

REPORT BY THE

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Comptroller General

OF THE UNITED STATES

Review Of The Planned Consolidation Of Defense Contract Administration Services Regions In Atlanta

The Defense Logistics Agency is planning to consolidate the Philadelphia and Atlanta Defense Contract Administration Services regions and locate the new region headquarters in Atlanta. This decision was based on an Agency study estimating that the Atlanta location would provide greater recurring savings and less one-time costs than the Philadelphia location.

GAO found that the Agency study did not adequately consider factors affecting personnel savings and contained errors and inconsistencies in estimating one-time and recurring facility costs and savings.

This report was requested by Congressmen Charles F. Dougherty, Robert W. Edgar, and James J. Florio.



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LCD-80-46
MARCH 20, 1980



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

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The Honorable Charles F. Dougherty
House of Representatives

The Honorable Robert W. Edgar
House of Representatives

The Honorable James J. Florio
House of Representatives

In response to your request, we reviewed the study prepared by the Defense Logistics Agency which was used to support the decision to close the Philadelphia, Pennsylvania, Defense Contract Administration Services region and to reassign its mission to other regions, primarily the Atlanta, Georgia, region.

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DLG#138
DLG02471

We were also asked to review two specific issues affecting the Agency's estimate of civilian personnel savings. These are: (1) the support now being provided by the Defense Personnel Support Center in Philadelphia and the possibility that this support could result in greater savings in Philadelphia than in Atlanta and (2) the appropriateness of using an average salary rate to compute civilian salary savings. In addition, we were asked to review the Agency's estimates of (1) recurring facility and space savings that would occur when the Philadelphia and Atlanta region headquarters vacated their present locations and (2) one-time costs that would be needed to make space available for each region headquarters in its new location.

In summary, we concluded that:

- The Agency's estimates of civilian personnel savings did not adequately consider the possible savings for support services that could be provided by the Support Center if the new headquarters is located in Philadelphia. Because of data inadequacies, we could not estimate the effect of this omission on the study results. However, estimates provided to us by Support Center and Philadelphia region personnel indicated that up to 48 positions could be saved as a result of the Center's support to the Philadelphia region. Using the Agency's average salary rate, savings might be as much as \$1 million annually.
- The Agency's use of an average salary rate to compute civilian salary savings was appropriate under the circumstances.

--The Agency's estimates of facility and space savings were based on erroneous data which resulted in overstating the estimated recurring savings advantage at Atlanta by \$68,000.

--The Agency's estimated one-time site preparation costs for the Philadelphia location were understated by about \$1.5 million.

In our opinion, the Agency study does not provide a satisfactory basis for determining which of the two proposed locations will result in the greatest savings to the Government. Because of the issues raised in this report, particularly the support services issue, and the relatively small cost and savings differentials on which the Agency based its decision, we believe the Agency should reconsider its proposed actions to consolidate the region in Atlanta, Georgia.

A summary of the Agency's estimates of recurring savings and one-time costs and a description of how the Agency computed civilian position savings are shown in appendix I. Our analysis and comments on the Agency's estimates of recurring savings are contained in appendix II. Our analysis and comments on the Agency's estimates of one-time costs are contained in appendix III.

BACKGROUND

This realignment is part of a larger Agency realignment consolidating the present nine Defense Contract Administration Services regions into five. The Agency's support for its decision was contained in a study report issued in November 1978 and revised in August 1979.

We discussed the proposed consolidation and realignment with Agency officials at their headquarters in Cameron Station, Alexandria, Virginia, and reviewed supporting documentation for their study. We made field visits to the Atlanta and Philadelphia region headquarters to observe the facilities considered as alternative sites for the proposed region headquarters and to discuss the proposed action with local officials.

The Defense Logistics Agency estimated that merging parts of the New York and Philadelphia regions and all of the Atlanta region and locating the new region headquarters in Atlanta would result in one-time costs of \$2,173,496 and recurring annual savings of \$4,133,073. If the headquarters was located in Philadelphia, the Agency estimated one-time

costs of \$2,310,430 and annual recurring savings of \$4,124,424. On this basis, the Agency decided that locating the Southeast region headquarters in Atlanta instead of Philadelphia would be more cost effective because one-time costs would be \$136,934 less and recurring annual savings would be \$8,649 greater.

The existing Atlanta and Philadelphia region headquarters are not identical. The Philadelphia headquarters has more personnel than Atlanta and is colocated with another Agency installation: the Defense Personnel Support Center. The Support Center is the host activity and provides a significant amount of support, such as civilian personnel and data processing services, to the Philadelphia region. The Atlanta region headquarters is located in a building owned by the Air Force and managed by a contractor.

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The Department of Defense announced the planned realignment of the Philadelphia and Atlanta regions in March 1979. Implementation is scheduled to begin in April 1980 and to be completed by October 1981.

CENTER'S SUPPORT

The Agency study did not attempt to determine whether there would be any additional savings resulting from the support that the Center would provide if the Southeast region headquarters was located in Philadelphia. Philadelphia region officials claimed that savings would be realized because the Center could provide support for the additional workload of the Southeast region with fewer personnel than would be required in Atlanta. On the basis of data supplied by the Center, Philadelphia officials estimated that these economies-of-scale were equivalent to 48 positions. Using the Agency's average salary rate, these savings might be as much as \$1 million annually.

We believe there would be some position savings in Philadelphia as a result of the support arrangements between the Support Center and the region. However, because of the absence of reliable data that shows how much of the Center's work force has been used to support the Philadelphia region, we were unable to verify that there would be savings equivalent to 48 positions.

