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02040 - [A1152136] (~~Restricted~~)

[Plan to Contract for Cargo Handling Being Done by Government Employees]. LCD-77-318; B-168700. April 25, 1977. 5 pp. + enclosures (15 pp.).

Report to Sen. Clifford P. Case; by Robert F. Keller, Deputy Comptroller General.

Issue Area: Facilities and Material Management (700).

Contact: Logistics and Communications Div.

Budget Function: National Defense: Defense-related Activities (054).

Organization Concerned: Department of Defense; Department of the Army; Department of the Army: Military Ocean Terminal, Bayonne, NJ; Department of the Army: Military Traffic Management Command.

Congressional Relevance: Sen. Clifford P. Case.

The Army Military Traffic Management Command's plan to contract for cargo handling presently performed by Government employees at the Military Ocean Terminal in Bayonne, New Jersey, was reviewed. Findings/Conclusions: No reasonable basis was found for challenging the Army Audit Agency's analysis of the contracting plan. Use of the private sector was concluded to be more economical. The Audit Agency's standards and performance were acceptable, and no deficiency significant enough to reject the analysis was found. Only 93 employees received early retirement as a result of the plan. In the interest of maintaining harmonious relations with labor, the Government decided not to replace Longshoreman's Association stevedores with a Government work force. A possible impact on unemployment and discrimination against older employees in hiring practices was noted. (RRS)

02040



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

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APR 25 1977

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[Signature]*

The Honorable Clifford P. Case  
United States Senate

Dear Senator Case:

In your letter of June 10, 1976, you enclosed a letter you had received concerning the Military Ocean Terminal at Bayonne, New Jersey, and requested our comments on the points raised in the letter.

On April 2, 1976, Congressman Dominick Daniels asked us to review two Department of Defense actions affecting the Military Ocean Terminal at Bayonne.

One action involved moving the Naval International Logistics Control Office from Bayonne to Philadelphia. We agreed to review the costs and savings associated with the relocation.

The other action was the Army's Military Traffic Management Command's plan to contract for cargo handling being done by Government employees. Because the contract was to become operational on June 14, 1976, it was agreed that we would review the Army Audit Agency's methodology for analyzing the Army studies. The purpose of the limited review was to ascertain whether there might be a reasonable basis for requesting delay in contract implementation and, thereby, give us time to review the costs and savings of the action.

We informed the Congressman in June that we had found no reasonable basis for challenging the Army Audit Agency's analysis. He said it would not be necessary to do any further work on the contract action.

We are enclosing a copy of each of our reports on the Congressman's requests. Our comments on the points raised by your letter follow.

Economic justification

One of the points was that contracting work is not economically justifiable and, as such, is not in the public interest. As noted in our October 22, 1976, report to Congressman Daniels, the Army Audit Agency concluded that use of the private sector was more economical. Our review of the Audit Agency's analysis disclosed that its standards and performance were acceptable and did not reveal any deficiency significant enough to cause us to reject the Audit Agency's analysis.

Cost-related points

Four of the points mentioned in the letter relate to Army's cost studies.

1. Army's cost comparison does not reflect the fact 180 employees will be eligible for early retirement and will cost significantly more.

The Army's October 1975 cost comparison included retirement costs of \$2.2 million applicable to early retirement for 121 employees. We were informed by an Army official that as a result of the action, only 93 employees actually received early retirement.

2. Army's cost analysis cites labor relations with the International Longshoreman's Association as preventing labor shifts which could make the use of civil service employees more cost effective.

In making its 1975 cost comparison, the Army assumed that, to continue good labor relations with the Longshoreman's Association, it could not increase utilization of Government employees by decreasing the percentage of cargo being handled by the Association. The Army also assumed that the portion of the total workload presently handled by the Government work force will remain constant over the next 3 years, and that the type and mix of vessels at Bayonne would continue in the future.

All loading and unloading of vessels was performed by the Longshoreman's Association. The remaining work was either divided 70 percent contractor and 30 percent civil service, or performed entirely by civil service employees. Remaining areas were export rail and truck loading and discharge--70

percent and 30 percent; stuffing household goods and other cargo--70 percent and 30 percent; import rail and truck loading--100 percent civil service; and vehicle preparation--100 percent civil service.

