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UNITED STATES GENERAL ACCOUNTING OFFICE 116217

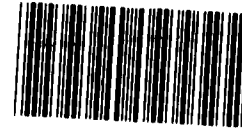
WASHINGTON, D.C. 20548

PROCUREMENT, LOGISTICS,  
AND READINESS DIVISION

B-202157

AUGUST 26, 1981

The Honorable Joseph P. Addabbo  
Chairman, Subcommittee on Defense  
Committee on Appropriations  
House of Representatives



116217

Dear Mr. Chairman:

Subject: [Review of DOD Contracts Awarded Under OMB  
Circular A-76] (PLRD-81-58)

As you requested on September 22, 1980, we reviewed a sample of contracts awarded by the Department of Defense (DOD) under the provisions of Office of Management and Budget (OMB) Circular A-76. This circular prescribes the policies for acquiring commercial or industrial products and services needed by the Government. DOD implements the circular through its Commercial and Industrial-Type Activities (CITA) program.

Our objectives were to (1) determine whether decisions to contract out might have been different if contractor price increases and performance shortfalls were known before the contract awards were made and (2) identify and summarize any related findings by DOD audit agencies.

SCOPE

We selected 18 conversions to contract performance for review from computerized listings provided by officials in the Office of the Assistant Secretary of Defense, Manpower, Reserve Affairs and Logistics (MRA&L). The listings identified all conversions from April 1978 through October 1980. We stratified the listings of the conversions according to geographical areas covered by each of GAO's regional offices. In each of 10 regional offices, we selected one or more of the older conversion decisions which were generally made before October 1, 1979, involving the most positions eliminated. The older conversions provided more of an opportunity for price increases and performance shortfalls to occur. The 18 conversions accounted for about 39 percent of the civilian positions eliminated by contracting out during the period selected.

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We limited our evaluation only to the original contractors' price increases and performance shortfalls to the time of our fieldwork which was generally performed between November 1980 and January 1981. Additional details on the scope and methodology are discussed in enclosure I.

PRICE INCREASES OR PERFORMANCE PROBLEMS GENERALLY DID NOT OCCUR

Most of the conversions that we reviewed did not result in price increases or performance shortfalls. However, unsatisfactory contractor performance was experienced on 5 of the 18 conversions we reviewed. Where contract price increases occurred, they generally seemed to be justified. With the exception of one conversion involving performance shortfalls, contract price increases did not exceed the estimated savings by contracting out. We also found that one conversion decision was based on an incomplete statement of work which was used as the basis for the cost comparison.

If the information we found after the fact had been known before the contract awards were made, different decisions might have been made on these six cases. However, it is not possible to know for sure. (For further discussion on these six cases, see pp. 11, 13, 16, 21, 25, and 29.)

Unsatisfactory contractor performance was generally attributed to one or more of the following factors:

- High personnel turnover rate.
- Unreasonably low staffing level resulting from a buy-in.
- Untimely, improper, and/or poor quality work.
- Too few skilled technicians.
- Inadequate training.

Although most contract prices increased, they did not, except as noted above, exceed the estimated savings by contracting out. Increases generally resulted from one or more of the following:

- Contract modifications reflecting wage increases required by Department of Labor (DOL) wage determinations.
- Increased requirements or support required by Government direction or changing conditions at the installation.

- Emergency repairs or supplies.
- Work over and above the contract.
- Delays or downtime caused by the Government.
- Quantities of service ordered in excess of minimum expected quantities on an indefinite quantity contract.

Enclosure II summarizes what we found on each of the 18 conversions reviewed.

#### DEFENSE INTERNAL AUDITS

The Defense Audit Service (DAS) issued a report 1/ in 1980 on the CITA program, which dealt with the extent and reasons for abnormal price escalation on service contracts. DAS concluded that it did not appear that contractors of CITA functions were bidding low and then unrealistically raising their prices.

The report covered 39 CITA functions at 30 military installations. A DAS official told us that contracts approximately 3 years old were reviewed to get a long enough contract modification history. DAS found that price increases exceeded the inflation rate on 20 of the 39 contracts. It reviewed 10 of the 20 in detail and found that price increases on 8 contracts were attributable to increases in work requirements.