Although the Agency agrees there may be some savings resulting from the Center's support, it disagrees with the estimate of 48 positions. But the Agency did not attempt to validate or disprove that such savings were possible. According to the Agency, savings may be offset in Atlanta in other functions that were not analyzed, but it did not

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attempt to validate this. The Agency cited an estimate from the Atlanta region claiming to be able to perform some of these other functions with fewer personnel than in Philadelphia. This estimate was received too late for us to verify.

Because of the significance of this matter and its potential for affecting the total savings for each alternative, we believe the Agency should try to determine how the Center's support affects its savings estimates.

USE OF AN AVERAGE SALARY RATE

The Agency study used a single average salary rate (determined by combining the labor costs of the Atlanta, New York, and Philadelphia regions) to compute gross salary savings, but it used separate rates for Atlanta and Philadelphia to compute net salary savings. The rate for Atlanta is higher than the rate for Philadelphia. If the Agency had consistently used a separate rate for each region, its computation of salary savings for Philadelphia would have been higher. But it is not apparent that one rate is better than the other.

The way in which these rates are used assumes that they measure savings only applicable to headquarters positions. Actually, the rates contain a significant cost for field activities. When the rates are applied to the headquarters positions being eliminated, the savings estimates are distorted.

Further, using a separate rate for each location assumes that all savings will come only from that location. However, actual savings will be affected by those employees who elect to accept job offers, regardless of the employees' present locations.

Additionally, Agency savings estimates do not recognize that some of the savings are attributable to positions in the Support Center. A separate Support Center rate could be used but only after the Agency determines the amount of current and future support provided by the Center.

Because of the number of assumptions and variables involved and the absence of more precise data, we believe that the use of an overall average rate was appropriate.

FACILITY AND SPACE SAVINGS

Estimated recurring facility and space savings are savings that would occur when the Philadelphia and Atlanta

regions vacate their present locations. These savings are computed by comparing current space costs with future space costs.

On the basis of errors and omissions in the Agency's study, which we identified and brought to the Agency's attention, estimates of costs per-square-foot and space actually occupied in Atlanta and Philadelphia were revised upward. The net effect is reduced savings for Atlanta. Previously, the Agency estimated that recurring facility and space savings would be \$151,000 a year greater in Atlanta than in Philadelphia. With these adjustments, Atlanta's savings are now estimated to be about \$83,000 a year greater than Philadelphia's.

SITE PREPARATION COSTS

The Agency study showed that the estimated costs needed to prepare space for the new Southeast region headquarters would be about \$360,000 higher in Philadelphia than in Atlanta. The Support Center facility in Philadelphia is older than the Atlanta site. Costly rearrangement and rehabilitation of space would be required to provide space for additional personnel if the Southeast region headquarters was located in Philadelphia. On the other hand, the Atlanta site is more modern and can accommodate the additional personnel with less cost. We found that the Agency study omitted a \$1.5 million cost for a military construction project which the Support Center now claims would be needed if the Southeast region is located in Philadelphia. Thus, Philadelphia's one-time site preparation costs are now estimated to be more than \$1.7 million higher than Atlanta's.

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We did not furnish a copy of this report to the Defense Logistics Agency for written comment. However, we have discussed these matters with Agency representatives and included their comments in the report.

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As agreed, we will withhold further distribution of this report for two days from the date of this report. Then it will be made available to the Secretary of Defense, the Director of the Defense Logistics Agency, and other parties who have requested a copy of the report.

A handwritten signature in black ink, reading "Thomas B. Staats". The signature is written in a cursive style with a large, prominent initial 'T'.

Comptroller General
of the United States

DLA's COMPUTATION OF SAVINGS AND COSTS

The Defense Logistics Agency is a Department of Defense component that supports the four military services. Its basic responsibilities fall into three categories: logistics services, contracting and supply support, and contract administration.

Agency headquarters, located at Cameron Station, Alexandria, Virginia, develops policy and controls the Agency's field activities. Contract administration is performed through a nationwide network of Defense Contract Administration Services regions. Each region consists of

- a regional headquarters,
- management area offices handling contracts within a given geographical area, and
- plant representative offices handling contracts at designated contractors' plants.

Management area offices and plant representative offices perform contract administration services at or near contractor plants to ensure compliance with the terms and conditions of Government contracts and to minimize problems of contract performance. Each region provides supervision and policy guidance to the management area offices and plant representative offices and handles payments on contracts.

CONSOLIDATION AND REALIGNMENT PLANS

On March 29, 1979, The Department of Defense announced that as part of the Defense Logistics Agency's ongoing effort to reorganize and streamline its contract administration field organization, it would be initiating actions to consolidate its nine regions into five. In the process, the New York and Philadelphia regions were to close, and some of the field activities under their jurisdiction were to be transferred to the new Southeast region headquarters in Atlanta.

DETERMINATION OF SAVINGS AND COSTS

The Agency's analysis, revised in August of 1979, showed costs and savings that would result if Atlanta or Philadelphia were the new Southeast region. This analysis is summarized below.

<u>Annual recurring savings</u>	
Atlanta	\$4,133,073
Philadelphia	<u>4,124,424</u>
Atlanta recurring savings greater by	\$ <u>8,649</u>
<u>One-time costs</u>	
Philadelphia	\$2,310,430
Atlanta	<u>2,173,496</u>
Atlanta one-time costs lower by	\$ <u>136,934</u>

On this basis, the Agency decided that Atlanta was the more cost effective location for the Southeast region headquarters.

Most of the savings came directly or indirectly from the elimination of civilian positions as a result of the consolidation. The Agency study identified the following recurring savings and costs and one-time costs for each proposed location for the Southeast region headquarters.