The Army believed, in regard to the expanded use of civil service employees, that customs and practices of the port area precluded the loading and unloading of vessels from being performed by anyone other than the Association. In the interest of maintaining harmonious relations with labor, the Army said that it was considered in the best interest of the Government not to replace Association stevedores with Government work force. The Army also stated that the size of the civil service work force was inflexible and could not be matched to workload peaks and valleys, as could the Association work force.

3. Army's contract contains a provision for overtime and this is inconsistent with the Government's underlying rationale that contracting will result in cost savings by providing elasticity in the work force.

The provision for overtime is normally applicable to both Government and contractor employees for this work. The work force elasticity benefit to which the Army referred was not available under the above described divided labor force. The Army said it was not able to use contractor employees in response to surges in the workloads assigned to Government employees.

4. Army's cost analysis relied upon 28 commodity rates from a Gulfport, Louisiana, contract, rather than the higher rates contained in the actual contract with the successful bidder.

Army based its decision to contract work on cost comparisons completed in October 1975. At that time, Army's actual contract did not include cargo commodity rates for certain items because civil service personnel processed that cargo. Consequently, Army used rates from their Gulfport contract

Because of the imminence of the June 14, 1976, contract signing date, we reviewed specific analyses which could be done before that date. One analysis examined the use of a Gulfport rate for loading tri-wall containers.

In that instance, a contractor's informational quote of \$6.26 a ton was used in lieu of a Gulfport rate of \$19.39. While we did not verify the validity of the quotes, we did ascertain that using the lower quote was not a deciding factor in the determination that contracting was more economical.

5. The average age of the 215 affected Federal employees is approximately 55. This is significant because the original cost comparison was completed on the basis of an average age of 44.

In the original cost comparison of June 1975, the average age of 44 years was used to compute the cost of severance pay for 28 employees. The average age of 53 years was used to compute the cost of early retirement for 80 employees. The cost computations for employees who were to be retired or separated were revised from the original estimate of about \$1.1 million to about \$2.4 million. (See encl. I of the October 22, 1976, report to Congressman Daniels.)

#### Unemployment and job discrimination

The correspondence transmitted by your letter noted that contracting work would result in increased unemployment and discrimination against older employees in hiring practices, and would render the benefits of the Veterans Preference Act meaningless.

We recognize the possible impact from contracting work and reducing the Government work force. The Government's general policy, on the other hand, is to rely on the private enterprise system to supply its needs for products and services. The policy is promulgated through the Office of Management and Budget circular A-76. Except in those instances where national interest is involved, this policy generally reflects the concept that the Government should perform these services only when it is less costly to do so.

While the Army's study does refer to the age of the civil service work force, we did not find anything in their economic analysis that would lead us to conclude that discrimination based upon age influenced the decision in favor of the contractor's services.

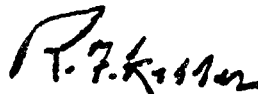
The Veterans Preference Act is a factor to consider when reducing a civil service work force. It is not, however, a factor to be considered when evaluating performance of a function under circular A-76.

Violation of civil service regulations

As our limited review was related to the cost justification for contracting, we did not look into the supervision and training relationship between contractor and civil service personnel. If violations of the civil service regulations took place, we believe they should be referred to the Civil Service Commission for whatever action may be appropriate.

In summary, we reviewed the Army's decision to contract for cargo handling services as set forth in the attached reports to Congressman Daniels. While your constituent raises questions of understandable concern to the affected civil service employees, we did not find that the Army's analysis should be rejected.

Sincerely yours,



Comptroller General  
of the United States

Enclosure - 2



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

**RELEASED** OCT 22 1976

B-168700

The Honorable Dominick V. Daniels  
House of Representatives

Dear Mr. Daniels:

This is in response to your request for a review of the Army's Military Traffic Management Command's proposal to contract for all cargo handling at the Military Ocean Terminal, Bayonne, New Jersey. As agreed with you on May 19, 1976, we limited our review to evaluating the Army Audit Agency's methodology for analyzing Army studies. These studies were used to justify contracting for work which was previously done by civil service personnel.

BACKGROUND

Army practice at the Bayonne terminal had been to process cargo both by contractor (about 88 percent) and by civil service personnel (about 12 percent). In February 1975 the Traffic Command completed a study to determine whether the mixed operation should be continued or whether the entire cargo handling operation could be performed more economically by the private sector.

