

**RESTRICTED — Not to be released outside the General Accounting Office except on the basis of specific approval by the Office of Congressional Relations, a record of which is kept by the Distribution Section, Publications Branch, GAO**

090635



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

~~4-15-70~~  
5

B-172707

RELEASED

NOV 1 1973

74.0381

ci  
The Honorable Harrison A. Williams, Jr.  
United States Senate

Dear Senator Williams:

In your July 25, 1973, letter to Mr. Joseph D. Gleason, National Vice President, American Federation of Government Employees (AFGE), a copy of which you sent us, you indicated your interest in having GAO investigate the methods used for computing the overhead rate at Fort Monmouth, New Jersey.

Mr. George R. Boss, Director, Labor Management Department, AFGE, also referred this matter to us for review on February 1 and July 30, 1973. He was concerned with the determination and distribution of overhead costs in the Army Electronics Command's (ECOM) Research, Development, and Engineering (RD&E) Directorate. (See enclosures I and II.) He believed the overhead distribution methods were adversely affecting the use of certain in-house trade skills and the maintenance of an RD&E capability.

Although the conditions described in Mr. Boss' letters may have existed during the early formulation and implementation of the cost accounting system, ECOM has made many improvements in the overhead cost structure over the past several years. The overhead distribution methods employed during fiscal year 1973, which are described briefly below, appear reasonable and appropriate.

Overhead costs are composed of costs incurred for support services obtained from outside the laboratory cost centers and of overhead costs generated within the laboratories' cost centers but not identified with specific projects.

Outside overhead includes support services, such as utilities, received from Fort Monmouth headquarters activities and general and administrative costs, such as staff offices and general supplies, of the RD&E Directorate's operations. Utility costs are allocated to the Directorate on the basis of space occupied and other relevant criteria. Outside costs that are identifiable directly with a specific project or laboratory cost center are charged directly to the project or center. Costs that are not so identifiable are

~~904398~~  
090635

allocated to all laboratory cost centers on the basis of the proportion of each center's direct labor costs to the total direct labor costs of the Directorate.

The laboratory cost centers subsequently allocate to projects the outside overhead which was allocated to them and the overhead generated within the centers, consisting largely of supervisory and clerical salaries, on the basis of the proportion of the direct labor costs applied to a project to the center's total direct labor costs.

The former local union president said that he was aware that improvements had been made but that the earlier overhead costing practices have had detrimental effects on the morale and performance of RD&E employees. He believed that (1) the emphasis was on costs and not on accomplishment or performance and (2) this resulted in a loss of skilled personnel and made money managers of engineers and scientists which was an inefficient use of their talents. He said these conditions were caused by Project REFLEX (Resources Flexibility) which began in July 1970 to test the feasibility of managing laboratory operations without the constraints of manpower ceilings.

In reviews of Project REFLEX at ECOM and other DOD laboratories, we noted no such adverse results. We believe Project REFLEX offers the potential for more effective and efficient operations--an objective with which the local union officials readily agreed.

ECOM officials said that they are now working on further refinements in the overhead distribution methods which, when implemented, will lead to overhead reductions in the RD&E laboratories and supporting organizations. They also said that ECOM has established a policy to require fabrication work to be done in-house and that this policy should result in better use of in-house trade skills and maintenance of an RD&E capability.

We believe that the actions taken or planned by ECOM, including the substantial modification of its policy on in-house fabrication, will correct the conditions pointed out by AFGE.

Mr. Boss also expressed concern about the costs of deducting dues from AFGE members' pay. We understand that this matter is still under negotiation between ECOM and the union.

We do not plan to make any further distribution of this report unless you agree or publicly announce its contents.

Sincerely yours,



Comptroller General  
of the United States

# American Federation of Government Employees

AFFILIATED WITH THE AFL-CIO

CLYDE M. WEBBER  
NATIONAL PRESIDENT

DENNIS GARRISON  
EXECUTIVE VICE PRESIDENT

DOUGLAS H. KERSHAW  
NATIONAL SEC.-TREAS.



ENCLOSURE I

NATIONAL HEADQUARTERS  
1325 MASSACHUSETTS AVE. N.W.  
WASHINGTON, D. C. 20005  
(202) 737-8700

★ ★

IN REPLY PLEASE REFER TO:  
4c/Local 1904

February 1, 1973

Honorable Elmer B. Staats  
Comptroller General  
General Accounting Office  
441 G Street, N. W.  
Washington, D. C. 20548

1973 FEB 9 PM 2  
GND. INDEXED FILES

Dear Mr. Staats:

Our Local at Fort Monmouth, New Jersey is very much concerned regarding the methods of computing overhead within the Electronics Command Laboratory and other activities on the post, such as, Facilities Engineer, etc. The Local has requested that a GAO Team be sent to Fort Monmouth for the purpose of making a study of the methods of computing overhead.

According to information we have received, 50% of the budget stays in-house for project work. Theoretically all monies are to be allocated to projects by project number, task and sub-task. Each employee identifies the number of hours worked by filling out a time card which bears the project number, etc. The exception to this are employees identified as overhead, certain types of management, clerks, secretaries, etc.