<u>Estimated recurring annual savings/costs (-)</u>	<u>Atlanta</u>	<u>Philadelphia</u>
	----- (000 omitted) -----	
Military salaries	\$ 188	\$ 188
Civilian salaries	3,822	3,844
Facility/space	113	-38
Data processing	75	75
Communications	-10	113
Travel	<u>-55</u>	<u>-58</u>
Total	<u>\$4,133</u>	<u>\$4,124</u>

Estimated
one-time costs

Permanent change of station	\$ 679	\$ 638
Severance pay	533	592
Training	653	441
Transportation of equipment	30	23
Records conversion	56	73
Site preparation	86	445
Data processing	17	17
Communications	<u>119</u>	<u>82</u>
Total	<u>\$2,173</u>	<u>\$2,311</u>

AGENCY COMPUTATION OF
CIVILIAN SALARY SAVINGS

The Agency's calculation of civilian salary savings illustrates many of the basic assumptions included in the Agency's study and helps to explain how it computed other savings and costs. The computation began with the civilian position authorizations for the Atlanta, New York, and Philadelphia regions as of April 5, 1978. Since some of New York's and Philadelphia's field activities were being transferred to the Southeast region, the Agency allocated New York's and Philadelphia's headquarters civilian positions to the Southeast region, as follows:

APPENDIX I

APPENDIX I

	Civilian positions authorized for <u>headquarters</u>	Percent allocated to the Southeast <u>region</u>	Total civilian positions allocated to the Southeast <u>region</u>
Atlanta	337	100	337
New York	560	48	<u>b/264</u>
Philadelphia	<u>a/509</u>	66	<u>b/337</u>
			<u>938</u>

a/Includes estimated 88 positions involved in administrative/logistics support provided by the Defense Personnel Support Center to the Philadelphia region.

b/Minor differences due to the Agency rounding off in computation.

This allocation was derived from the assumption that when a region's field activities are transferred to a new region, a portion of the region's headquarters staff should also be transferred. Applying this assumption, the Agency determined the percentage of each region's staff involved with the Southeast region consolidation, as follows:

	<u>Atlanta</u>	<u>New York</u>	<u>Philadelphia</u>
1. Civilian personnel assigned to field activities	1,090	1,385	1,150
2. Civilian personnel of field activities transferred to Southeast region	1,090	666	755
3. Percentage of field activities transferred to Southeast region (line 2 ÷ 1)	100	48	66

Thus, the consolidation of the Southeast region included portions of the Philadelphia and New York regions and all of the Atlanta region.

Unique to the Southeast region consolidation is the administrative support that the Defense Personnel Support Center provides to the Philadelphia region. The Southeast region consolidation, therefore, affects four Agency organizations. These organizations vary in authorized staff levels and position costs.

Personnel requirements
for the Southeast region

On the basis of estimates provided by directorates and offices in Agency headquarters, an organizational staffing plan was developed for the consolidated Southeast region. For purposes of the updated study, the Agency estimated that 740 positions would be needed if Atlanta was selected and 741 positions if Philadelphia was selected. These requirements were applied to the allocated positions to establish the estimated position savings, as follows:

	<u>Atlanta</u>	<u>Philadelphia</u>
Civilian positions allocated to the Southeast region	938	938
Proposed staffing of Southeast region	<u>740</u>	<u>741</u>
Total	<u>198</u>	<u>197</u>

Reductions for management
area office augmentation

Management area offices are colocated with the region headquarters and receive support from the headquarters. The Agency determined that as a side effect of the consolidation, additional staffing would have to be provided to the management area office remaining behind when the Atlanta or Philadelphia region headquarters were closed. Disestablishing region headquarters would require additional staffing so that the management area office could support itself. The Agency estimated that

- the management area office in Atlanta would need 28 additional positions (which would reduce the savings resulting from the Philadelphia alternative) if the Atlanta headquarters was closed and
- the management area office in Philadelphia would need 32 additional positions (which would reduce the savings resulting from the Atlanta alternative) if the Philadelphia headquarters was closed.

Agency's estimate
of savings

The Agency determined gross savings for Atlanta and Philadelphia by multiplying an average civilian position rate of \$22,794 by the estimated positions saved at each location. The Agency determined net savings by deducting estimated costs for augmentation of the applicable management area offices. For example:

- The \$22,794 average civilian position rate was derived from labor hours and obligation authority data in the annual operating budgets for the Atlanta, New York, and Philadelphia regions for fiscal year 1979. The data for the three regions was combined to arrive at a combined average civilian salary rate which was then factored to provide for the Agency contributions for retirement and health and life insurance, plus incidentals. (See app. II for this computation.)
- The estimated costs for augmentation of the management area offices were derived by computing an average rate for each of the functional categories in the offices and multiplying those average rates by the number of support positions to be added in each functional category.

The net civilian savings were then computed as follows:

APPENDIX I

APPENDIX I

	<u>Atlanta</u>	<u>Philadelphia</u>
Gross positions saved	198	197
Average civilian position rate	\$ <u>x22,794</u>	\$ <u>x22,794</u>
Gross civilian savings	\$4,513,212	\$4,490,418
Management area office augmentations	<u>-691,180</u>	<u>-646,055</u>
Total	<u>\$3,822,032</u>	<u>\$3,844,363</u>

OUR ANALYSIS OF AGENCY ESTIMATES
OF RECURRING SAVINGS AND COSTS

We reviewed the Defense Logistics Agency's estimates of recurring savings and costs for each of the proposed headquarters in the Southeast region. Below is a summary of the Agency's data. In the sections that follow, we discuss civilian salaries and facility and space savings. Savings for the other costs were about the same for each location or, where Agency changes were made, were about the same for each alternative and therefore are not discussed.