The decision to study this was in accordance with the Federal policy of relying on the private enterprise system to the maximum extent for products and services. That policy is set forth in the Office of Management and Budget circular A-76, which states that agencies should rely on private enterprise to supply their needs, except where it is in the interest of the Government to provide directly the products and services they use. One of the criteria which permits an agency to continue to provide a service in-house is that use of the private sector would result in much higher costs to the Government. Continuing an activity in-house should ordinarily be shown to cost the Government at least 10 percent less than contracting for that activity. A decision to continue to provide a service in-house, for reasons of cost, must be supported by a comparative cost analysis.

The Traffic Command's study concluded that use of the private sector was more economical, and it requested the Army Audit Agency to review its conclusion.

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Army Audit Agency analysis

In May 1975 the Army Audit Agency completed its review of the Traffic Command's proposal to contract with the private sector for the entire cargo handling operation. The Traffic Command had concluded that the contract would result in lowering costs by about \$1,871,000 over the first 3 years--about 12 percent lower than the estimated in-house costs. The Audit Agency disagreed. It concluded cargo handling costs would increase \$861,000 for the first 3 years--about 8 percent higher than in-house costs. The net cost increase would be \$452,000 over a 10-year period.

On August 22, 1975, the Army Deputy Chief of Staff for Logistics concurred with the Traffic Command's proposal to contract the cargo handling functions. He noted that the costs to the Government--as analyzed by either the Audit Agency or the Traffic Command--were within Army guidelines, which allow a 10 percent higher cost when the private sector provides the product or services needed.

Subsequent to the decision, the Traffic Command provided revised data on the cargo rate for handling tri-wall containers and on personnel costs to the Audit Agency. The revised data and its impact are briefly discussed below. The following table shows various comparative cost analyses for the first 3-year period. Details of the comparisons are enclosed.



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Costs to Provide Cargo Handling Service

Traffic Command analysis	<u>Army Audit Agency analysis</u>				
	<u>Initial analysis</u>	<u>Revised analysis</u>			<u>3-year total</u>
		<u>3-year total</u>	<u>1st year</u>	<u>2d year (note a)</u>	
----- (000 omitted) -----					
Contractor operation	\$12,757	\$11,637	b/\$5,806	\$3,269	\$12,344
Government operation	14,628	10,756	4,182	3,735	11,650
Savings (or cost) from using con- tractor	1,871	(881)	(1,624)	466	(694)

a/Except for \$1,400 decreased Government interest expense, 3d year costs were identical to 2d year costs.

b/Includes one-time costs to convert to contract including separation and early retirement.

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Revised cargo rate

The Audit Agency estimated contract costs on the basis of existing contract rates and tonnage forecasts in effect during fiscal year 1975. The actual rate for loading tri-wall containers was not available under the existing contract at the Bayonne ocean terminal. Because of this, the Audit Agency used a rate of \$19.39 a ton from a Government Louisiana port contract which was based on loading 1,000 tons a year. The annual tonnage to be handled at Bayonne, however, was estimated at about 12,000 tons. Therefore, Traffic Command believed a lower rate should be used to determine contract costs and provided the Audit Agency with a contractor's informational quote of \$6.25 a ton.<sup>1/</sup> The Audit Agency accepted the rate and reduced the estimate of annual contract costs for handling tri-wall containers by about \$158,000.

Revised personnel costs

Annual costs for civil service personnel were first estimated by the Traffic Command to be about \$2.8 million. This estimate was based on 230 authorized spaces of which 63 were erroneously considered to be vacant. Filled positions were costed at actual salaries and vacant positions at the authorized grade level, step 3, of the October 1974 pay schedule.

Traffic Command later determined that those positions which had been erroneously considered vacant were actually filled, and at salaries higher than originally estimated. The revised computation accepted by the Audit Agency showed that annual civil service personnel costs were about \$294,000 higher than the first estimate.

After considering the Traffic Command's revised data, the Audit Agency's revised analysis showed contract costs would exceed in-house costs by \$1,623,000 in the first year. This reflected one-time costs to convert to contract--including separation and early retirement for over 150

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<sup>1/</sup>We did not verify the validity of these quotes. Such a variance--\$19.39 vs. \$6.26--would ordinarily result in further review to determine the validity of the quotes. In this case, however, use of the lower quote was not the deciding factor in determining which method was more economical.