For example, on a food service contract at Fort Benjamin Harrison, Indiana, the price increased 25 percent between fiscal years 1978 and 1979 because the Government added a minimum staffing requirements provision to the contract. Also, on a food service contract at Holloman Air Force Base, New Mexico, the contract price increased 145 percent between fiscal years 1977 and 1978 to adjust for an erroneous under bid by the contractor who claimed it was misled by an Air Force manning chart in the solicitation. The Air Force Contract Adjustment Board approved the claim and directed the base to pay the contractor \$85,296. DAS believed this increase may have increased the contract price above the cost to perform the function in-house.

An official in the Office of the Secretary of Defense (MRA&L) told us that DAS will review the administration of service contracts. He said DAS will be evaluating inspection and surveillance of contractor performance.

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1/Review of Commercial or Industrial Type Activities Converted to Contract in Fiscal Year 1977, Report No. 80-105, May 27, 1980.

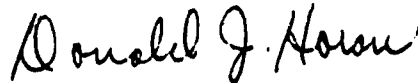
We were unable to identify any military service audit reports which addressed price increases and performance shortfalls by contractors involved in conversions under the CITA program.

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As directed by your Office, we did not obtain agency comments on the matters discussed in this report.

Your Office authorized the unrestricted release of this report simultaneous with its issuance to you. We are sending copies of this report, therefore, to interested committees, subcommittees, Members of Congress, and agency officials. Copies will also be available to other interested parties who request them.

Sincerely yours,



Donald J. Horan  
Director

Enclosures - 2

SCOPE AND METHODOLOGY

We obtained information and documentation on the CITA program, including policies, organization, and management from CITA program officials at the following levels: Assistant Secretary of Defense, Manpower, Reserve Affairs and Logistics (MRA&L); Army Chief of Staff; Deputy Chief of Naval Operations (Logistics); and Air Force Deputy Chief of Staff, Manpower and Personnel.

We selected nine Air Force, seven Navy, and two Army conversions for review from the computerized listings provided by DOD officials. This seems a reasonably representative selection considering that the Air Force and Navy accounted for about 57 percent and 28 percent, respectively, of the positions eliminated by contracting out prior to October 1, 1979. We did not determine the reliability of the listings because of the time and effort involved. We could not realistically use scientific sampling techniques because (1) there was an uneven distribution of conversions among the services (Army 20, Navy 58, Marines 4, and Air Force 45), (2) several of the Air Force's conversions were large, and (3) the Navy's conversions were relatively small.

We visited the installations where selected in-house activities had been converted to contractor performance. At these installations we reviewed contract files, inspection reports, quality assurance reports, audit reports, and related studies. We obtained oral information and clarification on related matters from responsible officials at each installation. Although we obtained summary statistical data from the cost comparisons used to justify the conversions, we did not evaluate them or their underlying support.

The contracts were being monitored by quality assurance evaluators, inspectors, and contracting officer representatives. Some were evaluated daily while others were evaluated on a weekly or monthly basis. The performance problems discussed in our report were detected and reported by the various contract administrators. We did not evaluate how the inspections were performed.

We also reviewed appropriate audit reports prepared by DAS and the military services' auditing agencies which we identified from a service contract reports listing obtained from the Defense Logistics Studies Information Exchange.

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Fort Belvoir, Alexandria, Virginia  
Laundry

Cost comparison estimates (3-year period)

Cost of in-house performance	\$1,790,157
Cost of contracting-out performance (note a)	1,763,328
Savings by contracting out	\$ 26,829

a/The contracting-out costs include not only the amount to be paid to the contractor (contract price) but also all other related costs (transportation, contract administration, Government-furnished property, etc.) that the Government would incur.

Contract price and increase

	<u>Performance period</u>	<u>Contract price</u>	<u>Price increase Amount</u>	<u>Percent</u>
Basic contract	5-1-80 to 4-30-81	\$595,893	\$6,000	1.0

This is an indefinite quantity contract with fixed unit prices. It provides for a maximum of 2,092,079 and a minimum of 135,000 pieces. The contract price is an estimate for the maximum quantity. The contract provides for a 34-percent discount for all payments made in 20 days.

The \$6,000 contract amendment was for reimbursement for equipment repair parts. The contract price may be substantially less than the above estimate since the contractor, in 7 months of operation, had received substantially less pieces to process than predicted. In 3 of the 7 months, the number of pieces was under the 135,000 minimum.