The Agency's computation of civilian salary savings did not consider certain factors that could substantially affect the estimated savings for each alternative. The Agency has revised its estimates of facility and space costs for Philadelphia and Atlanta. While Philadelphia's costs have become savings, savings will still be higher in Atlanta.

<u>Estimated</u> <u>recurring annual</u> <u>savings/costs (-)</u>	<u>Atlanta</u>	<u>Philadelphia</u>
	----- (000 omitted) -----	
Civilian salaries	\$3,822	\$3,844
Facility/space	113	-38
Military salaries	188	188
Data processing	75	75
Communications	-10	113
Travel	<u>-55</u>	<u>-58</u>
Total	<u>\$4,133</u>	<u>\$4,124</u>

RECURRING CIVILIAN
SALARY SAVINGS

The updated Agency study estimated recurring annual savings of \$3,822 million if Atlanta was selected as the site for the Southeast region headquarters and recurring annual savings of \$3,844 million if Philadelphia was selected. Thus, recurring annual civilian salary savings would be \$22,331 greater for Philadelphia than for Atlanta. However, the Agency's computation (1) did not consider the impact of the support provided by the Support Center in determining the number of positions eliminated and (2) inconsistently computed civilian salary savings. The Agency used

one position rate to determine gross savings and several position rates to determine the position cost for each management area office augmentation.

Impact of Center support
on staffing requirements
of the Southeast region

A potentially significant factor affecting the recurring annual civilian savings in the Philadelphia and Atlanta alternatives is the support provided by the Defense Personnel Support Center. This support is now being provided to the Philadelphia region and would be provided to the Southeast region headquarters if located at the Support Center. Such support and services include data processing, telecommunications, civilian personnel, security, and other functions.

The Philadelphia region is the only region colocated with and receiving support and services from a larger activity. The arrangement between the two activities is consistent with Agency regulations which require colocated Agency activities to make maximum use of common staff functions and services, particularly administrative and logistics support services. The intent of the regulations is to reduce costs by eliminating duplications of support services.

Support Center and Philadelphia region officials claim that being colocated with and being supported and serviced by the Center provides economies-of-scale that would permit the mission of the Southeast region to be performed with fewer staff positions than would be required if the region headquarters was located in Atlanta. This possibility of savings assumes that a large organization, such as the Support Center, can absorb additional workload within its existing organizational structure without needing as many additional personnel. Furthermore, it assumes that the size and workload of the Support Center has justified the acquisition of faster, more efficient equipment that permits work to be done with less staff.

Agency did not consider
possibility of position
savings from Center's support

The Agency study did not address the impact of the support arrangement between the Support Center and the Philadelphia region on staffing requirements. The Agency made no attempt to determine (1) whether fewer positions were required

by the Center to support the Philadelphia region than would have been needed by the Philadelphia region if it were providing the same support for itself, (2) how many staff positions the Support Center would require to support the proposed Southeast region, and (3) how that compared with the number of staff positions the Atlanta region would need to provide similar support.

The Agency's study assumed that the Center's current support to the Philadelphia region was equivalent to 88 positions. The study also assumed that there would be no economies or savings resulting from that support if Philadelphia would be the location of the Southeast region.

The study assumed that the same number of positions would be required to perform the mission of the Southeast region, regardless of whether the headquarters was located in Atlanta or in Philadelphia.

Attempts to measure
economies and savings
derived from Center support

Philadelphia region officials reviewed a position distribution report prepared by the Agency for planning purposes and identified those functions that would be performed by the Support Center. The position distribution report, as adjusted, shows that a total of 743 civilian positions are needed for a Philadelphia-based Southeast region. Philadelphia region officials estimated that there are 584 positions attributable to the headquarters. They believe they would not have to staff 159 of the positions because of the Center's support. The functions and related positions are shown below.

<u>Functions</u>	<u>Positions</u>
Public affairs	3
Equal Employment Office	4
Military personnel	1
Civilian personnel	54
Command support (tele- communications, administrative, etc.)	38
Systems and financial management (data proces- sing, accounting, etc.)	<u>59</u>
Total	<u><u>159</u></u>

Support Center and
Philadelphia region
estimates of support

There has been a continuing dialog between Support Center and Philadelphia region officials and Agency officials regarding the number of positions now provided by the Center to support the Philadelphia region. Center officials have contended that the Agency has overestimated the support the Center has been providing. Philadelphia region officials believe that fewer staff positions will be needed if Philadelphia was selected to become the Southeast region headquarters because of economies-of-scale inherent in the support provided by the Center and because such savings would make Philadelphia the less costly choice.

The Support Center and the Philadelphia region have periodically negotiated Memorandums of Understanding which identified the nature of the support and services to be provided by the Center and the number of positions that would be required for performance of the functions involved. But there is no cost accounting system to show how many positions were applied in support of the Philadelphia region. The number of positions were derived from estimates and the judgments of personnel in the various organizational elements in the Support Center that provided the support and/or services.

In a January 4, 1980, letter, the Director of the Support Center's Office of Planning and Management informed Agency headquarters that a review of the latest Memorandum of Understanding disclosed that prior estimates of the level-of-support being provided by the Center were overstated.

Support Center officials determined that they were currently applying the equivalent of 57 positions to support the Philadelphia region and that 54 more positions would be required to accommodate the additional workload associated with the Southeast region. Thus, the Center officials believed that support and service of the Southeast region would require a total of 111 positions.

