

Y 4
P 84/10
95-29

1022

95/4
P 84/10
95-29

GOVERNMENT

Storage

DOCUMENTS

(PART II)

SEP 29 1977

FARRELL LIBRARY
KANSAS STATE UNIVERSITY

HEARINGS

BEFORE THE

SUBCOMMITTEE ON

EMPLOYEE ETHICS AND UTILIZATION

OF THE

COMMITTEE ON

POST OFFICE AND CIVIL SERVICE

OF REPRESENTATIVES

SEVENTY-FIFTH CONGRESS

FIRST SESSION

✓
A11600 745231
00917

JULY 8, 12, 14, AND 19, 1977

Serial No. 95-29

Printed for the use of the
Committee on Post Office and Civil Service



U.S. GOVERNMENT PRINTING OFFICE
WASHINGTON : 1977

94-833

COMMITTEE ON POST OFFICE AND CIVIL SERVICE

ROBERT N. C. NIX, Pennsylvania, *Chairman*

MORRIS K. UDALL, Arizona, *Vice Chairman*

JAMES M. HANLEY, New York
CHARLES H. WILSON, California
RICHARD C. WHITE, Texas
WILLIAM D. FORD, Michigan
WILLIAM (BILL) CLAY, Missouri
PATRICIA SCHROEDER, Colorado
WILLIAM LEHMAN, Florida
GLADYS NOON SPELLMAN, Maryland
HERBERT E. HARRIS II, Virginia
STEPHEN J. SOLARZ, New York
MICHAEL O. MYERS, Pennsylvania
CECIL (CEC) HEFTEL, Hawaii
JAMES J. HOWARD, New Jersey
RALPH H. METCALFE, Illinois
LEO J. RYAN, California

EDWARD J. DERWINSKI, Illinois
JOHN H. ROUSSELOT, California
JAMES M. COLLINS, Texas
GENE TAYLOR, Missouri
BENJAMIN A. GILMAN, New York
TRENT LOTT, Mississippi
JIM LEACH, Iowa
TOM CORCORAN, Illinois

VICTOR C. SMIRLODO, *Executive Director and General Counsel*

THEODORE J. KAZY, *Minority Staff Director*

ROBERT E. LOCKHART, *Deputy General Counsel*

DAVID MINTON, *Deputy General Counsel*

J. PIERCE MYERS, *Assistant General Counsel*

HERMAN THOMPSON, *Assistant General Counsel*

SUBCOMMITTEE ON EMPLOYEE ETHICS AND UTILIZATION

PATRICIA SCHROEDER, Colorado, *Chairwoman*

RICHARD C. WHITE, Texas
WILLIAM LEHMAN, Florida
GLADYS NOON SPELLMAN, Maryland
HERBERT E. HARRIS II, Virginia

BENJAMIN A. GILMAN, New York
TOM CORCORAN, Illinois

(Charles Knull, Subcommittee Staff Director, Room 603 HOB Annex I—Ext. 54025)

(II)

CONTENTS

Testimony of—

Alfred, Willie, Steward, Local 1974, Transportation and Maintenance Squadron -----	Page 34
Blaylock, Kenneth, president, American Federation of Government Employees, accompanied by L. M. Pellerzi, general counsel.-----	106
Bourrie, Lawrence, National Federation of Federal Employees, Local 1497, Lowry AFB -----	51
Carter, Charles W., national vice president, AFGE -----	52
Case, Dariel, president, AFGE Local 1974, Lowry AFB -----	35
Contney, John, executive director, Linen Supply Association of America -----	73
Currie, James D., Assistant Administrator for Logistics, Office of Federal Procurement Policy, Office of Management and Budget, on behalf of Lester A. Fettig, Administrator, Office of Federal Procurement Policy, Office of Management and Budget -----	88
Dalla, Charles, past president, AFGE, Local 695, Denver Mint -----	33
Derby, Albert C., president, AFGE Local 1867, U.S. Air Force Academy -----	42
Dicks, Hon. Norman, a Representative in Congress from the State of Washington -----	101
Dodd, Hon. Christopher J., Representative in Congress from the State of Connecticut -----	137
Gillespie, Larry, president, Council of Naval Employee Groups -----	146
Leeson, Edward C., executive director, National Council of Technical Industries, accompanied by Jean Caffiaux, vice president, Electronic Industries Association; and Lloyd Kuhn, vice president, Aerospace Industries Association -----	150
Posner, Maj. Gen. Jack I., Headquarters, U.S. Air Force, Director of Manpower and Organization for the Air Force; accompanied by: Brig. Gen. Andrew Pringle, Jr., Commander of Lowry Technical Training Center; Col. James T. Hardin, Commander of Resource Management Group, Lowry AFB; Maj. William T. Hanson, Chief, Procurement Division, Resources Management Group; Col. Andrew Migala, Deputy Chief of Staff, Comptroller, U.S. Air Force Academy; Col. Joseph B. Smith, Deputy Chief of Staff Logistics and Commander, 7625 Logistics Squadron, U.S. Air Force Academy; Maj. Lawson Lowe, Director of Manpower and Organization for U.S. Air Force Academy; Capt. Timothy Cole, Chief, Procurement and Production Office, U.S. Air Force Academy; and Darleen Druyun, Headquarters U.S. Air Force -----	3
Raymond, Gene, director of operations, National Federation of Federal Employees, accompanied by George Tilton, associate general counsel, and Maureen Clancy, legislative liaison -----	121
Statements submitted by—	
Carpenter, Richard P., chairman, Task Force One, an employee association in Ventura County, Calif. -----	171
Connery, Vincent L., national president, National Treasury Employees Union, letter dated July 19, 1977, enclosing his letter to the Office of Management and Budget regarding Circular No. A-76 -----	192
Friedman, Barry A., representing the Chamber of Commerce of the United States of America -----	181

IV

Krieger, H. L., Director, Federal Personnel and Compensation Division, General Accounting Office, letter dated Aug. 16, 1977, commenting on testimony by the AFGE representative in Denver, Colo.	Page 186
McCloskey, Peter F., president, Computer and Business Equipment Manufacturers Association-----	178
Rohweller, D. T., president, National Council of Naval Air Stations Employee Organizations, Orange Park, Fla-----	198
Whitney, Alan J., executive vice president, National Association of Government Employees-----	179

CONTRACTING OUT

FRIDAY, JULY 8, 1977

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON POST OFFICE AND CIVIL SERVICE,
SUBCOMMITTEE ON EMPLOYEE ETHICS, AND UTILIZATION,
Washington, D.C.

The subcommittee met, pursuant to notice, at 9 a.m., in the second floor conference room, Federal Building, Denver, Colo., Hon. Patricia Schroeder presiding.

MS. SCHROEDER. I now call the meeting to order. I must say that I'm positively delighted that we set this hearing a long time ago because with the heat of Washington if we had just set it recently it would be viewed as a way to get people out of Washington for a cool weekend back here.

As I call the subcommittee to order, I would like to inform people that the subcommittee is officially beginning 4 days of hearings on the contracting out of jobs and services by the Federal Government.

These hearings will continue in Washington next week.

Since the subcommittee's hearings on this subject in March of this year, the Office of Management and Budget, as they promised us, has begun to make changes in overall policy guidelines that were set out in circular A-76 which the Office has issued to regulate contracting out.

The big OMB change, and one which I believe our last hearings showed as being necessary, was the reduction in the percentage load factor which is added on to the salary of a Government worker whose job is being considered for contracting out.

This figure was reduced from 24.7 percent to 14.1 percent.

Other issues, on which I hope the subcommittee will be able to acquire evidence at these hearings as we go along will be, first of all, the computation of public costs versus private costs.

The root issue involved is whether or not the taxpayers save any money by contracting out, and I think that that's what we really want to get to.

Second, the question of whether or not private contractors perform as well as Government workers.

Third, I think we hope we can find some more information on whether or not some Government functions which should be contracted out should not be contracted out because the Nation's security may be impaired.

In other words, has that been thought through. I hope our investigations on these issues will lead to answers to such questions and put us on the way to correcting some of the policies.

I think all of us are aware of the fact that the subcontracting out issue has become a hotter and hotter issue, and really has not had a thorough review by the legislators in Washington.

One of the reasons, of course, we wanted to start the second round of hearings with some specifics out here is because there have been problems out here, too, as well as in Washington, and too often I think we tend to have too many hearings in Washington in the marble rooms where people can't quite find out what all is going on. So we are very honored that all of you have come down to help us launch the second set of hearings.

We are also delighted that the Office of Management and Budget, after the prior hearings we have had, has begun to reappraise their whole position, and this committee will be attempting to give them all the guidelines we can, and we look forward to your testimony.

I have read the Air Force's statement, and I think it's a very well thought out statement. I think you have put a lot of time in it, and without further ado, let me turn it over to you.

I am sorry, Congressman Harris, do you have anything further to add?

Mr. HARRIS. No, thank you, Madam Chairwoman. I appreciate being here, and also appreciate seeing the Post Office and the Federal court building and Federal building before I got here.

Ms. SCHROEDER. Did you have a nice tour?

Mr. HARRIS. I'm anxious to hear the testimony. I would like to sincerely congratulate the chairperson for the work she has done on this and other issues for the subcommittee.

I think that the committee is fortunate to have someone of her talent and interest in charge of this, and representing a great number of Federal employees, as I do, this is a subject that is of particular interest to me.

I appreciate very much your going to the time and trouble of doing this, and I am happy to participate in the hearing.

Ms. SCHROEDER. Thank you. Part of it is to show Congressman Harris, who probably represents more Federal employees in Congress, that we have Federal employees in Colorado, too.

With that, let me turn it over to the Air Force, and if you would like to lead off, General, we are very pleased to have you with us. The floor is yours.

General POSNER. We appreciate the opportunity to be here, Madam Chairwoman. I have submitted a formal statement for the record, and I understood it is the subcommittee's preference that I briefly summarize that statement at the outset, which I propose to do now.

We, of course, welcome the opportunity to testify before the subcommittee, and I hope that each of the points that you enumerated at the outset can be addressed. We share your interest in getting to the specifics of this very important matter.

We believe in the Department that our contracting policies, which have been in effect over many years, have in fact realized savings in the way of dollars to the Government, and the preoccupation of any

Federal agency with savings in dollars is a pressing one at this point, as it is in the civil sector.

I hope we can address in the detail you desire the issue of relative quality of performance by contract and in-service personnel. And I want to assure you that the question of availability of military personnel, and the national security concern that you addressed is very carefully considered as the basic issue to be addressed before we start to consider the alternative of contracting, using our building block process which I will describe briefly.

Before I proceed with the summary, though, would you like me to introduce for the record the witnesses that we have with us today?

Ms. SCHROEDER. We would be delighted.

General POSNER. We have first Brig. Gen. Andrew Pringle, Jr., who is commander of the Lowry Tech Training Center.

Col. James Hardin, commander of the Lowry Resources Management Group. Maj. William T. Hanson, the Chief of the Procurement Division of the Resources Management Group at Lowry.

From the Air Force Academy, Col. Andrew E. Migala, who is the Comptroller. Col. Joseph B. Smith, who is the Deputy Chief of Staff for Logistics and the Commander of the 7625 Logistics Squadron.

Maj. Lawson Lowe, who is our Director of Manpower and Organization at the Academy.

Capt. Timothy P. Cole, the Chief of the Procurement and Production Division at the Academy, and as I indicated earlier to the Chairwoman, we took the liberty, though we had not previously said that she would appear as a witness, of bringing with us Ms. Darleen Druyun, who is in the Directorate of Procurement on the Air Staff; and I am Maj. Gen. Jack Posner, and I function as the Director of Manpower and Organization for the Department of the Air Force on the Air Staff in Washington.

That's our witness list. I hope I got everybody.

Ms. SCHROEDER. We welcome you before the subcommittee and you may proceed.

STATEMENT OF MAJ. GEN. JACK I. POSNER, HEADQUARTERS, U.S. AIR FORCE, DIRECTOR OF MANPOWER AND ORGANIZATION FOR THE AIR FORCE, ACCOMPANIED BY BRIG. GEN. ANDREW PRINGLE, JR., COMMANDER OF LOWRY TECHNICAL TRAINING CENTER; COL. JAMES T. HARDIN, COMMANDER OF RESOURCE MANAGEMENT GROUP, LOWRY, AFB; MAJ. WILLIAM T. HANSON, CHIEF, PROCUREMENT DIVISION, RESOURCES MANAGEMENT GROUP; COL. ANDREW MIGALA, DEPUTY CHIEF OF STAFF COMPTROLLER, U.S. AIR FORCE ACADEMY; COL. JOSEPH B. SMITH, DEPUTY CHIEF OF STAFF LOGISTICS AND COMMANDER 7625 LOGISTICS SQUADRON, U.S. AIR FORCE ACADEMY; MAJ. LAWSON LOWE, DIRECTOR OF MANPOWER AND ORGANIZATION FOR U.S. AIR FORCE ACADEMY; CAPT. TIMOTHY COLE, CHIEF, PROCUREMENT AND PRODUCTION OFFICE, U.S. AIR FORCE ACADEMY; AND DARLEEN DRUYUN, HEADQUARTERS, U.S. AIR FORCE

General POSNER. I would like to say at the outset, Madam Chairwoman, that our policy is fundamentally directed toward assuring that we have a proper balance in the manpower structure of the Department of the Air Force between the several categories of manpower available for employment by the Department; that is the inservice military member, the important inservice Federal civilian member, and contractor resources in proper circumstances, based fundamentally on the need for economy.

We believe that the manpower mix policies we employ, and the objectives toward which we address them, are in consonance with the mandate we have from the Congress which is now annotated to section 138 of title 10 of the United States Code, and emanated from the sense of Congress statement in the fiscal year 1975 Appropriation Authorization Act for the Department of Defense.

I will just quote the opening sentence. It specifies that:

It is the sense of Congress that the Department of Defense shall use the least costly form of manpower that is consistent with military requirements and other needs of the Department of Defense.

Now, in attempting to attain the objectives I have outlined and comply with this mandate of the Congress, as well as executive branch mandates regarding the use of the least costly form of manpower consistent with military requirements and other needs of the Department, we follow the national policy prescribed by the executive branch, and outlined in Office of Management and Budget Circular A-76, to which you have already referred, and which has been recently amended in the manner you have described.

The decision process the Air Force uses to determine what type of manpower is needed to perform Air Force workload is sometimes described as a building block approach, and it has three parts.

First, we determine what positions require military incumbency. As a general officer of the Department, I must emphasize, and I'm sure that you would expect me to, that this is the first consideration in addressing your point of concern regarding the most careful evaluation of the needs of the national security.

Our second step is to determine what positions require inservice Federal civilian employees, and having done that, our third step is to address the utility and cost effectiveness of contract service to perform the remaining workloads of the Department.

Addressing the first part of the building block approach, our basic policy with regard to the employment of military personnel is to assure that they are assigned to all combat and direct combat support functions of the Department of the Air Force. That is the first consideration.

The second step—and I'm summarizing perhaps too simplistically and would be delighted to address the issues further as we get into the discussions—the second step, having identified all of the combat and direct combat support functions and seen to it that military incumbency is prescribed in each case, is to determine what full-time Federal civilian employees are necessary to undertake other wartime essential indirect combat support functions of the Department.

Together, these military manpower requirements and these Federal civilian manpower determinations satisfy our requirement for deterrence, peacetime presence, and immediate response in time of contingency, national emergency or war.

Our Air National Guard and Air Force Reserve forces provide the military capability essential to augment that basic inservice full-time Active Force structure in a contingency or major conflict requiring mobilization of additional military forces.

I want to emphasize at this point that as we see the national policy, it is a mandate to the Department to have "blue suits" in military positions only that number of military personnel necessary to satisfy the demands of the national security.

Having made these determinations in a logical and regularized fashion, it follows that after the total military requirement is identified, and after we have identified those workloads that should be handled by Federal civilians, it is necessary for the Department to properly address the question of which activities and tasks can be manned by contract employees.

Those Air Force workloads which do not fall in the essential military or Federal civilian categories I have described are subjected to a comparative cost analysis to make that determination as to whether Federal civilian employees or contract performance, on the basis of cost effectiveness, will be utilized.

We recognize that the issue of manpower mix, and particularly the manner in which the Department of Defense has employed its policies applicable to contract services, have been of special concern to the Congress, particularly in the last few months.

In the conference committee report recently released by the Armed Services Committee conferees on the fiscal year 1978 appropriation authorization bill, the conferees called for a detailed study of our contracting-out policies to be undertaken jointly by the Office of Management and Budget, and the Office of the Secretary of Defense.

But additionally, and from our point of view much more significantly, the authorization bill contains a provision which would prohibit all conversions to contract in the Department of Defense from date of enactment of the fiscal year 1978 Appropriation Authorization Act through March 15, 1978, or until 90 days after the study report is received by the Congress, whichever date is earlier.

Excluded from the contract moratorium thus imposed under that proposed bill, would be those conversions to contract which could have been made under the policies and regulations in effect before June 30, 1976, and I recognize that the subcommittee is acutely sensitive to the fact that this basic issue was addressed in the recent revision of OMB Circular A-76 to which the chairwoman referred.

The House Appropriations Committee, on the other hand, has also recently called for stringent restrictions on contracting that are somewhat different than those reported out by the conference committee on the authorization bill.

The House Appropriations Committee bill would, among other things, prohibit the use of fiscal year 1978 funds to pay for any in-house to contract conversion in fiscal year 1978, of base operating support manpower, excluding real property maintenance and repair; or to pay for continuing in fiscal year 1978, the contract operation of base operating support functions, converted from in-service performance between the date of enactment of the fiscal year 1978 Defense Appropriation Act and September 30, 1977.

That a review has been undertaken by the Congress of our contracting out policies is a fact welcomed by the Department of the Air Force,

understanding that we exert every effort to scrupulously limit contract conversions to those functions for which military manning or wartime essential civilian manning is not required, as described earlier.

The Air Force takes particular care to retain in the federal work force the military and civilian manpower necessary to the successful premobilization presentation of the Air Force mission.

However, in-service to contract conversions made after full consideration of all of these factors, and analyzed on a regularized case by case basis, and shown to be cost effective, have saved the Air Force millions of dollars each year.

The Air Force has in good faith proceeded with the planning of contract conversions on this basis. The recent congressional actions, as we understand them, which I have summarized are of particular interest to us, and some are of very grave concern to the Department of the Air Force. I would like to explain why.

In constructing our fiscal year 1978 President's budget, our Air Force part of the fiscal year 1978 President's budget, and in good conscience, as we have in past years, the Department has made some force programing assumptions which have substantial impact on our manpower force. As briefly and as concisely as I can say it, in the fiscal year 1978 manpower structure of the Department, we have assumed that we will convert from in-house to contract service performance the equivalent of approximately 2,200 in-service manpower spaces.

What I'm saying is that those spaces have been excluded from the manpower request submitted to the Armed Services and Appropriations Committees, and the assumption is that the functions involved, all of which we regard as essential or we wouldn't have asked for the funds to support them, will be performed by contractors.

Obviously, in the presence of a absolute moratorium, we would be unable to contract out those functions. As we see it, that would be the case under the version of the moratorium contemplated in the House versions of the appropriation bill.

In the case of the authorization bill reported out by the conferees, since we could use the factors in existence before June 30, 1976, we believe that the bulk of those contract assumptions we have made would be susceptible of execution, since in the past those functions we have selected, and subjected to our regularized process of comparative cost analysis, have in the bulk of the cases resulted in conversion to contract based on economy.

I want to also add that, as you know, each annual Presidential budget submission not only addresses the budget year, but the operating year. With regard to the operating year, which in the case of the fiscal year 1978 budget is the fiscal year 1977, we have a budget planning assumption that 5,200 in-service spaces will be converted to contract; and if that is precluded by a stringent moratorium, we would have no means of performing those functions in the absence of a capability to go contract.

Under the authorization bill reported out by the conference committee, we do have a way out if the conversion could be accommodated under the rules in effect before June 30, 1976, as I indicated earlier.

Under the House appropriations bill, we might be estopped from contract conversion completely, and there is no means available in that circumstance that I can think of which would provide the Department

or higher authority a way to provide in-house manpower in lieu of the contract services we would be estopped from obtaining.

All of the authority that the Secretary of Defense has, in that respect, to exceed Federal civilian statutory ceilings which are imposed annually, as you know, in the Authorization Act, have already been exercised for fiscal year 1977 by the Secretary of Defense.

All of the functions contracted or identified as contract candidates at Lowry Air Force Base and the Air Force Academy had been addressed as valid contract candidates under the detailed review process which I have summarized, taking full account of the mandates we have from the Office of Management and Budget under OMB Circular A-76.

In each case, before a contract was awarded, the function was carefully addressed to determine that military and in-house civilians were not essential to satisfy contingency or wartime requirements; and a comparative cost analysis was conducted which demonstrated that contract service was the most cost effective method of performance.

Local representatives from Lowry Air Force Base and the Academy, whom I presented earlier, are present at this hearing and will be delighted to answer any questions you have concerning the specific details of contracting actions at these locations—including those that did not reach fruition—and there were several addressed in specific cases by the General Accounting Office, which has often in the past assisted us in correcting deficiencies in our procedures.

I would, Madam Chairwoman, be the last one to assert that the Air Force never makes a mistake.

By way of conclusion, I believe that the Air Force has a fully effective system for determining the appropriate mix of our work force.

I want to again assure that, as part of this system, we take scrupulous care to limit our in-service to contract conversions to those cost effective cases where military or in-service civilian incumbency is not required.

That concludes my summary remarks. I do appreciate the opportunity to appear before you today, and, of course, we will be pleased to answer any of your questions.

[The prepared statement follows:]

PREPARED STATEMENT OF MAJ. GEN. JACK I. POSNER, DIRECTOR OF
MANPOWER AND ORGANIZATION, HEADQUARTERS, USAF

Biographical sketch of witness

Major General Jack I. Posner was born on March 24, 1923, in New York, N.Y. He enlisted in the Army Air Corps during World War II and received his commission as second lieutenant in 1944. He was assigned to the 92d Bombardment Group and flew 18 combat missions as a B-17 aircraft commander in the European Theater of Operations. After the war, he returned to civilian life, was associated until 1950 with Dun and Bradstreet, and was a member of the Reserve.

He earned his bachelor of business administration degree, evenings, from the College of the City of New York in 1948. Later evening/part-time work earned a bachelor of laws degree from New York Law School, N.Y., 1951 and a master of arts degree in public law and government from Columbia University, N.Y., 1955. While attending the Industrial College of the Armed Forces, he earned a master of science in business administration from The George Washington University, Washington, D.C., 1969.

He was recalled to active duty during the Korean War in 1950 and served tours of duty with Headquarters Continental Air Command, the Air Force Reserve

Officers Training Corps at Columbia University, the 5th Tow Target Squadron in Libya, Headquarters Twelfth Air Force and Headquarters United States Air Forces in Europe.

After graduating from the Air Command and Staff College in 1960, General Posner was assigned to Headquarters U.S. Air Force in the office of the Deputy Chief of Staff, Personnel. In 1964 he served with Headquarters Air Force Systems Command as Chief of Personnel Plans Division. In 1965 General Posner was designated Department of Defense representative to the President Cabinet Committee on Federal Staff Retirement Systems and served until the committee was terminated in 1966. He was then assigned to the office of the Assistant Secretary of Defense (Manpower and Reserve Affairs) where he became Director of Legislative Programs. Following graduation in 1969 from the Industrial College of the Armed Forces, he served as senior U.S. Air Force personnel advisor to the Vietnamese Air Force.

In 1970 General Posner returned to Headquarters U.S. Air Force and was assigned to the office of the Deputy Chief of Staff, Programs and Resources, in the Directorate of Manpower and Organization, becoming Deputy Director in April 1972, and Director effective July 1, 1974.

His military decorations and awards include the Legion of Merit with two oak leaf clusters, Air Medal with two oak leaf clusters, Joint Service Commendation Medal, and Army Commendation Medal. He was awarded the Republic of Vietnam Air Force Distinguished Service Order, Second Class. He is a command pilot.

INTRODUCTION

Madam Chairwoman and members of the subcommittee, I am Major General Jack I. Posner, Director of Manpower and Organization, Headquarters United States Air Force. It is a privilege for me to testify before this distinguished subcommittee. I welcome this opportunity to discuss the Air Force manpower program, with a special focus today on our contract service policies and procedures.

My statement will first summarize our Air Force program. It is in consonance with DOD policies governing the "mix" of the in-service and contract service force. Next, I will highlight the trends of the last decade in the mix of Air Force manpower resources, and address the contract services outlook in light of recent Congressional actions relating to that matter. A discussion of each of the Air Force contract services functions at Lowry AFB and the U.S. Air Force Academy, followed by a brief summary, will conclude my formal testimony for the record.

CURRENT POLICY ON MIX OF MANPOWER RESOURCES

Principles

The Department follows three principles in determining the mix of the labor force. First, full-time active duty military and Federal civilian manpower in peacetime should be at the minimum level necessary to satisfy national security objectives and meet contingency requirements prior to mobilization. Second, the private commercial and industrial sector should be relied upon to provide goods and services to the maximum extent consistent with military exigency. Third, in consonance with the fundamental principle that the Government should conduct all of its operation in the most cost effective manner possible, the Department should use the least costly form of manpower that is consistent with military requirements and our other fundamental needs.

Policy

Our foremost total force manpower objective is to assure that sufficient trained personnel are available upon mobilization to man the defense force and sustaining structure. In planning to satisfy this objective we consider: our full-time active duty military personnel; our in-house civilians employed by Federal agencies and instrumentalities—including our full-time Air National Guard and Air Force Reserve Technicians; our Air Reserve Forces-drill pay personnel as well as our unpaid reservists; and, finally, the private sector to provide certain contract services. Our policy is directed toward the most effective balance within our manpower program among the various components of the labor force, to attain the least costly manpower structure consistent with military requirements and other Departmental needs. That policy and its objectives conform with the declared intent of Congress as annotated to Section 138 of Title 10, United States Code: "It is the sense of Congress that the Department of Defense shall use the least costly form of manpower that is consistent with military requirements and other needs of the Department of Defense."

In making the important selection between in-house or contract services methods of performance, the Department follows the national policy, as set forth in Office of Management and Budget (OMB) Circular A-76, of relying upon the private sector for commercial/industrial goods and services, except in those instances where it is not in the national interest to do so. Included in the Circular is a list of those circumstances under which the Government may provide commercial or industrial products or services for its own use. These include cases when: procurement from a commercial source would disrupt or materially delay an agency's program; it is necessary for the Government to conduct a commercial or industrial-type activity for purposes of combat support, or individual and unit retraining of personnel, or to maintain or strengthen mobilization readiness; a satisfactory commercial source is not available; the product or service is available from another Federal agency; and, finally, when procurement from the private sector would result in higher cost to the Government.

OMB Circular A-76 also requires that each Federal agency perform a periodic review of all commercial and industrial activities, provide an annual inventory report of all commercial and industrial activities, and assure high level approval of new or substantively expanded in-house commercial or industrial activities.

MANPOWER MIX DETERMINATION PROCESS

The decision process the Air Force uses to determine what type of manpower is needed to perform Air Force workloads is sometimes referred to as a building block approach because it involves three basic steps: First, determining what positions require military incumbency; second, determining what positions require in-service civilian employees; and, third, determining when contract services should be used.

Active duty military forces are assigned combat and direct combat support missions, while full-time Federal civilians undertake other wartime essential indirect combat support functions. Together they satisfy the requirement for deterrence, peacetime presence, and immediate response in time of contingency, national emergency, or war. Our National Guard and Air Force Reserve components provide the forces essential to augment that structure in a contingency or major conflict requiring the mobilization of additional military forces.

For determining which in-service positions must be manned by military members, we have established a system called COMP, which stands for "Coding of Military Positions." Under this system, codes are assigned to all military positions on our manpower documents, designating the reason why they must be encumbered by military members.

Generally, military incumbency in either the full-time active duty or Reserve structure is authorized only when the tasks to be performed represent combat or direct combat support functions; when required by law; when the incumbent of a given position requires military experience as an essential ingredient of effective performance; when a military billet in the United States is needed to provide a reasonable rotation base between overseas assignments; or when a given position is essential to provide training, experience, career progression, or command supervision for military personnel. Finally, some military positions may be required temporarily in those instances where civilian skills are not available.

It is most important to emphasize at this point that it is Air Force policy to use military members to perform only those workloads which require military incumbency in accordance with the foregoing rules and procedures.

It logically follows that after the total military requirement is identified, our remaining workloads can and should be performed by civilians, either in-house or through contract services. Thus, our next step is to objectively determine the civilian functions and positions which fall into these two categories.

We first identify those slots which must be manned by Air Force civilians because of the inherent management responsibilities of those positions, or to comply with applicable laws and Civil Service regulations. We then identify our indirect combat support wartime-essential Federal civilian requirements, such as our civilian depot maintenance capability essential to sustain a flexible maintenance production base capable of expansion to perform high priority weapons system work and accommodate emergency military needs within a limited timeframe in a contingency. In-service civilians are also used if a product or service is not available from either a commercial source or from another Federal agency.