Contractor performance

Contracting officials said the contractor's performance was satisfactory.

Other general data

Number of Government positions eliminated:	23
Type of contract:	Firm fixed price requirements



Fort Leonard Wood, Waynesville, Missouri  
Laundry And Drycleaning

Cost comparison estimates (3-year period)

Cost of in-house performance	\$4,479,888
Cost of contracting-out performance	3,919,640
Savings by contracting out	<u>\$ 560,248</u>

Contract price and increases

	<u>Performance period</u>	<u>Contract price</u>	<u>Price increase</u>	
			<u>Amount</u>	<u>Percent</u>
Basic contract	1-1-80 to 12-31-80	\$869,516	\$44,000	5.1

This is an indefinite quantity contract. The contract amount was estimated on the basis of fixed unit prices and prior year's workload.

The contract price was increased by \$44,000 to provide for the addition of new items to the cleaning list and to reimburse the contractor for equipment repairs which exceeded the scope of maintenance and repair required under terms of the contract. Since actual workload was less than 75 percent of the estimated requirement, the payments for the performance period ending December 31, 1980, amounted to \$603,000.

Contractor performance

The contractor's performance was deficient in several areas during the first 6 months; however, performance improved and was considered satisfactory at the time of our review. The Small Business Administration was then negotiating a follow-on contract with the same contractor.

Other general data

Number of Government positions eliminated:	95
Type of contract:	Firm fixed price requirements

Naval Air Station, Patuxent River, Maryland  
Grounds Maintenance

Cost comparison estimates (3-year period)

Cost of in-house performance	\$669,630
Cost of contracting-out performance	<u>578,503</u>
Savings by contracting out	<u>\$ 91,127</u>

Contract price and increases

	<u>Performance period</u>	<u>Contract price</u>	<u>Price increase</u>	
			<u>Amount</u>	<u>Percent</u>
Basic contract	5-1-76 to 4-30-77	\$197,281	\$139,000	70.5
First option year	5-1-77 to 4-30-78	216,542	114,000	52.6
New basic contract	5-1-78 to 4-30-79	188,951	126,191	66.8
First option year	5-1-79 to 4-30-80	202,024	177,540	87.9
New basic contract	5-1-80 to 4-30-81	184,010	123,554	67.1

The amounts shown in the price increase column are not modifications to contract price. The contracts are requirements-type contracts in which the Navy contracted for indefinite quantities of various grounds maintenance services (grass cutting, tree and shrub planting, brush cutting, irrigation, soil improvement, leaf removal, etc.) at fixed unit prices, priced out the contracts at minimum quantities expected, and ordered work to be done at its discretion. In each year, the payments for services ordered exceeded the contract price for the minimum quantities. The basic contract was recompeted twice and won each time by the original contractor. The amounts in the price increase column, therefore, are the differences between the contract prices and the total yearly payments, and, in the case of the current contract, between the contract price and the total payments to date.

Contractor performance

The contractor's performance has been satisfactory over the 56 months of performance.

Other general data

Number of Government positions eliminated:	20
Type of contract:	Firm fixed price requirements

Navy Fleet Accounting And Disbursement Center  
San Diego, California  
Keypunch Service

Cost comparison estimates (3-year period)

Cost of in-house performance	\$1,047,570
Cost of contracting-out performance	682,923
Savings by contracting out	<u>\$ 364,647</u>

Contract price and increases

	<u>Performance period</u>	<u>Contract price</u>	<u>Price increase Amount</u>	<u>Percent</u>
Basic contract	2-29-80 to 3-29-81	\$184,842	\$63,000	34.1

The price adjustment was made to permit the contractor to upgrade its labor mix to enable it to complete more difficult tasks. The Navy agreed with the contractor that the contract work specification could have been misleading as to complexity of the work involved.

Contractor performance

During the initial stages of the contract, the contractor experienced an unacceptable backlog of work in processing financial documents. Overtime and additional staff to perform data entry work were required to overcome that backlog.

The contractor's continued performance of keypunch services, however, was considered unsatisfactory because its error rate--32 percent above normal--was unacceptably high and required additional work to correct. Center officials advised us that the poor quality of work was attributable to a high personnel turnover rate which resulted in an untrained work force. Navy headquarters organizations complained of the Center's work because financial reports were erroneous--in one instance as much as \$9 million.