In consideration of the previous determination that 159 positions would not be staffed because of the Center's support and the Center officials' determination, as adjusted, that a total of 111 positions would be required to service the Southeast region, Philadelphia region officials believe there is a potential savings of 48 positions. If the Agency's average salary rate of \$22,794 is used, these positions would be valued at \$1.094 million. However, the Agency contends that this does not consider other similar savings in Atlanta.

Agency's view of the savings estimates

Agency officials did not consider the difference in 48 positions to be the result of economies-of-scale. They asked each of their directorates and offices in the Agency headquarters to review data provided by the Center showing how the estimates were developed. In general, the Agency believes that the same number of positions will be required to perform the mission of the Southeast region, whether located in Atlanta or Philadelphia. They considered that the Support Center's estimates of the level-of-support were either understated or that the Philadelphia region's mission performance was being adversely affected because insufficient resources were being applied for support by the Center. However, all nine regions, including Philadelphia, were recently said to be performing within acceptable ranges.

The Agency also claimed that the Support Center and Philadelphia region analysis dealt only with (1) the support functions that the Center was now providing and would provide to the Southeast region and (2) 159 of the positions in the position distribution report. Agency officials claimed that an analysis of the other functions may reveal that those positions could possibly be staffed with less personnel in Atlanta. Thus, the total personnel requirement for the

Southeast region may be about the same for both alternatives. Agency officials cited an estimate from Atlanta claiming that only 695 positions would be needed to operate the Atlanta region headquarters at the workload levels used in the Agency study. This is about the same total estimated for the region headquarters in Philadelphia, including estimated support provided by the Support Center.

Conclusions

The Agency's comments on the possible savings from the Center's support relate to the operation of a region responsible for providing for its own administrative support and logistics services. The study did not consider that the Philadelphia/Support Center relationship was a unique situation which prevented direct comparison of Philadelphia with other regions in terms of their staffing requirements. This approach did not address the contention that there were economies-of-scale that produced personnel savings because of the support arrangement between the Philadelphia region and Support Center.

However, if the Agency plans to consider possible position savings in other functional areas, as claimed by the Atlanta region, it should also consider the potential for like savings for the Philadelphia alternative. During our review, Philadelphia officials informed us that besides the position savings caused by the Center's support, their analysis of the proposed staffing of the Southeast region had disclosed opportunities for position reductions in the other functional areas.

While we cannot conclusively demonstrate that there would be savings of a total of 48 positions if the Southeast region was located in Philadelphia, it seems likely that there should be some position savings resulting from the Support Center and Philadelphia region support arrangements. Agency officials acknowledged that there could be some position savings stemming from the Center's support but not as many as 48 positions.

We are unable to be more specific about the extent of any savings resulting from the Center's support primarily because of the absence of any reliable and verifiable data. The Support Center does not have a cost accounting system or any other formal system that shows how labor has been used to support the Philadelphia region. We attempted to evaluate estimates based on the judgment of individuals in the Support

Center who are providing the support and those in the Philadelphia region who are receiving the support, as well as individuals in Agency headquarters who are responsible for managing both of these activities.

Agency personnel have acknowledged that there are position savings deriving from the Center's support, but they do not accept the range of position savings indicated by the Center and Philadelphia region. We believe that the Agency should not have ignored the potential savings inherent in the Center's estimates in considering the economics of the alternatives. In our opinion, the potential savings of \$1 million, represented by the 48 positions, is significant enough that the Agency should have tried to validate the Center's estimates of current and projected levels-of-support. Furthermore, any consideration of additional position savings in other functional areas should have been thoroughly investigated and applied consistently to both alternatives.

AVERAGE CIVILIAN
POSITION RATE

To compute civilian salary savings, the Agency used an average position rate (determined by combining the labor costs of the Atlanta, New York, and Philadelphia regions) instead of using a separate rate for Atlanta and Philadelphia. If the Agency had used a separate rate for each region, its computation of salary savings for Philadelphia would have been higher.

Agency computation
of position rate

To determine civilian savings for each consolidated alternative, the Agency used a position rate determined from a simple average of the budgeted labor costs for the three regions involved in the Southeast consolidation. The computation was made as follows:

	<u>Direct hire staffyears</u>	<u>Annual operating budget for labor</u>
		(000 omitted)
Atlanta	1,370	\$ 30,485
Philadelphia	1,519	31,593
New York	<u>1,871</u>	<u>38,764</u>
Total	<u>4,760</u>	<u>\$100,842</u>

Computation of average civilian position rate:

$$\$100,842 \div 4,760 = \underline{a}/\$21,185$$

$$\$ 21,185 \times 1.0736 = \underline{b}/\$22,744$$

$$\$ 22,744 + \$50 \text{ (for office supplies)} = \$22,794$$

a/Includes adjustments of 10 percent for Agency contributions to retirement fund, health insurance, and life insurance.

b/The salary rate was multiplied by a factor of 1.0736 to reflect the current percentage of Government contributions as provided in Office of Management and Budget Circular No. A-76, Transmittal Memoranda Nos. 2 and 3.

The Agency then used this to compute salary savings as follows:

APPENDIX II

APPENDIX II

	<u>Atlanta</u>	<u>Philadelphia</u>
Gross positions saved	193	197
Average civilian position rate	\$ <u>x 22,794</u>	\$ <u>x 22,794</u>
Gross civilian savings	\$4,513,212	\$4,490,418
Management area office augmentations (note a)	<u>-691,180</u>	<u>-646,055</u>
Total	<u>\$3,822,032</u>	<u>\$3,844,363</u>

a/Management area office augmentations are explained on pp. 5 and 6. In arriving at the deductions for augmentations, the Agency used different rates for Atlanta and Philadelphia.