Our Federal civilians are an integral and essential part of the Defense structure. Our manpower mix policies are directed toward assuring the integrity of this valuable resource. Our dedicated Federal civilian workforce provides an

element of continuity, stability, corporate memory and corporate expertise within the civilian functions of the Department.

Air Force workloads which do not fall in the essential military or Federal civilian categories I have just outlined are subjected to comparative cost analyses to determine whether Federal civilians or contractors and their employees will be used. That determination is based on relative economy. In performing these in-house versus contract cost studies, the Air Force solicits firm bids or offers from contractors, with the firm intent to award a contract if the cost studies demonstrate it is more cost effective to do so. This policy is designed to assist in attaining the objective of using the least costly form of civilian manpower, in accordance with the mandates of the Executive Branch and the Congress. The procedures used represent regularized, and continual processes set forth in Air Force directives.

AIR FORCE MANPOWER TRENDS

Exhibit 1 places our discussion of the Air Force manpower mix process in the perspective of strength trends over the past decade. As the exhibit shows, the essentially stable manpower levels we requested in the President's fiscal year 1978 Budget terminate a decade-long downward trend in active force manpower levels. The total fiscal year 1978 in-service strength requested is 34 percent below the fiscal year 1968 peak Department of Defense levels related to the Southeast Asia conflict, is 31 percent below our fiscal year 1964 pre-Southeast Asia strengths, and represent the smallest active Air Force since before the Korean conflict. But our fiscal year 1978 President's Budget levels do introduce a measure of manpower program stability which should terminate a decade of manpower and personnel turbulence.

The exhibit reveals a larger proportionate decline in military than in civilian strength. Military manpower is down 37 percent since fiscal year 1968; civilian strength has decreased by 28 percent. The civilian decline has been smaller because of our Air Force military-to-civilian conversions during the period, and because of increased full time Air Force Reserve and Air National Guard Technician requirements associated with the buildup and enhancement of our Air Reserve Forces.

Reductions in contract services manpower equivalents have more than kept pace with the decrease in in-service manpower; we estimate they have declined about 50 percent during the same period. I want to emphasize here that these data and estimates are based upon our assessment of the in-service man-years of effort which would be required if the contract services concerned were performed in-house. Hence, my reference to manpower or manyear equivalents. The total Air Force contract services effort projected for fiscal year 1977 represents the in-service equivalent of approximately 67,000 man-years.

OUTLOOK

Manpower mix in general, and in-service to contract service conversions in particular, have been items of intense Congressional interest particularly in the last few months. The House and Senate Armed Services Committee Conferees, in their Report on the fiscal year 1978 DOD Appropriation Authorization Bill, have called for OSD and OMB to jointly study all aspects of contracting-out policies and submit a report to the Congress by December 31, 1977. Additionally, and more significantly, the Authorization Conference Bill contains a provision which would prohibit all conversions to contract from date of enactment of the Department of Defense fiscal year 1978 Authorization Act, through March 15, 1978, or until 90 days after the report is received by Congress, whichever is earlier. Excluded from the contract moratorium are those conversions to contract which would have been made under policies and regulations in effect before June 30, 1976. The Authorization Conference Committee Report also restricts until March 15, 1978 the contracting of research and exploratory development to those percentages by research installation that were on contract during the period July 1, 1975 to September 30, 1976.

The differences in policies and regulations before and after June 30, 1976, are primarily concerned with the Federal civilian employee retirement, health insurance, and life insurance cost factors used in cost comparing in-house versus contract performance of given functions. Prior to June 30, 1976, all Services applied a factor of 7.14 percent of the base pay of Federal civilian employees in determining the average cost to the Government of their retirement benefits. Another 1 percent and 0.3 percent were added for health and life insurance, respectively. In October 1976, as directed by OMB, the retirement cost factor was increased to 24.7 percent, health insurance to 3.5 percent, and life insurance to 0.5 percent.

The revised figure on retirement is based on an accrual method of computation and involves an assessment of the present value of future retirement benefits for Government employees. Because the validity of this new figure as well as the use of the accrual method of computation have been questioned by various authorities, OMB on June 13, 1977, required all Federal agencies to use an interim retirement cost factor of 14.1 percent pending a complete review of the matter. No changes were made to the October 1976 health and life insurance factors. Exhibit 2 summarizes the changes in Federal employee retirement, health and life insurance cost factors.

AIR FORCE MANPOWER 1968 - 1978

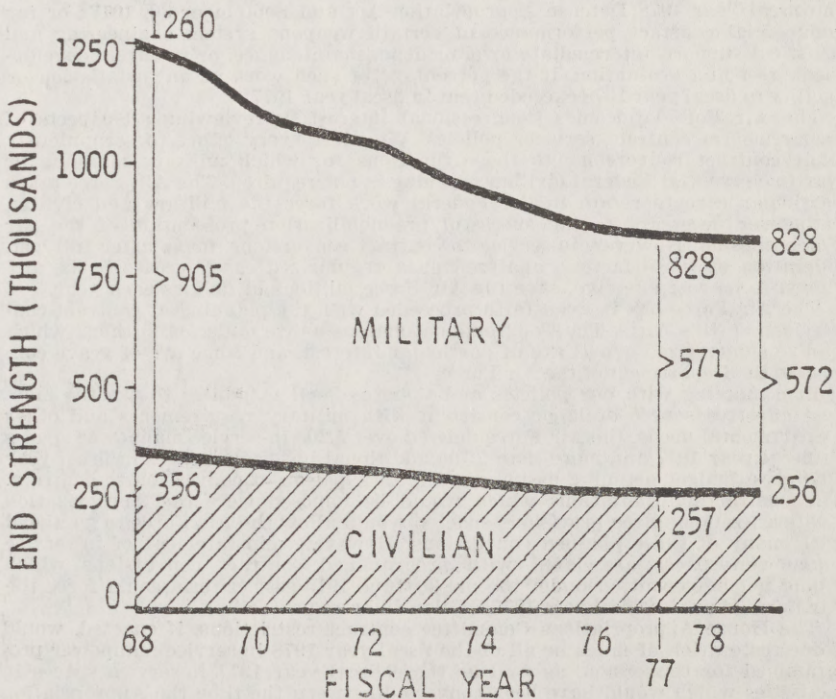


EXHIBIT 2

RETIREMENT AND INSURANCE COST FACTOR COMPARISON

[In percent]

	Before June 30, 1976	October 1976 OMB change	June 1977 OMB change
Retirement.....	7.14	24.7	14.1
Health insurance.....	1.00	3.5	3.5
Life insurance.....	.30	.5	.5
Total.....	8.44	28.7	18.1

Notwithstanding the OMB interim 14.1 percent factor, conversions to contract would have to be based on the 7.14 percent in effect under the cost factor guidelines prior to June 30, 1976, to comply with the mandate of the Authorization Conference Committee, assuming enactment of the Bill as recommended by the Committee. Other cost study factors that would have to be changed, in using the policies in effect before June 30, 1976, are those for projected pay increases, projected cost of inflation for material and supplies, interest rates, and Federal taxes.

The House Appropriations Committee has also recently called for stringent restrictions on contracting. Their bill would prohibit the use of fiscal year 1978 funds to pay for: any in-house to contract conversions in fiscal year 1978 of base operating support (BOS) manpower, excluding real property maintenance and repair; or for continuing in fiscal year 1978 the contract operation of BOS functions converted from in-service performance between the date of enactment of the fiscal year 1978 Defense Appropriation Act and September 30, 1977; or for commercial contract performance of certain weapons system engineering and logistical support, intermediate level or depot maintenance, or research, development, test and evaluation, if the percentage of such work at an installation or facility in fiscal year 1978 exceeded that in fiscal year 1977.

The Air Force welcomes Congressional interest in reviewing all aspects of Departmental contract services policies. We exert every effort to scrupulously limit contract conversions to those functions for which military manning or wartime essential Federal civilian manning is not required. The Air Force takes particular care to retain in the Federal work force the military and civilian manpower necessary to the successful pre-mobilization prosecution of the Air Force mission. However, in-service to contract conversions, made after full consideration of these factors, analyzed on a regularized case by case basis, and shown to be cost effective, save the Air Force millions of dollars each year.

The Air Force has in good faith proceeded with the planning of contract conversions on this basis. The Congressional actions as we understand them, which I have summarized above, are of particular interest, and some are of grave concern to the Department of the Air Force.

In complying with our policies and Congressional mandates to use the most cost effective source of labor consistent with military requirements and other Departmental needs, the Air Force deleted over 5,200 in-service manpower spaces in fiscal year 1977 and more than 2,100 additional in-service spaces in fiscal year 1978 as a budget planning assumption in anticipation of conversion to contract. The contracting limitations which would be imposed were the Authorization Conference Committee provisions enacted would allow the Air Force to go ahead with many of these planned conversions. However, reinstatement of in-service manpower spaces associated with programmed contract conversions which would not be permitted under the pre-30 June 1976 cost criteria could force the Air Force above its fiscal year 1977 civilian end-strength ceiling.

The House Appropriations Committee contract restrictions, if enacted, would force restoration of much or all of the fiscal year 1978 in-service manpower programmed for conversion, as well as those fiscal year 1977 in-service spaces in activities which would have been converted between the time the Appropriation Act was enacted and September 30, 1977.

In fiscal year 1977 and immediately prior years the Secretary of Defense was authorized by the Congress to exceed statutory Federal civilian end-strengths by one-half of one percent when he considered it in the national interest to do so. The Authorization Conference Committee would increase that civilian over-

strength authority to $1\frac{1}{4}$ percent in fiscal year 1978. This overstrength authority could be exercised to cover the substantial fiscal year 1978 in-service manpower reinstatement which could be necessary should the Congress enact stringent contracting constraints. The Secretary of Defense has already exercised his one-half of one percent fiscal year 1977 Federal civilian overstrength authority; the fiscal year 1978 increase to $1\frac{1}{4}$ percent recommended by the Authorization Conference Committee does not appear to be retroactive. Depending on overall fiscal year 1977 DOD employment levels, fiscal year 1977 in-service reinstatements necessitated by the potential combination of restrictions in the fiscal year 1978 Authorization Bill now before the Congress and the House version of the fiscal year 1978 Appropriation Bill could cause problems in meeting our fiscal year 1977 civilian ceilings.

Additionally, the recommended restrictions on the percentage of weapons systems engineering, logistics support, and RDT&E work which can be contracted at military owned or leased installations, if enacted, would be difficult to implement and, depending upon how they are interpreted and implemented, could severely disrupt Air Force engineering, logistic and RDT&E operations.

Finally, the contracting restrictions recommended by the House Appropriations Committee would preclude in-service conversions to contract services even when contract operation is indicated under each of the tests prescribed in our manpower mix review policies, and would result in an overall savings. In effect the Department could be forced to use a more costly source of manpower. The exact cost impacts involved would depend on the case-by-case results of future cost studies, but an indication of potential savings can be gleaned by reviewing past economies. Air Force in-service conversions to contract performance during the fiscal year 1971 to fiscal year 1976 time period resulted in an initial cost advantage to the Government of over \$50 million.

While the Services, DOD and the Congress all have an obligation to insure that there is sufficient military and in-house civilian manpower to prosecute Defense missions—an obligation that I assure you the Air Force acknowledges and diligently pursues—we must in the face of today's intense budgetary pressures use the most cost effective mix of manpower consistent with our military and Defense needs and the governing national policies.

CONTRACTING AT LOWRY AFB AND THE AIR FORCE ACADEMY

Having discussed our contracting policies and processes applicable throughout the Air Force, I will now address our contract programs at Lowry AFB and the Air Force Academy.

All of the functions contracted or identified as contract candidates at these locations have been addressed under the detailed review process which I described earlier and in consideration of recommendations of the General Accounting Office. In each case, before a contract was awarded, the function was carefully assessed to determine that military and in-house civilians were not essential to satisfy contingency/wartime requirements, and a comparative cost analysis was conducted which demonstrated that contract service was the most cost effective method of performance.

Lowry AFB

Past cost comparison studies conducted at Lowry AFB in the areas of refuse collection and bus services resulted in a determination to retain the functions in-house. The most recent study of refuse collection indicate a three year cost advantage to the in-house alternative of \$79,164. The estimated three year savings to retain the bus services function in-house was \$370,579. One past study that did result in a contract operation was in the area of food services. A food service contract was awarded in 1973 based on the results of a comparative cost analysis that indicated an estimated three year cost advantage of \$1,610,958.

The recent study of vehicle operations and maintenance functions at Lowry AFB was part of a larger Air Force wide study initiated in May 1976 and conducted at 11 Continental United States installations within Air Training Command, Air Force Logistics Command, and Air University. Our overseas commands and CONUS operational commands were exempted from this study due to the direct combat support tasking of their vehicle operations and maintenance functions in support of wartime missions. During a recent review of the statement of work at Lowry, discrepancies were discovered which resulted in deferring the contract solicitation.

One other functional area is currently scheduled for review in fiscal year 1978 at Lowry AFB. That function is audio-visual services. Contract negotiations are scheduled to begin in December 1977, with estimated contract start date of 1 April 1978, if cost effective.

Air Force Academy

Functions performed by contract service at the Academy include:

1. *Airmen dining hall.*—Based on the results of a comparative cost analysis, a contract was awarded in 1975 for the entire airmen dining hall operation. Estimated three year cost advantage for contract operation was \$492,000.

2. *Custodial.*—A custodial contract for the non-cadet areas was awarded in 1973, based on a comparative cost analysis that indicated an estimated three year cost savings of \$86,000. Custodial services include cleaning and general housekeeping functions at various locations around the Academy.

3. *Refuse collection.*—In 1971 a contract was awarded for refuse collection for military family housing based on the results of a comparative cost analysis. In 1976 a contract was awarded for refuse collection for the remainder of the base, excluding military family housing, again based on the results of a comparative cost analysis. The estimated three year cost advantage for the 1976 contract was \$43,000.

4. *Hospital housekeeping.*—A contract was awarded in 1975 for the hospital housekeeping function, based on the results of a comparative cost analysis that indicated an estimated three year cost advantage of \$33,000.

As requested by the Subcommittee Chairwoman, I will briefly review the status of the other functions at the Academy in which an interest was expressed.

1. *Grounds maintenance, hospital linen distribution, and commissary.*—These are in-house functions performed by 61, 3 and 71 inservice civilian employees, respectively. No comparative cost analysis is underway or presently scheduled for these functions.

2. *Cadet dining hall.*—The recent comparative cost analysis conducted in the cadet dining hall was restricted to two subfunctions, sanitation and supply/services. Based on a GAO review of procurement procedures, a decision was made to cancel the contract solicitation.

The Air Force is acutely aware of the need to minimize personal hardship where cost comparisons do support accomplishing work by contract at individual installations. In the event a function is converted from in-house to contractor performance for reasons of economy, all placement alternatives, including possible retraining or reassignment to other positions, will be exhausted before initiating reduction-in-force action. In addition, contractors will be encouraged to give priority consideration to civil service employees displaced by this action.

Local Air Force representatives from Lowry AFB and the Academy are present at these hearings and will be glad to answer any questions you may have concerning the specific details of each of the areas I have discussed.

CONCLUSION

By way of summary, I believe several points merit our special attention.

In determining our manpower mix, the Department of the Air Force complies with the contracting policies promulgated by the Office of the Secretary of Defense, whose policies in turn are in consonance with the direction issued by the Executive and Legislative Branches. In implementing these policies, the Air Force uses deliberate, regularized decision-making procedures to arrive at the best mix of military, Federal civilian, and contractor resources. These procedures take full cognizance of both: our requirement to maintain the essential levels of trained military personnel to support our national strategy; and the wartime essential requirement for and special contributions of full-time Federal civilian employees.

For those functions that do not require military or in-service civilian employees, the option to contract, if cost effective, assures that we get the most for our defense dollar. Past Air Force conversions to contract have produced significant savings. Therefore, the contracting option should be left open to the Services.

I believe that the Air Force has a fully effective system for determining the appropriate mix of our work force. I want to again assure you that as part of this system, we take scrupulous care to limit our inservice to contract conversions to those cost-effective cases where military or inservice civilian incumbency is not required.

This concludes my prepared statement. I appreciate this opportunity to appear before you, and would be pleased to respond to your questions.

Ms. SCHROEDER. Thank you very much, General. I appreciate your statement.

I think maybe we would like to get into one of the specifics, because that's obviously one of the many frustrations that brought us all here.

I think when we talk about the policies, they sound good in the abstract, then somehow we lose them as they filter down. The GAO has gone over, for this subcommittee, a specific case on auditing the Lowry motor pool.

Now, GAO told us—of course, obviously the proposal was canceled after GAO looked at it, and I'm not sure why—but nevertheless what the GAO told us were some incredible discrepancies.

There were 98 people in the motor pool, but it was priced out as a contract cost to the Government of 117 people, and then the descriptions for the work were written up for 77 employees.

The first problem I have is, if 77 employees could do the job according to the Air Force, why had the Air Force never taken into consideration letting go 21 people, rather than just deciding to now subcontract it all out and do it through this circuitous route?

Is that ever part of your decision as you look at the whole contracting out procedure?

General POSNER. I hope when we finish today, we will have assured you that is the basic decision. I would like to address the three numbers that you introduced. I would like to also say that, as I understand it, the contract solicitation was canceled after bid opening, and after the distribution of all the detailed cost analysis that had gone into the effort to all interested parties. We always distribute these data after bid opening.

They are freely available, and I believe the subcommittee has access to them.

The three manpower statistics you mentioned, from our point of view, relate something like this: One of the reasons for cancellation of the solicitation is that, as correctly indicated in your comment, the Air Force did not, in setting out the work specifications, correctly describe the amount of work to be done.

So, the work specifications given to the contractor as the basis for the request for his proposal, were, as my procurement friends would say, fatally deficient, and therefore we had to cancel the solicitation.

In effect, what we had done was proceed on the basis that an aggregate of 98 people—one of your data items—would be required to perform that workload when, in fact, we overlooked additional workload. We simply overlooked it.

We failed to include in the specifications describing the performance of work by the Lowry motor vehicle operation and maintenance function, work on behalf of one of its tenants, the Air Force Accounting and Finance Center.

Now that was flat-out oversight, and the oversight effectively omitted on the contractor's side the equivalent of 19 man-years of effort. Instead of pricing on the Government's side a contract-equivalent operation on the basis of 98 man-years of effort, we should have and did price a contractor effort-equivalent of 117 man-years of work.

As I indicated earlier, the contractor was proceeding with his price-out on the basis of the fatally deficient statement of specifications, and, therefore, the solicitation was terminated.

You introduced one other number, that is 77. We ascribe no validity to that number. I cannot describe for you how it was generated.

I would suggest that it may be a statement of opinion on the part of another authority. We do not share it. Our assessment of the man-years required correctly is 117. The statement of work in bid requests represents about 98 man-years of effort. That's totally it.

Ms. SCHROEDER. Well, some of the other concerns, forty of the 98 employees were uniformed military, and they were priced equivalent to civilians. Now is that the Air Force practice?

General POSNER. Yes; let me try to describe that using the three-building blocks policy I summarized for you earlier to identify combat and direct combat support functions. I should say for the record that cost is not the key factor there. That is, the comparative cost of a military member versus civilian performance is not a fundamental consideration.

The fundamental consideration is the function that an airman should perform, namely the combat and direct combat support functions which should be encumbered by a military member.

Ms. SCHROEDER. Are you saying you needed 40 military members for some other assignment?

General POSNER. No.

Ms. SCHROEDER. I am not sure I understand what you are saying.

General POSNER. Perhaps if I can complete my little description it will become clear. Having said that we now know which positions are in combat or direct combat support areas and need to be performed by military, I think it is logical to concurrently say that everything else can be done by civilians. It follows. It must follow.

Having made that conclusion—that's the second step of our building block process—the fundamental decision to be made is, what kind of civilians? Inservice civilians or contract civilians?

Now we first determine what functions are wartime essential indirect combat support functions, and we assign them to Federal civilians; and for the remaining functions, economics determine whether they stay in-house or go contract.

As for assigned military members, if I have led you carefully enough through my description of the building block process, I want to emphasize at this point that having at the outset determined that a given function is going to be cost-compared, we have, as I said, concurrently determined that it need not be performed by military personnel. Therefore the first thing we do is assume that whether or not we go contract as a result of the cost comparison, we're going to convert any military membership in that function to civilian.

Thus the answer to your question is quite explicitly, yes, we convert the military membership to civilian, and then we develop the costs applicable to inservice performance.

Ms. SCHROEDER. But then you are really not giving the taxpayer the best cost break because the taxpayer is not paying the same for the uniformed that they are for the civilian. You are assigning civilian cost to the uniformed military on the basis that a civilian can do it, and you don't have to have uniformed military doing it, but you have

now pushed cost alternatives aside as the No. 1 issue, and we may end up paying more in the long run for a transference of those services than we do now if we have uniformed military in it. Plus, you have got the problem that if you don't need those 40 uniformed people somewhere else, what are you going to do with them?

General POSNER. I think you are quite correct in asserting that there may be differences in cost of supporting, employing, and paying emoluments to military and civilian personnel.

There clearly are because of the nature of the job. The alternative, however, to doing what I have described, is to violate what we perceive to be the national policy: that we should not keep military people in jobs that are not military jobs.

That is, I should have in military uniforms only the number of military members I require to prosecute effectively the national defense, and not some excessive number.

If I proceeded in any other fashion, I would, I suppose, reserve civilian jobs for military members. I don't know that the subcommittee would support that. The Department does not.

Ms. SCHROEDER. Except that you can't really lay off uniformed members, right? So if you replace them with civilian people on the outside, and you have no place for them to go—

General POSNER. The function of finding a place for them to go is one that evolves on our personnel manager just as it would in a commercial organization, and if we perceive at some point in time that our program for the future calls for too many military people, we will ask for fewer military people.

Ms. SCHROEDER. But in the interim, what we are looking at is day-to-day operation?

General POSNER. Yes, ma'am.

Ms. SCHROEDER. And if there suddenly were a shortage in the things that you had labeled strictly combat area, then I could certainly understand, you know, this could be going on, but since you told me that that is not the case, what do you do with 40 people floating around?

You know how long it takes to go in and change manpower requirements and do all that.

General POSNER. Yes, ma'am. We would not—

Ms. SCHROEDER. And that gets very costly.

General POSNER. We would not inflict hardship on military members any more than we would the civil member. We would transfer them in timely fashion, taking careful concern for their welfare, but we would realine them to other valid military functions.

Ms. SCHROEDER. But you are not really saving money, in my own viewpoint. Let me just move on and ask a couple of more questions.

You also added a 2 percent "above installation" cost for this total contract. GAO was unable to explain as to why you did this, and there was also, according to the GAO, a real misestimation of legitimate costs of letting the civilian employees go.

In other words, early retirement to unemployment pay to severance pay and all that, have been underestimated in figuring out what the cost comparison would be with contracting it out versus keeping the people on board.

General POSNER. Well, Madam Chairwoman, there are two points involved in that last question. No. 1 is the 2-percent factor. To spare you my convoluted way of describing things, let me read to you from our governing Air Force Manual 26-1 how that 2-percent factor is arrived at, and what it purports to be.

We call it "other indirect costs." We say, "Enter on this line"—which is a line in form 346—the cost comparison available to the subcommittee, line 17 in point of fact—

Additional indirect costs incurrent or to be incurred because commercial procurement is not utilized. These indirect costs consist of the various central administrative services above installation level, such as centralized accounting, personnel, and legal assistance or other governmentwide services of such organizations as the Civil Service Commission, on recruiting and testing of employees, and General Services Administration, on providing supplies, building services, records, et cetera.

It has been determined that the appropriate factor to cover these overhead costs above the installation level, that is, above Lowry Air Force Base, is the 2-percent factor, and it's applied to the basic amount on another line in the cost comparison.

Now that's the rationale behind the application of that 2-percent factor. The services and supplies and support that are performed on behalf of the station by the overhead structure—just as a contractor, though he may not have that in-house superstructure, would have to pay for those overhead services and include them in his bid.

That was the first factor you addressed.

Ms. SCHROEDER. And the other was the misestimation of the severance costs of employees currently doing the job, if it were contracted out.

General POSNER. We received an outbriefing by the General Accounting Office representative who looked into this matter, and they do assert that a dollar factor of \$112,000 was used to cover severance costs, whereas the correct factor should have been, as I recollect, \$49,000.

Now yesterday, in preparing ourselves for this meeting today, I asked that specific question of a representative of General Pringle's center, who is in the Office of the Director of Civilian Personnel, and he was scurrying around late last night attempting to answer that point for us in anticipation of the question.

Did we receive an input?

General PRINGLE. Yes; we did, and we calculated there was a human error made to the cost of about \$62,000. The \$112,000 figure, which was done some 6, 8, 9 months after the initial \$49,000, included some more current information and data, although it was more accurately calculated.

The fact of the matter is there was an error made, and this figure was wrong.

Ms. SCHROEDER. I think where this all leads us, and I think it's very understandable as to why we are here with the House Armed Services Committee, the Post Office Committee, the Appropriations Committee, the House and Senate, and everybody really being worried about contracting out. We have just seen a reason why, and that is the conclusionary statements that we do contracting out to save the taxpayer money.

All right, everyone is for that, but when you break down so many of these things that have happened on many bases, people have really wondered whether we are truly saving the taxpayer money because it appears in many instances that it's all been loaded in such a factor that, you know, it's been very heavily loaded against the civilian employees who are currently on the job, and that's what we are talking about.

And the 2 percent factor of the misestimation, the understatement of the work, and that type of thing.

General POSNER. May I say, as I have been careful to point out in my summary and in my statement, and we mean it quite sincerely, that the Department welcomes the interest of the Congress and the opportunity to participate in a restudy, but it should not be concluded that the matter has not been addressed before.

I omitted to mention, for instance, with regard to the 2-percent-overhead factor we were addressing, that that factor really has its derivation in hearings conducted before the Congress in the late sixties, I believe.

Ms. SCHROEDER. But it has been about 10 years since it's really been looked at?

General POSNER. Oh, indeed.

Ms. SCHROEDER. There's a feeling that one of the main reasons the services haven't been as diligent in looking at this as, say, the Federal civilian work force has been, that the pilots in the Air Force don't have to worry about United coming in and contracting out their jobs because they do have that military thing that kind of protects them.

So, I think some of the civilians thought they were kind of the hunted few left, and you were ready to sell them out.

General POSNER. Madam Chairwoman, could I introduce for the record just a brief summary of the "protective and paternalistic" view of the military work force that we have taken in the Department by citing for you the reductions, military and civilian, since 1973.

We had an active military establishment in my Department on active duty on the 30th day of June of 1973, of 690,999 military members.

We have asked in the President's budget for fiscal year 1978 to have on board military at the end of September of 1978, of 571,994. That's the President's budget number.

The difference between 1973 and 1978 is 119,005 military who are no longer with us. Let me quote the comparable Federal Civil Service numbers for our Department.

On the 30th day of June, 1973, we had on board 287,540 Federal civilians.

In the President's budget for September 30, 1978, we are requesting 256,200, or a reduction of 31,340 Federal civilians since June 30, 1973.

In the aggregate, the reduction of military and civilian totals 150,345—119,000 reduction for the military, or 80 percent of the total reduction—and a 31,000 reduction for the Federal civilians, or 20 percent of the total reduction.

I might also point out that my Department, in the contract arena, employs the equivalent of approximately 67,000 man-years of effort for contract services. Our data for 10 years ago in 1968 show that we estimate we employed contract services performance in a magnitude

of approximately 140,000 equivalent man-years of effort; so we have reduced contract services in our Department in that period of time, 10 years, by approximately 50 percent.

Ms. SCHROEDER. Do you have a number of how many employees are working and contracted out, or do you keep those?

General POSNER. Let me explain that. We use our Pentagonese jargon on that; I'm talking about a number we call RIMILOCS. If that doesn't get your attention; what it means is "required inservice man-years in lieu of contract."

I don't know how many employees the contractor employs, nor is that a part of the specifications of a nonpersonal services contract. What I do know is how many people we would have to employ under my management engineering standards, the manpower standards used in the Department, were we to perform the work.

So when I say that for fiscal 1977 we are employing approximately the equivalent of 67,000 man-years of contractor effort, I am estimating that I would need to do the work in-house if I had the job.

Ms. SCHROEDER. I have been much too long. I'm going to ask Congressman Harris. I'm sure you have some questions you would like to ask at this point.

Mr. HARRIS. Thank you, Madam Chairwoman. General, I am really nowhere near an expert on this sort of thing, and I would like, if I might, to take 5 or 10 minutes of the committee's time to try to understand some of this stuff.

I'm not going to try to understand RIMILOCS. [Laughter.]

General POSNER. I am not sure I understand it myself. [Laughter.]