The Center requested authority to terminate the contract and return the keypunch function to in-house operation. It did not solicit bids for a follow-on contract because it did not think there would be sufficient competition since only three firms bid on the first contract and one was disqualified. In October 1980, the Center revised the cost comparison analysis which showed that based on revised contractor costs a follow-on contract with the present contractor would result in a higher cost

than in-house performance. A Navy official advised us that when the contract expired at the end of March 1981 he decided to bring the function back in-house.

Other general data

Number of Government positions eliminated:  
Type of contract:

22  
Fixed price

Navy Radio Transmitting Facility, Dixon, California  
Operation And Maintenance Radio Transmitting

Cost comparison estimates (3-year period)

Cost of in-house performance	\$5,830,836
Cost of contracting-out performance	2,148,900
Savings by contracting out	<u>\$3,681,936</u>

Contract price and increases

	<u>Performance period</u>	<u>Contract price</u>	<u>Price increase</u>	
			<u>Amount</u>	<u>Percent</u>
Basic contract	4-1-79 to 9-30-79	\$385,236	none	none
First option year	10-1-79 to 9-30-80	689,244	none	none
New basic contract	10-1-80 to 9-30-81	792,372	none	none

Because of unsatisfactory contractor performance, the Navy recompleted the original contract rather than exercise its second option year. The follow-on contract was awarded to a different contractor.

Contractor performance

Naval Telecommunications Command officials told us the original contractor knowingly bid under cost to obtain the contract and then reduced staffing levels to lessen its losses. Further, a Navy official told us that the contractor admitted that its bid was a "buy-in." The Defense Acquisition Regulation refers to "buying in" as the practice of attempting to obtain a contract award by knowingly offering a price or cost estimate less than anticipated costs with the expectation of either (1) increasing the contract price or estimated cost during the period of performance through change orders or other means, or (2) receiving future follow-on contracts at prices high enough to recover any losses on the original "buy-in" contract. Such a practice is not favored by DOD since its long-term effects may diminish competition and result in poor contract performance.

The contractor never operated with the number of personnel required by the contract and actually lowered its staffing level to such an extent that some Navy officials became concerned that the success of the mission was endangered. Command officials told us the contractor usually had the appropriate number of equipment operators on duty and messages were never actually delayed because of contractor error. However, the maintenance

staff was reduced to the extent that the Command thought the contractor would be unable to prevent facility deterioration.

Instead of exercising the second option year of the original contract, the Navy solicited new bids. The new contract was awarded to a different contractor.

Although the performance of the original contractor was unsatisfactory, inspections were generally not documented. Officials at the Naval Telecommunications Command said their inspectors evaluate communications at the facility more than once a quarter and the facilities at least once on a random basis over a 2-week period. Inspectors write a report only if something wrong is found and the contractor does not immediately correct it. A written report is required if a major deficiency, such as an inoperative transmitter, is discovered. We found on file only one report for 1979 inspections and none for 1980.

Other general data

Number of Government positions eliminated:	63
Type of contract:	Firm fixed price

Navy Radio Transmitting Facility, Driver, Virginia  
Operation And Maintenance Radio Transmitting

Cost comparison estimates (3-year period)

Cost of in-house performance	\$5,640,393
Cost of contracting-out performance	<u>2,280,684</u>
Savings by contracting out	<u>\$3,359,709</u>

Contract price and increases

	<u>Performance period</u>	<u>Contract price</u>	<u>Price increase</u>	
			<u>Amount</u>	<u>Percent</u>
Basic contract	4-1-79 to 9-30-79	\$397,584	none	none
First option				
year	10-1-79 to 9-30-80	738,324	\$78,270	10.6
Second option				
year	10-1-80 to 9-30-81	747,192	none	none

The price increase was attributable to a redetermination of labor rates by DOL.

Contractor performance

The contractor's performance has been satisfactory according to Naval Telecommunications Command officials.

Other general data

Number of Government positions eliminated:	78
Type of contract:	Firm fixed price

The contract and conversion also include Naval Communications facilities at Saddle Beach Keys, Florida, and the Naval Telecommunications Center, Norfolk, Virginia.