An alternative procedure would have been to compute a position rate for each region. Applying the same Agency assumptions, the average civilian position rate may have been computed as follows:

APPENDIX II

APPENDIX II

	<u>Atlanta</u>	<u>New York</u>	<u>Philadelphia</u>	<u>Support Center (note a)</u>
1. Labor costs (notes b and c)	\$30,485	\$38,764	\$31,593	\$22,667
2. Direct-hire staff-years	<u>1,370</u>	<u>1,871</u>	<u>1,519</u>	<u>1,230</u>
3. Average civilian salary rate (line 1 ÷ line 2)	<u>22,252</u>	<u>20,718</u>	<u>20,799</u>	<u>18,428</u>
4. Adjustment to reflect current percentage of Government contributions (note d) (line 3 x 1.0736)	\$23,890	\$22,243	\$22,330	\$19,785
5. Add \$50 for office supplies	<u>50</u>	<u>50</u>	<u>50</u>	<u>50</u>
Total	<u>\$23,940</u>	<u>\$22,293</u>	<u>\$22,380</u>	<u>\$19,835</u>

a/To reflect a more realistic average civilian position rate for the Center, only the budget project code 900 was used because most of the Center's direct support to the Philadelphia region is within this code.

b/Includes adjustments of 10 percent of Agency contributions to retirement fund, health insurance, and life insurance.

c/ 000 omitted.

d/The salary rate was multiplied by a factor of 1.0736 to reflect the current percentage of Government contributions as provided in Office of Management and Budget Circular No. A-76, Transmittal Memoranda Nos. 2 and 3.

Impact of separate rates

It is not apparent that either approach is superior. The total staffyears and the total cost for each region contains labor and costs attributable to each region's field activities and are therefore distorted. For example, the total Philadelphia staffyears of 1,519 contains over 1,000 staffyears applicable to field activities. Therefore, the accuracy of any savings computed using the Philadelphia rate would be affected. However, if the particular rates for each region had been used instead of the overall average rate that the Agency used, the salary savings in Philadelphia would have been higher.

The Agency's salary rate would have been more accurate if it had computed a position rate for each region, eliminating the labor and costs associated with the field activities and using these figures to compute savings. The Agency's costs and savings estimates would also be affected by using a specific rate for the amount of current and future support provided by the Support Center. But, as noted earlier, there is uncertainty about the extent of that support.

RECURRING FACILITY
AND SPACE SAVINGS

The three region headquarters being consolidated into the Southeast region occupy space in different types of facilities. Different bases are involved in the determination of their facility and space costs.

The Atlanta region headquarters is located in a Government-owned, contractor-managed facility. Under an agreement with the U.S. Air Force, the Atlanta region is responsible for all operation and maintenance costs related to the assigned space.

The New York region headquarters occupies GSA-leased space and pays a standard level user charge, which is supposed to approximate the cost of comparable commercial space.

The Philadelphia region headquarters is a tenant on a facility operated and maintained by the Defense Personnel Support Center. The Center absorbs facility costs in its role as host activity.

In the Agency's computation of recurring annual facility costs and savings:

- Current costs were developed from estimates of space occupied rather than actual space occupied.
- Costs for public areas were inconsistently treated in developing net-square-foot costs for Atlanta and Philadelphia.
- The Support Center's space costs were allocated incorrectly in computing the Philadelphia's space costs.

Agency corrections had the effect of increasing the Agency's estimates of current and future facility and space costs for both Atlanta and Philadelphia and increasing the savings estimate for Philadelphia.

Estimate of space occupied used instead of actual space occupied

The Agency computed current facility costs based on an estimate of space occupied at each headquarters and the colocated management area office, rather than the space actually occupied. This computation resulted in an understatement of the space occupied and the applicable cost at both locations. The space differences are shown below.

	Agency estimate of amount of space occupied <u>(sq. ft.)</u>	Actual amount of space occupied <u>(sq. ft.)</u>
Atlanta	56,375	95,682
Philadelphia	78,625	85,031

Inconsistent treatment of public areas

The Agency's treatment of public areas (aisles, passageways, and similar space) in computing annual facility costs per net-square-foot was not consistently applied in computing costs for Atlanta and Philadelphia. Costs for public areas were included in Philadelphia's cost but were not included in Atlanta's annual facility cost per net-square-foot. This difference in treatment of public areas resulted in Atlanta's cost being understated by \$0.89 per net-square-foot.

The Agency originally computed Atlanta's annual facility cost per net-square-foot to be \$4.31. However, adjusting for the cost of public areas would increase this to \$5.20 per net-square-foot.

Allocation of Support
Center space costs

Because the Philadelphia headquarters occupies space provided by the Support Center, the Agency had to use the Center's facility cost data to compute an annual facility cost for Philadelphia. This data was derived from the Center's annual operation and maintenance costs and was computed as a cost per square foot based on engineering estimates, assumptions, and judgments.

However, the data the Agency used contained mathematical errors and omissions. After we pointed out the errors and omissions, the Agency corrected them and changed its methodology for computing some of these costs. The result was an increase from \$5.96 to \$6.19 per square foot of the annual facility cost for the Philadelphia region.

SUMMARY

Applying the above corrections and adjustments, we computed the current facility costs to be allocated to the Southeast region as follows:

Atlanta:

95,682 sq. ft. x \$5.20 sq. ft. x 100% a/ \$ 497,546

New York:

127,927 sq. ft. x \$8.82 sq. ft. x 48% a/ 541,572

Philadelphia:

85,031 sq. ft. x \$6.19 b/ sq. ft. x 66% a/ 347,386

Annual facility cost for Center support c/29,109

Total \$1,415,613

a/This is the proportion of the activity's cost that has been consistently allocated to the Southeast region. It is based on the proportion of field personnel being transferred to the Southeast region.

b/The Agency used \$5.96 per square foot. We noted a mathematical error. Adjusting for this error, the corrected rate is \$6.19.

c/This is an estimate of the cost of the space occupied by the Support Center personnel who are currently providing support to the Philadelphia region.