Mr. HARRIS. I am not sure, but I think penicillin might help. But I would like to understand, just kind of get away from the regulations and that sort of thing a little bit.

If you understand the function, what are the controlling policy considerations that you have here? Probably three or four in your position that you feel not of what you shouldn't do, but of what you should achieve.

For example, is there a policy thrust here that says you should try to limit the use of military personnel in things that civilian personnel could fill? Is that one of your policy thrusts? Put it in two or three statements.

General POSNER. There are just about two or three. One of those is the last one you mentioned, which we understand to be essentially a national policy. That is, we need to have in military uniform the number of people necessary to prosecute the eventual conflict, and win it.

We need not have groups of people in military uniform in excess of that number, and we should not have—those functions properly belong in the civil sector, and I mean the Federal civil sector in the case of proprietary responsibilities, wartime essential, indirect combat support functions.

The best thing I can think of to demonstrate that is the approximately 70,000 Federal civilian employees which you may know we employ in-service at our five logistics command depots who perform the repair and overhaul of our aircraft.

Mr. HARRIS. So your primary policy—

General POSNER. There is a third national policy which we must perforce rely on, and it's aptly stated in A-76, even if the document hasn't been fully overhauled since the late sixties.

It says fundamentally it is a mandate for the executive branch to rely on the civil sector for commercial-industrial-type goods and services, except in certain explicit and appropriate circumstances; such as our depots where, not having the in-house organic ability to repair those aircraft and surge to the level required in war, would inhibit the national security, and that we cannot countenance.

So those are the two or three factors, and I think they are the basis for that perhaps too simplistic building block process.

Mr. HARRIS. So basically then you have a policy where possible, to use civilian personnel, and where not possible with regard to civilian personnel, contract out. Is that basically the policy?

General POSNER. Yes; that's correct—and we implement that policy through two projects, and I will have to introduce additional jargon because I would destroy my image if I didn't.

One is COMP, C-O-M-P, and it stands for "Coding of Military Positions." I would emphasize for the Subcommittee that we go through every position in the Department of the Air Force and determine whether it should be coded for military incumbency or civil incumbency, position by position, and update that assessment annually.

The second project is called Manreq—that stands for the "Total Force Manpower Requirements in Support of the National Strategy"—where we count each requirement in every operational plan based upon the war scenarios prescribed by the administration, in contemplation of the war functions this Department would have to prosecute to preserve the national security. We determine how many of what kind of people we need to perform each task, and update that annually in concert with every functional manager in the Air Staff and every commander in the field.

Mr. HARRIS. I am pleased to be able to note to you that while you used the term "manpower" this subcommittee hasn't used that term for almost 6 months now. [Laughter.]

General POSNER. You will permit me not to respond, sir.

Mr. HARRIS. I couldn't have done this to you last year.

General POSNER. We are on the horns of a dilemma trying to figure out whether the best alternative is "personpower" or "womanpower." [Laughter.]

Mr. HARRIS. As I look at those policy thrusts, it seems to me that there may be someone trying to implement these policies. It might be some sort of a dichotomy that will occur with regard to short term and long term benefits.

It seems to me that might be very hard to put down in the form in computing whether you are cost effective or not.

Is that true or not? Or is that a simplistic view that I might have? I would think you know in the one case you say well, you know, for this year we can do it a lot cheaper by having Joe process our films, but, on the other hand, if we don't have a continuing capacity here to do this sort of thing, we will be at the mercy perhaps of contractors or Joe going out of business, or not having the competency on the bases.

General POSNER. Well, Mr. Harris, at the risk of drawing my revolver and shooting off my toe, I want to answer that question two ways. We were talking earlier about the motor vehicle maintenance and operations contract at Lowry. I want to point out that at the time the determination was made that we should consider contracting that

function, we had gone through the regularized process of determining what our in-house military requirements were.

We had decided that the number of military people in vehicle operations and maintenance at Lowry could be converted to civilians in the manner I described, and then the function would be cost-compared to determine whether it was more cost effective to do it with in-house civilians or by contract services.

Since that time the requirements of the national security, which I noted to you I update annually under that Manreq project, indicate that as the picture changes on the international scene, as the threat posed by our apparent enemies changes, becomes a stronger and more powerful one, I must counter as the Director of Manpower and Organization, and as a general should, with a proper reposturing of my force. I would say for the record that we are not certain that we will, in the case of the Lowry contract, proceed with another solicitation, because the annual reassessment of required military members in the military vehicle operations and maintenance functions has changed somewhat, and we believe we may be short.

That may also be true of some other functions like food service. It is most certainly true on the civil side in the case of, say, our depots where the President's budget requested an additional 2,200 inservice Federal civilians—and I am most unhappy to report that the Senate Appropriations Committee reported out yesterday, or the day before, a bill that would summarily remove the entire 2,200 Federal civilians from the President's budget.

The picture does change. We update our assessment annually, and we take special care to insure that as these changes occur we have the right number of military people in-house. As for the possibility which I think you implied of a contractor "buying-in," if that's the right term to use, that is deliberately bidding lower in the first year in order to get the contract.

Mr. HARRIS. They have been known to do that; haven't they?

General POSNER. I do not know that of my own recognizance, but I have heard that on occasion it occurs.

Mr. HARRIS. Not bad generally?

General POSNER. The question has to be answered in two ways. I do believe, without attempting to be facetious in any way, that the regularized cost comparison process described in my Air Force Manual 26-1, which, if you wish, I can submit for the record, and the procedures employed under it are detailed, explicit and regularized, and do effectively cost-compare, given no mistakes. In the Lowry contract we made a mistake.

If it is true that by virtue of design or mistake a contractor underbids in the first year and has to raise his bid in subsequent years, we need merely re-cost-compare the contracts. Every commander has the authority, if he perceives costs going out of sight in the case of contract services, to call immediately for a new cost comparison.

You would expect us to do that. These contracts are only let anyway on an annual basis; normally with options to renew.

Mr. HARRIS. Yes; but there is some expense in shifting back and forth?

General POSNER. There is a cost of turbulence. There always is. The rules in the Department on that subject are that, by virtue of

the national policy which requires that we rely on the civil sector for commercial-industrial type activities to be performed, when we make a cost comparison in a suitable case and when we determine that it is \$1 cheaper to go contract, we will go contract.

The department rules with regard to going the other way, having perceived that a contract service is perhaps costing too much, and having asked for a cost comparison, and having determined that it is now cheaper to come back in-house, the rules of the Office of Management and Budget require that there be a 10 percent cost advantage to the Government to come back in-house before we may do that.

As I perceive it, that's an attempt to insure that we follow the rules on this.

MR. HARRIS. Now, with regard to national policies, when you contract out, you run into some other difficulties, too, I guess. I presume that—Well, let me ask you very simply a question. Is there anything like a Davis-Bacon Act, or anything like that applies to your contracts?

Is there any sort of review that you have to do with working conditions and wages, and what have you, that the contractors are paying?

General POSNER. The Contract Services Act, as I understand it, and perhaps Ms. Druyun is better able to address this, is just such a safeguard which is designed, as I understand it, to obviate contractors becoming flesh merchants.

That is, abusing the private civil sector workforce by paying such low wages that they undercut reasonable standards. Now, Darlene, can you—

MR. HARRIS. Ms. Druyun?

MS. DRUYUN. Yes. For every area that we do contemplate contracting out, every function that we are looking at, for instance in the case of the motor pool vehicles operation at Lowry, we fill out what is called a standard form 98.

We list all of the functions. We give a brief job description of the duties that will be performed by the individuals. We state a comparable civil service rate or wage grade. We send that in to the Department of Labor, and it takes them about 30 days to respond.

They come out, for instance, to the local Denver area, and they will do a survey to determine exactly what the going rate is for someone who, for instance, drives a car, drives a truck, performs a duty as a mechanic. Once this survey is complete, they return the completed standard form 98.

MR. HARRIS. May I interject right there. Is it true what you just said? They get that done in 30 days?

MS. DRUYUN. Well, it runs more like 45 days. Sometimes we are remiss in sending it in in a timely fashion. We recently did a survey, and it seems to center around 30 or 45 days.

But, anyway, the Department of Labor sends it back to the Air Force; in this case, the Lowry Air Force Base.

We are required to put in the wage rate that they state along with benefits which the contractor has to pay.

This then is used in the solicitation, and the contractor has to pay the wage specified by law; if he refuses to pay that minimum wage specified, then he is debarred.

This is a formal procedure we go through within each of the services in which a contractor cannot bid, or we cannot award contracts to him because he has violated a provision within the service contract.

Mr. HARRIS. Well, let me understand. When he bids in, he has to show his employees, what wages he is paying his employees?

Ms. DRUYUN. Yes; that is correct. That is a part of the contract, and we regularly go out and do labor/survey checks to insure the wage specified is being paid by the contractor.

Mr. HARRIS. If he changes that in mid-term of the contract—

Ms. DRUYUN. He cannot. He has to pay that minimum wage specified in that contract.

Mr. HARRIS. I see. Regardless of who is in that slot?

Ms. DRUYUN. That's correct. There could be like 8/10 wage determinations. It depends on the size of the function that is being contracted out, and our regular contract administration procedures within the base procurement office, we're obliged, and we make sure, that the contractor, by interviewing his employees, is being paid the proper wage specified within that contract.

Mr. HARRIS. And that has to be sort of supervised? There has to be some sort of a policing action.

Ms. DRUYUN. Yes; that's correct.

Mr. HARRIS. In addition to that, your specification probably calls for an affirmative action program, or something like that?

Ms. DRUYUN. Very definitely. There are many other requirements to go into the solicitation which are required by statute.

Mr. HARRIS. In performance of your contract, those elements of the contract have to be sort of supervised, too, and checked?

Ms. DRUYUN. Yes; very definitely.

Mr. HARRIS. When a contractor is asked to submit a proposal or a contractor is asked to submit a proposal that is a bid, and in fact meet the specifications as propounded by you, and you open the bids and decide not to award on that contract, what sort of damages or what sort of payment do you make to the contractor for having gone through that work and not in fact been given the contract?

Ms. DRUYUN. Let me say this. When we do go on solicitation, we do put a notice in the first page of that solicitation that this is going to be a cost comparison.

If it's more cost effective to contract out the function, that is in effect what we will do. We cannot just arbitrarily and capriciously cancel a solicitation. We have to have very definite reasons for canceling a solicitation which are set forth in the armed services procurement regulations which is part of the statute.

Mr. HARRIS. And you feel that the proposer, the contractor or potential contractor, is put on notice that he or she is taking that risk when submits his proposal?

Ms. DRUYUN. Yes; that's correct. Let me give you an example. We normally go through what's called a preaward survey process to determine if, one, the bid price that the low bidder has given to us is reasonable, in fact; second, that he's going to have enough employees on the job to perform all of the duties and third, to determine the contractor's ability to perform all of the things specified within that statement of work.

We perform what's called a preaward survey through our Defense Contracting Administrative Services Agency.

We have people from the functional area who participate normally along with the contracting office, and have the contractor come in with some very detailed information so we can make an assessment to

determine that his price is reasonable, that he will in fact have enough employees to perform the function.

If we determine, and we have many times in the past, determine that the low bidder in fact cannot perform because he has an excessive shortage of personnel, we will notify him, and "throw him out" as being nonresponsible and look at the second low bidder.

Mr. HARRIS. He is not a responsible bidder?

Ms. DRUYUN. That's correct.

General POSNER. It might be useful to note that the firm bid procedure has been in effect in the Department of the Air Force for some years, and was found a suitable procedure for application recently throughout the Department of Defense, and I understand it's now mandatory on all the services.

Mr. HARRIS. Well, in case, just so I can have a specific idea, in the case like on the Lowry bid where the question is not that the contractor is not responsible or is not capable of performing, is not a case of him failing to meet these specifications or anything like that, it's simply a case that proposal put out actually didn't cover all the work you intended to cover.

As I understand, one of the attendants was not covered in the bid, which was the basic defect in the bid. What do you do with respect to that contract? Did you pay him some damages?

Ms. DRUYUN. No, sir. In our armed services procurement regulations, we do state quite clearly that proposal costs are borne by the contractor, the individual submitting the proposal. We issued a notice to all of these bidders, explaining to them why the procurement was being cancelled.

Mr. HARRIS. And you have that authority that, even though you solicited bids, and even though the bidder is responsive, meets the specifications, he still won't be awarded if he decides you don't want to award the contract?

Ms. DRUYUN. We do have that authority, but it has to be something that's reasonable. It cannot be capricious or arbitrary.

Mr. HARRIS. Well, in the case of the Lowry contract, that wouldn't be capricious and arbitrary in just deciding you hadn't covered as much as you wanted to, and you wanted to put the bids up?

Ms. DRUYUN. No, sir. We made a very definite mistake. When we put together our statement of work, it was deficient and it certainly would not be fair to award a contract and then later on start "jacking up" the price to adequately cover all of the work.

Mr. HARRIS. Now I can see that problem. I was wondering, though, it seems to me that the contractor has gone through a certain amount of work, and what have you, and he has done everything he is supposed to in response to the specifications, and yet he is not recompensed at all for that work. That doesn't seem fair.

General POSNER. It's probably been suggested already that that's probably a fairly common practice throughout the commercial world. I made a fundamental mistake many years ago when I went to law school, but the possibility of an action being initiated against the Government on the grounds, as perceived by a contractor or anyone with whom we deal, that we have acted capriciously, I suppose always exists: if a party who fashions himself harmed, though he acted in good faith and was damaged to his own detriment without any act on his part, thinks that he should institute a claim.

Mr. HARRIS. I just wondered how situations like that, though, might affect the number of contractors that would be given proposals, and because of the proposals if, in fact, they knew they might go through all the work, and even though they had sharpened their pencils and got it down real good.

General POSNER. Well, sir, if you believe any part of what I've said about the adequacy and regularized nature of our cost comparison process which we go through, then you may find some answer to the question you have just posed.

In my statement I note that, after cost comparing, well over 90 percent of our cost comparisons do do contract because the contractor has in fact bid less than it would cost us to perform the function in-house.

If he pads his bids, and I suppose those are bad words—if he includes in his bid a contingency cost having something to do with his cost of preparing that bid, I suppose that's in consonance with what Mrs. Druyun pointed out we advertise. It is the responsibility of the contractor to bear those costs.

Mr. HARRIS. Could I ask one last question. I noted the term "wartime essential," Federal civilian personnel. It's kind of a new term to me. What does it mean?

General POSNER. DOD directives for many years used similar language. If I may, I'll fall back on the best example I can think of at this time, and that's our depot maintenance capability.

We have testified at great length before the Armed Services Committees, and at some length before the Appropriations Committee this year about the need in-house for those additional 2,200 civilians we requested in the central logistics function.

Their job is to provide a surge capability, not susceptible of any question in the sense of the predispositions of the work force to strike, or the possible attitude of given commercial organizations toward any conflict in which we might be involved.

Certain needs dictate that we must have that organic surge capability in-house. The Department of Defense directives, that I'm thinking about in this area, say two things about the kind of depot maintenance capability that I'm addressing.

They say, first, that we should have this wartime essential indirect combat support capability in-house to provide the capability to repair and overhaul our aircraft, just as the other services should their weapons systems, in time of war and national emergency.

The directive as it's now written, and I understand this aspect is now under reconsideration, does also specify that we shall not exceed in that respect 70 percent of our total work in that depot maintenance category being maintained in-house, and 30 percent outside the Department.

The ratio at this point—

Mr. HARRIS. You used that term "out-house" before.

General POSNER. The ratio of the work now ranges in the low 60's percentage in-house, and 37, 38 percent under contract services.

Things like overhauling our F-4's and B-52's.

Mr. HARRIS. General, one last question. From all of the policy directives you have, and from the experience you've had, and I think as you've indicated before, sort of a moving stream type of thing of what is required today, do you think you are doing more contracting out.

than you should, or less contracting out than you should, or do you think you are about right?

General POSNER. I think very explicitly we are about right, otherwise I should resign. That's my responsibility. If I didn't think I was doing it right, I should either resign or be shot. [Laughter.]

Mr. HARRIS. I think resign would be enough. [Laughter.]

General POSNER. Actually, I prefer neither alternative. But as for the size of the force, if that is in your mind, the Department has put on the record quite unequivocally that we do believe the size of our Department of the Air Force, which is now at the lowest level it has been since before the Korean war, puts us in the position of not being able to prosecute national security requirements at precisely the level we would like to.

The questions of prudent risk, limited risk, and degree of risk in the first analysis is, of course, involved, and that's an entirely separate subject.

Mr. HARRIS. Let me say I don't mind telling you you are right today. What I was thinking of in that sort of moving stream concept that we have referred to, to be right tomorrow, is this going to require an effort for more contracting out, or is it going to require a cutting back of contracting out?

General POSNER. It will require, sir, an annual updating of my assessment of the manpower requirements needed to satisfy the national strategy.

I would like to emphasize that this forward-looking assessment of the manpower structure of the Department that we take is not a one year or one shot affair.

As you know, we do it in a 5-year defense program and projection, and we have an extended annex to that that carries us out as far as 12 years.

The provisions of the Budget Impoundment Control Act require that in this matter we give more insight to the Congress than has in past been the practice.

Mr. HARRIS. Really, I don't want to press on this question, though, but I mean with the responsibility that you and the other people have here, and with the situation as you assess it today, or yesterday, or what have you, and just looking down the road this coming year, do you feel like that you will be doing more contracting out or less contracting out?

General POSNER. I know that our forecast for 1978 contracting is about 67,000 man-years of effort, which is about equivalent to 1977.

I would also note that for the first time in 10 successive years, the Department has asked for comparative stability in the civil and military work force. Our strength for 1977 is 571,000 military. We have asked for 571,994 for 1978.

Our strength in the civil sector is about level. As I recollect, we do drop approximately 1,000 Federal civilians in fiscal year 1978 under fiscal year 1977.

That's the first time in 10 successive years we've had stability. I have enumerated the reduction since 1973. We have eliminated from our force well over 430,000 Federal and military personnel since 1968, which was the height of the Vietnam contingency.

Mr. HARRIS. What was the answer to the question now? Are we going to be contracting out more in 6 months, or less?

General POSNER. I see it as a level of effort that is about equivalent to fiscal year 1977. I think the process is regularized, and I think that's what we need. I cannot report a forecast for 1979 and 1980 with that degree of preciseness, but assuming we are allowed what we fundamentally requested this year in our manpower request—and that is reasonable stability for the future, an end to 10 years of severe reduction and turbulence—if we are afforded that by the Congress, and if the President's view of the future requirements of the Department are in consonance with that statement, why we should have reasonable stability in each segment of the work force.

As Director of Manpower and Organization, it's all part of my "bag": military; Federal civilian; contractor employees; those important people who work for the reserve and guard in both a drill pay and full time technician status; and last but not least the nonappropriated fund employees that we have employed in various Federal instrumentalities by the Air Force—and the aggregate man-years employed here is well over 40,000 man-years of effort. All of these are important elements of the departmental manpower program which I think I am responsible, in a very direct way, for assuring a proper "mix."

Mr. HARRIS. Thank you, General. Thank you, Mrs. Druyun. Thank you, Madam Chairwoman.

Ms. SCHROEDER. General, I would like to ask some very quick questions, and I would just like yes, or no answers, and if you don't know, that's fine, too, and if you find out answers later on to the questions, we would appreciate, as the subcommittee, finding out about it because I think it will help us in our determination.

Obviously these question have come from some circulations that come from subcontracting out, that's why I would like to know.

Have you, or has your Department, or has anyone in the Air Force looked to see whether the same contractor most of the time bids from year to year?

In other words, once they get their nose under the tent, are they locked in, or does there continue to be a succession of different bidders?

Is the thing ever reopened, and so forth, and so on. Is there a study that's been done on that issue?

General POSNER. I would like to defer to Mrs. Druyun if indeed there is a study, and the nature of the bid solicitations—but one of the most notable contracts we have had in our Department for an extended period of time is the Vance Air Force Base maintenance contract at Enid, Okla., which has been in effect with satisfactory performance since 1960.

For the first 12 years of performance, as I recollect, it was a contract held by a firm called Serv-Air that did a very fine job. It was a small organization. There was no union.

That's a town of about 35,000 people. The contract was held by a country gentleman who knew all of his people personally, carried his coat over his arm, and walked up and down his operation and knew his employees.

And in 1972, as I recall, Northrup was awarded the contract. It has changed the complexion of that workforce. There is now a union. The

performance is quite satisfactory, though the complexion of the organization that is performing that service is quite different.

Ms. SCHROEDER. But are there any general studies of all the contracts?

General POSNER. May I defer to Mrs. Druyun on the specifics?

Ms. DRUYUN. The Director of Procurement at HQ USAF asked that question about 2 months ago, and he requested that I look into that area. I currently am working on this study with a number of other people in our directorate.

We have gathered information that we do have available to us from OSD.

I have not yet completed that study, so I would like to defer a permanent answer, but for instance, in the food service area, which is the first main area that I have looked into, there seems to be a regular turnover of contractors.

Many of these requirements are rebid every year, and from the data I have looked at in a 3-year period, it certainly does not appear that there has been any one, you know, contractor locked into the contracts.

[The following information was furnished:]

The Directorate of Procurement at the Air Staff is now involved in a study which is looking into this area as well as several other related issues. It is anticipated that this study will be concluded by October 15, 1977, and we will be glad to provide you the results at that time.

Ms. SCHROEDER. We would appreciate seeing your study when you get done. I think that could be helpful. Has any study been done to find out whether or not contractors tend to hire the displaced Federal employees that were doing the function afterward? Has anyone looked into that?

General POSNER. The policy of the Department is always to encourage, in the case of those Federal employees that cannot be placed in other jobs in-service, to encourage the contractor to employ them.

I think Mrs. Druyun will confirm that as a part of our process, we often sit down with a contractor, the bid having been let to him, and encourage him on an eyeball-to-eyeball basis to do that; and I think our experience tends to prove that they do tend to employ our knowledgeable employees.

The level of wage they are compensated with varies.

Ms. SCHROEDER. Well, but do you have any statistics showing whether the contractors tend to hire the displaced federal employees?

General POSNER. I don't believe we have done such a study, but if I may, Madam Chairwoman, if I could answer that precisely for the record, I would appreciate it.

[The information follows:]

The Air Force has not done a study on whether or not contractors tend to hire displaced federal employees. However, we are acutely sensitive to the needs of our dedicated federal civilian employees, and the Air Force arranges meetings with the successful contractor for the express purpose of encouraging the contractor to favorably consider employing Air Force employees adversely affected by the conversion.

Ms. SCHROEDER. Sure. Also, have you ever conducted a cost comparison analysis 3 to 5 years after the contracting out has occurred to find out whether or not it's still cost effective?

General POSNER. Yes. That may frequently occur, and we may from time to time, perceive that it is more cost effective to come back in-

house; and, in such a case, providing we have a 10-percent advantage to coming back in-house, we will ask for a——

Ms. SCHROEDER. Oh, so it's a dollar to go out but ten percent to come in?

General POSNER. That's correct. We will ask for authority, and this must be granted at the secretarial level for what is known as a "new start."

That is a new start of work to be performed in-house, and higher authority directs that that decision be made at the secretarial level. I might add this: It has always seemed to the Department of the Air Force, and I hope I'm not going cross-wise with my friends in the Office of the Secretary of Defense, but it has always seemed to the Air Force that there is a cost of turbulence.

It is costly to change work performance in any event, whether going in-house or when we are going contract, and we suggested to our friends in OSD that consideration be given to applying the same criteria on cost advantage to going either way.

Our recommendation for a variety of reasons was at the time found wanting, and that was not done.

Ms. SCHROEDER. I think if you don't mind, I'm sure you probably don't have these figures with you, but generally if you could provide the subcommittee with the number of things that have come back in-house, after being contracted out, and any of the cost comparison analysis later on that you have done, we would appreciate that.

[The information follows:]

I do not have this data available now, nor is it immediately available at the Air Staff. However, we have asked the Major Air Commands to provide us this information so that we may respond to your question. Most of this data will have to be obtained from the local bases and will be provided to the Subcommittee by August 31, 1977.

Ms. SCHROEDER. Have you done any studies on whether or not sub-contracting out, and the potential of a strike, what that would do to bases in areas?

General POSNER. It is a constant concern. It's a special concern in overseas areas. I need only cite the eventualities in Turkey during the recent unpleasantness, which resulted in local workers simply not being able to show up for jobs.

Ms. SCHROEDER. And how do you weigh that into your decision?

General POSNER. We very carefully weigh that in determining, as in the first analysis, whether those jobs are combat, direct combat support, or wartime essential, indirect combat support, the latter for incumbency by Federal civilians.

We do not capriciously decide that a communications relay station in some part of the world, which tends to lean toward Communist political institutions perhaps, should be let for contract service by local nationals.

We very carefully consider that. I hope I haven't said something affecting the administration's foreign policy.

Ms. SCHROEDER. No; I don't think you have, General.

General POSNER. Let's hope not.

Ms. SCHROEDER. Have there been any studies as to how contracting out affects the morale of Federal employees?

General POSNER. We are very sensitive to the fact that, necessarily, people who are as important to us as our federal civilian employees are,

and who have devoted many years of dedicated service, have to be upset, demoralized and concerned about their future when they are advised that a given function is to be contracted out.

That is at the heart of our fundamental policy to try and place everyone that is displaced.

My understanding is, and if my colleagues from Lowry and the Academy will correct me if I'm wrong, our past contracting-out efforts at Lowry AFB and the Academy have not involved any involuntary separations of Federal civilian employees in the functions concerned.

Am I right? If I am not right, I will correct that statement for the record, if I may.

[The following information was furnished:]

We are very sensitive and concerned about the well-being of our federal civilian employees, who constitute an important and valuable component of our total force manpower structure. Although no study has been done on how contracting out affects their morale, let me assure you the Air Force does everything it can to help our dedicated civilian employees obtain other acceptable employment should their jobs be contracted out. For example, early in the cost study phase, vacant civilian positions are identified and frozen to minimize the adverse personnel actions resulting from contracting. Additionally, we take the following actions in the event the decision is made to convert from inservice to contract:

(a) Register all adversely affected career and career-conditional employees who are eligible and desire placement assistance in the Defense-wide computerized Priority Placement Program. Registrants in this program are afforded priority placement rights to vacancies throughout the Department for which they are qualified and available. In furtherance of this program, the Secretary has solicited the help of other federal departments and agencies and has made registrants in the Priority Placement Program available for placement consideration in vacancies in these organizations.

(b) Also register eligible career employees desiring placement assistance in the Civil Service Commission's Displaced Employee Program for referral and consideration by other federal departments and agencies.

(c) Maintain close liaison with the Department of Labor, State Employment Offices, and private industry to help employees desiring placement assistance or retraining to obtain positions in the private sector.

(d) Arrange meeting with successful contractor(s) through the procurement office, after contract award, for the express purpose of encouraging the contractor(s) to favorably consider employing Air Force employees adversely affected by the conversion.

Ms. SCHROEDER. But have you done any qualitative analysis of the morale, or is it just the sensitivity?

General POSNER. I think that our director of civilian personnel, rather than I, would be better able to answer that question. I deal with spaces, not faces. The director of civilian personnel, puts the faces in the spaces; he does have the personnel responsible for their management.

We work very closely together, and it is a constant preoccupation of his. We are talking this morning about the unfortunate fact that these cost comparisons, for example, take such a long time.

And in the process our valuable Federal civilian employees are in some measure in limbo, and that concerns us very much.

I want to put on the record that the Department of the Air Force is completely committed to the need for a dedicated Federal civilian work force. That work force has unique capabilities that other elements of the work force do not possess.

They have stability, corporate memory, corporate expertise, which other elements of the force, because of their mobility, never have the opportunity to acquire in similar measure. In their areas of expertise,

their necessary qualification or jobs are somewhat different than the rest of the force. We need their services.

Ms. SCHROEDER. GAO told us, and they may not be the fastest readers in the country, but they told us it took them 60 days to read the Lowry bid proposal. Now, most of the people I know at GAO don't move their lips when they read, so I don't think they are the slowest readers we have.

I am wondering if you have any idea of what it costs the government to prepare that? If there is some way we could get that for the record, I think that could help us in what it cost to prepare the bid proposals.

Ms. DRUYUN. This is a very difficult area to pinpoint given the variety and types of services contracts entered into by the Air Force. Many of the costs cannot be accurately calculated since the workload associated with the bid preparation is either integral to other duties performed in the office, or absorbed within existing resources. This area will be examined in the AF study on contracting-out.

General POSNER. Something that might be helpful is that contracts covering different tasks vary in their complexity. That is, the statement of work does.

I mentioned earlier the Vance contract, which involves the house-keeping operation of the entire base, including the aircraft maintenance function. I am not a student of contracts, but I must look at these things, have looked at that one in some detail and find it so thin and generalized a statement of work as to be really impressive; and as I have emphasized to the subcommittee that contract has been performed in eminently satisfactory fashion for 17 years.