The attachments to this letter indicate how the problem was to be handled in the Maintenance Engineering Directorate. To date there is no identification of man hours to project number, they are still paying Maintenance Engineering people by transferring bulk monies.

Examples of apparent harm being done to the employees are that engineers, scientists, technicians and trades people are being considered extremely costly because of the inflated overhead they must bear that is a machinist or other tradesman earning \$5.70 per hour costs the Laboratories in excess of \$15.00 per hour. We have been advised that in many instances projects are being handled by engineers and technicians and then rather than hiring the draftsman, machinist, sheet metal worker, etc., that portion of the work may go to another Army installation with a lower overhead figure or may even go to a contractor. The end result is the abolishment of spaces, the lessening of workload in the shops and the trades people working outside of their skills, i.e., machinists laying tile, helping the electricians or the carpenters, etc.

TO DO FOR ALL THAT WHICH NONE CAN DO FOR HIMSELF

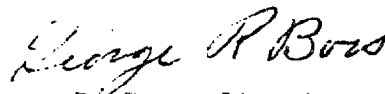
Hon. Elmer B. Staats  
February 1, 1973  
Page 2

BEST DOCUMENT AVAILABLE

The second illustration is the effect these overhead figures have on the cost of dues deductions for members of the American Federation of Government Employees. The agency claims that it costs 11¢ per name to deduct Union dues. They attempt to justify this by figures taken from the Finance and Accounting Office and the Computer Section. It appears that these outlined costs are entirely erroneous because they have a manual back-up system for each computerized system and the two apparently never agree. The manual systems seem to be far more accurate and the budget people constantly make large adjustments to their computerized system to conform to the manual system.

We request that a team be sent to Fort Monmouth in order to determine the true overhead.

Sincerely,



George R. Boss, Director  
Labor Management Department

#### Attachments

GAO note: We withdrew the attachments. They consist of 22 pages and relate to an Army study of the distribution of costs.



The Honorable Elmer B. Staats  
July 30, 1973  
Page 2

## BEST DOCUMENT AVAILABLE

"General Knight made an effort to determine why overhead was not applied uniformly during his brief stay at Fort Monmouth. His efforts were largely unsuccessful. Enclosed in this letter you will find a memo for the record dated 31 May 1973, Subject: AMC Reorganization Actions. Under paragraph B-4, please note that there is to be a computer center at Fort Monmouth to service other government installations. I am sure you can imagine the outcome if overhead is applied to the computer section in the same manner that it was applied to R and D Technical Support. In other words, if Picatinny, Edgewood and any of the other installations mentioned have the right to "shop around" for the least expensive place to purchase these services, they certainly will not use Fort Monmouth facilities and another organization will be crippled.

"Now let us discuss "in house" money versus "out house" money (that is quite an appropriate term, by the way). Out house or contract money is supposed to be 50 percent of our entire budget. However, you will find that because of the method of applying overhead, the remaining 50 percent of "in house" money is being diverted. "In house" money enters the laboratories assigned the project numbers. The project engineer has the responsibility to obtain the most for his project dollar, therefore, it is quite possible for the project engineer to contract for part of all of the services that he requires. Example: A piece of equipment may be engineered in house, when the time arrives for test models or pre-production models, the project manager will receive an estimate of the costs from R and D Technical Support people. He will also obtain estimates from Picatinny or some other government installation, because of the overhead applied to R and D Technical Support, they cannot compete with other government installations. Therefore, this project would go to Picatinny or the lowest bidder. If the engineer has gone to private industry, the same situation applies.

"There are two methods of keeping track of overhead in the laboratories. One is through a 9030 number which is local supervision, clerical help, etc., and the other is 5799 which is heat, light, etc., or supposedly plant overhead. Number 5799 is the real culprit. You will find entire projects being accomplished on 5799; moves of offices and facilities are accomplished under 5799. On the surface this seems to be quite acceptable until you realize that all of the persons working on this number are, in effect, removed from the labor force and do not carry overhead costs, instead they generate costs (this leaves a smaller working force to absorb an ever increasing overhead).

The Honorable Elmer B. Staats  
July 30, 1973  
Page 3

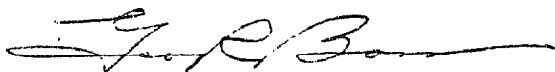
BEST DOCUMENT AVAILABLE

"The great reluctance to hire other employees in the laboratory complex has resulted in tremendous loss of capability. Entire sections have been abolished or are about to be abolished. Management claims that they cannot spare the engineers to work on in house projects because they are working on contracts or are evaluating contractor ideas and/or equipment. Thus, you have generated a great paper mill and have almost completely eliminated the true function of these laboratories, that is research and development.

"In the event of an emergency, all private industry is jammed with equipment contracts and thus have no time for R and D. It then follows if you have lost your contract source and have lost the capability within your laboratories, you have no Research and Development facilities whatsoever."

We shall appreciate being advised of the findings of your team as soon as they are made available.

Sincerely,



George R. Boss, Director  
Labor Management Department