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employees expected to be affected by the decision. Savings under the contract would average about \$500,000 a year thereafter.

We discussed with the Audit Agency personnel their standards and audit techniques and the rationale they used during their review. We did not audit the data included in the studies. We found that the Audit Agency's standards and performance were acceptable. Our limited review did not reveal any deficiency significant enough to cause us to reject the Audit Agency's analysis.

#### Current status

On May 12, 1976, the Army exercised a contract option under which the contractor would--by June 14, 1976--take over the cargo handling formerly done by civil service personnel. The advantages were stated to be improved economy, greater flexibility in adjusting to workload fluctuations, and the reallocation of the manpower authorizations to support combat forces.

On July 30, 1976, Traffic Command told us that by implementing the contract it affected civil service employees as follows: 137 retired; 29 were separated and received severance pay; and 5 were separated and did not receive benefits. The remaining employees were reassigned to other civil service jobs.

In assessing the impact of the proposed decision to contract for these services, the Army noted that the action would decrease the number of federally employed people, but increase the number of commercially employed people. The Army concluded that the proposal was not a major action and that it would not result in a significant impact.

Your request also addressed the proposed move of the Navy International Logistics Control Office from Bayonne to Philadelphia. We are continuing our review in that area and will report our findings to you.

Sincerely yours,

  
ACTING Comptroller General  
of the United States

Enclosure

COMPARATIVE ANALYSIS OF COSTS TO PROVIDE  
CARGO HANDLING SERVICES AT BAYONNE, NEW JERSEY  
CONTRACTOR VS IN-HOUSE OPERATIONS

	<u>1st year</u>	<u>2d year</u>	<u>3d year</u>	<u>3-year total</u>
<b>Traffic Command analysis</b>				
(note a):				
Contractor operations:				
Contract cost	\$3,490,449	\$3,490,449	\$3,490,449	
Contract administration	498,057	339,860	339,860	
Other costs	670,370	437,353	0	
<b>Total</b>	<b>\$4,658,876</b>	<b>\$4,267,662</b>	<b>\$3,820,309</b>	<b>\$12,756,847</b>
Government operations:				
Military personnel	\$ 109,939	\$ 109,939	\$ 109,939	
Civilian personnel	2,815,247	2,815,247	2,815,247	
Other personnel costs	2,230	2,230	2,230	
Materials supplies, etc. (note b)	574,142	574,142	574,142	
Maintenance and repair	320,754	320,754	320,754	
Federal taxes	63,875	63,875	63,875	
Depreciation (note c)	1,616,857	223,617	223,617	
Interest (note d)	228,173	213,280	158,387	
Insurance	11,467	11,467	11,467	
Other indirect costs	76,446	76,446	76,446	
<b>Total</b>	<b>\$5,821,130</b>	<b>\$4,410,997</b>	<b>\$4,396,104</b>	<b>\$14,628,231</b>
Savings (or costs) using contractor	\$1,162,254	\$ 143,335	\$ 565,795	\$ 1,871,384

a/For purposes of making the comparative analysis, the Traffic Command assumed:

- The rate of inflation is the same for both contractor and Government operations.
- The type and mix of vessels would continue in the future.
- The portion of the workload handled by Government employees would remain constant over the next 3 years.

b/The Army Audit Agency revised this figure because watercraft operations were incorrectly included in the computation.

c/The depreciation was on Government equipment. The Army Audit Agency revised this figure to exclude watercraft (barge-derrick and tug) and to reflect only the annual depreciation of new or additional equipment which would be required if the terminal functions were to continue in-house. The remaining fair market value of existing equipment was written off in the first year.

d/Interest was overstated because equipment replacement was incorrectly scheduled.

