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

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LOGISTICS AND COMMUNICATIONS
DIVISION

B-182672

MAY 8 1975



The Honorable Lou Frey, Jr.
House of Representatives

Dear Mr. Frey:

Your November 11, 1974, letter concerned a food service cost comparison study being made at Patrick Air Force Base, Florida. In discussions with your office, we agreed to provide information on (1) the accuracy of the Air Force's study, (2) the basis for the Air Force's estimated 3-year savings by contracting for food services, and (3) the impact of the contract operations on Patrick's civilian food service employees.

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BACKGROUND

Office of Management and Budget Circular A-76, "Policies for Acquiring Commercial or Industrial Products and Services for Government Use," dated August 30, 1967, sets forth the Government's general policy of relying on the private enterprise system for goods and services. Executive departments and establishments must rely on commercial sources unless this results in higher costs, impairs military training or readiness, or disrupts or materially delays programs. Department of Defense Instruction 4100.33, dated July 16, 1971, implements this policy and establishes procedures and criteria for the military departments and Defense agencies to use in determining whether to operate their own commercial or industrial activities. Such activities must be reviewed periodically to determine whether the least costly method is being used.

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As required by Office of Management and Budget Circular A-76, the Air Force reviewed its operation and administration of food preparation and serving facilities. The review concluded that at certain installations military personnel were not required and that the type needed (in-house civilian or contractor) would be based on cost comparisons. Therefore, in October 1974, Patrick Air Force Base and several other installations were instructed to make cost comparisons to determine whether food service should be provided by in-house civilians or by contractors.

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ACCURACY OF THE COST COMPARISONS

The cost study completed at Patrick Air Force Base showed that the Air Force could save about \$418,000 over 3 years by contracting for food service instead of using in-house civilian personnel. The savings represent the difference between the Air Force estimates of about \$1.6 million to have in-house civilian personnel provide food service and about \$1.2 million to have a contractor provide it. The Air Force received nine bids from contractors, all of which offered food service at a lower cost than the estimated cost for in-house civilians.

As a result of the study, Patrick awarded the food service contract on March 24, 1975, to Worldwide Services, Inc., Smithville, Tennessee. The contract is effective July 1, 1975, and covers 1 base year and 2 option years.

We reviewed the cost comparison and the basis for the expected savings, including the procedures, rationale, and assumptions used in computing costs for each method of providing food service. The estimates used were generally reasonable, accurate, and based on the best available data.

BASIS FOR SAVINGS

About 94 percent of Patrick's cost estimate for in-house civilian food service represented the wages of the civilians. Patrick estimated that it would need 43 civilian employees in fiscal year 1976 and 40 in the following 2 years. The reduction in personnel was due to the planned transfer of 10 C-135 aircraft from Patrick, which is expected to take place between October and December 1975. Our analysis showed that Patrick had properly accounted for the impact of the planned transfer in its calculations.

The contractor's cost estimate includes lower wage rates than those paid in-house civilian employees under the Department of Defense Wage Fixing Authority. The contractor must comply with the Service Contract Act of 1965 (Public Law 89-286), as amended, under which the Department of Labor establishes minimum wages for the various classes of service employees. We found that the contractor's proposed wage rate for mess attendants was the same as that established by the Department of Labor. We could not compare the contractor's and the Department's wage rates for other classes of food service employees because the Department had not determined any others for this contract.

A clause in the contract provides that when wage rates for classes of service employees are not listed on the wage determination included in the contract, these rates should be provided by the contractor so as to provide a reasonable relationship between the rates established by the contractor and those listed as determined by the Department of Labor. If there is no agreement between interested parties, the contract clause provides that employees may submit the question of unreasonable rates to the Department of Labor. The Air Force has scheduled a pre-performance conference with the contractor to discuss, among other things, wage rates. These rates will be posted by the contractor after the conference.

The following table shows the difference in hourly wages paid by the Air Force and those estimated by the contractor and provided to the Air Force in the pre-award survey.

	<u>Wage per hour</u>		<u>Difference</u>
	<u>Air Force</u>	<u>Contractor (note a)</u>	
Project manager	\$6.79	\$5.63	\$1.16
Dining hall supervisor	7.50	4.71	2.79
First cook	6.22	4.50	1.72
Second cook	5.65	4.20	1.45
Baker	5.65	4.20	1.45
Mess attendant	4.10	3.62	.48

^aBased on contractor's estimate.

EFFECT OF DECISION TO CONTRACT ON CIVILIAN EMPLOYEES

The decision to contract for food service has resulted in a reduction in force, and notifications of personnel actions were sent to the 55 affected employees on April 15, 1975. Twelve employees will be reassigned to similar positions at the same grade, 11 will be changed to a lower grade, and 32 are expected to be separated. Of the 32 employees, 8 will be entitled to severance pay ranging from \$205 to about \$6,400 and 23 are former career military personnel receiving retirement income under the military retirement program.

A Patrick personnel official said that all but 11 of the 32 employees expected to be separated might be placed in vacant positions on base before June 30, 1975. The remaining 11 are in a low grade (WG 02), and only a limited number of these positions are vacant at Patrick. Three of these 11 are temporary hires.

According to Air Force officials, because this is a reduction in force, the affected employees are entitled to the saved-pay provisions of the Federal Wage System. Under these provisions, employees downgraded three grades or less are entitled to their former pay rates for 2 years,

unless they are separated or promoted to scheduled pay rates equal to or higher than the saved rates. Employees downgraded more than three grades are entitled to prorated pay adjustments which set their pay rates below their former rates but usually much higher than their new rates. The provisions also direct that after 2 years employees' pay rates be adjusted to the maximum scheduled rates for the grades held. In addition, downgraded employees receive priority consideration for repromotion to the grades or positions previously held or for any intervening grades.

During discussions with your office, special concern was expressed about provisions for giving future job preference to the separated employees. We found separated employees have various reemployment rights as provided by the Defense Department's Priority Placement Program and the Civil Service Commission's Displaced Employees Program. Under these programs separated employees are given priority reemployment consideration in the local commuting area and any other geographic area in which they may express interest. However, there are time limitations of 1 to 2 years depending on the individual's career status and program type.

As your office requested, we discussed this report with Air Force officials but did not ask them to review it or formally comment on it. We do not plan to distribute this report further unless you agree or publicly announce its contents.

Sincerely yours,



Fred J. Shafer
Director