We computed the following recurring facility costs and savings for the alternative sites of the Southeast region using the Agency's methodology:

APPENDIX II

APPENDIX II

	<u>Atlanta</u>	<u>Philadelphia</u>
Region and management area office positions	818	912
Utilization rate per position (sq. ft.)	<u>x 125</u>	<u>x 125</u>
Total (sq. ft.)	<u>102,250</u>	<u>114,000</u>
Annual facility cost per square foot	\$ <u>x 5.20</u>	\$ <u>x 6.19</u>
Annual facility cost	\$ <u>531,700</u>	\$ <u>705,660</u>
Plus: losing management area <u>office facility costs</u>		
Positions in Philadelphia management area office	223	-
Positions in Atlanta management area office	-	126
Utilization rate per position (sq. ft.)	<u>x 125</u>	<u>x 125</u>
Space occupied by management area office (sq. ft.)	27,875	15,750
Annual facility cost per square foot	\$ <u>x 6.19</u>	\$ <u>x 5.20</u>
Losing management area office's annual facility costs	\$ <u>172,546</u>	\$ <u>81,900</u>
Projected recurring annual facility costs	\$ <u><u>704,246</u></u>	\$ <u><u>787,560</u></u>
Current facility costs allocated to the Southeast region	\$1,415,613	\$1,415,613
Less: Imputed facility costs for the Southeast region	<u>-704,246</u>	<u>-787,560</u>
Projected recurring facility savings	<u>\$ <u>711,367</u></u>	<u>\$ <u>628,053</u></u>

The following table shows the net effect on revisions resulting from the issues discussed above.

<u>Recurring facility savings/costs (-)</u>		
<u>Alternative</u>	<u>Agency study</u>	<u>Revised</u>
Atlanta	\$113,268	\$711,367
Philadelphia	<u>-37,508</u>	<u>628,053</u>
Total	<u>\$150,776</u>	<u>\$ 83,314</u>

OUR ANALYSIS OF AGENCY COMPUTATIONOF ONE-TIME COSTS

The Agency's estimates of one-time costs are shown below. Site preparation and training costs are discussed in the sections that follow. Site preparation costs are substantially higher for Philadelphia. Additional costs of over \$1.5 million have not been included, so a revised Agency estimate for Philadelphia would be even higher. Training costs are affected by the number of new hires that would be needed. In Philadelphia, the number of new hires could be affected by the amount of support the Support Center provides. As indicated earlier, Center and Philadelphia region officials claim that the Center can provide support with fewer personnel.

Other one-time costs were about equal and remained unchanged, or the Agency made changes that were about the same for Atlanta and Philadelphia.

<u>Estimated one-time costs</u>	<u>Atlanta</u>	<u>Philadelphia</u>
	----- (000 omitted) -----	
Site preparation	\$ 86	\$ 445
Training	653	441
Permanent change of station	679	638
Severance pay	533	592
Transportation of equipment	30	23
Records conversion	56	73
Data processing	17	17
Communications	<u>119</u>	<u>82</u>
Total	<u>\$2,173</u>	<u>\$2,311</u>

SITE PREPARATION COSTS

The Agency's updated study estimated one-time site preparation costs for each of the alternatives as follows:

	<u>Atlanta</u>	<u>Philadelphia</u>
Rehabilitation of existing space	\$ 2,000	\$259,593
Preparation of additional space	83,870	135,100
Facility modification	<u>-</u>	<u>50,000</u>
Total	<u>\$85,870</u>	<u>\$444,693</u>

Atlanta

We found the Atlanta facility in excellent condition and requiring little, if any, rehabilitation. The Agency estimate of \$2,000 appears reasonable.

The Agency estimated that Atlanta needed 16,160 square feet of additional space to accommodate the new region headquarters. The cost to prepare this additional space was estimated at \$5.19 a square foot, or a total of \$83,870. However, the supporting documentation for this cost showed that

--a total of 17,783 square feet of additional space was required and

--the \$5.19 cost per square foot included costs to install raised flooring to accommodate additional telecommunications equipment, which is no longer required.

If the cost to install the raised flooring is eliminated and the same data shown in the supporting documentation as the cost to prepare 17,783 square feet of additional space needed is used, the costs to prepare the additional space will be \$76,612.

Philadelphia

The Defense Logistics Agency estimated that the area where the Philadelphia region headquarters and management area office are located does not provide sufficient space to accommodate the number of positions that will be required by the Southeast region headquarters and the management area office. Therefore, to provide the additional space, the Agency estimated that the following expenditures would have

to be incurred: (1) \$259,593 to reconfigure the existing space and (2) \$135,100 to convert an area that had been used as a medical laboratory into office space.

Agency officials said that reconfiguration of the existing space was necessary because (1) this area currently has numerous small offices and (2) reconfiguration would permit better use of the space. The work would include removing 2,360 linear feet of permanent walls, changing light switches and electrical wiring, repairing and replacing floor and ceiling tile, and painting the walls and ceiling.

As a result of the reconfiguration and conversion, a total of 100,531 square feet of net usable space would be available. Agency officials said that this amount of space would be sufficient to accommodate the staffing requirements of a colocated Southeast region and management area office.