Ms. SCHROEDER. But the motor pool one apparently looked like a phone book. There it is, right? You can weigh it in.

General POSNER. That's not too bad.

Ms. SCHROEDER. Do you have any further questions, Congressman Harris?

Mr. HARRIS. No.

Ms. SCHROEDER. Thank you very much for all of you appearing. We appreciate the time and effort you have put in, and, as I say, this is certainly not meant to harass.

This is only meant to get the facts as you well know because this is complicated major issue in the Congress, as you cited in your opening statement, and that is why we are just trying to gather as much information as we can, as all different branches of the Congress are attempting to do.

General POSNER. I am sure General Pringle and General Tallman at the Academy share the view that we welcome the congressional interest in this important matter, and we are entirely at your disposal if you require any information on this subject; and you know I am always available in Washington.

General Pringle and General Tallman are available in the local area, and we will be as responsive as we can on the questions.

Ms. SCHROEDER. We appreciate that. Thank you all very much.

I think our next panel of witnesses is the loyal opposition.

We have your prepared testimony. You have all worked very, very hard and should be very proud of it. This has been a very vigilant group that we're proud of because they are constantly on their toes. I don't think anyone has ever accused them of being muzzled or timid.

Mr. Charles Dalla, a past president of AFGE Local 695, Denver Mint, will be the lead-off panelist. Each panelist should introduce himself and proceed with a summary of his prepared statement. After all have been heard, we will proceed with questioning.

STATEMENT OF CHARLES DALLA, PAST PRESIDENT, AFGE LOCAL 695, DENVER MINT

Mr. DALLA. Thank you, Madam Chairman. I am Charles Dalla and I am past president of Local 695, AFGE, at the local mint here in Denver. As a summary of my prepared testimony I would like to start by saying that it centers around a specific contracting incident that took place at the Denver Mint in the spring of 1974, and was just recently concluded in April of this year.

The contracting out in the Bureau of the Mint, Madam Chairwoman, is quite different than that described by General Posner.

The contracting in the mint takes place in the factory. In other words, the function at the mint is given to the contractor. He performs it at the contractor's site. Then the finished product is shipped to the mint. So, we don't see the contract personnel there.

I believe that the OMB Circular A-76, the general policy, as I interpret it, is to rely upon the private sector system to supply the needs, except when it is in the national interest for the Government to provide directly the product and services it uses.

And, in my opinion—and I certainly hope the subcommittee agrees—the manufacturing and distribution of the Nation's coin is certainly in the best interests of the Government, and it should never, never be allowed to go into the hands of private contractors.

I have been an employee of the Denver Mint for over 13 years, and I have seen contracting grow and grow. It's even gotten to the point where they try to have contractors make blanks.

The contracting that I have seen, first of all, started with the making of the strip, the metal. From there it went into the blanking operations. Then they began to make specific coin machinery that I believe no private contractor ought ever to be able to manufacture. I think that should stay in the hands of the Government.

And my last concluding statement is that I believe the true costs of contracting has never, never surfaced to the Congress.

I know in this specific incident that is in my prepared testimony, the amount of rifled employees, the severance pay, their unemployment, the other social welfare costs, the appeals—and I might point out that Local 695 presently has over 200—appeals pending on this specific incident—and I just know that that cost has never been reported. That concludes my summary.

[The proposed statement follows:]

PREPARED STATEMENT OF CHARLES DALLA, PAST PRESIDENT, AFGE LOCAL 695, DENVER MINT

Allow me to begin by saying that the career civil service cannot maintain the stability, competence, and morale it needs to adequately serve the people of this country if traditional government functions are frequently and indiscriminately contracted-out to private corporations.

I have been an employee of the U.S. Mint at Denver, Colorado since September of 1964. During this period of time, I have served in various official capacities

for Local #695, A.F.G.E., the exclusive bargaining agent for all nonsupervisory employees.

In March of 1974, as President of the Union, I was informed by Mint management that the coin forecast demand from the Federal Reserve Board for Calendar Years 1976 and 1977 would be 16 billion pieces of coin per year.

Of this total, the Denver Mint would be required to provide 7.5 billion pieces per year. Our production capacity at that time was 4.5 billion pieces annually.

In order to meet these projected production goals, a decision was made by the Bureau of the Mint to cease the casting, melting, and rolling operations at the Denver facility in the summer of 1975, and in its place over three million dollars worth of coin producing equipment would be installed.

During March of 1974 and June of 1975, the Federal Reserve Board announced a new coin forecast for Calendar Year 1976 of 11.44 billion pieces. Four billion less than had been forecasted in 1974.

It should be noted that at this point in time, the Bureau, in my opinion, had ample opportunity to cancel their previous production plans and allow the Denver Mint to continue current operations as they had in the past.

However, this was not done; and in late June of 1975, the casting, melting, and rolling functions were halted, the equipment was sold as surplus machinery, and the entire operation was contracted out to the Olin Corporation of St. Louis, Missouri, at a cost that exceeded the in-house operation.

The areas where these tasks had been previously performed by approximately seventy (70) employees were remodeled to accommodate the new machinery, and the workers were placed into vacant positions throughout the plant, many at lower grade levels than previously held. Assurances were given that no one would lose their job as a result of this action.

In January 1976, a further reduction of one billion pieces of coin was announced. This reduced the over-all production requirement of the Mint to 10 billion pieces per year which was approximately the exact amount that we were producing prior to contracting-out the aforementioned functions at Denver.

A nation wide Reduction-in-Force was announced by the Bureau of the Mint in February of 1976. This was deemed necessary because of surplus coin inventories that had been building up due to the increased production brought on by the now "questionable" coin forecasting of the Federal Reserve Board.

The final act of this tragic scenario was played out in April of this year when fifty-one (51) employees of the Denver Mint were laid off. The contractors had won again!

In conclusion, Madame Chairwoman, Local #695 asks that your committee join with the A.F.G.E. in seeking to enact legislation that will provide the following:

1. Legislation providing for rigorous legal standard in bidding award procedures.
2. A copy of every support contract in excess of \$2,500 filed in a central repository established by the Secretary of Labor.
3. Annual reports to Congress from the Secretary of Labor as to the amounts involved; the numbers and categories of personnel employed by the contract by agency and department; the pay, including the range of pay, by job classification; and the relation of fringe benefits to pay raises.
4. A clear and unambiguous definition of "prevailing rate" which the Secretary of Labor is to certify as the basis of minimal pay for these service contracts.

Thank you.

Ms. SCHROEDER. Thank you very much, Mr. Dalla. We really appreciate that. I think you were very succinct, and we understand that it's been a phenomenal problem.

STATEMENT OF WILLIE ALFRED, STEWARD, LOCAL 1974, TRANSPORTATION AND MAINTENANCE SQUADRON

Mr. ALFRED. I am Willie Alfred, presently the steward of local 1974 of the Transportation and Maintenance Squadron. I have visited your office and discussed some of the inequities of the contracting out of

services. I will let the president of our local, Mr. Case, narrate because we have formulated and collaborated on the information.

Thank you.

Ms. SCHROEDER. Well, it sounds like you have done some good work. We appreciate it.

STATEMENT OF DARIEL CASE, PRESIDENT, AFGE LOCAL 1974, LOWRY AFB

Mr. CASE. I am Dariel Case, president of AFGE local 1974, Lowry Air Force Base, and at the risk of being flattering, I would like to add to Mr. Harris' statement that if the good Lord sent an angel to the Denver area, he sure named her Pat Schroeder.

Ms. SCHROEDER. I am not sure a lot of people would agree with you, but I thank you.

Mr. CASE. We have been concerned about contracting out at Lowry since not 1973, but since 1970 when, in the eyes of AFGE they pulled a fast one on us in their janitorial services, and it was totally contracted out without any effort to allow the union the opportunity to have access to the materials and the data to start an effective fight.

The same applies with the food service area. These have been addressed specifically by the Air Force, and we find that in our investigations, that there are little side items that are never considered, such as the fact that at Lowry, an ATC training base, they do have the obligation to train cooks. And under the auspices of that, they say, well, we have to train them in sanitation and health, so we find that the military pulled KP. They're students and they're learning.

We find that they pull second cook duties, they pull storehouse duties. All of these things are done, but we have never been able to get data as to how the costs are figured into the contract.

In the latest efforts we find that we have been told that they are not going to bid it, that it's going to be negotiated, and the present contract extended.

Now it's been 4 years, and every year we ask for cost comparison, and we are told nobody is demanding it, so we're not going to do it.

These are things that affect the employees. As a result of the food service contract, we lose people who had from 17 to 23 years, who had worked to positions of supervision, and when they converted from military, out of 37 people who average 15 to 20 years in food service, only one was found to be eligible as a technical representative on the very job that they had performed.

By comparison, we find that some of the higher level—and here I'm talking about at staff level—officers knew of some real hot guy who could do this job in a whiz. As it turned out, they were usually the field managers of the companies that had previously held the contract. Going into that aspect, they testified that they weren't prepared to talk in terms of the people, once they have their foot in the door for bidding.

I would ask that the subcommittee consider the company, Dinateria, bid Lowry's food service the first year in 1973.

The specific field manager for that office was a Mr. Rodden, retired senior master sergeant Rodden, who 6 months prior to that wrote the specs for the contract.

Now that's one aspect. When trash refuse was put up for bids at Lowry Air Force Base, a conscientious supervisor utilizing common sense was able to defeat the contractor's price by showing true comparison values.

The contractor then challenged, and it was only because there was a connection made between Dinateria and Dynamic, Inc., who had defaulted in Colorado Springs on a previous contract, that they finally settled to stay in-house.

In my statement I refer to an EED communication. I wrote regarding 26 minorities that are presently employed in the transportation section. We have since found out that there are positively 27, and we're looking at some other areas that are directly affected by this that affect the minorities.

And I feel it's a very callous viewpoint to say we can save \$1, and we can take 27 minorities, and I think I showed the specific example of Mr. Martinez, who was very upset over the fact that all his time spent with the Government was ending up going down the drain, and he was back where he started approximately 20 years ago.

And, since I submitted my statement, I also have another statement from a Mr. deHerrera, who openly admits that when General Pringle had a pair before his group to explain to them that their jobs were contracted and they were lost, he immediately had to apply for a medical disability. He felt that the job he was doing was about the only thing left within his capabilities, and he is now in the process of medical retirement.

When you start looking at the things that the Government talks about in contracting—I can't talk at the Air Force level, I don't work there. I do work at Lowry Air Force Base, and I can speak to the things that we have seen and we have found.

I submitted as evidence to you a letter written to Senator Hart, and to Representative Schroeder that specifically said that there were 95 slots.

I would further point out that in the cost analysis, civilian personnel calculated the jobs on the basis of 95, not 98. I don't know where the 98 figure came from.

It seems that when we are calculating on the in-house side, anything that will up a price is put in.

Now I don't know how all these different items on the 346 suddenly disappeared when it contracts out. Do civilian personnel quit functioning?

When they contract out one function, do all these other indirect costs that are calculated suddenly disappear and no longer do they close all those functions down? I don't believe that.

In my testimony I point out that we have the cost figure which has been reduced to 14 percent, and they speak to the civilian employee cost to the Government of contributions. Well, they contribute 7 percent for the employees. Well, you know, the employee contributes 7 percent, too. That's lost income to the Government. Has that ever been taken into account? I don't believe it has.

And then we talk about taxes. Every time I read that 346, which is the cost analysis work sheet, I see this thing on gain and corporate taxes. I totally come unglued because the thing that sticks in my mind is that the Ford Motor Co., hooked the Government for \$109

million in a tax rebate. Now, let's face it. It is the American dream that corporations will—or business, if you please—pay their fair share of taxes.

I dream of that every day because I see it really taking the load off of me. How about personal income tax loss through reduced wages, and the fact that the jobs are going to be performed by fewer people?

Now, I think one thing that I really want this subcommittee to know about, and be sure to read, even though it's in my testimony, is the decision by the Colorado Supreme Court where they have said that—and this is kind of taken from the dissenting side—where the judges felt that contracting out might be a good thing, but they said there's no way that you can compete with a nonprofit organization that draws its funds from a severance tax system.

Now this concerns refuse collection, and where I live, Northglenn, against Decker Disposal, and I believe there was a second company involved, but to me, it seems that looking at it from that aspect, that suddenly there are costs that are just totally worked in, and so where are these worked in from?

They are worked in from OMB. I believe our past President Ford called it Operation Barnacle Removal.

You know, I kind of resent that. I don't think that I am a barnacle. I believe that I am contributing to the Government in its efficiency, its productivity, and that the work I do is done in as efficient a manner as can possibly be done.

But it kind of raised my ire to be referred to as a barnacle. If we want to talk about the leeches, let's start looking into a few of these contracting companies and finding out who their employees are. Specifically on the transportation contract at Lowry, by Emerald.

The interviewing civilian that came to Lowry happened to be a retired sergeant who previously had worked in the Lowry motor pool, and was out soliciting prior to the award of the bid applications from employees on the job.

And why was he doing this? His remarks—and Mr. Alfred here can verify this—were: "Hey, we have got it wrapped up, no problem. We know we're going to get the bid." And, when the contract was awarded, Emerald did get it. They were the bidder. They bypassed Maytag as not being able to perform, or for some reason which was never totally explained, but Emerald got it.

We find that as high as a month prior to the bidding, there was another company who, due to information received, knew that they had underbid the Government, so they were sure that they were one of the prime contenders, and that was Leer Steiger. I believe I brought that to your office in Washington in March.

Then the other question I have is specifically on the transportation contract. I submitted in evidence the cost analysis which included the Department of Labor survey, and we find that after Lowry received that, they then considered a 3.4-percent wage increase, and calculated that into it, but that wouldn't be reflected in the Department of Labor study as part of it.

Throughout the entire IFB, we find great inconsistencies built in whereby the contractor, on a month-to-month basis, can submit receipts that will allow him to reduce the Government's estimated reimbursability.

For a 3-month period, the Government estimated that they would be reimbursed by the tune of \$15,000 but by the same token, moving into section F of the IFB, we find that the contractor has the right to submit slips to cut down that amount of reimbursability. That's not considered.

When you look at some of the demonstrated evidence—that's what I call it—of the job description, we find a letter from our civilian personnel office saying they find that they have two jobs that specifically speak to three workers and two workers. Well, that comes to five. Now if you just considered the fact that they are telling what—in the job description—that one man has to do if he's managing three, that's four. The guy that's managing, plus the three, and then you have another one that says the same thing, so you have two; plus the guy doing the managing, that's seven. But the cost on the analysis sheet shows five. It's a little bit deflating, to say the least.

Now if you consider all of the job descriptions possibly in personnel, and we have to go on the data that they give us—and they sent us the job descriptions at our request in a demand letter—then we actually came up with nine that would be functioning.

Apparently, there were two others that either, because they were military or they were functioning in another fashion, were not included. That's almost double the price. But it's not evidenced there. They speak of having to transport people around. Five turkos are going to be moving around that previously weren't there, but there are no transportation costs.

So all we could do at Lowry was tear apart from the data provided by their offices what they had given us, and it was when we started getting money back on your inquiry to the liaison office, on the data provided in the cost analysis, that we began to question, and we really implored you to have GAO at least look into it. Maybe we were way off base, but we felt that we weren't, and I think that one of the things that I'm trying to point out is that, you know, a budget is made to be manipulated.

Everybody experiences it. If you are married and you have a home and you have a car and you have all the expenses, every day, you manipulate your budget.

If you need something unexpectedly, then you move the funds around in order to get these essentials out of the way.

And, when you are manipulating your budget, you can make it look as good as you want it to look, and you can make it look as bad as you want it to look, and you can run it up as high or as low as you want because it's only on paper.

You can do anything on paper. So you know figures don't lie, but liars figure; everybody does it in one form or another. This is where we become very concerned because the manipulators of the budget that we are working under is totally out of control, and without some kind of reasonably equitable and judicious application of standards that restrict how they can apply different items, then we're going to be coming to you and to other Members of Congress just as often as every contract gets out.

And, if they are worried about morale and sensitivity, I can guarantee you at Lowry Air Force Base it's at the lowest ebb that I have ever seen it in the 23 years that I have been on the base.

People are just totally frustrated. They don't know what to do. They see they are getting lip service on upward mobility, EEO, women's rights to advance within the Government, all these things.

Yet, they see their job fields constantly narrowing. I heard the remark of how well the 17-year project went. In the beginning, on the 17-year project, specifically Vance Air Force Base, this was pitted with very loving hands. There wasn't the demand by the public to know the costs, and so there was no real way to make the comparison. Here again it's all on paper. We do know that on several occasions that the Air Force, referred to as a red horse team, had to go into update.

Each time the contract in food service at Lowry has been updated, Government has had to go in and replace equipment to bring it up to class 1 standards for the contractor.

I know for a fact that Building 577, which is now the publications building, originally was a mess hall at Lowry Air Force Base, and until the day it was closed, they were using a 1941 dishwasher.

The contractor at Lowry put up with that for 1 year, and said if you want us to perform, you have got to buy us new equipment, and they did it. They did buy it.

I participated in the installation of part of it. They let a subcontract on items to be repaired in the mess halls, and yet we find every day that we're going back, and the answer we get is that it's real property installed equipment. It's the Government's responsibility.

Now why would a subcontractor take care of equipment in a building if you're going to bypass the items that are giving you trouble, such as the garbage disposal where the people throw forks, knives, spoons, dishes, and other items down that disposal and jam it, and the Government worker goes back in and has to take it out and repair it, or let's take the walk-in reefers. These are items that break down. None of this went out on the subcontract, but they have let a subcontractor have \$50,000 to repair such items as a hotdog cooker, which is plugged in. A toaster, which is plugged in. These are items that routinely can be done.

We get variations with Air Force regulations. They come from one corner, but they change it a little bit and sometimes it takes up a different number, but it says don't use part man-hours or incremental; use only whole man-hours. One man may spend 2 hours doing something, so that's an indirect cost.

Well, these indirect costs aren't going to disappear because you still have in-house people working with the contractor. So the indirect costs are still there.

And, this income tax thing—really I think I could go on a tirade with this. If you calculate under reduced wages the income tax loss, and compare that against the income tax paid by the Federal employee, and then take back, in this specific example, take the loss in personal income taxes, it will be greater than the gain of the corporate income tax paid.

I calculated this. It comes out to approximately, on a 3-month figure, \$2,700.

Now an incongruity in the IFB, they contracted on bus service for, I believe it was, 2,271 hours, somewhere in that neighborhood. If you break that down, it comes out to 760 hours a month for bus services.

If you read the IFB, you will find 1,014 hours of bus services under that one area alone. The contract allows for adjustments on a monthly basis. Now how are we going to make up that other 300 to 400 hours? We're going to have to adjust the contract. So what do you care what you bid to get in. Let's get in and then we will boost our costs, and of course because it's on a direct hour call system, it must be approved in advance, the Government would be very hard put to say yes, I approved this, but now I don't want to pay you.

These are all the incongruities, and I may not have stated totally to what I'm giving you here, but it's because of some of the things that I have listened to as far as the contracts at Lowry go.

[The prepared statement follows:]

PREPARED STATEMENT OF DARIEL S. CASE, AFGE LOCAL 1974

My statements today are aimed at showing the inequalities that O.M.B. (under the Ford administration) have built into efforts to contract out, historically, in-house services. The greatest attack by contracting-out is in the blue collar sectors of government workers. This is the area in which a great majority of the minorities are employed. Contracting-out venomously attacks the Government's equal employment opportunity program and the upward mobility program. Contractors can be expected to reduce the number of personnel and the wage rate in order to insure their own profit margin. As a result, many Civil Service employees are forced by economic circumstances to become employed by contractors performing the same job. This places the Government in the untenable position of having the same employees doing the same job only with less people and at vastly reduced wage rates.

In the latest attempt at Lowry Air Force Base the total number of minorities threatened by contracting-out were 26. The vast majority of these minorities have served the Government well and attained an economical and social level not readily attainable elsewhere. Minorities, based on the assurances of the government entered into employment for the job security promised and the opportunity to be treated equally and given a chance to advance to higher levels of employment. The actions of Mr. Al J. Martinez, from Lowry, is a reaction not uncommon by minorities. After a meeting of the Vehicle Maintenance Division, that was called by General Pringle, LTTC Commander, to inform the employees that the Transportation and Maintenance Division had been contracted out, Mr. Martinez, faced with forced retirement at a reduced annuity and unemployment sold his home to enable him to meet his monthly financial obligations.

Mr. Martinez is now (after 30 years of service to the Government), back where he started from, an unemployed minority with not enough income to support his family. The narrow scope of work that a contractor bids for, prevents any meaningful EEO or U.M.P. because the contract is for 1 year and the service is in only one area so that no ready line of advancement is available. Recently, the Colorado Supreme Court, in a ruling on Contract Services (*Decker Disposal v. City of Northglenn*); the dissenting opinion of the court is very interesting. In that opinion the court stated that a private contractor cannot hope to compete or competitively bid against a work force which is nonprofit in nature and derives its funds from a tax severance system involving the people.

The question now asked by Civil Service employees is, how does the Government do this? The method that the Federal Government (specifically the Office of Management and Budget and Department of Defense agencies) uses to overcome this nonprofit status, is to add any and all real or imaginary costs that may or may not be present in an agency's budget. When a cost is found to be suspect (usually by union challenge of the contract) the irregularities are either circumvented by rewriting O.M.B. Circular A-76 and/or the agency regulations, or they are reinterpreted to be included as an in-house cost. These costs reveal themselves in the form of estimatable percentages of other costs on the cost analysis sheet. These costs invariably are costs that will only be incurred when done in-house and are excluded from the contractor's side of the cost sheet.

These are just some of the obvious inequalities that have been built into the cost analysis sheet (Form 346). I would like to show some of the concerns Local

1974 expressed back in March and April of this year, to the Honorable Ms. Patricia Schroeder. These concerns turned out to be real and as a result of investigation the contract at Lowry was canceled. (All due credit to Pat Schroeder.) I will start on the in-house side of the Form 346 as the largest inequities appear there. The demonstrated proof of my arguments will come from the data requested under the Freedom of Information Act to Lowry Air Force Base by Local 1974. Line 10 of the Form 346 concerns manpower costs. By reading the sheet marked notes, item 1, all wage grade jobs were graded at the third step. The prevailing Wage Rate Systems Act (5 U.S.C. 5341, et. seq.) states that the second step is to be the level for cost computations. This small change inflates the wage grade costs by 4 percent. Although only 95 positions were identified to Ms. Pat Schroeder in a letter from the Air Force Liaison Office of Congressional inquiries, the number calculated for cost purposes of the Lowry contract was 117. The 95 people identified include 36 military, that reduces the civilian force to 59 employees.

Check line 6 sheet (severance pay) supplied by civilian personnel. I am not a mathematician but 59 is approximately 55 percent of 95. The cost then is more nearly \$281,646 and not the \$512,084 listed on the Form 346. Still not calculated in the costs mentioned earlier, the 4 percent of the wage grade step which amounts to \$20,483 reducing the cost to \$261,163, this is less than the lowest acceptable bidder. This is a specific example of how in-house costs are purposely inflated to favor contracting-out. Line 11 shows that Lowry attempted to pull another agency's cost factors in-house by reaching into left field for an estimated inflation factor. This cost is again excluded on the contractor side but provisions under reimbursibles (page 20) to the contractor will allow collection of such costs.

I ask you to consider the insurance costs as an inflationary cost. Lowry Air Force Base has never produced any insurance company premium receipts, and the premium estimate is based on an inflated figure. The Government would not be able to circumvent their financial responsibilities as the prime contractor for services and ultimately would be codefendant in any suit brought against the contractor for injury and damages.

Line 17 is an estimatable cost without any backup data to support the figures given, but just as important is the fact that somehow this cost is going to disappear when a contractor is doing the same jobs that cause this indirect cost in-house. Line 21 is the American dream. (Big business paying their fair share of income taxes) The Ford Motor Co., despite all of its profits last year was able to receive a \$189 million tax rebate. All Government employees also pay income taxes but the cost analysis sheet does not reflect this loss of taxes. With fewer people and reduced wages there has to be a difference in taxes collected. Line 18 is a businessman's dream, it reflects the tools used over the past 20 years as carrying the true market value of new tools.

It is common knowledge that if you have cash and want a super bargain go to the Government Services Administration's auctions and bid. Any item bid on will sell for one-fourth to one-half of the true market value. Another item not included in this contract is the Federal employee's contribution of 7 percent of his or her paycheck to the retirement fund. The same rational of fewer people and lower wage rates will certainly result in fewer funds going into the F.I.C.A. (social security) system. The notes sheet for line ten includes a projected raise of 3.4 percent on all wage grade employees although at the time of calculation the employees were not receiving this money, another cost inflating factor, but just as important it would not be reflected in the statement prepared by the Department of Labor wage survey sheet and allows the contractor to implement lower starting wages. By the identification sheets of jobs submitted in the cost analysis data most jobs receiving premium and holiday pay are filled by Military personnel.

I am sure that the military personnel would like to know that they have been cheated out of this pay for the past 20 or 30 years. Now, let's take a quick look at the contract side of the cost analysis sheet Form 346. No costs were considered. The I.F.B. in sec. f part 3 item 15c shows transportation costs as an indirect cost of the contractor, but the contract has a reimbursable figure of about \$15,000 which is not considered in the bidding. Line 2 shows only five TRCO's yet one of the job descriptions speaks to three TRCO's and another speaks to an additional two TRCO's plus the two supervisors that adds up to seven if you ignore the other job descriptions submitted to be used in material control and administrative monitoring. This really adds up to nine people with

the cost factor almost doubled: \$180,000 vs \$90,000. Just a small deflation of contract costs.

All of this data presented only shows that, figures don't lie, but liars figure. Given full access to all of the documents needed to make a cost comparison and given a free hand to interpret directives and apply my own rational for showing costs, I am sure, even with my limited knowledge and ability, I could show the civil servant not only doesn't cost the taxpayer money, but returns to the coffers money never allocated in the budget to begin with.

What I am really trying to point out is that, a budget is made to be manipulated and that depending on what is trying to be proved, the costs can be made to look as good or as bad, as high or as low as the manipulator wishes them to be. Only our Congress in Washington can direct the manipulators in this case of contracting out of in-house work. I implore you to halt all contracting out, until such time as reasonable, equitable, and fair standards for cost comparisons can be drawn up and implemented. I thank you for your attention and giving me the time to appear here today.

I hope that I have given you some insight as to how the American Federation of Government Employees views the attempts to contract out their jobs on the pretense that it is more economical to perform in-house services by contracting out.

Ms. SCHROEDER. We really appreciate your testimony, and I must commend you. And, I must also add that it's been delightful to see both generals staying to hear this because I think this shows why you are getting some feedback from the Congress. I think, unfortunately, it is not limited just to Denver.

There has been a lot of this going on, from listening to other representatives. I thank you for your statement.

STATEMENT OF ALBERT C. DERBY, PRESIDENT, AFGE LOCAL 1867, U.S. AIR FORCE ACADEMY

Mr. DERBY. I am Albert Derby, president of the 1867 AFGE at the Air Force Academy. I will summarize my summary, and, of course, for my summary you are aware that some things that GAO does I don't approve of either, and particularly their reports.

I would like to know where they get the figures. Contracting out here at the Academy was initiated approximately 2 years ago by contracting out the airmen's dining hall and custodial services in the service and supply areas.

We have found the quality of work is in no way comparable to in-house service. The original contractor of the airmen's dining hall was denied renewal of his contract by the Air Force, which obviously proves our point of unsatisfactory performance.

When the contract was let, there were numerous complaints by the airmen pertaining to preparations of food and service, and a reply from the Air Force was that this would take time for the contractors to accomplish. What kind of business is the Air Force conducting by letting a contract to individuals who are not qualified to perform to the job specifications that the contract has been let for?

I say here if we let in contracts, they certainly should be qualified to do the job. They shouldn't have to be trained. I can see the airmen being trained, but I don't see the contractor.

The original contractor of the custodial service that was contracted out in the service and supply area defaulted. And during the intermittent time of obtaining a new contract, there were custodians who were paid from the appropriated funds which were used to clean the service and supply areas which cost, I'm sure, was not included in the

in-house cost, against the contractor and again this service was unsatisfactory compared to in-house service.

Our recent involvement with contracting out was pertaining to contracting out the cadet dining hall, of which you are aware of, that we proved the Air Force was using illegal procedures involving contracting out by negotiating with various contractors.

Furthermore, I heard the comment that no one has lost a job. I didn't hear the comment of the 26 temporary employees who would lose their positions, who were filling permanent positions. We don't fill these permanent positions. We keep holding them back as they did at the Academy, hold them back to place these people in and make temporary hires so when they relieve a temporary hire, there is no big ruffle because he has only been hired for 60 days or 6 months. The impact would have been there at the Academy. If actually you get to it, there would have been about 57 employees going out the gate at the cadet dining hall.

Where are you going to place a WG-2? There is no lower place to go. And they don't have them at the Academy any more, except the custodians.