	<u>1st year</u>	<u>2d year</u>	<u>3d year</u>	<u>3-year total</u>
Army Audit Agency analysis (initial analysis):				
Contractor operations:				
Contract cost	\$3,090,527	\$3,090,527	\$3,090,527	
Contract administration	494,309	336,091	336,091	
Other costs	<u>700,911</u>	<u>498,220</u>	<u>0</u>	
Total	<u>\$4,285,747</u>	<u>\$3,924,838</u>	<u>\$3,426,618</u>	<u>\$11,637,203</u>
Government operations:				
Military personnel	\$ 108,158	\$ 108,158	\$ 108,158	
Civilian personnel	2,815,247	2,815,247	2,815,247	
Other personnel costs	2,230	2,230	2,230	
Materials supplies, etc.	67,962	67,962	67,962	
Maintenance and repair	277,469	277,469	277,469	
Federal taxes	56,557	56,557	56,557	
Depreciation	465,879	19,639	19,639	
Interest	15,341	14,037	12,733	
Insurance	9,813	9,813	9,813	
Other indirect costs	<u>65,421</u>	<u>65,421</u>	<u>65,421</u>	
Total	<u>\$3,884,077</u>	<u>\$3,436,532</u>	<u>\$3,435,229</u>	<u>\$10,755,839</u>
Savings (or costs using contractor)	(\$401,670)	(\$486,305)	\$8,611	(\$881,364)
<u>Projected 10-year costs</u>				
	<u>Contract</u>	<u>Government</u>	<u>Difference</u>	
	\$35,623,599	\$35,171,183	(\$452,416)	

	<u>1st year</u>	<u>2d year</u>	<u>3d year</u>	<u>3-year total</u>
<b>Army Audit Agency (revised analysis):</b>				
<b>Contractor operations:</b>				
Contractor cost	\$2,932,967	\$2,932,967	\$2,932,967	
Contract administration	454,309	336,091	336,091	
Other costs (note a)	<u>2,378,424</u>	<u>0</u>	<u>0</u>	
<b>Total</b>	<b><u>\$5,805,700</u></b>	<b><u>\$3,269,058</u></b>	<b><u>\$3,269,058</u></b>	<b><u>\$12,343,816</u></b>
<b>Government operations:</b>				
Military personnel	\$ 108,158	\$ 108,158	\$ 108,158	
Civilian personnel	3,109,530	3,109,530	3,109,530	
Other personnel costs	2,230	2,230	2,230	
Materials supplies, etc.	67,962	67,962	67,962	
Maintenance and repair	277,469	277,460	277,469	
Federal taxes	53,673	53,673	53,673	
Depreciation	465,879	19,639	19,639	
Interest	15,341	14,037	12,733	
Insurance	10,696	10,696	10,696	
Other indirect costs	<u>71,307</u>	<u>71,307</u>	<u>71,307</u>	
<b>Total</b>	<b><u>\$4,182,245</u></b>	<b><u>\$3,734,701</u></b>	<b><u>\$3,733,357</u></b>	<b><u>\$11,650,343</u></b>
Savings (or costs using contractor)	(\$1,623,455)	\$465,643	\$464,339	(\$693,473)
<b>Projected 10-year cost</b>				
	<u>Contract</u>	<u>Government</u>	<u>Difference</u>	
	\$35,227,222	\$38,152,863	\$2,925,641	

a/The Army Audit Agency significantly increased these costs because of a more accurate identification of employees who were to be retired or separated.

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

B-168700

DEC 23 1976

The Honorable Dominick V. Daniels  
House of Representatives

Dear Mr. Daniels:

In response to your request, we have reviewed the relocation of the Navy International Logistics Control Office. As you agreed on May 19, 1976, we limited our review to an analysis of the Navy's estimates of the savings and costs associated with the Control Office's relocation.

We made our review primarily at the Control Office in Bayonne, New Jersey; the Aviation Supply Office in Philadelphia; and the Department of the Navy in Washington, D.C. We discussed with Navy officials the estimated cost and savings resulting from the relocation and examined records and documents supporting the Navy's estimates.

We also interviewed officials of the Army's Military Traffic Management Command, Eastern Area; the Navy Fleet Material Support Office; and the Defense Industrial Supply Center in Philadelphia to determine the impact the relocation would have on the cost and savings to their agencies. Officials of the State of New Jersey and the General Services Administration helped us estimate unemployment compensation and equipment relocation costs, respectively.

BACKGROUND

On March 17, 1976, the Secretary of the Navy announced that in December 1977 the Control Office would be relocated from the Military Ocean Terminal in Bayonne to the Aviation Supply Office Complex in Philadelphia. The relocation is part of the Navy's effort to reduce support and overhead costs and shift resources to combat activities.

