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

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JUL 24 1973

The Honorable David N. Henderson
Chairman, Subcommittee on Manpower
and Civil Service
Committee on Post Office and Civil
Service
House of Representatives

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Dear Mr. Chairman:

This refers to your request dated May 22, 1973, and our subsequent discussions with your office on the Navy's plans to change from in-house to contractor operations at the Pacific Missile Range, Point Mugu, California.

We have deferred our reply since June 12, 1973, because of your agreement with the request for delay from Congressman Charles M. Teague. The conditions for the delay have now been met and Task Force One, the employees' organization at Point Mugu, has submitted a cost study considered in our comments below.

The Secretary of Defense announced the Point Mugu plans as part of the 274 installation actions he outlined on April 17, 1973. As Navy officials previously advised you, they expect a reduction of 1448 civilians and 225 military through contracting at Point Mugu with a recurring annual savings of \$1.5 million before considering estimated one-time conversion costs of \$8.2 million. Point Mugu employs about 2870 civilians and 725 military.

We met with Navy officials and reviewed records at Navy Headquarters and at Point Mugu. The purpose of the plans for contracting at Point Mugu is to follow the policy of reliance on the private enterprise system, expressed in Office of Management and Budget Circular No. A-76. The annual savings figure of \$1.5 million is not adequately supported and--as believed by senior responsible officials--could prove to fluctuate heavily up or down. Realistic data for a cost comparison will not be available until the Navy designates the specific functions to be contracted and requests and receives bids from potential contractors. The Navy plans to request bids in December 1973.

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Task Force One, representing present employees, has prepared a cost study showing that the lowest contract bid should be at least \$6 million more annually than the \$18 million cost of the 1448 civilians and 225 military under consideration for reduction. In addition one-time conversion costs of \$20 million are projected.

These estimates are not wholly satisfactory. They do not reflect the economic considerations of bidding contractors and the effect of competitive procurement. Still they are useful appraisals. They establish a range for consideration when compared with the Navy's estimates and they also identify areas for the Navy to mark in holding down its costs. These areas include:

- potential decreases in efficiency, responsiveness and flexibility under contracting;
- transfer or retirement of affected present staff; and
- procurement and administration of contract services.

Point Mugu was selected for the conversion to contracting because the Navy considers it less influenced than certain other installations by the conditions cited in Circular No. A-76, such as combat support and readiness, that might necessitate in-house operation.

Although employees losing their jobs through the change at Point Mugu will be entitled to benefits under various Defense and Civil Service programs, the Navy does not guarantee jobs for them with an incoming contractor.

2 Many key issues related to the conversion are awaiting decision and action by the Department of Defense and the Navy. We plan to continue our inquiry into the resolution of these issues, giving special attention to matters of cost, mission effectiveness and employee relations. 5

We will be happy to discuss this matter with you further if you desire.

Sincerely yours,

Comptroller General
of the United States