So that's rot to say that we're going to replace them. We have no place to place them. If they have, I would sure like to be made aware of it.

I think we have done a lot of things here, and getting back to my friends, GAO, I still question a lot of their figures, they are pretty good at manipulating them, but I can't understand why we, as a working people, cannot see the other side of the coin, why is it so secret that they have nothing to discuss with the union, but they deal with management every day.

Why not? Why can't we see the other side of this coin, or this so-called figure where they arrived at?

At the Academy they use 28.7 percent. I object to the use of 28.7 percent. I am reading from the circular A-76 which says 24.7, and I look at 28.7. So where do we arrive at all these magic figures?

I think it is time that the union be allowed to have an input into the GAO report. I certainly question the GAO report as I am sure that my report on GAO will confirm as I certainly was upset when I read their report dated the 20th of June 1977.

I thank you for having the opportunity to testify.

[The prepared statement follows:]

LOCAL 1867
U. S. Air Force Academy

Albert C. Derby
President

Louise I. Tujillo
Secretary-Treasurer

1939 S. El Paso
Colorado Springs, CO 80906

June 30, 1977

The Honorable Patricia Schroeder
1767 High Street
Denver, CO 80218

Madam Chairwoman, the American Federation of Government Employees Local 1867, which represents some 1700 employees at the U. S. Air Force Academy, is pleased to have the opportunity to testify against contracting out and point out some of the facts for consideration before a decision is made on this matter. First, we would like to compliment the Chairwoman and members of this Subcommittee for their untiring efforts to ensure that justice prevails in the Federal Sector in the area of contracting out.

I am in receipt of the June 20, 1977, Report of the Comptroller General of the United States on the Potential for Contracting Select Operations at the Air Force Academy Cadet Dining Hall, specifically for the sanitation and supply services at the Cadet Dining Hall. If I may I would like to center my testimony on contracting out specifically to this report for I believe that there are questions left unanswered by this report and I also feel that all contracting out is only found to be less costly due to the manipulation and misinterpretation of figures, as I feel will be pointed out in this report. I will now address my testimony to the report.

On Page 1, paragraph 2, 3rd line, it states, "The possibility of the employees losing their jobs, therefore, is not an immediate concern." With this report from GAO I feel that this is an immediate concern, especially when they state in the same paragraph 7th line, "the cost analysis showed contracting would cost 34 percent less than in-house services." I also question this statement of "34 percent less than in-house services." What figures were used for this, are they valid figures? We have the right to proof of the validity of these figures as our jobs are in jeopardy.

Paragraph 2, 8th line, states, "The Air Force and Naval Academies' experience in contracting at two other dining halls indicates that satisfactory services can be attained." The basis for this statement would be hard to find since neither dining halls, as per my information, have as yet attained satisfactory service.

Paragraph 2, Line 11, states, "we recommend that the Secretary of the Air Force direct Academy officials to use formal advertising contracting procedures in making the analysis of cadet dining hall operations." I would like to know how you can use formal advertising procedures in an unbiased analysis when a formal advertising procedure is used only when a decision has been made that contracting out would be cheaper.

Paragraph 3, Line 1, states, "As set forth in its Circular A-76, the Office of Management and Budget policy generally requires that Federal agencies rely on the private sector for the products and services it uses." Circular A-76 merely states that the Government get the best price not necessarily go contract.

Page 2, paragraph 2, Line 1, states, "Our review was primarily concerned with whether the Academy's cost-analysis procedures followed Circular A-76 and did not cover the validity of certain of its requirements." How can they justify this statement? How can they make a determination on whether the cost-analysis procedures followed Circular A-76 when they are not even sure of the validity of the requirements?

Paragraph 2, Line 4, states, "We found the Academy cost analysis was prepared generally in accordance with Air Force guidance which implements the circular." What do they mean by "generally" and they still do not state if the guidance was proper or not.

Paragraph 2, Line 6, states, "It indicated that contracting these services offers approximately 34 percent savings over in-house costs." What do they mean by "indicated"? Are they not sure of their figures? Were is the proof to the validity of these figures? What did they use to base this statement on?

Paragraph 2, Line 7, states, "Similar savings have been realized by contracting for food services at the Air Force Academy's airmen dining hall and the Naval Academy's midshipman dining hall." I question this statement due to the fact that I have reliable sources which have told me that it costs 25¢ to 35¢ per meal more for the contractor to operate at the Air Force Academy's Airmen Dining Hall than it did for in-house operation. This figure includes the use of military in the operation of the contractor as was used in the cost analysis against in-house when it was decided to contract out that operation.

Paragraph 3, Line 1, states, "The indicated savings are due primarily to lower wage rates paid by the contractor compared to the rates paid to Federal employees." I believe that the indicated savings are due to the 24.7% used to compute the benefits, which has been proven to be a faulty figure, much over the true comparable figure. The figure now used to compute their benefits is 14.1% and I feel that that figure is some what questionable. Also the example used by GAO is purely speculation and unbecoming to the fine GAO organizations reputation, along with their speculation on the savings of \$845,000 if the waiters positions were included. How they can speculate on the savings if they were to contract out the waiter positions is beyond me. Were are their factual figures on this?

Page 2, paragraph 5, Line 6 states, "Information we obtained about contract experiences at the airman dining hall and the Naval Academy's midshipman dining hall indicates that initially contractor services are lower in quality than in-house, but they improve to a satisfactory level with experience." What do they base this statement on? It is a known fact that when the contractor is pushed to meet satisfactory requirements he is forced to default on his contract and a new contractor replaces him and it begins again. Can GAO truthfully state that the contractors at the Naval Academy and Air Force Academy dining halls are operating satisfactorily in all areas, including sanitation?

Page 3, paragraph 2, line 1 states, "As requested by your office, we did not obtain formal comments from Air Force officials. However, we discussed the results of our work with them and considered their comments where appropriate." I would like to know just exactly what did Air Force officials have to say. I feel that it is our right to know what their exact comments were.

Appendix, page 2, headlines at top state, "ONE MILLION DOLLAR POTENTIAL SAVINGS BY CONTRACTING FOR SERVICES AT THE AIR FORCE ACADEMY CADET DINING HALL." If this isn't the cheapest kind of journalism I have ever seen! To this all I can say is that GAO showed that they certainly were not impartial, by their flamboyant exhibition in their choice of headings.

Appendix, page 3, paragraph 1, line 3 states, "By contracting the 91 sanitation and supply positions, an estimated annual cost savings of \$184,000 could be achieved." If they had used a proper Manpower Utilization Report, what would the figures have shown?

Appendix, page 4, paragraph 1 after heading of "CADET DINING HALL COST ANALYSIS" states, "We determined that the Academy generally followed Air Force procedures in preparing the cost analysis and that contracting out would result in considerable savings." No determination was made to insure that the procedures used were correct, how objective is this type of analysis.

4th paragraph under same heading states, "Both analyses showed that an average annual saving of at least 34 percent 1/ over in-house costs can be achieved by contracting for the sanitation and supply services. But in order to maintain the confidentiality of contractors' proposals, we cannot disclose the amount of savings." If this is a true and accurate figure why can we not see the figures used to support this claim. If this report is objective there should be no rationale why we cannot see the bases used to obtain these figures.

5th paragraph under same heading states, "We estimated that, based on in-house and contractor wage rate differences only, additional savings of over \$845,000 annually could be realized by contracting for services provided by 191 waiters." GAO seems to be strong on figures and speculations but lacking in the ability to support their figures. If there are figures which are valid that can substantiate these speculations, I wish to be furnished with these figures.

6th paragraph under same heading, 5th line, states, "The Academy's cost analysis showed an anticipated first-year cost savings of about \$143,000 and a 3-year cost savings of approximately \$492,000" Can they substantiate their figures? I doubt it seriously. They are making assumptions such as unions falling short of their protection of these contractor's employees, they are assuming non-unionization of the contractor's personnel.

Page 5, 1st paragraph, line 1, states, "the first year's contract service costs showed that the actual savings were about \$30,000 less than anticipated in the study." The study was based on unbalanced figures. The military positions held in the Airmen's dining hall were figured as eight 1st cooks. It is unrealistic to figure that the contractor would have as many cooks as was cost accounted for in the in-house cost.

Page 5, paragraph 2 states "Naval Academy officials informed us that waiter and sanitary services at the midshipman dining hall were first contracted in January 1976. While they encountered unforeseen costs in the first year of contract operation, large cost reductions were still realized." Information I have received from the Naval dining hall informs me that the contractor badly underbided. They had figured on people being willing to work for low wages, approximately $\frac{1}{2}$ of the pay of a federal employee and found help was not that plentiful at those wages. Do you expect a federal employee to work for the contractor for $\frac{1}{2}$ of what he is earning now?

1st paragraph under heading "ANTICIPATED IMPACT ON EMPLOYEES" states, "Although the cost analysis demonstrated that contracting out would be less costly for the Air Force, we found that it would have adverse effects on current employees. These effects, which include potential unemployment and/or greatly reduced wages and fringe benefits are not considered in the study required by Circular A-76." First of all the cost analysis has not proven that contracting out would be less costly for the Air Force. Secondly, the possibility, excuse me, the unavoidable certainty of employees losing their jobs and having to resort to welfare and food stamps due to the economic condition of the Colorado Springs area, should certainly be considered as welfare and food stamps are of an expense to the government and while the government may not pay their wages they will be supported by the government. I feel that it is ludicrous and irresponsible not to consider these side effect in the cost comparison studies.

2nd paragraph under same heading, line 6 states, "About 40 percent of the affected employees are minorities. Academy officials pointed out that losing these people would be contrary to the Academy goal of employing more minority personnel." How can the federal government justify destroying the goal of highering minorities in the federal government by destroying entry level positions within civil service?

3rd paragraph under same heading, line 5 states, "from October through December 1976, the Colorado Springs State Employment Office had on file about 614 applications which fell within the same occupational category as the employees in the sanitation area. Only 64 of the 614 applicants were placed during that period." This is a mark of an economically stressed area. How can GAO justify the adding to this problem by adding more personnel to the unemployment rolls and do it on questionable data?

5th paragraph under same heading states, "The comparison in exhibit C between the wages and benefits that certain employee receive under an in-house operation and what the same employees would have received from a contractor shows that the contractor employees would have received 42 to 44 percent less." First of all I question their figures and their accuracy in determining these figures. Secondly, I feel that GAO again is moving on the assumption that labor organizations would not move in.

Page 6, paragraph 1, line 2 states, "the surveys on which the wage rates are based involved different industries." Here GAO admits that figures used in their study are questionable.

Page 7, paragraph 1, line 3 states, "We recommended that the Civil Service Commission expand coverage so that food and laundry service industries could be included in the wage surveys." Why did not the GAO team address themselves more squarely to the issue at hand. It seems as though Ms. Copeland and Mr. Eickmeyer are evading the main issue and brings a question of doubt upon their impartiality.

Paragraph 7, line 4 states, "Government's cost is 24.7 1/ of each employee's full salary." These figures on which the GAO report was based are not valid figures.

Paragraph 9, 1st line states, "Our report concluded that, based on the economic assumptions used, the retirement cost factor was reasonable." The Udall letter is of questionable value as pointed out by the questionable 24.7% figure. I read the report and they did not evaluate the economic assumptions in calculating the figures.

Page 8, paragraph 2, line 3 states, "Concerning contracting, we reported that the current employer and employee contributions to the Social Security system may be insufficient to cover the full cost of employee benefits accrued under the system." Here it seems as though GAO dances around an important point on cost to the Government. I can only assume that they do this due to the fact that they are not maintaining their impartiality.

1st paragraph under heading of "PERFORMANCE AND QUALITY OF SERVICE", line 9 states, "but that quality improves with experience." I feel that this is childish dreaming on Ms. Copeland and Mr. Eickmeyers part due to the fact that there is no proof to substantiate this statement.

3rd paragraph under same heading, line 1 states "The second contractor began operating the hall in February 1977." I would like to know if the first contractor did so well why is there a second?

Page 9, paragraph 2, line 4 states, "The contract started in January 1976 and by May the services were satisfactory. However, as the result of a dispute over operating costs, the contract was canceled for default on May 4, 1976." My sources state that the dispute was over the fact that the contractor needed more money to reach satisfactory conditions at the Naval dining hall.

Paragraph 2, line 7 states, "A second contractor who took over operations the next day also had staffing and sanitation problems." From what I understand these problems still exist. It seems as though Ms. Copeland and Mr. Eickmeyer continually distort facts to suit their own purposes.

Page 9, paragraph 2, line 15 states, "midshipmen who we interviewed did not feel these problems were serious or lasting." This is the most naive statement yet. Does the GAO team feel that these midshipmen have enough experience and are well versed enough in the operation of a dining hall to rate the seriousness of a situation there or how long it would take to obtain satisfactory conditions? Also, midshipmen usually are not outspoken in their complaints about their installation.

Paragraph 2, line 16, states, "Naval Academy food service officials also seemed optimistic and anticipated increasing improvements in contract services." I would like to know what Navy official will admit that they have been unable to solve a problem?

1st paragraph under the heading of "OPPORTUNITY TO REDUCE COSTS" line 4 states, "In a previous report, 'Financial Operations of the Five Service Academies,' we estimated that about \$3,000 per position could be saved by using civilians in Academy positions held by military personnel." I would like to know if any consideration has been given to removing military personnel from positions since contract at Academy was cancelled.

2nd paragraph under same heading, line 3 states, "The Academy justified the military positions because they relate to management and training functions. Neither of these reasons are justified by Defense policy." Why has GAO pussy footed around this problem? They move much more rapidly when it comes to contracting out civilian positions.

Page 10, paragraph 1, line 1 states, "Although the Academy's cost analysis generally complied with established procedures,..." I again would like to ask the question as to whether these procedures were valid.

Paragraph 1, line 6 states, "This savings is largely due to the disparity in wage rates and fringe benefits. We estimate additional annual savings of over \$845,000 could be realized by contracting for waiter services." GAO continually refers to savings without submitting proof that their figures are accurate.

Paragraph 3, line 1 states, "The majority of the current in-house employees in the affected area would then probably be laid off. Those working for the contractor would be paid from 42 to 44 percent less per hour than in-house employees being paid for the same work." The wording of Ms. Copeland and Mr. Eickmeyer here is quite bad. Their terminology of probably be laid off means will be terminated. Laid off has the connotation of there being a chance for reemployment, but in this instance there would be no such opportunity. To their figures on the wage scale of the contract employees, they are purely assumption, not factual information.

Page 10, last paragraph, line 1 states, "To improve the Federal Wage System's pay determination process, we further recommend that the Chairman of the Civil Service Commission expand the wage surveys to include laundry and food service industries." Has GAO done anymore than this wage analysis on what they feel is the problem here?

Page 12, 3rd paragraph of Congressman Evans letter to GAO, 1st line, states, "I would request that the GAO look into the cost analysis procedure used by the Air Force Academy in determining whether contract work or work by civilian employees cost less." I feel that the GAO team has only scratched the surface

of what is happening in the matter of contracting out. I feel that figures have been manipulated to show inaccurate savings, which I feel I cannot condone or allow to happen due to the fact that we are dealing with the livelihood of close to 300 employees. I am not condemning the entire GAO office for my sources at Lowery Air Force Base have told me that the GAO team headed by Mr. Goetz has done an outstanding job there. I merely question the impartiality of Ms. Copeland and Mr. Eickmeyer of the GAO office.

In conclusion I would like to summarize what has been happening at the Academy in respect to contracting out.

Contracting out here at the Academy was initiated approximately two years ago by contracting out the Airmen's Dining Hall and custodial services in the service and supply areas. We have found the quality of work is in no way comparable to in-house service. The original contractor of the Airmen's Dining Hall was denied renewal of his contract by the Air Force, which obviously proves our point of unsatisfactory performance. The original contractor of the custodial service that was contracted out in the service and supply area defaulted. During the intermittent time of obtaining a new contract, custodians who are paid from the appropriated fund were used to clean the service and supply area which cost, I am sure, was not included in the cost against the contractor and again this service was unsatisfactory compared to in-house service. To compare the service provided by the contractor with the service provided by the civil service employee is like comparing a Lieutenant to a General and saying the Lieutenant is worth more because he costs less.

We respectfully request your assistance in our behalf to obtain a just and fair consideration in our effort against contracting out of our jobs, particularly under the guidelines of OMB Directive A-76.

Thanking you in advance for the opportunity to appear before your committee.

Respectfully submitted,


Albert C. Derby, President
Local 1867, AFGE, AFL-CIO

ACD/aa

**STATEMENT OF LAWRENCE BOURRIE, NATIONAL FEDERATION OF
FEDERAL EMPLOYEES, LOCAL 1497, LOWRY AIR FORCE BASE**

Mr. BOURRIE. I am Lawrence Bourrie. I am here to represent the National Federation of Federal Employees, Local 1497, which is at Lowry.

This local is primarily representing the graded employees that do training. We do have some wage board in this organization, but we do not have housekeeping functions.

Those sort of things are probably more seriously affected by this contracting out action.

In my statement, I simply asked that all factors be considered, not only the dollars, but that the evaluation be against the same ground rules or procedures. Anything else is like comparing apples and oranges.

The employees on Lowry Air Force Base do jobs that are directed by regulations, supervisors, and so forth, and if these procedures are changed, the cost will be affected, therefore the directives and supervisor can seriously impact the costs.

The quality of the product usually affects the cost. If there are unrealistic quality standards imposed on either the Government workers, or the contract personnel costs in turn will be reflected in the standards, and then the cost of the production.

And essentially the AFGE asked that the procedures used be as fair as possible, and this should be the best thing for both the Government and the people that are affected.

I made a comparatively short statement here and cited examples where cost was affected, and also where the quality of the product was affected.

Further I felt that future wear and tear and obsolescence of equipment because of the difference in maintenance standards was a factor and I feel that that summarizes my statement.

[The prepared statement follows:]

PREPARED STATEMENT OF LAWRENCE J. BOURRIE

I am Lawrence J. Bourrie, representative of the National Federation of Federal Employees Local 1497. The position of this organization is neither for nor against the contracting out of work, rather it is stating that there is a place for work to be done by private industry and a place for work to be accomplished by Government employees. Examples of factors would influence the decision to contract out work is when expensive special equipment would have to be procured or personnel with unusual skills, talents, or knowledges would be required for a relatively short period. The thing we wish to emphasize is the factors used in making a decision be fair and equitable.

To cite an example, in January 1957 the office machine repair for Lowry Air Force Base was contracted out. When this maintenance work was accomplished by Government employees they were required to start repairing each malfunctioning machine within four working hours after the malfunction was reported. When the contract was awarded the contractor was permitted two days before he had to start work. Further, the Government employees were required to take each typewriter into the shop each year to shop clean it. This required the machine to be disassembled, cleaned, inspected, repaired, lubricated, and reassembled. The contractor was only required to repair the reported malfunction and brush out and oil the machine while in the office doing other maintenance. With factors such as this, there is no reason why the contractor should not be able to maintain office machines at a lower cost. We do not know how to place a cost on the wear and resultant deterioration of equipment when grit, grime, and dirt

remain in the working parts of a machine and continue to be an abrasive because they are not cleaned out periodically. It is probably due to the level of maintenance now being accomplished that manual typewriters must be condemned after 12 years. Another cost factor that should be considered is the administering of the contract.

Another example of differences in procedures that influence cost is about one year ago aluminum screens and storm windows were installed on building 349 at Lowry. When Government employees used ladders they are required to secure the ladders to the structure or have another person hold the ladder. The contractor's personnel did neither. Just a change in safety standards can have a big impact on cost and if cost is to be a consideration, both should have to use the same standards.

Approximately 10 years ago Philco-Ford was awarded a contract to rewrite course 3AB64730B, Warehousing. This contractor did not use the Air Force's requirements for the personnel to be trained. As a result the rewritten materials were received, read, evaluated and discarded in about two or three months.

It should be remembered that often cutbacks in personnel and the loss of a capability can cost money. An example is the loss of welding capability by Lowry's maintenance personnel. Now if we have a small break in a metal chair, the chair must be sent off base to be welded. How much does it cost to administer this procedure vs. the cost of making a small weld with an inhouse capability?

Another similar example is currently there is no one authorized to replace the electrical two prong plugs with the three prong safety plugs. Many must be replaced by January 1978. These three prong plugs can be obtained from G.S.A. for 59 cents and it is assumed that a low skilled person can install four per hour. The best price that a contractor is known to have submitted is \$3.25 for the plug and \$4.50 to install it.

I am not a wage board employee so the above are statements that I was able to obtain from personnel who have been involved in maintenance and have been caught in reductions in force, etc. and then saw the results of the loss of the capabilities which made the base dependent on contractors to provide these functions. Often the administrative procedures cost more than the labor and materials would if the work was done "in house."

Ms. SCHROEDER. Thank you very much.

STATEMENT OF CHARLES W. CARTER, NATIONAL VICE PRESIDENT, AFGE

Mr. CARTER. My name is Charles W. Carter. I am the national vice president for the American Federation of Government Employees, representing district 13, which includes the States of Colorado, Wyoming, Arizona, New Mexico, and Utah, and I consider it a real privilege and opportunity to appear here today before your committee.

I know you have on record our position at the national level, and we are happy to say over the years the American Federation of Government Employees has in fact been accumulating documents and evidence, things which did not exist previously to support our position to contracting out that are in the best interest of the taxpayer.

That it is in fact absolute propaganda which has been put on by lobbyist groups to try to convince the taxpayers that there are in fact a lot of Federal employees overpaid and underworked, and can be done better by the private sector.

This is definitely not the case, and we have been accumulating this evidence to prove it. It's very difficult for us, as Federal employees, to fight a system when you have in fact the Office of Management and Budget people like Mr. Roy Ash, who was the previous Director there, who, prior to taking that job, was in fact a member of the Litton Corp., was successful in getting the Litton Corp. off the hook for a contract default of over some \$4 million.

These type of things being accomplished by people in the administration certainly hurt the position for civilian employees, and the job they are trying to perform, and save tax dollars for the American public.

I heard the General say that something about retiring or being shot. I hope they don't consider us the firing squad, but things are very desperate for us, and I think that this is our opportunity.

I thought maybe we would come here today and be nice guys, but I find that to be impossible. We are fighting for the actual survival of Federal employees, is the way we look at it.

First, we do have a problem with the regulations set up by DOD 1400.1, AFR 26:10, which are supposed to draw the line between military and civilian, and we've had a considerable problem with it.

The General indicated, and you asked the question, what do they do with these military personnel. We seem to believe maybe they hide them down at the Air Force Academy in the woods there, in the 2,200 acres. President Derby tells me he is trying to trap some of these military personnel.

We had 200 come in, and 150 come out. And we say what happened to the 50. We can't get anyone to give us the figures. We know 200 came in last month, and there are 150 going out the door.

There are still some 50 military people around here, and what happens. Some of them are sitting up on equipment, running equipment up and down the road in the air installations department, and we say how did they get there.

The Air Force Academy just laid off six civilians, or transferred them out of that section, and now you have got military down there doing the job. We are a little concerned.

I have witnessed in Hill Air Force Base, where I was the previous president, on an installation there we had telephone installations. We were 90 percent civilian, 10 percent military. Today it's just the opposite, 10 percent civilian and 90 percent military.

On the SAC base at Malstrom AFB, Mont., where we think definitely they should have telephone military operators on a SAC base, it's contracted out to Bell Telephone. We say "Hey, we don't see the rationale or understand the difference in this type of thing taking place."

Is in fact Air Force regulation 26:10 being complied with, and DOD regulation 1400.1?

We have seen in many cases, and have experienced right now in Peterson Air Force Base, military people being placed in civilian jobs. We question this, and when the civilian starts to raise their voice about it, they are suddenly transferred or moved around, and given something satisfactory to keep things quiet.

We sympathize with the Air Force. If the people in blue have an excess, and they are trying to do the best with their excess. However, when the burden falls on our shoulders, it then becomes somewhat of a civil war between the two of us, and I don't think that's necessary.

We don't need that. Neither side needs it. We need to work together in a cooperative manner, and we don't need to be literally threatened by one another, and the situation, as it exists today, that's exactly what's happening, and what then occurs, is the carpetbagger comes

along, the contractor, and picks up the thing that neither the Air Force nor the civilian can maintain.

So we are concerned. Deeply concerned. As I said in my report, there is, we call it, the second coming of the carpetbagger since the Civil War. With \$66 billion at stake in contracting out, and \$32 billion to run the Government, those are some very significant figures, and we say how many people are employed under that \$66 billion the Government is spending on contracting out.

AFGE on a national level is deeply concerned. We don't find this problem being limited at any stage to the blue-collar worker. The blue-collar worker is presently under attack.

We were able to pick up a DOD document showing 26 different things of which they were going to contract out, regardless of costs, and this is while President Ford was in office, and he was applying the Nixon policy on contracting out.

And it's interesting to note we talk about security, and we have on here guard service, one of the issues that our water system or heating system, textiles, refuse, and then we get into the data processing.

We talk about security, and I sit and wonder and say "Hey, what is really happening if we put all these things in the hand of the contractor."

Federal employees are not permitted to strike. Federal employees don't have true collective bargaining. None of these things were available in the private sector, and would have a serious impact if in fact these things went contract and were organized by labor in the private sector.

So we are concerned that if we don't see these 26 items become a reality; our railroad facilities is one of the other areas here of deep concern, all to be managed by the contractor.

And keep in mind just a year ago this was a—regardless of cost—I would like to point out, as I said earlier, about the fact it's not limited. This thing is not limited to the blue-collar worker.

In HEW and some of the other areas that we have, there's a lot of contracting that is going on that is virtually maybe ignored or accepted.

I've had the president of local 1802 look into this situation for us, and she is going to get additional information which we will provide your committee.

At this time we are not prepared to give you a total picture on the white-collar contracting out, but I do have just one contract here which totals \$474,000 going to the University of South Dakota, Westinghouse Corp., CDI, IRA, Mile High Construction, Tower, MDA, Histar programs, et cetera.

This is just some of the contracting out we are referring to, along with another contract I was told over in one office over \$4 million in HEW with this money going out in contracts.

We know there are those out there that want to get the piece of the pie. Some of the improprieties have gone on with nepotism, friends, favoritism, members of the Federal Government being onboard, and the striking example stands out in my written testimony.

We know it goes even deeper in debt. We are not even safe from our own Congressmen. That is something that upsets me immensely.

I am speaking, of course, of Congressman Robert Sikes. When Congressman Sikes and Fairchild Industry had a pipeline to McDon-

ald for a Hill Air Force Base, Utah, contract which totaled up to about \$800 million, we said that it's going on. Why can't we rely on Members of Congress.

Well, I am happy to say that Congressman Tim Wirth and yourself as the supporter did in fact take Congressman Sikes to task, and he was admonished. As far as I'm concerned, he wasn't admonished enough. He did lose his chairmanship, but it could have gone a lot further.

When big money is involved, we are concerned. This big money attracts a lot of people, and certainly turns a lot of people's heads, and the next thing we see is corruption.

I have witnessed the destruction of military officers who get themselves involved into contracting problems. I have seen civilians do the same, and I think it's sad to see these people throw away, some of them 20, 25 years for the temptation of those dollars waved in front of them.

As President Daniel Case says, it is certainly disheartening to see someone who is preparing the documentation, taking away your job, suddenly hiring you for that job under scab wages and scab conditions.

I would like to say with 25 years of Federal service, and at this table is represented over 120 years of Federal service, we do have the expertise of what's going on in the field, and we fail to understand the situation when we hear the general's statement today that he deals with figures and not faces.

We know that someone has to deal with figures and not faces, but when it gets down to us, it is a question of figures and faces, friends, relatives in some cases it may be.

It's a personal thing to us, and we can go back and look at the history of Federal employees and say what are they doing for the Government.

I personally was involved in a cost savings to the Government that amounted to, in the first year, some \$60,000. I would hate to believe that that savings would go in the hands of a contractor as a matter of profit, and not back to the taxpayer.

I have been involved with other people in suggested programs that have saved the Government millions and millions of dollars. I think the Federal employee's record is clear, and it's available at any time on what they have done to dollars for the taxpayer, and it goes back to the taxpayer.

It doesn't become a profit asset to some contractor. But I was responsible for stopping a \$300,000 engineering change proposal at Boeing Co., and after I was successful in doing that, when I went to the Boeing Co. on the next TDY trip, I was literally blackballed by the contractors until I made a stand before the vice president of the Boeing Co., and said look, I am doing my job, and do I have to go further in order to get the attention of the people who work for you.

Well, he straightened it out pretty quick for me, but you can see what happens when a Federal employee does his job. He is subject to be retaliated against, might be a nice word.

I witness our mechanics in the shop make a box for \$500 that would test out a refrigeration unit, but we couldn't use that box because it hadn't been approved by engineering.

We turned that project over to Boeing, gave them data or information. That same box cost \$5,000 because it had engineering approval. These kinds of cost overruns to the contractor concern us.