Defense Fuel Support Points, San Pedro And Estero Bay, California  
Bulk Liquid Storage Operations

Cost comparison estimates (3-year period)

Cost of in-house performance	\$4,714,941
Cost of contracting-out performance	<u>3,015,954</u>
Savings by contracting out	<u><u>\$1,698,987</u></u>

Contract price and increases

	<u>Performance period</u>	<u>Contract price</u>	<u>Price increase Amount</u>	<u>Percent</u>
<u>San Pedro</u>				
First year of basic contract	3-1-80 to 2-28-81	\$678,840	\$19,450	2.9
<u>Estero Bay</u>				
Basic contract	3-1-80 to 2-28-81	\$159,468	\$14,000	8.8

The \$19,450 price increase on the San Pedro contract included \$14,000 for emergency repairs, \$5,200 for a new guard-house, and \$250 for a facility identification sign.

The \$14,000 price increase on the Estero Bay contract was for emergency repairs.

Contractor performance

The Estero Bay contractor's performance has been satisfactory; however, the San Pedro contractor's performance was not satisfactory during the first year of performance. In August 1980, the Defense Fuel Supply Center notified the San Pedro contractor of major deficiencies including safety violations, failure to report fuel spills, untimely distribution of shipping documents, delay in fueling a ship, improper fuel sampling procedures, and untimely submissions of monthly bulk petroleum reports. The fuel spills were numerous and no attempts were made to clean them up. The contractor was also draining fuel on the ground while taking samples.

In October 1980, contract administration officials met with a contractor official to discuss the six deficiencies and the contractor's failure to report corrective action. Also dis-



cussed were additional deficiencies including failure to submit a standard operating procedure and a quality and quantity control plan.

In December 1980, the administrative contracting officer told us that the Defense Fuel Supply Center would initiate action to terminate the 3-year contract if the contractor did not take corrective action. Subsequently, the administrative contracting officer advised us that the contractor replaced several key personnel and the problems were resolved. The contractor is now performing satisfactorily.

Other general data

Number of Government positions eliminated:	41
Type of contract:	Firm fixed price

Prior to the conversion, the Support Points were operated by the Naval Supply Center, San Diego, Long Beach Annex.

Pacific Missile Test Center, Point Mugu, California  
Keypunch Service

Cost comparison estimates

A cost comparison was not made to support the conversion decision. Our December 11, 1979, report "Contracting Out Base Operating Support Functions at the Navy's Pacific Missile Test Center, Point Mugu, California" (PSAD-80-19) discussed the need for the cost comparison.

Contract price and increases

	<u>Performance period</u>	<u>Contract price</u>	<u>Price increase</u>	
			<u>Amount</u>	<u>Percent</u>
Basic contract (note a)	2-20-78 to 2-28-79	\$160,920	\$60,328	37.5
New basic contract	3- 1-79 to 9-30-79	138,880	none	none
Option year (note b)	10- 1-79 to 12-31-80	312,809	52,668	16.8

a/Includes a 5-month extension for \$66,479.

b/Includes a 3-month extension for \$65,424.

The \$60,328 price increase included \$58,757 for unit price increases and \$1,571 for work delays caused by Government-furnished equipment downtime. The unit price increases compensated the contractor for additional employees needed to correct performance problems.

The Navy recompleted the original contract, and a follow-on contract was awarded to a different contractor. The price increase of \$52,668 in the option year of the follow-on contract included \$22,999 for an increase in contract quantities, \$27,836 for increased wages caused by DOL wage rate revisions, and \$1,833 for work delays due to Government-furnished equipment downtime.

Contractor performance

The performance of the first contractor was initially unsatisfactory. By May 1978, performance had improved. From July through September, performance was satisfactory as no additional production or quality problems were noted.

Administrative contract files indicated the second contractor's performance was satisfactory.

Other general data

Number of Government positions eliminated:	17
Type of contract:	Firm fixed price

Navy Ships Parts Control Center, Mechanicsburg, Pennsylvania  
Janitorial Service

Cost comparison estimates (3-year period)

Cost of in-house performance	\$1,890,000
Cost of contracting-out performance	<u>1,623,000</u>
Savings by contracting out	<u>\$ 267,000</u>

Contract price and increases

	<u>Performance period</u>	<u>Contract price</u>	<u>Price increase</u>	
			<u>Amount</u>	<u>Percent</u>
Basic contract	7-7-80 to 7-6-81	\$492,813	none	none

Contractor performance

Contract administration officials said the contractor's performance has been satisfactory.

