



095702

1-49-24

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

7-223

3
19

B-168678

MAR 3 1971

CI R



Dear Senator Proxmire:

This is in response to your request of August 13, 1970 (SS), and in accordance with discussions with your office concerning a constituent's statement about the lack of competition in Fairchild Hiller Corporation's subcontracts with Comprehensive Designers, Inc., a job-shop firm for temporary employees used at Fairchild Hiller's Aircraft Service Division plants at Bayard and St. Augustine, Florida.

p. 1935
p. 1936

Comprehensive Designers and other job-shop firms furnished temporary employees primarily for an Air Force fixed-price-incentive contract with Fairchild Hiller for modification of 52 C-119 cargo aircraft to gunships and for inspection and repair of the aircraft, as necessary. As of January 25, 1971, the target price for this contract was about \$111.2 million. Work on the gunships began under a letter contract awarded on February 17, 1968. The contract was definitized on May 20, 1969, and included incentive provisions under which the Government would share 80 percent of cost underruns or overruns.

Fairchild Hiller awarded open-end purchase orders to job-shop firms for temporary personnel to perform aircraft design and drafting services under the supervision of Fairchild Hiller personnel.

For the period January 1968 through August 1970, all divisions of Fairchild Hiller incurred costs of about \$13.2 million with job-shop firms. About \$4.2 million of this amount was with Comprehensive Designers.

COMPETITION NOT OBTAINED

Purchases from Comprehensive Designers, Inc.

From the latter part of April 1968 through November 1968, the Aircraft Service Division of Fairchild Hiller obtained, without competition, 125 temporary employees from Comprehensive Designers. We estimate that, for 87 of the 125 temporary employees, the division could have avoided costs of as much as \$134,000, had it obtained competition among several firms and had it obtained the employees at the lower rates quoted by other suppliers for employees with comparable skills. The Government's share of the additional costs could be as much as \$107,000. During this period other job-shop firms near St. Augustine quoted to the division lower prices for some temporary employees of the same skill categories. Our estimate of additional costs resulting from the noncompetitive procurement of temporary

095702

700536

095702

employee services did not include costs for 38 temporary employees obtained from Comprehensive Designers. Hourly billing rates for some skills had not been quoted by the other job-shop firms, so we could not make rate comparisons for the 38 temporary employees.

Fairchild Hiller officials advised us that the company had entered into an agreement on May 7, 1968, with Comprehensive Designers to resolve differences between the two companies that had arisen from a technical services contract previously awarded to Comprehensive Designers for work performed on a commercial aircraft program in England. A dispute arose between the two companies concerning performance under the contract. Fairchild Hiller paid Comprehensive Designers less than the amount of its contract and, as part of a settlement, executed the agreement described below.

Fairchild Hiller agreed to give Comprehensive Designers the first opportunity to furnish all temporary employees that it needed from May 1, 1968 to December 31, 1971, or until Comprehensive Designers earned a \$150,000 profit. If the \$150,000 has not been earned by December 31, 1971, Fairchild Hiller has agreed to make a lump-sum payment to make up the difference.

The agreement also provided that Fairchild Hiller would obtain temporary employees from Comprehensive Designers if its direct labor rates were competitive with those of any other job-shop firm. The agreement provided further that Comprehensive Designers furnish temporary employees at negotiated direct labor rates plus overhead of 25 percent and profit, which has ranged from 6 percent down to 3 percent.

An Aircraft Service Division official, who is no longer employed by Fairchild Hiller, stated that the division had known in April 1968 about the impending agreement with Comprehensive Designers. He also said that responsible division officials had interpreted an instruction, received in May 1968 from corporate headquarters officially notifying them of the agreement, to mean that temporary employees should be obtained only from Comprehensive Designers. The instruction received at the division made no reference to the statement in the corporate agreement about obtaining temporary employees from Comprehensive Designers at competitive rates. Consequently, from the latter part of April 1968 through August 21, 1968, the division obtained 115 temporary employees from Comprehensive Designers without regard to lower prices quoted to the division by other job-shop firms for employees in the same skill categories.

On August 21, 1968, the program director instructed division officials to obtain temporary employees from Comprehensive Designers only if its direct labor rates were equal to, or lower than, rates

quoted by other job-shop firms. Although we were told that this procedure subsequently had been followed, we found that, of 10 temporary employees obtained from Comprehensive Designers during the period August 21, 1968 through November 1968, all were obtained at higher prices than those quoted by other job-shop firms for employees in the same skill categories. From the latter part of April through November 1968, only 19 temporary employees were obtained from job-shop firms other than Comprehensive Designers.

During the period December 1968 through September 1970, the division obtained 100 temporary employees from various job-shop firms, including Comprehensive Designers. We were advised that the temporary employees had been requested individually on the basis of their qualifications and prior experience. We also were told that the lowest available price had been considered only when a number of equally qualified individuals were available to choose from. We reviewed pertinent procurement documents and found that, in some instances, the requesting office had recommended that certain individuals be obtained on the basis of their qualifications. In other instances the requesting office would furnish only a list of names to the buyer and request that they be obtained. We noted only a few instances where price had been mentioned as a consideration.

Purchases prior to agreement
with Comprehensive Designers

During February, March, and April 1968, the Aircraft Service Division obtained 66 temporary employees from Advanced R&D, Inc., and The Franklin Company, both of which had offices at Orlando, Florida, at that time. The division did not use competitive methods to obtain these temporary employees but spread the purchases about equally between the two job-shop firms. Of the 66 temporary employees, 42 were draftsmen. The division hired 18 of these draftsmen from Advanced R&D at from \$.32 to \$1.98 an hour more than it paid draftsmen hired from Franklin.

We estimate that the costs of obtaining these employees would have been reduced by about \$12,400 if they could have been obtained at the lower prices charged by Franklin. We estimate that the Government's share could be about \$9,900. Comparisons could not be made for other skills because other job-shop firms had not quoted rates on these skills at that time.

- - - -

We discussed the results of our review with the Air Force Contract Maintenance Center administrative contracting officer and the Defense Contract Audit Agency representatives at St. Augustine,

B-168678

Florida. We also discussed with the administrative contracting officer the possibility of disallowing the additional costs incurred for temporary employees because the division had not obtained the employees at the lowest rates available. We were told that there was a basis for disallowing the additional costs incurred but that action at this time would be premature because Fairchild Hiller has not yet submitted its final cost proposal for the contract and the Government has not yet negotiated final contract costs.

During our review we examined pertinent procurement records and we interviewed cognizant contractor and Defense Contract Audit Agency personnel. We also discussed our findings with the administrative contracting officer. Additionally, we interviewed officials of job-shop firms located in Orlando and Cocoa Beach, Florida. Our review of the procurement of temporary employee services was for the period February 1968 through September 1970. In accordance with arrangements made with your office, we did not inquire into other statements of the constituent but limited our review to the adequacy of competition.

As agreed with your office, copies of this report will be furnished to the Secretary of Defense and to Fairchild Hiller with a request that any comments which they wish to make be directed to your office. As requested, we are returning the enclosure to your letter.

Sincerely yours,

Assistant


Comptroller General
of the United States

Enclosure

CTR
The Honorable William Proxmire
United States Senate