I witness a possible strike at Warren Air Force Base when the contractor was upset because he could not get the contract job up there, which would have amounted to \$25,000 a hole on the missiles, and we are doing it in-house for \$5,000, so he used the private unions as a threat of a strike in order to keep the in-house operation from being accomplished.

So we witnessed the contractor using the private unions in an attempt to keep in-house personnel from doing a job, and I thought it was a very bad way to go, and I was really happy that we were able to resolve that problem with our fellow AFL-CIO members at Warren Air Force Base.

But the fact was it did happen, it was a threat. I have a lot of things here on the chart I would like to discuss, and I know that time is of the essence.

I would like to bring up the fact just recently we had a reduction in force in Rocky Mountain Arsenal, and we literally had to go into court to get 41 of these jobs back.

It's sad that the unions have to extort this type of pressure in order to maintain jobs.

Then we find, after these jobs are gone, in one particular case, and we don't know how widespread it's going to be, but this Newton L. Fickle has submitted a letter to us, and to Congressman Armstrong.

It's addressed to him since it's in that particular district. But he was laid off his job because they said he didn't need his services. Now when he went back to say goodbye to his friends—and he has now been uprooted and transferred to Tooele Army Depot in Utah—he finds that a contractor has been hired at the rate of \$20 an hour to perform the work he was performing, plus 50 cents a mile to travel to and from Denver in order to perform his job.

Now we would like to know how in the world this can be considered to be cost saving. These are the things that happen afterward. The impact afterwards that no one wants to talk about, but do exist.

This is just one incident, and we know we can go back and find numerous incidents.

We had an incident in the laundry department. They were making money. It was a self-paying project.

They laid off employees, and they and WG-10 plant operators out there doing that function that were WG-3 jobs.

The difference in salary is hard for us to understand, and explain how they can do this in order to maintain an operation. Put higher grade people in the job after the other is required.

Just a few of the things that occur after the horse has left the barn. We don't touch on ceilings. Congress has still placed ceilings on manpower requirements, and I think this is the one thing that hurts us the most.

We sincerely believe that if there is a requirement to perform the work, then there should be a number of people designated to do that work, and when that is determined, this dollar figure is assigned to get the dollar job accomplished through all the procedures that are necessary, and regulations that are set up.

This fact that we're all handicapped by the fact that if it takes 25 people to do the job, and we only have 10 civilians to do it, we know tomorrow that job is going to go to contracting out because that's the continual statement we hear; that the money comes out of different pockets.

Well, the pants go on the same person, and we don't understand why the pockets make so much difference because the taxpayer is the one in the end that's still paying the dollar, so we have a lot of serious questions in our mind as to whether the money comes out of the right pocket or left pocket.

It still belongs to the taxpayer, so we do have concern there, and we wish to see something done about ceilings because it's under the industrial funding concept.

We think it works. We think it can be improved. We think it can be applied somewhat across the board.

We think we should be responsible not only in the military, but the civilian side of the house in having the right number of people doing the right number of jobs for the right number of dollars.

Now, Congressman Harris has brought up the Davis-Bacon Act. We get literally raped under that situation.

There is a thing called the small business criteria, or Small Business Act, and we find these contractors bidding under the small business contract, and the headline in the Post the other day was "Phony firms net millions in SBA minority funding," and I think you are aware of that particular situation.

We find that these contractors—and we say where do they come from; North Carolina, Florida. They are located in Texas, Oklahoma, and they are bidding up here in Utah and Arizona, New Mexico, and they are supposed to be small business, and we have checked on a few of them to find out.

They have assets of \$400 million. How in the world can you identify the business to small business.

Under the Small Business Act, they come in and pay minimum wage. I witnessed 57 VRAs being laid off their job at Hill Air Force Base to be replaced by 121 scab laborers at \$2.32 an hour.

They walk about rehiring these veterans. The veterans happen to have 94 dependents that were laid off, and they were going to go \$3.10 an hour with fringe benefits to a contract at \$2 an hour plus fringe benefits.

I don't think those boys felt very good, or their country treating them right under these particular circumstances.

I found it tremendously embarrassing to sit and try to explain to them it was the system, and at that time there was very little or nothing we could do about it.

Now today we have that opportunity to do something about it, and we are going to do our very best to bring out these figures, and point out these things to Congress, and, hopefully, we can get this turned around and make things appropriate for not only the military to be able to live with it, but for the civilians to be able to live with it.

We are not opposed to contracting out when we don't have the capability jobs such as construction, research, and development and in these areas.

We sincerely believe these belong in the private sector, and there are some fine lines drawn. The plumber does his job, the electrician does his job, and the carpenter does his job.

In the labor market there are fine lines, and we want to respect those lines, and we would like to see the lines clearly drawn in the Air Force and Government and contracting out, and we don't want to infringe in the other areas.

And we feel that we can live harmoniously together, both the military, the civilians and the contractor as long as there's not this grade which exists today in each of these areas.

In closing, Congresswoman Schroeder, I would really like to have someone show me in black and white where these true savings are. As President Derby has expressed, the contractor defaults, new issues or a new contractor come in, costs go up.

In one particular case in Utah, the contract was let and failed to put in some removal. I can't understand how anyone would let a contract in Utah without giving snow removal.

Those cost figures, when the contract rebid, it literally took that project right out of sight, and would certainly, if it had been in there in the first place, they would never have got the contract; that so-called one dollar margin would never have existed.

It's just things like that that take place. I think President Case has pointed out many, many issues involving the improprieties that went on at the Lowry Air Force Base, and he had to literally dig, dig, dig to find out this information.

And certainly people at the top, if they knew it exists, I'm sure they would have taken appropriate action, but, however, it seems that everyone wants to make things look good, and this disturbs me.

By making things look good on paper, making them look good to the public, they seem to forget that there is a responsibility to provide.

I have so much I want to say here today, and I know it's going to be impossible to get it all in, but I will try to summarize here very quickly for you.

In my closing remarks, I would just like to add that the ceiling situation cannot be overemphasized. I think the loyalty that the Federal employees have provided the government in times of emergency and times of war and in peacetime cannot be overlooked.

That we have worked for years as underpaid people because it was supposed to be a privilege to work for Uncle Sam.

And in the last 20 years, we have taken the position that not only is it a privilege, but we should be paid for this privilege in working for the Government. Some say we may be pricing ourselves out of work.

All we ever asked for is actual true comparability. We have yet to achieve that comparability, but will keep pushing for it, and we are still doing a lot of things on pure dedication.

I think I can point to Rocky Mountain Arsenal as to being an excellent situation where Federal employees performed their jobs knowing they were working right out of their work, and they did the job they were responsible to do, and kept in mind the security and safety of the people of this community.

Now that in itself takes a lot of dedication to do something like that knowing when you get through you're going to be out on your ear,

and also knowing at the same time if we could get responsible funding, that in fact there was plenty of work for those people to continue doing at Rocky Mountain Arsenal, but then we get back to the old thing of funding and who is going to establish the priorities.

And I think we have been through that many, many times in your office, and I wish the general public would really understand what problems ceiling and funding do cost us, and by not carrying out some of these projects, how, in late years, things come along and we find that costs become very excessive like the GA-5.

If we could have gotten it 10 years ago, it's quite cheap. The B-1 bomber is probably another example. I could go on and on, so I want to close here, Congresswoman Schroeder, by saying that we do need all of the help, all of the assistance we can get.

We hope that by getting something done about the ceiling problem this will change the outlook for Federal employees, and we are convinced that we can live together and work with the Department of Defense, we can work together with the other agencies and the contractor as long as there is not this continual raiding-for-profit going on for the tax dollars.

Thank you.

[The prepared statement follows:]

PREPARED STATEMENT OF CHARLES W. CARTER, NATIONAL VICE PRESIDENT, AFGE
13TH DISTRICT

The government employee operates under a non-profit concept. The sole objective of Federal employees is to carry out the regulations and laws mandated by Congress. Contracting out has introduced profit as a means of operating the government, however, that profit isn't to the taxpayer. With profit as the motive, we have witnessed the second coming of the "carpetbagger." The results have been corruption of the Military and Federal officials whom have the responsibility of administering the contracts.

The general opinion of the public is that contracting out is limited to the blue-collar (trades) worker. The blue-collar position gets the headline attention while the white-collar carpetbaggers quietly steals their share of the loot. Agencies such as the Health, Education, and Welfare Dept. (HEW) and the Boulder Bureau of Standards, National Oceanic Atmospheric Administration (NOAA) are two examples of white-collar contracting out.

I have received reports from HEW employees who have witnessed contracting out to relatives and friends. In one specific area an employee reported that the Director of HEW was on the Board of Directors of a company seeking contract funds from HEW. The same HEW Director had relatives (a brother and a brother-in-law) seeking contracts with HEW.

At the Boulder Bureau of Standards, NOAA, the Union witnessed the circumventing of Circular A-76 by letting several small contracts rather than one contract for similar work requirements (i.e. the photo lab). The agency had been instructed to contract out regardless of cost.

In my capacity as a full-time president for Local 1592, I witnessed five US Air Force Colonels' careers destroyed by improper actions involving Research and Development Contracts for the Minuteman missile Project.

The temptation of money and fringe benefits are not limited to the military and Federal employees. I have witnessed a member of Congress using his influence to obtain a government contract for the company of which he was a stockholder. Specifically, Congressman Robert L. F. Sikes, who in 1973 asked for and received an unsolicited "bid" for Fairchild Industries. The contract would have meant the loss of 750 jobs at Hill AFB on the F4 modification. Congressman Sikes was and is a stockholder of Fairchild Corporation. Thru the influence of Senator Moss of Utah, the Fairchild company was forced to admit they could not do the job cheaper than Hill Air Force Base, Utah.

AFGE is opposed to contracting out work which has been "traditionally" a Federal job. In the areas of research and development, large construction jobs, etc, AFGE believes this work belongs to the private sector. However, these kinds of contracts have been riddled with cost overruns, graft, and corruption. Then, "why" should anyone believe that by contracting out government jobs, such contract will be immune from the same type of corruption.

AFGE finds it difficult to understand why the Government will subsidize the Lockheed Aircraft Company with \$240 million to maintain jobs. During this same period of time that Lockheed was paying out millions of dollars in bribes, some 4,000 Federal employees were losing their jobs in Colorado and Utah.

What can Federal employees expect when they "blow the whistle" on those who violate the trust of the US Government. The case of Mr. Fitzgerald is a matter of record as the C5 overcost has been thoroughly publicized.

I would like to add the case of Mr. Bob Frazee,—"whistle blower", Supervisor, Computer Equipment Analyst, at the Peterson AFB, Colorado Springs, who reported, (1). that \$297,000 in government equipment was improperly disposed of by his superiors. (2). that new equipment was delivered by the Honeywell Corporation prior to the purchase's having been approved in its final form. (3). Mr. Frazee also reported that documents were falsified (at the directions of his superiors) to cover up the "down time" on acceptance testing for the new equipment. (4). The Air Force officers involved in the cover up accepted gratuities from the Honeywell contractor. (5). The contractor was receiving payment on equipment which was being maintained in storage.

The results of Mr. Frazee's reporting of the irregularities were as follows: (1). The Air Force admitted their error in destroying the equipment (no action was taken against the offenders). (2). Falsification of documents was denied in spite of the proof submitted (no action taken). (3). The Air Force officers admitted accepting drinks and entertainment from Honeywell in violation of AFR 30-30 (no action taken). (4). The contractor for Honeywell agreed to reimburse the government for the equipment which was in storage. (5). Mr. Frazee was ordered to take a Physical for Fitness Examination. (6). The physicians report did not recommend his removal, but did report that he showed paranoid tendencies over the incidents cited above. (7). Mr. Frazee has been removed from his position. He is appealing a decision he is mentally unfit for duty. (8). Colonel William W. Berkman's report dated June 1976 is available from the Air Force. (9). It is sad to note that Mr. Frazee did not remain anonymous as requested from Senator Haskell, Congressman Armstrong and Evans offices. A member of Senator Haskell's staff stated, "We can't do anything with the Air Force." I would not like to believe that Peterson AFB and the US Air Force is, in fact, beyond the powers of Congress.

Mr. Albert C. Derby, President of L-1867; Mr. Dariel Case, President of L-1974; and Mr. Charles Dalla of Local 695 and President of the Colorado/Wyoming Council, have submitted documents for the records and are available for interview by the Committee.

In summary, the Federal employee has performed a service to the American public for 200 years. Propaganda by organizations such as the Heritage Foundation (sponsored by Joe Coors), the US Chamber of Commerce, and other contract-lobbying groups have tried to sell the taxpayer that it is cheaper to do business "under the free enterprise system" where the government is concerned. When service is the product and human bodies are the instruments to perform that product, then, there can be no substitute for honesty and integrity that Federal employees have given to the American public for 200 years. The continuation of contracting out of government jobs will mean that Uncle Sam supports the "rip-off" of the taxpayers. The records are clear that profit breeds scandal, corruption, and greed. AFGE cannot support the replacement of Federal employees with "scab" contract personnel. In all cases, the employee receives less wages and benefits under the contracting out concept. However, the "carpet-bagger contractor" received a profit for supplying slave labor under sweatshop conditions. I do not believe that we can label these acts as "free enterprise" or, the "American Way."

Ms. SCHROEDER. Thank you very much. To show how nonsexist this subcommittee really is, I will allow Congressman Harris to question first.

Mr. HARRIS. Thank you, Madam Chairwoman. I just have one or two quick questions. You made reference again to the Davis-Bacon Act, and I don't think you are meaning to attack that act.

I thought you were meaning to say that it wasn't being enforced. Is that what you are saying?

Mr. CARTER. Precisely, Congressman Harris. The Davis-Bacon Act, if the prevailing rates were established and put into effect, we believe we would feel we would have very little problem with contracting out, underbidding us as Federal employees.

We made a study of plumbers. We found they were \$2.50 and benefits over and above the Federal employees' salary. So it would be impossible for a contractor to come in and bid on a plumbing job and say he could actually do it cheaper when it boiled down to employees' wages.

Mr. HARRIS. And you have reason to believe that the act is not properly being enforced in your reason?

Mr. CARTER. They circumvent the act with the Small Business Administration because of so much money involved, and they say the contract is only going to be, say, for x number of dollars, and it doesn't meet the criteria that applies under the Davis-Bacon Act.

They circumvent it. We think they should be held to the Davis-Bacon Act.

Mr. HARRIS. You think without the prevailing wage being determined and applied to the contract, the Davis-Bacon Act does not help?

Mr. CARTER. Very definitely.

Mr. HARRIS. Can you tell me why the Davis-Bacon Act doesn't apply or has been held to apply, that the prevailing wage rate set by the Department of Labor is not correct?

Mr. CARTER. I can't give you any information at this time.

Mr. HARRIS. I was interested especially, if I may, Mr. Case, with regard to your example of the sergeant.

Mr. CASE. Yes, sir.

Mr. HARRIS. Who had probably been running that motor pool for a long time anyway, is that right?

Mr. CASE. He had been there previously. He was retired and went to work for Emerald as one of their field managers and recruiters. I have been with the Government employees at Lowry Air Force Base for approximately 18 years.

I had the privilege of working at Rocky Mountain Arsenal for about 41½ years, and I served in the Air Force for 4 years.

One of those years was unwilling, but that goes back a good long time ago. Specifically, we have found in every contract let at Lowry Air Force Base, we can go in and we're chummy buddies with the field managers because they are retired colonels, retired managers, retired senior master sergeants.

We find that the building supervisors are retired chief master sergeants.

Mr. HARRIS. Are these civilian employees?

Mr. CASE. These are people working for the contractors.

Mr. HARRIS. For the contractor?

Mr. CASE. Who have retired from the military, and the way I phrase it is that some of these people who retire, and I don't include all of them because we have a lot of good retired military, but you also have those exceptions who think they have found a way to bleed just a little bit more, and they're going to do it.

Mr. HARRIS. You have seen the process, the specific process, of military personnel on a base retire, get a job with a contractor and come back on the base as a contractor's employee?

Mr. CASE. Yes, sir. Not as a contractor's employee as the contractor's contract manager.

Some of these things, and these I could only prove to you by statement from people who were directly involved, that during the time that the contract for food service at Lowry Air Force Base was being written, Senior Master Sergeant Rodden who was then transferred from Keesler where Dinateria had already installed a contract, took a 5-day furlough within 3 months of his retirement date and was in Dunn, N.C.

Now I think Dunn, N.C., is being thrown around in the newspaper quite a bit, and that's a very obvious reason for it. There is one company that operates out under the SBA with about three different names.

So are they really a small business? Are they really attempting to work with minority companies? And the integrity of this particular type of contracting and profitmaking is now being questioned not only from the aspect of contracting out, but from the aspect of the Senate's investigation.

Mr. HARRIS. Well, that gentleman referred to went to Dunn, N.C. He didn't come back and operate?

Mr. CASE. He came back after a 5-day furlough and continued until his date of retirement. Now, if I could have had here men who lose their jobs from the food service contracts such as Mr. Twigg who was a supervisor in-house, if I could have several of the others who have lost their jobs because they were being retired to take such a drastic cut in wages that they could no longer maintain the obligations that they had, they would specifically point out to you that in conversations it was pointed out that this wasn't going to go out and work for civil service for peanuts.

If he couldn't make \$35,000 to \$40,000 a year off a contract, he wasn't going to be bothered. Other things that could be attested to by people like Mr. Robert Trench who still is employed at Lowry at a highly reduced wage rate from what he could have expected had he not been affected by this contracting out, can attest that in conversations this Sergeant Rodden specifically stated that one of the things he was going to do is help put out more contracts.

Mr. HARRIS. Let me deal with the motor pool thing again and the Sergeant. You say he actually worked in the motor pool there as a civilian employee?

Mr. CASE. He worked in the Lowry motor pool as a military.

Mr. HARRIS. Right.

Mr. CASE. And when he retired, he came back and he was a recruiting officer.

Mr. HARRIS. For who?

Mr. CASE. For the contractor, Emerald.

Mr. HARRIS. That was before the contractor. Now what was the space of time between the time he was employed in that motor pool, and the time the contract went to Emerald.

Mr. CASE. Just a second. There was a time lapse from the time he retired to until he came back as a recruiter of Emerald of approximately 24 months, but we don't know exactly when he did go to work for Emerald.

It's indicated that it was sooner. Emerald works out of what we refer to as the Midwest. You know, anything east of the Mississippi.

Mr. HARRIS. The Midwest is east of the Mississippi?

Mr. CASE. As far as I'm concerned, it is.

Mr. HARRIS. Back in Virginia, the other side of West Virginia is the West.

Mr. CASE. Yes, sir. I was originally born and raised on the east coast, just a little bit north of you. A place called New Jersey. They called it God's country because nobody else will have it.

Mr. HARRIS. I have been there. It's paved over now. I would like any of you who might want to comment on this to comment on the idea one of the elements some of us have thought about and talked about with respect to contracting out would be a requirement that in each determination, a personnel impact statements be required, and that is in the determination of whether or not you should begin contracting out; that an evaluation of how this would impact personnel and affect personnel, and it's overall effect similar to environmental impact statements for other projects.

I was wondering if any of you thought that was beneficial or unbeneficial, or had any reaction to it. Anybody that might want to respond to it is perfectly free to respond to it.

Mr. DERBY. In the GAO report, they respond to that. They say that there was six hundred and some jobs unemployed in the field that they were going to contract out in the food service-sanitation supply.

And out of that, the past year they could only fill sixty some slots, and yet they say that the impact was not much of concern.

That's GAO. So I don't know what they mean by their impact. It sounds like Greek to me, but in going back over their report, I would certainly think it would be a concern, and as President Case stated, when you contract these types of jobs we talk EEO. Where is EEO? You are taking away all the positions that are available for the minorities. That's where they start.

Everyone in the dining hall or in the custodial service, that's where they are at. But you say impact. When they consider impact, in my opinion, they should take a survey prior to their decision to contract to see what impact these poverty wages that the contractor is going to pay would have on an already economically depressed area.

You say the employee will be offered his job to stay in place. Now I don't think anyone sitting in this room would stay in place if you took and reduced their pay in half. We all understand the buck.

But, again, when we say "impact," that's a dirty word, I think, as far as the employee, because I don't think it was considered at all in the springs area.

The impact that these employees would have on an economically depressed area if they were released on to the economy should be in-

cluded in the study used to make a decision on contracting out, as it is of vital concern.

Mr. HARRIS. Yes, sir.

Mr. ALFRED. Mr. Harris, what I have to say in regard to the impact, it seems it's the small areas with the minorities, and like food service or any service organization that where the people don't have a tremendous education is where they start.

And because of this fact, we will say is reference to the cooks. They see some fellows there that had a fair education.

They cooked all their life, and they had worked up as myself had been with the Government 28 years. For 95 cents an hour up to \$7. So at this point, here they come along and they cut me out, and what would the impact mean to you if you're going to work 9 to 5 up to \$7 over a period of 28 years, and then they come back to contract you out and put you back to \$2 an hour.

The other thing that has happened, some of the cooks—Mr. Tripp was one—some of the people in the commissary, which was GW-8's cut back to GW-4's. So this is a tremendous impact.

Twenty years ago, sure, I could possibly pay my rent on 95 cents an hour. Today, where can I get a house at \$2 an hour? How can I pay my house payment?

So this is a tremendous impact on minority people.

Mr. CARTER. Congressman Harris, I received a phone call later, an employee from Fitzsimons called me from OCHAMPUS. I think you are aware of it.

They were announced to them they were going to lose their jobs. Now a little over 1 week ago they were assured no problem, your job is safe. There is going to be some minor contracting out. No worry. No problem.

So these people were relieved, absolutely relieved, to know that things were going to be fine.

Just yesterday it was announced to them all the jobs were going to go down the tubes. The contracts haven't been let yet, the bids are going out, but it's already decided. They are losing their jobs.

How can it be that cut and clear when the bids are just going out to the various contractors? These people are told their jobs are going out the window. It's clear to us someone is going to contract it out regardless of cost.

Now we will have to go through the process, and AFGE has established a process for information and data: what is going on in-house, cost studies, make some comparisons to insure our people that when the contract goes out, it will be legitimate and legal.

Now this is in the data processing center, and I have one lady who worked last night from 12 o'clock and got off at 8 o'clock this morning because she is concerned. She is concerned.

Her welfare is at stake. I have another gentleman that's also with her this morning who works the swing shift. He is here because his welfare is at stake, and he's worried about how he's going to keep his family.

If this goes to contract, what would it mean to him as an individual and his family, and that lady and her family. Though the impact could be quite severe to us; loss of their homes, similar to the transfers of Mr. Fickle here. Uprooted and going to Utah.

After 20-some years with the Government, only to find out that his job is being contracted out is a very serious impact, a very serious impact, and we are concerned, after giving faithful service for so many years, we could be so shabbily treated.

Mr. CASE. Congressman Harris, in the statements by the Air Force and Circular A-76, they all speak to the fact that an agency must consider the impact, and we have assurances from them consistently that they do this, but throughout the entire IFB, in the transportation and maintenance division, not once was any consideration given to the fact that with 27 identified minorities, which is approximately 50 percent of the civilian work force in that area, it might be a little more, but not much because we have positively identified 59 civilian slots and 27 is coming close to the 50-percent mark.

Nowhere in the IFB do they speak to, or in our request to management, do they speak to how they considered how that was impacting on those people. This is what forced us to go out and get the statement from Mr. deHerrera who was assigned into the motor pool because of physical disability acquired on the job with the Government.

He became frightened. He was afraid that if they attempted to move him a second time—because this constituted his second move—he would be placed in such a category that even with a reduced annuity by forced retirement that he would be making less money.

This was exactly the case of Mr. Martinez. Why I pointed out that the man had people of authority who are supposed to be the ones to be making determinations, as far as he knows.

Hey, you've lost your job, and the guy is frantic because he envies the fact that he has worked his way through a system that the Government set up saying this is equal employment opportunity.

You may go from in a progression of these steps of the ladder, but when you get here, now we have instituted a new system and you're going to go back.

Well, just as they show in their IFB that they project savings in 1978, although the funds haven't been appropriated, and 1979 and 1980, they project a savings of this much money. Well, in order to do that, they have to lay out a so-called advance proposed budget.

People do the same thing; I am doing it. I have dreams, I have realistic problems that exist with me today. None of this is ever considered as far as the minorities who are involved where all the contracting takes place. There is just upward mobility.

EEO, the control, how about the impact of the loss of control? Nowhere is it ever considered, and nowhere does it ever show that this was done.

Merely a cover statement says yes, we have considered this. That's kind of like a lot of the negotiations we have in transportation. We had a lieutenant colonel tell us I own 51 percent of the stock. This is the way it's going to be, and we tried to point to the Executive order, and says hey, this says we're on a 50-50 basis, but eventually they get their way because you can only fight the system so hard, and then you get stopped.

Mr. HARRIS. Madam Chairwoman, I could tell from the comments here that there's a good deal of frustration with regard to the impact on personnel, on people, with regard to this, and I am not sure it's been taken into consideration.

The question really was whether or not complete analysis of that type of impact should be required and identified for such contracting to be approved.

I was wondering if any of you felt it would be helpful, and I don't want to open it up again, but yes or no?

Mr. CASE. That's what I was alluding to.

Mr. CARTER. Yes; we definitely feel it would be helpful, Congressman Harris, and it has a serious impact on the community; Federal funding for schools. There are a lot of areas.

Mr. HARRIS. The point that seems to strike me the hardest is especially as we know the way the regulations or policy is now, you could do an analysis—and I have the notion that those in authority are probably doing an analysis—with a policy to say that they can show \$1 saving going out if they can look good, and the operation looks good, and everything is fine.

But it seems to me that if you are at a place where you're going to change the whole structure in a given area by maybe moving some people in from North Carolina or Oklahoma, or what have you, to see if they can't do the job well for a year and a half, that you may not be taking into consideration some of the factors that you should be considering.

And that is, you are causing, as a previous witness says, you are causing considerable turbulence, not just a turbulence with regard to the economics of running a base or a Federal facility, but turbulence in the life of a whole lot of people which may take considerable time, sometimes years, before it's resolved and settled—and sometimes never completely settled.

And it seems to me we're going to make some of these basic decisions. If we come up with a contract that thick with respect to contracting out carpools, then we ought to be able to have maybe a couple of those pages dealing with the people that are affected in rather precise terms, and maybe give them an idea whether or not it's a good idea.

Thank you, Madam Chairwoman.

Mr. CARTER. Congressman Harris, if I may, when it boils down to flesh peddling and scab wages, we really think the Government should not be a party to it.

Ms. SCHROEDER. Thank you.

Mr. HARRIS. I didn't know we were contracting that out.

Ms. SCHROEDER. This subcommittee is unalterably opposed to flesh peddling. No question about it.

I wanted to ask Mr. Dalla a question about the mint. I take it from your testimony that you have attempted, over a long period of time, to engage with the Treasury Department in a dialogue as to what should and should not be contracted out.

In other words, what are really truly governmental functions, and your feeling is the controlling of the currency truly is, and if you are contracting out all of the pieces, you suddenly find you are not controlling the currency anymore. Is that what you are saying?

Mr. DALLA. Yes; I am. Again, Congresswoman Schroeder, the kind of contracting out in the Bureau of the Mint is entirely different than what is being discussed here.

It's performed at the contractor's site, then that product is brought back to the mint, and it's processed further until it comes out as a coin.

Ms. SCHROEDER. But you don't make a coin if they don't deliver the product?

Mr. DALLA. That's correct.

Ms. SCHROEDER. There is no way you can make a coin if one of those contractors does not come through?

Mr. DALLA. It used to be we could—we were self-sustaining, but we no longer are. If there is a strike at the Olan Corp., I guess, who makes 90 percent of what we call the strip, the metal that the coin is eventually made from, if there was a major strike at Olan, I would say with the inventories I am aware of, I would say inside 5 to 6 months, the presses would come to a halt.

Ms. SCHROEDER. And what has the Treasury's response to your union been? They refuse to discuss it?

Mr. DALLA. I really can't say. I haven't been involved with that. That's been handled by some of our national leaders, and I know a lot of it deals with secrecy stuff to do with the coinage, et cetera—and I really don't know.

Ms. SCHROEDER. If you can find out any of that, we would appreciate having it because I think that is interesting.

Mr. DALLA. I think we have tried, you know, everything at the mint. When you make a request for something, as a union representative, you have to go through FOIA. It's a very complex procedure, and when you try to get cost factors, cost in-house versus the manufacturer, they literally fight you, and some of the stuff has been provided in a national unfair labor practice that was filed by the mint counsel in our national AFGE, which does have that information.

Ms. SCHROEDER. And you have not really been able to see the cost data comparisons?

Mr. DALLA. No, I have not. Except I was told, prior to coming to this subcommittee, by the deputy superintendent of the Denver Mint, that the in-house operation of the specific incident that I speak to, in my prepared testimony, is much cheaper than the contractor, which was Olan.

Ms. SCHROEDER. Have you made any request ever to look at that again? Do you know if the union has to look at Olan?