Other general data

Number of Government positions eliminated:	42
Type of contract:	Firm fixed price

Eglin Air Force Base, Valpariso, Florida  
Bomarc Missile Maintenance

Cost comparison estimates (3-year period)

Cost of in-house performance	\$2,140,000
Cost of contracting-out performance	<u>2,060,000</u>
Savings by contracting out	<u><u>\$ 80,000</u></u>

Contract price and increases

	<u>Performance period</u>	<u>Contract price</u>	<u>Price increase</u>	
			<u>Amount</u>	<u>Percent</u>
Basic contract	12-1-79 to 11-30-80	\$540,566	none	none
First option year	12-1-80 to 11-30-81	539,288	none	none

Contract officials expect to negotiate an estimated \$87,000 modification to the first option year to implement a DOL wage rate determination.

Contractor performance

The contractor's performance has been rated satisfactory every month since work started.

Other general data

Number of Government positions eliminated:	106
Type of contract:	Firm fixed price

Hill Air Force Base, Ogden, Utah  
Precision Measurement Equipment Laboratory

Cost comparison estimates (3-year period)

Cost of in-house performance	\$3,516,302
Cost of contracting-out performance	2,948,205
Savings by contracting out	<u>\$ 568,097</u>

Contract price and increases

	Performance <u>period</u>	Contract <u>price</u>	<u>Price increase</u>	
			<u>Amount</u>	<u>Percent</u>
Basic contract	10-1-79 to 9-30-80	\$1,018,800	\$30,000	2.9
First option year	10-1-80 to 9-30-81	1,310,000	none	none

The \$30,000 increase was for an increase in the cost of materials.

The first option year was higher than the basic contract because of a DOL wage rate determination and an increase in the cost of materials. We noted that the increase exceeds the cost comparison's average annual savings by contracting out. The possibility of a new cost comparison is discussed below.

Contractor performance

The contractor operating the Ogden Air Logistics Center's precision measurement equipment laboratory, Hill Air Force Base, performed unsatisfactorily during the basic contract year and part of the first option year to the time of our review. The backlog of equipment to be serviced by the contractor increased from 581 to 1,423 units during fiscal year 1980 and was 1,850 units in early January 1981. This backlog was as high as 2,279 units in November 1980. Quality assurance records show that the contractor's defect rate was 18 percent in fiscal year 1980. The administrative contracting officer believes the defect rate should not exceed 5 percent. The contracting officer believes the contractor has performed poorly because he did not hire enough skilled technicians nor did he adequately train them.

Because the contract statement of work did not contain specific requirements minimums or penalties related to backlogs, defects, and deliveries, the administrative contracting officer was apparently prevented from forcing the contractor to solve the problems. In 1980 the Center's Directorate of Maintenance revised the statement of work to correct the omissions. The new statement of work also contains procedures for joint use of

equipment and facilities between Government and contractor employees and contractor use of Government-furnished supplies.

An official said that the Center planned to re compete the contract for fiscal year 1982 based on the new statement of work and prepare a cost comparison to see whether it would be more economical to convert the function back to an in-house activity.

We agree that a new cost comparison is needed because the contract price for the current first option year includes an increase which exceeds the original cost comparison's average annual savings by contracting out.

Other general data

Number of Government positions eliminated:

73

Type of contract:

Fixed price

Keesler Air Force Base, Biloxi, Mississippi  
Food Service

Cost comparison estimates (3-year period)

Cost of in-house performance	\$17,185,447
Cost of contracting-out performance	<u>13,451,676</u>
Savings by contracting out	<u>\$ 3,733,771</u>

Contract price and increases

	<u>Performance period</u>	<u>Contract price</u>	<u>Price increase</u>	
			<u>Amount</u>	<u>Percent</u>
Basic contract	9-1-79 to 8-31-80	\$4,546,294	\$162,891	3.6
First option year	9-1-80 to 8-31-81	4,579,045	505,716	11.0

The \$162,891 increase in contract price was attributable to changes ordered by the Air Force in hours of operation of dining halls, increases in the number of meals served because of increased troop strength at the base, and increased equipment maintenance costs. The \$505,716 increase was attributable to wage rate increases required by DOL and changes in hours of operation.

Contractor performance

Contract administration officials said the contractor's performance was satisfactory.