Before making its announcement, the Navy completed an environmental impact assessment on the relocation. The study evaluated five possible locations and concluded that relocation to the Supply Complex would provide the most financial and managerial benefits. The Navy expects the relocation to

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- improve communications with the Supply Complex,
- eliminate 15 civilian positions,
- produce annual recurring savings of about \$632,000,  
and
- result in one-time costs of about \$2.7 million.

As of June 30, 1976, the Control Office had 469 authorized positions, with 446 civilians and 9 military personnel assigned. All civilian employees will be either relocated, retired, or severed. Military personnel will be reassigned to the Control Office in Philadelphia.

SAVINGS AND COSTS ASSOCIATED  
WITH RELOCATION

The Navy estimated that the relocation would result in annual recurring savings of about \$632,000 and one-time costs of about \$2.7 million. We estimate the annual recurring savings at about \$341,000 and the one-time costs at about \$3.4 million. The primary reason for the difference is that our estimates are based on costs and savings to the Federal Government, whereas the Navy's estimates are based on costs and savings to its budget.

The following sections compare the Navy's estimates and our estimates for annual recurring savings and one-time costs.



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ESTIMATED ANNUAL RECURRING SAVINGS 1/

	<u>Navy</u>	<u>GAO</u>	<u>Difference</u>
<b>Savings:</b>			
Reduction in personnel cost	\$184,000	\$185,000	\$ 1,000
Reimbursements to Army for communications at Control Office	155,000	0	-155,000
Reduction in Army communications costs	0	36,000	36,000
Reimbursements to Army for housekeeping at Control Office	544,000	0	-544,000
Reduction in Army housekeeping costs	<u>0</u>	<u>221,000</u>	<u>221,000</u>
<b>Total estimated decrease in recurring costs</b>	<u>883,000</u>	<u>442,000</u>	<u>-441,000</u>
<b>Less:</b>			
Reimbursements to Supply Complex for communications	73,000	0	-73,000
Increase in Supply Complex communications costs	0	27,000	27,000
Reimbursements for housekeeping at Supply Complex	178,000	0	-178,000
Increase in Supply Complex housekeeping costs	<u>0</u>	<u>74,000</u>	<u>74,000</u>
<b>Total estimated increase in recurring costs</b>	<u>251,000</u>	<u>101,000</u>	<u>-150,000</u>
<b>Estimated annual recurring savings</b>	<u>\$632,000</u>	<u>\$341,000</u>	<u>-\$291,000</u>

1/On September 9, 1976, the Deputy Secretary of Defense announced plans to establish a Security Assistance Accounting Center in Denver. This would affect Control Office operations, but according to the Department of Defense, the effect on the relocation would be minor.

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The Navy estimated that the relocation would eliminate 15 civilian positions, saving about \$184,000 annually. On the basis of more current salary and fringe benefit costs, we estimate these annual savings at about \$185,000.

The Navy estimated annual savings for reduced communications costs at the Control Office to be about \$155,000, but we believe the savings to be about \$36,000. The Navy's figure is based on the premise that payments from its budget to the Army would not be incurred. We do not regard this amount as savings because the payments are an interagency transfer of funds that has no effect on Government savings. Our estimate of \$36,000 is based on the volume of the Control Office's communications traffic and information provided by Army communications officials about the impact the relocation would have on Government costs.

The Navy estimated that \$544,000 in housekeeping costs, representing payments to the Army for space and services, would be eliminated from its budget. However, these payments represent an interagency transfer of funds. Such transfers affect the budgets of the Navy and Army but do not result in savings to the Government. We estimate that annual savings of about \$221,000 in housekeeping costs could be achieved. Our estimate is based on an analysis of services provided to the Control Office and cost reductions the Army could achieve upon relocation.

As a result of the relocation, the Supply Complex and the Defense Industrial Supply Center will have to provide communications services to the Control Office. The Navy estimated communications costs at \$73,000, based on agency charges to handle the Control Office's communications traffic. Although these charges will affect agency budgets, they do not represent incremental costs to the Government. We estimate incremental Government costs to be about \$27,000. We based our estimate on current communications traffic and the impact increased traffic would have on communications operations at the Supply Complex.

The Navy estimated annual housekeeping costs at the Supply Complex to be about \$178,000. This estimate was based on costs to provide services to an activity at the Supply Complex. We estimate incremental Government costs to be about \$74,000, based on the types of services the Control Office would require to accommodate its personnel and equipment at Philadelphia.