Mr. DALLA. No, not that I know of. The thing of it is, the operation that was contracted out to Olan we can no longer recapture at the mint because the machinery was sold to scrap; the rooms were remodeled.

You know, because of the so-called coin projection which never materialized—and you talk about impact, Mr. Harris, I am not aware—I gathered from your question that there is some kind of a requirement for management to file a personal impact statement. Is that correct?

Ms. SCHROEDER. There is not.

Mr. HARRIS. What I was suggesting is that there should be.

Mr. DALLA. There certainly should be, because 51 employees lost their jobs at the mint. They have never been replaced, and we were told nobody would lose their job.

Ms. SCHROEDER. And the equipment was lost?

Mr. DALLA. The equipment was sold—millions of dollars of equipment was sold for scrap, salvage, whatever.

Ms. SCHROEDER. What you are saying is that you can't bring that back in-house?

Mr. DALLA. Absolutely not. It's gone forever, unless you were to build a new mint, then you could build these operations again.

Ms. SCHROEDER. I appreciate that because I wanted to make sure that was clarified; you really felt that was a proper governmental function that you could rightfully say should not have been contracted out.

Mr. CARTER. Congresswoman Schroeder, we would like to know, with the manipulations of the metals today, gold, copper, and silver, just how much is raked off as a result of that being in the private sector, and doesn't benefit or come back to the contractor.

We think those figures would be shocking if someone could dig them up.

Ms. SCHROEDER. I would like to know them, too, and there is some Congressman who wanted to contract the whole mint with all the currency being made by private contractors, which is very interesting.

It's also a security problem as to who controls the presses and can you do freelance work at night. It might be an interesting place to work.

Mr. BOURRIE. I would also like to agree that there ought to be an impact statement, and I realize this is particularly important to the poorly educated that are holding some of these jobs because there is a cost factor here that probably is ignored, such as how many of them are going to go on relief, and this is going to cost the Government a considerable amount of money because these are the people that historically have been unemployed for long periods of time. Thank you.

Ms. SCHROEDER. You make an excellent point. In our first hearing with the Office of Management and Budget, when we were asking them where in the world they came up with the new figure, they in essence said, they had not taken that into account, and I think that's why they have cut that figure about in half, which is very interesting.

And we are continuing to pursue it, but they had a policy of subcontracting out everything you possibly can, and that figure of 24.1 percent going from 7 percent to 24 percent in that short time, like 1 month, was incredible.

Mr. CARTER. I would like to offer something else to committee to consider. At the end of each year, the Government agencies go all out to spend their dollars, and there is no real incentive to save.

Because if you save your money, you were penalized. We are concerned about that. I've had numerous people come to me and say I have been directed to spend as much as a quarter of a million dollars in pencils, paper, paper clips. Get rid of that money in supplies because we can't have it carried over into the next fiscal year.

I think this is a heck of a way to run anything. There's got to be an incentive for agencies to save, and then not be penalized in the next coming year on their budgets.

If they get \$500 million this year, and they don't spend \$500 million, they are in trouble. So what do they do? Come in and ask for \$550 million. It escalates and escalates and escalates.

We mentioned earlier if industrial funding the project should be laid on the line, the cards should be laid on the line, and these figures should be realistic, and they have to be adjusted.

They will be up and down the next year. But spending every dollar you have and not having a system, this would encourage the agencies to save is not in our best interest as Federal employees.

It's just not in our best interests to spend that money. I have witnessed situations like I wanted to go on a TDY trip, very important trip. It was in April.

Sorry, we can't send you. We don't have sufficient funds. Just before July I was told to go on the same trip. I said I don't need to go now, and they told me to go now because we have to spend the money.

I don't understand why we function that way, and why someone at the congressional level won't lay out those guidelines and encourage the incentive for saving.

And I know from my 25 years experience in the Federal Government, it can be done, and if we are willing to do it, and we will do it, but if we muddy the water, someone steps on our toes and guys—people—I won't say guys—men and women are afraid of their jobs, losing that security that they have spent the years for.

They don't want to muddy that water, and we have seen what happens when they do blow the whistle on these issues, and we need a method which we can encourage saving, not just spend, spend for the sake of spending.

MS. SCHROEDER. I agree 100 percent, and we will certainly take that into account. I want to ask you, Mr. Carter, how much time your union spends on this. I know you have just done incredible amounts of work citing so many of these contracting out situations.

I know our office has been tied in knots. I know GAO groans if we pick up the phone and say we have another one for you.

As I say, the Lowry one took 60 days to read the contract. I know almost every other congressional office, and I'm sure Congressman Harris, representing the number of Federal employees he does, is subjected to the thing constantly.

Have you figured out the amount of money and time that must be spent if you figure out what we are spending just dealing with what the true facts are, whether or not it should be contracted out, and the time you are having to put into the personnel impact statement since it is not required. Have you any idea how much time your union has spent on this?

MR. CARTER. The figures I don't have. The actual figures, I have to be honest about that, but they are certainly large. Our general counsel, I think the documentation he has supplied your office, you can see the count, also a number of hours put in on that one.

In my office alone at five areas, I feel like a fireman; one fire gets out and one starts. Everything settles down at Lowry and at the Air Force Academy on contracting out, now I am involved last night with Fitzsimons, so again I am on the carpet.

Now I find out Rocky Mountain Arsenal has little problems coming up out of the woodwork which didn't exist when we were making our original investigation.

We had attorneys coming from Washington to look into this, and the cost of having an attorney out here per diem at his hourly rate,

and we hired a local attorney because we can't use our attorneys because they are not allowed to practice here, so we hire a local attorney at \$40 an hour.

Mr. HARRIS. You didn't contract out?

Mr. CARTER. Yes, sir, we certainly did. We engaged the services of a local attorney who can practice here in the Federal courts, and here is where we don't have the capability, we contract out.

So, in fact, it gets very costly. I think it's costly to the unions, I think it's costly to the taxpayer, it's costly to GAO, it's costly to the Air Force.

We have some serious reservations whether to get down to at least \$36,000 with reference to the General's report, and \$86,000 over a 3-year period.

Ms. SCHROEDER. Don't forget congressional staffs.

Mr. CARTER. How much really dollar savings, it's kind of like I tell the situation where they had a flood in Tennessee, and the Government man came in, says we have got \$4 million to spend in relief, and the guy says in the back how much do we get.

And he says well, you take that and divide it up from the four-State area here involved, that won't be so much.

And the guy says how much. He says then you take that and you have 141 counties, and he says you get another 1,000 cities involved.

And the guy says how much do we get. The guy says \$1.29, and that's where the guy left.

And something has to be done about it. We are concerned to get the impact changed.

Ms. SCHROEDER. I want to commend all of you because I can honestly testify that everyone at this table has been to our office many times, and bringing their files on dollies, almost, and it's phenomenal work. And you care for the people you represent.

I know the arsenal was another example where they cut back the number of guards, and we found a regulation saying they were in violation of their own regulations.

You found it, and after we pursued it and a lot of other people pursued it, it was changed again, but the time and the energy and the effort to educate people to what their own regulations say are enough to send all of us up the walls.

The one specific question I had for you, Mr. Case, you have worked so hard in these areas, you mentioned in your summary that when you asked for current costs and analysis on the kitchen operation, or something that has been contracted out, you have been told that no one is demanding that the cost be reevaluated.

The question is who is the proper person that could demand that cost comparison be redone?

Mr. CASE. I have been trying to find this out because, as I read A-76 and 26.1, this is supposed to be an automatic thing in 3 years.

That they would routinely run a cost analysis. But inquiries to the Air Training Command, manpower or manning section, which is in Building 349 at Lowry Air Force Base, when I go in and ask about that, I can specifically quote a chief master sergeant as saying there has never been a demand from headquarters USAF, so we are not doing it.

Ms. SCHROEDER. So their contention is only if headquarters required it it's done?

Mr. CASE. This is in essence what I drew out. When I went to procurement and asked for the latest IFB for the food services, I was told by the clerk well, that's being negotiated with the present contractor. That's already there.

Like I say, and I can't get any written data, we are in the process of sending in one of our formatted demands under the Freedom of Information Act to try and elicit some of this data from them.

We are treated as an adversary. Don't make many friends, I don't think. You know, one the surface they are nice to me, but the reports that come back are pretty insufficient.

Ms. SCHROEDER. I'm sure they all want to take you to lunch.

Mr. CASE. The whole point is we get an awful lot of information verbally, and we can't confirm it. A specific item that I was really concerned about was in our commissary, the Air Force is in the process of instituting some new kind of compression system.

They have again some initials for that. I can't remember it. It's too long. In essence what we found is they went out and leased part of the commissary to the subcontractor who consistently complained about the service provided to the first level management and employees, but they do nothing to change it.

They continue to let it go, and this was all done and nobody found out until after the fact, and even though we submitted documents to civilian personnel, we got a letter back stating oh, no, that's not taken place.

Ms. SCHROEDER. So you in essence, I think I hear all of you saying, it would be helpful if you had 60 days, 90 days, some kind of notice that the bidding was even being considered.

Mr. CASE. We get that under the table.

Ms. SCHROEDER. You get that under the table, but you don't get it above board. And if you had it ahead of time, you wouldn't always be playing catchup ball after everyone is told it's almost over.

So some kind of a prenotification thing could be very helpful, and then what I think I hear you saying is you read the regulations saying the Air Force automatically reviews the cost analysis after it's contracted out, but you were being told you don't have the right to ask for that, it's not being done, that only the Air Force can ask for it, so if they don't ask, it isn't done.

Mr. CASE. That's what's been said to me. One item in the IFB, I attached—I believe I attached—was the milestone chart laid out by Air Training Command Headquarters at Randolph Air Force Base which said as of July 1, 1977, if it stayed in-house, it would be totally civilian.

If it went out contract, it would be contract service. The minute the contract at Lowry was cancelled, or the award of a contract was cancelled, all of the orders for the military were immediately cancelled, and then it was cancelled, so there is no determination.

But here would be a perfect opportunity to put into practice what the general talked about in his front analysis. In other words, a cost analysis prior to it.

At Lowry, they have the opportunity right now to run a 1-year survey with a total civilian force where they have converted, and they could find out some costs, but they don't want to do it.

I get the impression that somebody in the Air Force wants to keep the costs up by maintaining the 40 military personnel, but how many of those military personnel have CQ or charge of quarters.

How many are on burial detail, how many get a day off because they worked extra hours at night so that you need these rotating people?

None of this is being done. Nobody wanted to find out. They want to run the cost analysis in front of, and then say see what we have done. We have projected a savings of \$2 million.

Well, show me at the end of 3 years that you saved \$2 million.

Ms. SCHROEDER. I have asked the Air Force for some of those cost analyses, and I think it will be interesting to see in the record if they came through in the past, and what the procedure is because I understand your tremendous frustration in trying to seek that out.

I think at this point we have another hearing that will be coming this afternoon on an entirely different topic, which is part-time employment, and we will start a whole new thing, so I suppose what we ought to do is adjourn and feed people because Congress people eat.

I appreciate everyone's time. I appreciate the Air Force in particular staying to hear some of the complaints because in Washington one of the great traits everyone has is the minute it's over, they knock the chairs down getting out the door.

It's probably good for all of us to hear the dialog, and I have been impressed by all the gentlemen at the table all pleading to try and come to some kind of determination.

You don't want to dig a trench and declare a war, but you would like answers to some of these questions and, hopefully, a more amenable situation in the future.

Thank you all for attending. The hearing is adjourned.

[Whereupon the meeting was adjourned to reconvene at the call of the Chair.]

CONTRACTING OUT

TUESDAY, JULY 12, 1977

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON POST OFFICE AND CIVIL SERVICE,
SUBCOMMITTEE ON EMPLOYEE ETHICS AND UTILIZATION,
Washington, D.C.

The subcommittee met at 9:30 a.m. in room 304, Cannon House Office Building, Hon. Patricia Schroeder presiding.

Mrs. SCHROEDER. The meeting will come to order. This is the second hearing of the set that was begun in Denver last Friday on July 8, and I don't think we need to go into too much more detail than that. It's continuing oversight hearing on contracting out and what's been transpiring in that area.

Our first witness this morning is Mr. John Contney, who is executive director of the Linen Supply Association of America. We are delighted to have you with us.

Mr. CONTNEY. Thank you, Congresswoman Schroeder.

STATEMENT OF JOHN CONTNEY, EXECUTIVE DIRECTOR, LINEN SUPPLY ASSOCIATION OF AMERICA

Mr. CONTNEY. Let me introduce myself. I am John Contney and I am the executive director of the Linen Supply Association of America headquartered in Miami Beach, Fla.

Let me give you just a little bit of background about what our organization is. Our members operate laundries and rent linen to a wide variety of end users: health care facilities, nursing homes, restaurants, barber shops, hotels, motels, basically any kind of facility that uses linen. We do laundry and provide linen. Our members operate rather diverse services. In one instance a company may offer retail linen rental, or contract laundering, and so forth. There are really a wide variety of services.

Our members represent about 90 percent of the dollar volume of the industry in the United States and Canada. We operate about 1,300 of the approximately 1,500 large laundering plants in the United States. We think we are well qualified in terms of representation of what our members really do.

We have been working with the Office of Management and Budget on Federal contracting for laundry services for quite some time.

Rather than read my full statement, I would appreciate it if you could enter it in the record, and I think I will highlight some of the specific examples.

Mrs. SCHROEDER. You may proceed.

Mr. CONTNEY. I have been personally working with a number of Government agencies for the last 8 or 9 years in an attempt to find some way where our members can get a way to bid against existing Government services. One thing I would like to bring to the attention of the subcommittee, although the OMB Circular A-76 does exist in terms of our industry's services, it's not being implemented. Let me give some specific examples.

In Fort George G. Meade, Md., in 1972, one of our members received a request to bid on the laundering operations from the procurement division at Fort George Meade. Our member spent a considerable amount of time trying to find out what the requirements were. In the end, our member was simply unable to present a proper bid, because although he had asked for it, he was unable to find out what the product mix of laundry was, that is, how many of the items had to be laundered, how many had to be pressed, how many items, such as towels, simply had to be fluffed dry and didn't require ironing. There was simply a line item that said, "246,584 bulk rate pieces." He simply could not get the proper information from the existing laundry as to what their requirements really were. In the end, he felt that there was just no accurate way he could get any information about their true laundering needs.

We followed it up in 1975. We asked for and obtained a copy, under the Freedom of Information Act, of a report of that operation, and the justification given for retention of the laundry function was based on "lack of response from commercial sources to perform the total requirement." We simply couldn't get the information to make a proper bid.

A second example: In Guam one of the members operates the only commercial laundry establishment on Guam. He has been trying to bid for several years against the Naval exchange laundry on Guam. Despite the fact in 1975 his offering prices were 15 percent below the existing prices charged by the Navy exchange laundry, the bid was awarded to that laundry. In 1976 our member entered a bid which resulted in his being awarded the contract. The Nex laundry found the prices they had charged in 1975 actually resulted in their operating at a loss. So, our member was competitive. He did offer proper service, and he was less expensive than the existing Government operation.

On that same small island, all of the member's efforts to bid for the Air Force work have been futile. The Air Force base there, he tells us, has simply been negotiating prices with the Nex laundry. He has been unable to get a commercial bid.

I think maybe the more specific example, and one that would offer the Government the best possible way of saving a considerable amount of money, would be with the Veterans' Administration hospitals. I personally have met with members of the Veterans' Administration trying to see if we could establish some way of proving the worth of our services. We really got absolutely nowhere. The Veterans' Administration people have been very cordial. If I asked for a meeting, I have been granted one. The net result has been zero. We simply want to get a chance to prove the worth of our services.

In December 1974 we requested and paid for under the Freedom of Information Act a detailed cost analysis study of laundry operations

maintained by VA hospitals. The majority of the laundry operations at the VA hospitals cited in the analysis which we received had extremely high costs. For example, one commonly used price in our industry is a "cost per pound" for laundry work: How many pounds of laundry do you have and what is the price per pound. A good average commercial price for laundry work in that period, from 1973 to 1974, in just about every area of the country ranged from 12 to 15 cents a pound. That's the level of commercial price. In that same period, of the 113 VA hospitals where we did get cost data, only 32 had costs less than 12 cents per pound. Some had costs as high as 20 cents a pound.

We believe that we had probably a very good chance in terms of cost of justification to serve the majority of the VA hospitals at less cost than their present cost. This still continues.

For example, at the VA hospital in Richmond, Va., one of the members in the Richmond area was asked to bid on the work in June of 1977. He did make a bid, and he was told his bid was the lowest bid. Yet he was told the laundry work would remain in-house. We don't know why the laundry work remains in-house when he was told he had the lowest bid.

Although, with the Veterans' Administration hospital in Chicago, the VA laundry manager has contacted us and said his laundry costs are too high, in his opinion. He, the laundry manager, believes that work can be done commercially for less.

Our member has advised us that he is willing to do the work. He has the plant capacity to do so, but he has not been given the opportunity to bid on the work. He has actually been barred from entering the laundry plant to see exactly what they are doing.

We think we have further data to prove the worth of our services. The Government Accounting Office in a recent publication in March of this year studied 16 installations of laundry and dry cleaning services. Of those, seven, or 44 percent, have cost study results which showed the private contractors were less costly than the same services performed by Government installations.

We believe that we have data stretching back over many years proving that our services can be done less expensively than existing Government installations.

I would like you to give consideration, too, to the effect on health care costs, because many of the existing Government laundry installations are hospital laundries. We believe we can save the Government a considerable amount of money. As you know, there is an existing capacity in the laundry industry. Our members have the facilities; they can do the work.

Our recommendations are simply these: Although we object, for example, to the reduction in the retiring benefit costs in the OMB circular A-76, the major point we would like to make is, although the circular exists, it's simply not being implemented for our industry. We simply cannot get an opportunity to bid properly and to show the true worth of our services.

We are trying to get accurate cost information. For example, in December of last year, we asked for cost data for six newly constructed Veterans' Administration hospital laundries. We only received expenses for two. Of those two, although we had asked for all costs, we

were provided data on only four items: personnel costs, utility costs, supply costs, and repair expenses. We were never told the cost of insurance, administrative overhead, and depreciation.

If the agency cannot provide us with data on costs, from this lack of information we simply don't know their true costs, how can we really prepare a competitive bid against the existing companies.

We have further examples we could give you on specifics and where we believe our industry can serve a better job.

Really, our recommendations are simply this: We believe the Federal Government should not build any new laundering operations until after they see whether commercial services are available. Second, there is really no need to continue existing Government operations when we believe that private industry can serve them with better service and at a lower cost.

That's the end of my prepared statement. If you have any questions I would be very glad to answer them.

Mrs. SCHROEDER. Thank you very much.

You made some comment that you did not like the new OMB circular which has revised the percentage amount. Do you have any further comment on that as to why you don't like it?

Mr. CONTNEY. Yes; I do. In terms of percentages, if it is the Government's policy to completely fund retirement costs, it would seem to us that the percentage figure of 14 percent is far too low to fund total retirements costs for Government employees. We don't know what the accurate figure is, but we believe that figure is much too low. Whether it's that figure or 24.7 percent, we can't say. We do believe in terms of general retirement costs, the figure should be higher.

Mrs. SCHROEDER. I see, so you haven't done your own study. You think it's probably more than that.

Mr. CONTNEY. That's correct.

Mrs. SCHROEDER. Congressman White.

Mr. WHITE. Thank you, Madam Chairwoman.

Let me ask you a few questions. Of course, you're not contending that the governmental agencies, such as the military bases, shouldn't have its own in-house capacity of some sort in the event its called overseas for some other duty.

Mr. CONTNEY. Well, Congressman, let me make one suggestion. We find it hard to justify the fact of having a laundry operation that's in Government preparedness, because very rarely can you transport the laundry equipment from the base to overseas where it might be necessary for combat readiness. There are a number of other alternatives that could be done. For example, in terms of military installations and military laundering, one of the options could be a private contractor to train the laundry workers, whoever they may be. Those laundry workers could be transported to a facility, because the equipment certainly can't be transferred.

Mr. WHITE. How do you know it can't be transferred?

Mr. CONTNEY. The piping characteristics of laundering equipment, washers, dryers, energy source, they are really almost embedded in concrete.

Mr. WHITE. Who does the cleaning overseas?

Mr. CONTNEY. They have field laundries. Those are portable equip-

ment; that's different than what's generally used in existing base installations.

Mr. WHITE. What type of training do they take prior to going overseas?

Mr. CONTNEY. I'm sorry, I can't answer that. I would expect there are probably military personnel trained in laundering procedures.

Mr. WHITE. When the laundry is done in-house, is it done by military personnel or nonappropriated people?

Mr. CONTNEY. Primarily blue collar people.

Mr. WHITE. So they are not transported overseas at all.

Mr. CONTNEY. That's correct.

Mr. WHITE. What are you saying the cost to the Government is per pound when done by your organization or an organization like yours?

Mr. CONTNEY. Again, our members operate in many localities and many areas. I would be hardpressed to give an average price as to cost, but I can refer to the historic cost, what we did in the previous period, 1973 to 1974. Our average commercial cost then was 12 to 15 cents per pound, and the VA laundry costs then went as high as 20 cents a pound.

Mr. WHITE. What about the military, are you using the military as any kind of comparative figure?

Mr. CONTNEY. No, I'm not using the military.

Mr. WHITE. You're just talking about VA.

Mr. CONTNEY. The specific cost data we have here is from VA.

Mr. WHITE. Do you have any on the cost for the military?

Mr. CONTNEY. Not specifically, no.

Mr. WHITE. Well, what percentage of the laundry done in the military is done by contracting out today as compared to in-house laundering?

Mr. CONTNEY. We don't have accurate figures, Congressman. We do know that a number of agencies have been more amenable, generally speaking, to contract work than others. For example, the Navy uses more contract facilities probably than an other.

Mr. WHITE. So, what is their percentage as compared to the private?

Mr. CONTNEY. I don't have specific information.

Mr. WHITE. What does the VA have as compared to private contractors?

Mr. CONTNEY. I believe, to the best of my knowledge, all the VA laundries are all in-house. I don't know of any VA installation that uses outside services.

Mr. WHITE. When you speak of laundering, you're talking about all aspects, that is, ironing of shirts, washing, or are you just talking about linens?

Mr. CONTNEY. Basically every type of linen used in VA installations.

Mr. WHITE. That's all I have.

Mrs. SCHROEDER. Thank you, Mr. White.

Congressman Harris.

Mr. HARRIS. Thank you, Madam Chairwoman.

It seems to me that your recommendation of no new Government owned or operated laundry facilities was a fairly extreme one. I can see a certain amount of reliability, in that you're going to have outside

laundering services in major metropolitan areas. I am thinking of installations, major installations, where the complete reliance upon laundry service from the outside could leave the installation in a very tenuous position, if that laundry went bankrupt, or the guy who has been running it with his cousin and family for years decided to retire.

Mr. WHITE. Or if they go on strike.

Mr. HARRIS. Or if they go strike. I just wonder, it seems to me as you look at this overall problem, that realistically you have to strike a balance. You can't just look at price. You have to look at price and pride; you have to look at reliability, and you have to look at what kind of assurance you had for long-term service, or alternatives if the contractor that you became completely reliant upon went out of business. Do you think that's necessary?

Mr. CONTNEY. Yes, Congressman. I think you bring up a very good point. I don't think my recommendation would be that no new Government laundries should ever be built. Of course, there should be some factors concerned with availability of services. For example, I think you would want to have the availability of more than one contractor, so you would have the assurance of getting competitive bids. Certainly there are instances where we're saying that it would be taken with reasonable justification.

Our problems go beyond that. It's simply this: we don't see any real implementation of Circular A-76 in the laundering business for those installations that could better be served by private industry, where there are facilities, where there is continuance of service, where there are many more than one contractor available for competitive bidding. We simply want to get a chance to prove the worth of our services where they do exist, and they do exist in many, many localities in the United States.

Mr. HARRIS. You seem to indicate you have difficulty determining or discovering the procedure that some of these installations are using to make their evaluation. This subcommittee had testimony from military bases that indicate a very detailed type of determination, formulas, and factors used, and we actually had testimony that indicated that if there's one dollar of difference in savings, they go, as one general said, "out-house," and, on the other hand, do not come back in-house unless there's a 10-percent differential.

Is it your testimony that the way these evaluations and determinations are made are not made public or that information is not made available to your industry?

Mr. CONTNEY. I would like to answer that question this way, and just with one specific example about the Richmond, Va., operation, where our member was advised that his bid entered was the lowest bid, yet the work remains in-house. We don't know why. We don't know the results of cost study information. We don't know why the decision was made in-house. We don't really see—we have not seen the cost figures to know.

Mr. HARRIS. And you have asked for them?

Mr. CONTNEY. Yes.

Mr. HARRIS. What installation is that?

Mr. CONTNEY. This is the VA hospital laundry in Richmond, Va. I believe this is done on the Fort Lee installation.

Mr. HARRIS. Madam Chairwoman, it seems to me that we've had at least some ancillary testimony before this subcommittee where there is a serious question whether public information is being made public. I feel strongly if industries ask to bid on projects, after the bids are prepared and submitted, and that none of the bids are going to be accepted, this shifts the burden of proof to the Government or installation to make public the figures on the basis of which all these bids are being rejected. The industry goes to great expense to prepare these things. That expense is eventually going to be borne by us.

If these are objective determinations for the most part, it seems they should be public. It seems to me the industry has a right to see them.

The testimony we have had this morning seems to indicate the VA as a pattern does not release this information.

Is this correct?

Mr. CONTNEY. Yes, Congressman; the only way we could get the information was to request it under the Freedom of Information Act and pay for it ourselves.

Mr. HARRIS. Thank you, Madam Chairwoman.

Mrs. SCHROEDER. I think one of the things that's of interest is both sides are complaining about the lack of information. I think something is going on.

Congressman Corcoran.

Mr. CORCORAN. Thank you, Madam Chairwoman.

I certainly appreciate your testimony this morning, and I think it raises several questions which I believe this subcommittee will pursue. I think in the previous answers you've provided, you have indicated the impact that OMB's Circular A-76 has on the linen supply industry. Would you have any knowledge whether or not other private industries are having the same kind of difficulty in providing services to the Government?

Mr. CONTNEY. Congressman Corcoran, I can really only speak for our industry. I have no knowledge of any of the other problems.

Mr. CORCORAN. Thank you very much.

Mrs. SCHROEDER. Counsel, do you have any questions?

Mr. KNULL. No.

Mrs. SCHROEDER. Thank you very much. We truly do appreciate the testimony and the trying times you have been through. Hopefully this kind of further dialog will help add some things. As I said, one of the interesting things is both sides are complaining about the lack of information.

Mr. WHITE. Excuse me, may I ask a question.

Mrs. SCHROEDER. Certainly.

Mr. WHITE. In the course of your dealings with the various governmental agencies, have you run into any problems concerning minority contracts?

Mr. CONTNEY. No, Congressman, we have not.

Mr. WHITE. None whatever from your industry?

Mr. CONTNEY. I'm just going back in my own knowledge; I think that—no, I only know of one instance in our industry where one of our member's contracts—it was not a Government installation; it was private—that was awarded to a minority on a price higher than he

quoted. It's the only example I know of in my own knowledge. I can't even recall where it was at this point.

Mr. WHITE. The second thing I was going to ask is: all of this equipment has already been purchased and is in place, at least in the military and VA installations. How would you regard that in the total picture, total utilization of facilities? Is this cranked into your equation as to relative values? Were you taking into consideration the non-use of this particular equipment?

Mr. CONTNEY. Yes, Congressman, let me give you a—I would say most of the costs of laundering operations are people costs. It's a highly labor-intensive industry. The cost because of the depreciation of the equipment is minor. We still haven't found a way to take a limp piece of material and run it through an iron; it has to be done by hand. The cost of the equipment is relatively minor in private industry.

For example, one hospital cooperative laundry operation that was built with brand new equipment in a new building in New Jersey, the laundry was closed down. The total cost in repaying the capital and going to private industry—this is paying capital on a building that's not being used—is less than what the cost would be had the laundry continued to operate.

So we think in many Government installations, if we are given the chance, many Government facilities could be closed down and the total cost could be less than if the facility continued to operate.

Mr. WHITE. There's a number of veterans hospitals being constructed. I have heard the figure six; maybe there are more, maybe less. What avenues has your organization taken to talk to the government trying to induce them rather than to go into this great capital task to consider the possibility of contracting out and saving them building and equipment costs?

Mr. CONTNEY. Congressman, I'm glad you asked that question, because we have been in contact with the Veterans' Administration. We asked for—this is in December of 1976. The reply we had from the VA was "attached information is furnished in response to your request for the most recent cost data for the last six major laundry projects completed by the Veterans' Administration. Only two laundry projects meet your request requirements, but I trust these will be sufficient for your needs."

Mr. WHITE. That doesn't answer the question, though. The question is: have you gone to the Government urging them to make some kind of contracting out policy to prevent their purchasing equipment and building the buildings in the first place?