Other general data

Number of Government positions eliminated:	152
Type of contract:	Firm fixed price

Lowry Air Force Base, Denver, Colorado  
Audiovisual Activity

Cost comparison estimates (38-month period)

Cost of in-house performance	\$3,048,224
Cost of contracting-out performance	2,513,037
Savings by contracting out	<u>\$ 535,187</u>

Contract price and increases

	<u>Performance period</u>	<u>Contract price</u>	<u>Price increase</u>	
			<u>Amount</u>	<u>Percent</u>
Basic contract	9-1-79 to 9-30-79	\$ 61,706	none	none
First option year	10-1-79 to 9-30-80	706,020	\$6,000	0.8
Second option year	10-1-80 to 9-30-81	712,609	none	none

The price increase was for overtime and downtime caused by the Air Force's failure to maintain utilities and environmental conditions and for equipment and supplies.

Contractor performance

Contract administration officials said the contractor's performance was satisfactory.

Other general data

Number of Government positions eliminated:	85
Type of contract:	Firm fixed price



McClellan Air Force Base, Sacramento, California  
Precision Measurement Equipment Laboratory

Cost comparison estimates (3-year period)

Cost of in-house performance	\$5,004,116
Cost of contracting-out performance	<u>2,856,859</u>
Savings by contracting out	<u>\$2,147,257</u>

Contract price and increases

	<u>Performance period</u>	<u>Contract price</u>	<u>Price increase Amount</u>	<u>Percent</u>
Basic contract	10-1-79 to 9-30-80	a/\$712,530	none	none
First option year	10-1-80 to 9-30-81	712,530	none	none

a/Actual payment

Contractor performance

The cost comparison which was used to justify the conversion decision was not a valid one since the Air Force and potential contractors were basing their costs on two significantly different sets of work requirements. Because of the difference, the contractor was calibrating fewer units of equipment than anticipated.

The statement of work was a common one developed at the direction of the Air Force Logistics Command. At McClellan, it was not adequately studied and tailored to McClellan's work requirements. It only required the contractor to perform intermediate level maintenance and referred to an Air Force technical order for the definition of intermediate level maintenance. McClellan's precision measurement equipment laboratory was actually performing organizational and depot level maintenance as well as intermediate level maintenance. As a result, the Air Force's estimate was based on using 4 hours per unit in determining work force requirements; whereas, the contractor based its estimate on 1.8 hours per unit because that was the standard for intermediate level work.

Contract administration officials said the Air Force was not planning to exercise the second option year of the contract as a result of the problems with the statement of work. The Air Force prepared a new statement of work tailored to McClellan's particular requirements and planned to re-advertise the contract

and perform another cost comparison to see if contracting out is still more economical.

Other general data

Number of Government positions eliminated:  
Type of contract:

98  
Firm fixed price

Patrick Air Force Base, Cocoa Beach, Florida  
Base Supply

Cost comparison estimates (3-year period)

Cost of in-house performance	\$14,541,581
Cost of contracting-out performance	<u>13,079,099</u>
Savings by contracting out	<u>\$ 1,462,482</u>

Contract price and increases

	<u>Performance period</u>	<u>Contract price</u>	<u>Price increase</u>	
			<u>Amount</u>	<u>Percent</u>
Basic contract	10-1-79 to 9-30-80	\$3,270,802	\$ 48,613	1.5
First option year	10-1-80 to 9-30-81	3,141,907	183,542	5.8

The \$48,613 increase was mostly attributable to scope changes caused by Air Force wide supply procedures changes made after the contract was awarded. It also included reimbursement for overtime resulting from support for grounded aircraft, unit deployment, computer downtime, and holiday coverage. The \$183,542 increase occurred as a result of a DOL wage rate determination.

Contractor performance

Air Force quality assurance evaluation reports showed that the contractor's work was unsatisfactory in many work functions in the first 3 months of the contract but improved considerably afterwards. The contractor's performance is now considered satisfactory.