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ESTIMATED ONE-TIME COSTS

	<u>Navy</u>	<u>GAO</u>	<u>Difference</u>
Personnel relocation:			
Civilian	\$ 835,000	\$1,116,000	\$281,000
Military	9,000	28,000	19,000
Annual leave	82,000	0	-82,000
Severance pay	1,180,000	549,000	-631,000
Unemployment benefits	0	919,000	919,000
Equipment relocation	111,000	103,000	-8,000
Space preparation	174,000	250,000	76,000
Military construction	239,000	a/239,000	0
New hire and retraining	20,000	20,000	0
Environmental impact assessment	1,000	0	-1,000
Other special equipment	0	171,000	171,000
	<u>          </u>	<u>          </u>	<u>          </u>
Total	<u>\$2,651,000</u>	<u>\$3,395,000</u>	<u>\$744,000</u>

a/We were unable to evaluate the Navy's estimate because floor plans and plans to consolidate data processing operations were not definite. Original relocation plans did not consider data processing consolidation. As a result of the decision to consolidate, additional one-time costs and recurring savings and/or costs may result.

Our estimate of civilian and military personnel relocation costs exceeds the Navy's by about \$300,000. The Navy estimated, based on fiscal year 1975 staffing levels and relocation costs, that 130 civilians and 7 military personnel would relocate, at a cost of \$344,000. We estimate that 151 civilians and 9 military personnel will relocate, at a cost of \$1,144,000. Our estimate is based on more current staffing levels and relocation costs.

The Navy's estimate for civilian retirement was overstated by \$82,000 because it represented lump-sum annual

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leave payments for retiring employees. This is not a cost to the Government as a result of the relocation. If the affected employees had remained with the Government, they would have either used their annual leave or received lump-sum payments for it eventually. In either event the leave was earned before the relocation and was therefore a cost of operating the Control Office. We estimated that 102 employees were eligible for retirement.

The Navy overestimated severance pay by \$631,000. Our estimate varies from the Navy's because:

- We used more current information to determine the number of employees affected by the relocation.
- We computed an average severance settlement of \$4,290 using actual individual entitlements for 128 eligible personnel. The other personnel were not eligible for severance pay.
- We did not include lump-sum leave payments in the average cost of severed employees.

The Navy did not include an estimate of the Government's liability for unemployment compensation as a result of the relocation. Unemployment compensation payments to qualifying Federal employees are completely funded by the Federal Government. We estimate that unemployment compensation could amount to \$919,000 for 280 employees. Our estimate is based on (1) a review of personnel records to estimate the number of employees who will be eligible for benefits and (2) information obtained from State unemployment officials about how long eligible employees would receive payments and how large the payments would be.

The Navy estimated equipment relocation costs of \$111,000, including administrative relocation costs of \$89,000 and computer relocation costs of \$22,000. We estimate that equipment relocation costs could amount to \$103,000, including \$57,000 for administrative equipment and \$46,000 for computers. Our estimate was based on an inventory of administrative and computer equipment and cost estimates on equipment relocation obtained from the General Services Administration and a commercial firm.

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At the time of our review, officials had not determined what, if any, equipment is excess or how equipment would be relocated. In the event some equipment is excess and depending on the method of relocation, equipment relocation costs could be lower.

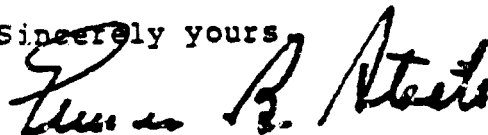
The Navy underestimated space preparation costs at the Supply Complex by \$76,000. After the Navy made its estimate, plans to relocate the Defense Industrial Supply Center to provide space for the Control Office were revised. Based on revised plans and information provided by the Center, we estimate space preparation costs at about \$250,000.

As part of the relocation, the Navy estimated the cost to prepare the environmental impact assessment at \$1,000. We excluded this as a cost of the relocation because we could not identify it as an incremental cost to the Government.

The Navy did not include in its estimate the cost of additional air-conditioning equipment which will be required for the area that the Control Office's computers will occupy. We estimated, based on information provided by Supply Complex officials, that additional air-conditioning equipment and installation will cost about \$171,000.

As requested by your office, we did not obtain agency comments.

Sincerely yours,



Comptroller General  
of the United States