the Army treated these adjustments inconsistently in adding the in-house increase as a direct cost in other costs while showing the contracting out reduction of CPO staffmembers as an indirect reduction in computing utilization of Government capacity.

We believe that conversion from a joint military/civilian to an all-civilian work force theoretically precedes the cost comparison and that the additional CPO staffmembers should be a part of the general and administrative (G&A) expense determination, not a separate direct cost. Also, based on Department of the Army's staffing guidelines, a Fort Gordon official estimated that four additional CPO staffmembers would be needed if the support functions remained in-house, whereas six CPO positions could be eliminated if the functions were contracted. Therefore, we recomputed the in-house G&A rate after adding four CPO staffmembers to the G&A pool and applied this adjusted rate to appropriate costs in the cost comparison to determine the adjusted expense. We also adjusted the G&A expense for contract performance as necessary using the adjusted G&A rate. In addition, since we included the CPO staffing increase in the G&A pool, we deleted the amount the Army had included as other costs. The results of these related changes were:

- A reduction in the in-house G&A expense of \$93,510.
- An increase in contractor G&A expense of \$12,496.
- Elimination of in-house other costs of \$99,319.
- A reduction in the utilization of Government capacity of contractor performance of \$188,991.

Miscellaneous adjustments

We made miscellaneous adjustments to the Army's study to (1) correct oversights which Army officials had already identified but had not corrected and (2) adjust lines affected by the adjustments discussed above. Our adjustments included the following:

--We added \$2,000 to the other direct costs to correct an adjustment that the Army inadvertently made twice.

--We added \$25,064 to the Government-furnished property to include amounts that Army officials had identified as having been included in direct material and material and operations overhead, but omitted from Government-furnished property.

Other cost considerations

During our review, we questioned the Army's method of computing contract administration costs and, to a limited extent, the general and administrative expense. We did not make related adjustments to the cost comparison, however, because Army officials followed the Office of Management and Budget Circular A-76 provisions and available DOD instructions in making their computations.

Specifically, Army officials included about \$716,000, or 4 percent of the estimated contract price, as the cost of contract administration. Based on the Army's estimate of staffmembers needed to serve as contracting officer representatives, we determined that contract administration will cost about \$1,157,000 annually, or \$441,000 more than the amount included. If we had included this amount, along with its impact on the G&A expense, the cost of contracting out would have increased and annual savings would have been reduced by about \$500,000.