Space requirement

On the basis of Agency assumptions of (1) a space utilization rate of 125 square feet per person and (2) a staffing requirement of 912 positions for the combined Southeast region and the management area office, it appears that 114,000 square feet of net usable space will be required, as shown below:

Total positions required for Southeast region		770
Less: Positions to be located off-site	37	
Positions allocated to the Atlanta management area office	<u>12</u>	<u>- 49</u>
Southeast region positions to locate in Philadelphia		721
Plus: Philadelphia management area office staff		<u>+ 191</u>
Southeast region and management area office staff requirement		912
Space requirement per position (sq. ft.)		<u>x 125</u>
Total space required (sq. ft.)		<u>114,000</u>

Possibility of
space deficiency

With a requirement for 114,000 square feet of space and the availability of about 101,000 square feet, if the reconfiguration and conversion expenditures are made, it appears that a deficiency of over 13,000 square feet would exist. The Agency planned to overcome this by placing 108 of the 912 positions into other parts of the Support Center installation.

Philadelphia region officials estimate that 159 positions will not be staffed by the new region because the functions will be performed by the Support Center as a continuation of the support the Center is providing to Philadelphia. However, Support Center and Philadelphia region officials believe the Center may be able to support the Southeast region with significantly less than the required 159 positions. Depending on the total positions that are needed to operate and support the new region headquarters, space requirements may be reduced to the point where the available space would be adequate.

Other available space
not considered

Another possible way of overcoming the space deficiency relates to other organizational shifts within the Support Center that could create a net usable area of 11,520 square feet. This space is adjacent to the area where the Philadelphia region is now located and, until January 1980, was occupied by the Center's Office of Planning and Management. The cost to prepare this space has not been determined and thus has not been included in the Agency study. If this space could meet the needs of the new region, the medical laboratory space may not be needed.

According to Support Center officials, the medical laboratory space should never have been considered as available because it was to be converted for use by another Center organization. On the basis of this information, Center officials believe that the cost to prepare the medical laboratory should not have been included as a cost to provide space for the Southeast region, although the cost to prepare the Office of Planning and Management space would then have to be included.

In any event, not all of the Office of Planning and Management space would be available. Agency officials said that a certain portion of the space would be required to accommodate an independent expansion of the Center's Office of the Comptroller. Although the Comptroller's exact space requirement is not yet known, it appears that the Office of Planning and Management space might still be sufficient for the Comptroller and the new region personnel. This would depend on how many total personnel the region would require and where they would be located.

Requirement for a
military construction
project

In July 1978 the Support Center requested \$1.4 million to convert 39,000 gross square feet of existing warehouse space into administrative offices. The purpose of this project was to provide administrative space to enable relocation of 260 employees of the Center and tenant activities who were currently occupying an overcrowded, energy deficient World War I building. Without extensive maintenance and repair measures, the useful life of the building would expire in 1997.

In September 1979 the Support Center estimated that this project would cost \$1.54 million. However, in the project justification, the Center indicated that the project would not be required if the Philadelphia region relocated.

On March 10, 1980, the Agency agreed with the Center that the medical laboratory was not available for use by the staff of the Southeast region. As a result, the Agency and the Support Center concluded that the military construction project would be required if Philadelphia was selected as the site for the Southeast region. However, this cost was not included in the Agency's cost estimate for locating the headquarters in Philadelphia.

Facility modification

The Agency study included an estimate of \$50,000 for one-time costs attributable to the Philadelphia region for facility changes required to accommodate the increased automated data processing equipment requirements of a Southeast region headquarters in Philadelphia. The study's estimate included the installation of an air-conditioning unit and electrical modifications to provide for an uninterruptable power supply.

Support Center officials said that the changes are required for their operations and that the costs would be incurred regardless of whether Philadelphia was selected as the site for a Southeast region.

SUMMARY

By reflecting these changes in the Agency's original estimates, we estimated the revised site preparation costs as follows:

	<u>Atlanta</u>	<u>Philadelphia</u>
Rehabilitation of existing space	\$ 2,000	\$ 259,593
Preparation of additional space	76,612	-
Facility modification	-	-
Military construction project	-	<u>1,540,000</u>
Total	<u>\$78,612</u>	<u>\$1,799,593</u>

The following table shows the net effect of the revision resulting from the issues discussed above.

	<u>One-time site preparation costs</u>	
	<u>Agency study</u>	<u>Revised</u>
Philadelphia	\$444,693	\$1,799,593
Atlanta	<u>85,870</u>	<u>78,612</u>
Total	<u>\$358,823</u>	<u>\$1,720,981</u>

Training costs

The Agency's updated study estimated one-time training costs for civilian new hires at \$653,510 for Atlanta and \$441,005 for Philadelphia. These costs were derived by (1) determining the number of positions that would have to be filled at each location, (2) subtracting the number of employees presently at that location and those expected to transfer to the location, and (3) multiplying the resulting quantity (the new hires) by an estimated individual training cost.

However, the Agency's calculation of one-time training costs included military positions in the determination of the requirement for civilian new hires and used 1979 staffing data for the Atlanta and Philadelphia regions and fiscal year 1978 data for the New York region.

The Agency computation assumed that 66 positions were being provided by the Center for support of the Philadelphia region. However, as we noted earlier, the Center estimates its current level of support to be less than 66 positions. Also, the Center estimates that future support can be provided with less personnel than the Agency estimates. The Agency computation did not consider that fewer personnel might be needed by the Center if there were economies-of-scale resulting from the support relationship between the Support Center and the Philadelphia region. A different estimate of the Center's support would affect the number of new hires computed in the Agency's study and calculation of one-time costs for training.

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