Other general data

Number of Government positions eliminated:	363
Type of contract:	Fixed price incentive - firm target

Richards-Gebaur Air Force Base, Grandview, Missouri  
Base Operating Support

Cost comparison estimates (3-year period)

Cost of in-house performance	\$13,678,272
Cost of contracting-out	9,023,664
Savings by contracting out	<u>\$ 4,654,608</u>

Contract price and increases

	<u>Performance period</u>	<u>Contract price</u>	<u>Price increase</u>	
			<u>Amount</u>	<u>Percent</u>
Basic contract	9-1-79 to 9-30-79	\$ 335,550	none	none
First option				
year	10-1-79 to 9-30-80	3,120,940	\$124,384	4.0
New basic				
contract	10-1-80 to 9-30-81	1,740,437	none	none

The first option year following the 1-month basic contract was increased by \$124,384. About \$113,000 of this increase was for more frequent custodial services in two buildings, providing custodial service in an additional building, and increased custodial service and refuse collection for other buildings. The price increase also included about \$10,500 for emergency repairs of a sewage treatment plant.

A contracting official said that the changes to the scope of work were attributable to a realignment at the base which involved the relocation of a major command to another base. A reduced scope contract was awarded for fiscal year 1981 because the Air Force Communications Service was moved to Scott Air Force Base and responsibility for Richards-Gebaur was turned over to the City of Kansas City, Missouri. The new contract supports an air reserve unit remaining at the base.

Contractor performance

Evaluation reports showed numerous deficiencies in the fuel management, supply, and transportation areas. By May 1980, the fuel and transportation functions were operating in a satisfactory manner. By August, the performance in the supply area was satisfactory. Contract officials attributed the problems to use of untrained, inexperienced workers.

Other general data

Number of Government positions eliminated:	200
Type of contract:	Firm fixed price

Wright-Patterson Air Force Base, Dayton, Ohio  
Audiovisual Activity

Cost comparison estimates (3-year period)

Cost of in-house performance	\$2,141,934
Cost of contracting-out performance	<u>1,564,709</u>
Savings by contracting out	<u>\$ 577,225</u>

Contract price and increases

	<u>Performance period</u>	<u>Contract price</u>	<u>Price increase</u>	
			<u>Amount</u>	<u>Percent</u>
Defaulted contract	8- 1-79 to 12-19-79	\$141,000	none	none
New basic contract	12-20-79 to 9-30-80	353,630	\$500	0.1
First option year	10- 1-80 to 9-30-81	482,463	none	none

The \$141,000 contract price is the amount the defaulted contractor is to be paid under a settlement.

The \$500 increase was for an emergency purchase of photo supplies to avoid work stoppage.

Contractor performance

The Air Force Logistics Command terminated the original contract for default during the fifth month of performance. The contractor's work was untimely and of poor quality. Further, the contractor failed to obtain proper security clearance for its personnel, did not pay its employees, and failed to provide adequate management of the audiovisual service center. The administrative contracting officer told us the same contractor also had an audiovisual services contract terminated at Tinker AFB, Oklahoma, in December 1979 for similar reasons. At the time of our review, the Air Force was trying to debar the contractor.

The Command recompleted and awarded a new contract. Surveillance reports for the last 6 months of fiscal year 1980 indicate the current contractor was performing to contract standards. Air Force officials said that at the time of our review, the contractor was doing a good job.

Other general data

Number of Government positions eliminated:	59
Type of contract:	Firm fixed price

Wright-Patterson Air Force Base, Dayton, Ohio  
Bulk Liquid Storage Operations

Cost comparison estimates (3-year period)

Cost of in-house performance	\$3,508,975
Cost of contracting-out performance	<u>2,934,602</u>
Savings by contracting out	<u>\$ 574,373</u>

Contract price and increases

	Performance <u>period</u>	Contract <u>price</u>	<u>Price increase</u>	
			<u>Amount</u>	<u>Percent</u>
Basic contract	8-1-79 to 9-30-79	\$ 92,703	none	none
First option year	10-1-79 to 9-30-80	857,715	\$57,671	6.7
Second option year	10-1-80 to 9-30-81	903,553	none	none

A price increase of \$40,015 was attributable to a DOL wage rate determination. An increase of \$17,656 was for the addition of an inventory specialist required to perform extra work resulting from a change in an Air Force regulation.

The second option year price is greater than the first option year price because of DOL wage revisions and provision for the inventory specialist.

Contractor performance

Quality assurance officials said the contractor was performing satisfactorily. The contractor was providing better service than the inhouse workers did. Also, customers have written letters praising the service of the contractor.

Other general data

Number of Government positions eliminated:	55
Type of contract:	Firm fixed price