Mr. CONTNEY. Yes, Congressman, and we have gotten absolutely nowhere.

Mr. WHITE. You actually made that effort?

Mr. CONTNEY. We asked to find out what was under construction. We've been told there's only one laundry under construction, that's Leavenworth, Kans. We have no information from anyone to say that private industry was given a chance to bid on that work prior to construction.

Mr. WHITE. What effort has been made in Washington to see the administrators themselves, to talk to them about developing a basic policy?

Mr. CONTNEY. Congressman, I have been in Washington off and on for about the last 6 years. I have met with officials of the Veterans' Administration. I simply cannot get the information.

Mr. WHITE. I'm not asking about information; I'm talking about an agreement.

Mr. CONTNEY. We were not even able to get any information until we requested it from the Freedom of Information Act, and until we paid for that information. We have been requesting the right to bid before new construction is begun.

Mr. WHITE. You still haven't answered my question, which is, what has your organization done to talk to the heads of the Veterans' Administration about a basic policy on construction of new hospitals to try to prevent their cranking in equipment, laundry equipment, with a basic policy for contracting out?

Mr. CONTNEY. We have met personally with officials of the VA, and we have had correspondence with them by letter.

Mr. WHITE. For what?

Mr. CONTNEY. For the purpose of seeing what new facilities are under construction, and can we as private industry offer a bid before that construction is started.

Mr. WHITE. Have you asked them not to put in laundry equipment?

Mr. CONTNEY. Yes, we have asked them not to put in laundry equipment until private industry can give a bid, and we cannot get the information.

Mr. WHITE. Thank you.

Mrs. SCHROEDER. Any more questions?

[No response.]

Mrs. SCHROEDER. Thank you again. We appreciate your appearing. [The prepared statement of Mr. Contney follows:]

LINEN SUPPLY ASSOCIATION OF AMERICA

STATEMENT ON OFFICE OF MANAGEMENT AND BUDGET POLICY
OMB CIRCULAR A-76

BEFORE THE

COMMITTEE ON POST OFFICE AND CIVIL SERVICE
SUBCOMMITTEE ON EMPLOYEE ETHICS AND UTILIZATION

JULY 12, 1977

My name is John J. Contney, and I am the Executive Director of the Linen Supply Association of America, headquartered in Miami Beach, Florida.

I appreciate the opportunity to be heard on the subject of Office of Management and Budget Policy changes concerning the federal contracting for commercial and industrial type activities. In the interest of time, I will limit my comments to a summary of our complete statement which, if you have no objection, we ask to be entered in the hearing record.

First of all, let me explain who we are and why we are here today.

The Linen Supply Association of America (LSAA) is a voluntary trade association consisting of members who operate over 1,300 laundering plants in the United States. Member companies rent and service hygienically clean textile items to millions of customers in commerce, industry, and the professions. Major customers of most linen supply companies are hospitals, nursing homes, doctors' and dentists' offices, medical and dental clinics, schools, and other important human needs institutions, as well as restaurants, hotels, food processing companies, retail stores, etc. Virtually every city of even moderate size has at least one linen supply company.

Members of LSAA represent over 90% of the industry dollar sales volume in the United States and Canada. LSAA members are primarily textile rental companies which rent crisp, clean, laundered items to millions of customers. Their services include apparel, towelings, table and bed linens, hospital linen, and a wide range of other cloth items.

The linen supply industry originated in the United States in the 1870s, and has shown a consistent record of steady growth. In 1976, it was estimated that the linen supply industry sales volume was more than \$1.25-billion, with total payrolls of about \$500-million.

As the textile rental industry has expanded, there has been a corresponding expansion of the technological knowledge of proper laundering and textile use. As a result, significant cost savings have accrued to many establishments, including Government activities, using our members' services.

Our members have long been aware of the fact that it is the Government's general policy to rely upon the private enterprise system to supply its needs, except where it is in the national interest for the Government to directly provide the needed services. We are familiar with OMB Circular A-76, and we indicated our support last August (1976) when the Office of Management and Budget issued its proposed increase in the retirement cost factor to 24.7%.

We are disappointed that the new Administration has issued a temporary reversal of that policy. But, we are pleased that the OMB is now conducting a thorough review of the entire policy. We have notified James T. McIntyre, Jr., Deputy Director of the OMB, in June of this year, that we offer our services during the review process for Circular A-76.

Of course, we believe that there are instances where not every institution would benefit from contracting out for their laundry and linen services. But, we do have data that shows that the costs of operating many Government laundries are excessive. We believe that substantial savings could be achieved by the Government if outside laundry and linen services were used.

U.S. Federal Government agencies should not establish their own laundries or continue laundering operations when satisfactory facilities are available to them in the linen service or commercial laundry field in their own areas at a fair price based on acceptable cost accounting practices.

LSAA represents its linen supply members who rent linens to a wide variety of end-users. Many LSAA members can and do provide laundry and linen supply services to federal institutions at a cost significantly lower than now being incurred by similar on-the-premise installations.

Allow me to highlight for you some of the typical experiences we have had over many years in attempting to prove the worth of our services and to bid on other Government laundering operations.

Basically, Congresswoman Schroeder, we feel we are being "had". As one of our members has said, "We have worked very hard with the Government. Our efforts have netted us a complete goose egg, since they have continually refused to allow us to bid on their business while negotiating prices with their own laundering operations."

Our reason for appearing before you today is to open your eyes to the fact that the OMB Circular A-76 is simply not being implemented by some agencies within the Government. We have some examples of what our members have been experiencing in their dealings with Government agencies, and we would like to share these experiences with you now. The full details of these situations will be made available to the Subcommittee, should you so desire.

There are two basic problems. Essentially, we are not getting sufficient information to bid properly. Secondly, when we do get information and present our bid, we never again hear from the Government agency as to why our bid was not accepted. As a result, we are consistently prevented from getting what we rightfully believe will be a most economical replacement to Government-owned and operated laundries.

Here are some specific examples:

1. Fort George G. Meade - Department of the Army

In 1972, one of our members received a request for a bid on the laundering operation from the Procurement Division at Fort George G. Meade, Maryland. The member spent a considerable amount of time attempting to conform to the bid specifications. There was a great deal of correspondence back and forth between Fort Meade and the linen supply company.

In the end, the linen supply company was unable to make an acceptable and economical bid. He was unable to find out the specific types of laundering work on which he was asked to bid. He simply needed to know, for example, how many pieces of what types were being laundered and finished; that is, how many pieces were sheets and must be ironed, how many pieces were garments and must be pressed, and how many pieces were towels and had to be simply tumble-dried. It simply made no sense to him to have to bid on a line item that said, "246,584 bulk rate pieces".

The linen supply company felt that there was no accurate way of determining the true needs of the laundering and the supply of linens for Fort Meade, and that Fort Meade was simply "going through the motions" of making cost comparisons to satisfy the regulations.

Subsequently, in 1975, and pursuant to our request under the Freedom of Information Act, we obtained a copy of the "1972 Commercial-Industrial Type Function Review of the Laundry and Dry Cleaning Operations" at Fort Meade. The justification given for retention of the laundry and dry cleaning function as a Government-operated facility was based on a "lack of response from commercial sources to perform the total requirement".

2. Guam

One of our members operates the only commercial laundry establishment on Guam. After considerable effort, he was finally allowed to participate recently in the bidding procedure for the Navy appropriated fund activities against the existing Naval Exchange laundry (NEX).

Despite the fact that, in 1975, his offering prices were 15% below the existing prices charged by the NEX, the bid was awarded to the NEX. Then, in 1976, our member entered a bid which resulted in his being awarded the contract for one year. The NEX laundry, despite all its higher prices and its subsidies, had found that its 1975 prices had resulted in a loss.

However, during this same time span, our member's efforts with the Air Force people at Andersen Air Force Base, have been futile. He has continuously been refused an opportunity to bid on their appropriated fund business while the Air Force has been negotiating prices with the NEX laundry.

3. Veterans Administration

This is another example of where our members have continually run into problems in trying to bid on the laundry work from Veterans Administration hospitals. We cannot even begin to tell you of the number of times that our members have been refused the opportunity to bid on V.A. hospital laundry work.

I, personally, have met, over many years, with the Veterans Administration and discussed how our members could bid on V.A. hospital laundry work. I was told that the V.A. conducts its cost comparison for their laundry operations, and was assured that consideration of outside commercial laundries has always been the V.A. policy in determining whether or not to maintain the laundry facility in-house. Yet, never in my experience has the V.A. presented any one of our members with an acceptable request for a bid so that our members could logically prepare a competitive price quotation.

We have had to pursue our requests under the Freedom of Information Act. In 1974, we requested from the Veterans Administration, and paid for, a cost analysis study of laundry operations maintained by V.A. hospitals.

The majority of the laundry operations at the V.A. hospitals cited in the analysis which we received, had extremely high costs. For example, one commonly used price in our industry is a "cost-per-pound" for laundry work. A good average commercial price for laundry work for hospitals in the period covered by the study - July, 1973 to June, 1974 - was in the range of about 12¢ to 15¢ per pound. Of the 113 V.A. hospital laundry operations covered by the study, only 32 had costs less than 12¢ per pound. Some had costs as high as 20¢ per pound.

4. V.A. Hospital, Richmond, Virginia

One of our members in the Richmond area was asked to bid on this V.A. hospital laundry work. He was told that his bid was the low bid. But, finally, as he began to press for more answers,

he was told that the laundry work would remain in-house at the V. A. hospital in Richmond, Virginia. We do not know why. We do not know how we can prove the economic worth of our service.

5. Hines, Illinois

In the Chicago area, one of our members was contacted by the V.A. hospital laundry manager, who said that it was his belief that internal operating costs for V.A. laundry work were too high. Our member is prepared to bid on the work, which he advises us he can handle. Not only has he not been given the opportunity to bid on the work, he has not even been allowed to enter the V.A. laundering plant for the purpose of a usage survey.

6. GAO Report

In a recent publication entitled "How to Improve Procedures for Deciding Between Contractor and In-House Military Base Support Services", published by the Department of Defense, March 28, 1977, (Publication LCD-76-347), the General Accounting Office listed 16 installations which had performed cost studies on laundry and dry cleaning services. Of these, seven - or 44% - had cost study results which showed that private contractors were less costly than the same services performed by Government installations.

7. Also Consider How This Affects Health Care Costs

With the current review of the ever-increasing costs of health care throughout the country, we would hope that your Committee would be particularly concerned with whether or not hospitals can provide laundry and linen requirements economically and well, or whether these could be done by outside laundering service companies more economically and efficiently.

By relying on the private sector to provide a hospital with its linen and laundry requirements, the hospital administrator is free of the worries and troubles inherent in laundry management. He is also freed from the problems of recruiting and training specialized laundry labor, and of continually updating his laundry processing equipment. In addition to eliminating the waste of valuable building space for the expensive installation and operation of the laundry, the hospital officials are also relieved of the responsibility of operating the laundry and can devote more time to patient care. At a time when the United States is thoroughly examining all of the avenues of cost containment for hospitals, the avenue of outside commercial laundering services simply must not be overlooked.

RECOMMENDATIONS

1. We feel that legislation is needed to force the Government agency to comply with the directives in OMB Circular A-76. In our estimation, the problem lies not in the policy itself, but in the implementation of the policy set forth in the Circular. As it now stands, the directives outlined in OMB Circular A-76 are there - but, there is no checking to see that they are, in fact, being carried out. Consideration should be given to having someone oversee the contracting office of each agency to, in fact, cost justify continued Federal Government laundering operations.
2. Accurate and real cost factors should be used by all agencies in performing their cost comparisons. The thrust of OMB Circular A-76 is to make a cost comparison. We simply ask that it be an equitable and real cost comparison, based on current factors which are regularly reviewed by the OMB. For example, in our most recent request for cost information on V.A. laundering operations, in December of 1976, we were provided with data on operational expenses that included only personnel, utilities, supplies, maintenance/repair expenses. We were told that cost data was not available for insurance, administrative overhead, and depreciation. How, then, can any agency know its true costs without full cost data?
3. We are opposed to the provision contained in the House DOD Appropriations legislation (H.R. 5970) which prohibits further contracting out until March 15, 1978, until after a study has been completed and analyzed. This will delay further an already too long delayed decision.

CONCLUSION

We could go on with further examples, but we do not want to take up too much of your time. We believe that the recent action taken by the OMB to reduce the retirement cost factor to be used by Government agencies in calculating personnel costs is wrong. It will only serve to the detriment of President Carter's stated policy of encouraging the private sector to perform that which it can do better than the Government.

LSAA members are in private industry. As private industry, we pay taxes. Our industry - the linen supply industry - is an energy efficient recycling industry serving the health and welfare of the communities in which we operate. We, the private sector, have the capability of adequately fulfilling the laundry and linen needs of many federal agencies.

The free enterprise system is the foundation of our national economic strength. A democratic society should encourage individual freedom and initiative, and the Government itself should not be engaged in competition to private enterprise.

We recommend that you consider the following policy:

First - there should be no need to build new Federal Government laundering operations when, in fact, laundering operations with sufficient capacity already exist in private enterprise firms within the community to properly handle the Government's requirements.

Second - there should be no need to continue to operate Federal Government laundries when, in fact, existing private enterprise laundering firms can fill these needs better and at lower cost.

We hope your Committee will agree and propose legislation to force proper implementation of OMB Circular A-76.

Thank you very much for your time. I look forward to answering any questions you may have.

Submitted by:

LINEN SUPPLY ASSOCIATION OF AMERICA
John J. Contney, Executive Director
975 Arthur Godfrey Road, Suite 206
P.O. Box 402427
Miami Beach, Florida 33140

305/532-6371

Mrs. SCHROEDER. Mr. Lester A. Fettig, Administrator, Federal Procurement Policy of the Office of Management and Budget was scheduled to be the next witness. However, he had a conflict in his schedule and is presenting testimony on the Senate side at this time. Mr. James D. Currie, the Assistant Administrator for Logistics, Office of Federal Procurement Policy of the Office of Management and Budget will present the administration testimony.

I must say that I also have a schedule problem. I am a conferee on a conference that goes in at 10:30, and I will turn the Chair over to you, Congressman White.

If you will proceed, Mr. Currie, we will be delighted to hear what you have to say.

Mr. CURRIE. Mr. Fettig sends his apology and his appreciation for your leadership in conducting these hearings and your interest in this program.

Mrs. SCHROEDER. Thank you. You may proceed.

STATEMENT OF JAMES D. CURRIE, ASSISTANT ADMINISTRATOR FOR LOGISTICS, OFFICE OF FEDERAL PROCUREMENT POLICY, OFFICE OF MANAGEMENT AND BUDGET, ON BEHALF OF LESTER A. FETTIG, ADMINISTRATOR, FEDERAL PROCUREMENT POLICY, OFFICE OF MANAGEMENT AND BUDGET

Mr. CURRIE. Madam Chairwoman and members of the subcommittee, thank you for the opportunity to be here today and to contribute to this subcommittee's review of the Government's policy of reliance on the private sector, which is currently expressed in Office of Management and Budget Circular A-76. This is a subject of considerable in-

terest today and I have given it—I am speaking as the Administrator here—a high priority since joining the new administration as the Administrator for Federal Procurement Policy.

When Mr. McIntyre, Deputy Director of OMB, testified before this subcommittee on March 31, 1977, he provided you with the background and origin of the policy and the evolution of the OMB Circular A-76. He reviewed the general provisions and guidelines of the circular and detailed the efforts of the Office of Federal Procurement Policy to improve agency implementation in response to the mandate of our organic legislation, Public Law 93-400.

At the same time, Mr. McIntyre announced the new administration's commitment to conduct a comprehensive review of Circular A-76 and its implementation, to insure that application of the policy is equitable and consistent throughout the executive branch. I would like to direct my testimony today toward that review, which will be conducted under Mr. Fettig's personal direction, and our plans to ensure that the concerns of all interested parties are fully considered.

On June 13, 1977, Mr. Bert Lance, Director of OMB, announced the beginning of a comprehensive review of the Government's general policy of contracting for goods and services in lieu of in-house performance. He acknowledged the increasing criticism that has been directed toward OMB Circular A-76 in recent months, and the inconsistencies and inequities that have occurred in its implementation. Major criticism has been focused on the previous administration's requirements that each agency identify five functions to be reviewed for possible contracting, and on the magnitude of the Government retirement cost factor, 24.7 percent, which was issued last year for computing in-house costs in comparison to commercial performance.

In his announcement, Mr. Lance stated that there would be no moratorium on Circular A-76 during the review, and that agencies had been directed to continue implementation in a cautious and judicious fashion. He further stated that, pending completion of the review, a retirement cost factor of 14.1 percent would be used in lieu of the 24.7 percent figure in comparisons between the costs of Government and contract performance. This action was taken because the methodology supporting the 24.7 percent factor is extremely complex, involving a dynamic normal cost actuarial projection and economic assumptions, and is not fully understood by all concerned parties. The temporary figure of 14.1 percent is derived from a much simpler base; it represents net outlays from the civil service retirement fund, total payments to annuitants minus contributions of active employees. The question of the proper methodology for this factor and the specific figure to be used will be taken up in our review of the circular and its provision.

In the review of Circular A-76, we will be assisted by Mr. Wayne Granquist, Associate Director for Administrative Management, and Mr. Dale McOmber, Assistant Director for Budget Review, both of the Office of Management and Budget. A major consideration, in response to concerns that have been expressed by President Carter, will be to emphasize that agencies should not contract out inappropriate functions such as policymaking responsibilities. In a democratic society, such as that represented by the American political and economic systems, the Government should not engage in business competition with

its citizens. There are certain functions, however, that must be reserved for performance by elected officials and employees responsible to them who are appointed in accordance with prescribed regulations.

Specific provisions of Circular A-76 that have been identified for particular attention in this review are: the criteria for exceptions from the policy of reliance on the private sector, the guidelines for cost comparisons, and the selection of specific activities for review, and the feasibility of an appeals procedure.

Circular A-76 states that it is the Government's general policy to rely on the private enterprise system to supply its needs, except when it is in the national interest to provide directly the products and services it uses. The circumstances that constitute being "in the national interest" are set forth as: use of a commercial source would disrupt or materially delay an agency's program; government performance is necessary for combat support, military training, or mobilization readiness; no satisfactory commercial source is available; the product or service is available from another Federal agency; and use of a commercial source will result in higher cost to the Government.

We must determine whether these exceptions cover all the circumstances under which it would be in the national interest for an agency to initiate or continue to operate a government commercial or industrial activity. We will also consider whether these provisions are sufficiently clear and specific to result in consistent interpretation and application by all executive agencies.

The circular states that a decision to rely upon a government activity for reasons involving relative costs must be supported by a comparative cost analysis which will disclose as accurately as possible the difference between the cost which the Government is incurring or will incur under each alternative. It provides general guidelines and principles to be followed in computing these costs, with the following major provisions:

Costs from commercial sources will include: amounts paid directly to suppliers. This includes direct labor and employee fringe benefit costs such as pensions, insurance, and paid absence, social security contributions, overhead and profit.

It also includes costs for transportation, material, and premium provisions in contracts; expense for preparing, awarding, and managing contracts; and cost due to premature retirement of government personnel and maintaining idled government facilities in standby status.

Cost for government performance will include: direct labor costs for government personnel; fringe benefits, including the full cost of retirement systems, on a normal cost basis; materials, supplies, utilities, and maintenance of facilities and equipment; Federal taxes foregone, and depreciation of newly acquired facilities and equipment; and any incremental indirect or overhead costs directly attributable to government performance of the activity.

These guidelines must be reviewed to determine if they will result in the most accurate measure feasible for the cost of each alternative. The standard cost factors for government employee retirement and insurance benefits, first issued in 1976 and temporarily revised in June 1977, will be re-evaluated to determine their accuracy and applicability to such analyses. The need for additional standard factors

must be considered, as well as the feasibility of more detailed instructions to achieve greater uniformity in agency implementation.

When issued in 1966, Circular A-76 required that all agencies identify their commercial and industrial activities, and review them under the provisions of the circular by June 30, 1968. All activities approved for continuation were to be maintained in a special inventory and reviewed at least once every 3 years thereafter, unless exempted by the agency head from such review.

Even the Department of Defense, which has maintained the most active implementation program of all agencies, has not met this initial requirement, 9 years after the deadline. We must determine whether this requirement is unreasonable, or whether there has been inadequate emphasis and management attention to the policy. Perhaps agencies with many commercial and industrial activities, such as the Defense Department, need more time for the initial reviews.

The triennial review of activities approved for in-house performance should also be evaluated, perhaps some activities should be reviewed on a different cycle. In any event, more stability and predictability in the application of the policy can probably be achieved through better planning and scheduling of the activities to be reviewed.

For example, the Air Force implementation program for this policy has been conducted under strong central control with advanced schedules of the specific functions to be studied each year planned for the next few years. When properly publicized, such schedules would provide advance notice for personnel that might be affected by A-76 reviews and eliminate some of the uncertainty inherent in unplanned implementation.

It has been suggested that an appeal procedure from the results of an A-76 review be established. If such a procedure is formally established, should it be at the agency level or some higher centralized point? One thing is certain: all such decisions will be appealed, and any mechanism set up for this purpose will be busy.

As you can see, there are many aspects of the implementation of this policy to consider, any one of which can have a significant impact on the final results. We are seeking the broadest possible range of comments and recommendations to assure that the interests of all parties are thoroughly considered. We have specifically solicited the views of Congress, the Comptroller General, executive agencies, and concerned labor unions and business organizations. We have also invited public comment through the Federal Register, and expect to receive a wide spectrum of responses by July 13. Our evaluation will require analysis, correlation, and evaluation of these varying recommendations, and refinement into issues with alternative solutions. From this information base, we can develop recommendations for any needed changes in the circular and its implementation guidelines. Our tentative plans at present call for completion of the review and submission of our recommendations to the President in early October of this year.

Current actions by the Congress will have significant short-term effect on the implementation of this policy in the Department of Defense. The fiscal year 1978 Defense authorization bill, as it was reported out by the Senate-House Conference, contained the following provisions relative to contracting out:

The Office of Management and Budget and the Department of Defense are to make a thorough review of Circular A-76 and its guidelines, reporting to the Congress by January 1, 1978, on the results of that study.

Until March 15, 1978, or 90 days after the report to Congress, whichever is earlier, no Defense activity currently being performed by Government employees may be converted to contract performance except in accordance with policies and regulations in effect before June 30, 1976.

The percentage of the Defense budget for research, development, test and evaluation—R.D.T. & E.—which is expended by contract in fiscal year 1978 may not exceed the percentage used for contract performance in fiscal year 1977, for the same time period as the previous restriction.

The major effect of these provisions on the implementation of Circular A-76 is to require that cost comparisons in the Defense Department, for a period of 6 to 8 months, use a factor of 8.44 percent of salary to compute the costs of employee retirement and insurance benefits, instead of the 18.1 percent figure presently prescribed in the circular.

A more stringent limitation on contracting out has been proposed by the House in the Defense appropriations bill for fiscal year 1978, which would place an absolute ban on contracting for base support services, presently performed in-house, until October 1, 1978. Contracts for system engineering and logistical support, maintenance, and R.D.T. & E. to be performed on a military installation would be limited to the percentage of such work contracted at that installation in fiscal 1977. This section of the bill was deleted by the Appropriations Committee in the Senate and will probably become an issue in the Senate-House Conference.

The administration has strongly opposed provisions in these Defense bills which would limit the Secretary's freedom to conduct programs in the most efficient manner, and which would conflict with our objective of uniform implementation of this policy throughout the executive branch. In any event, it will be several weeks before these two bills become law and their impact on the Defense Department is clarified.

Our review is directed toward a long range solution to the controversy that has surrounded the policy of Government reliance on the private sector for many years, and which has intensified with increased emphasis on its implementation. I do not underestimate the difficulty of this task; I realize that we are dealing with a longstanding policy and problem. Circular A-76 was based on 12 years of experience under three prior Bureau of Budget bulletins, and was the product of several years of intense interagency discussion, negotiation, and compromise.

We can now look to almost 12 years of executive agency experience under Circular A-76, and to the studies which have been made by the Procurement Commission, the General Accounting Office, and other parties. We must give proper consideration to the business community and its right to do business with its Government; we must give equal consideration to the concerns of Federal employees regarding continued employment and associated benefits from their Government.

It is clear, however, that in order to reach an enduring solution to the problems that have been identified with this policy, we must look above the parochial interests of the contending factions to the broader national interests, and to our responsibility to provide the citizens of this country with efficient and responsive Government. It is only in this context that the Gordian knot can be severed by policy guidance which is defensible, equitable, and consistent.

It is also clear that no satisfactory solution can be implemented unilaterally by the administration. I need and personally appeal for the support and cooperation of the Congress in this endeavor. You may be assured that we will exert our best efforts, in good faith, to achieve an optimum resolution of this issue which has been so troublesome for both the Congress and the administration. We ask for your counsel and patience with our efforts, and your confidence in our intentions and ability to deal with the problem. With that kind of support from the Congress, I am confident that we will be successful.

This concludes the prepared statement and I will be happy to respond to any questions that you might have.

Mr. WHITE. Thank you very much for delivering Mr. Fettig's statement.

I will call on Mr. Corcoran at this time.

Mr. CORCORAN. Thank you, Mr. Chairman.

Mr. Currie, how long have you been an employee of the Office of Management and Budget?

Mr. CURRIE. Since January of 1957.

Mr. CORCORAN. Before the retirement cost factor of 24.7 became operative in the OMB A-76 circular, what was that cost factor?

Mr. CURRIE. There was none provided in the circular itself, Mr. Corcoran. The circular provided that in making the cost comparisons, agencies would include the full cost to the Government of the retirement system on a normal cost basis. The language was there, but there was not a determination of what that figure was. As a result, the agencies were generally using the 7-percent figure which was appropriated to them for retirement purposes or which they contributed out of their appropriation into the retirement fund.

Mr. CORCORAN. The reason I asked that question is that it seems a little strange to me, and I would like your comments on why the Director of OMB decided to go to 14.1 before the actual review, which you labored at length in your testimony to explain how carefully you're going into this review. Why is it we went from 24.7 to 14.1? I thought perhaps 14.1 was a figure being used prior to the effective date of 24.7.

Mr. CURRIE. No, sir, 14.1 has never been a figure that was used in any previous directive, to my knowledge. We selected 14.1 as a base to work from during the review. The 24.7 was severely criticized; there was some question about its validity; there was a desire to be completely objective and to make a thorough analysis of the cost factor, and during the interim period, the 14.1 was selected. It was a figure that represents the payouts of the retirement fund, as you say.

Mr. CORCORAN. It seems to me that it was a figure that perhaps does represent the payout, as pointed out in the testimony. The justification for its use prior to the review that the new administration would conduct I think is certainly wanting. It seems to me it was an arbitrary

choice which at least should have resulted from some prior experience.

Mr. CURRIE. I think it's fair to say that it is an arbitrary choice in the sense that it is an interim choice, a step back during the period we're making the review, because the 24.7 figure was contentious; it was a step to enable us to take a new look at the whole thing, not with intention of substantiating the 24.7, but with the intent of looking at it in a new light with new information that might become available and to determine what the new figure should be, whether it's 14.1 or something more or less.

Mr. CORCORAN. On a different aspect of OMB Circular A-76, it, like so many of the rules and regulations of the Government, particularly those that are internal, such as an OMB circular, depend for their effectiveness on their implementation and review of that implementation. Could you tell us, based on your experience with OMB, what has been the practice up to now in terms of reviewing the effectiveness of this policy.

Mr. CURRIE. The cost effectiveness of the policy?

Mr. CORCORAN. Yes, on contracting out versus inhouse performance.

Mr. CURRIE. The policy is to contract out. We have made it known that the basis for the policy has not been based on the cost effectiveness factor; it is based on the principle that the Government should not engage in commercial activities in competition with the private sector. There are, of course, justifications for performing the work inhouse which are based on cost savings.

In direct response to your question, we have not made any analysis of the cost effectiveness of the policy.

Mr. CORCORAN. In the review that's going on now, and you expect to complete later this year, for example, with the Department of Defense position, what will you be looking for in evaluating the Defense Department's review every 3 years to see whether or not OMB's A-76 is being implemented?

Mr. CURRIE. One of the problems that we have recognized is that the agencies have not done the job of implementation that the circular requested. That could be the agency's fault; it could be that the circular itself was not fairly reflective of the real world. So, we're going to look at this to see whether or not it's reasonable to make these kinds of reviews as frequently as this circular stated, how we might make the review process more effective by selecting the activities that should be reviewed on that basis, and perhaps those that could be effectively handled on a less frequent review, or maybe not reviewed at all. These will be considerations that we'll give to the implementation issue.

Mr. CORCORAN. We have had testimony here this morning from the linen supply laundry business, that there have been several instances where it's been quite obvious, at least to the private provider of that service, that either the cost effectiveness is not being considered or that the public agency has a clear bias in favor of doing it inhouse, and therefore, implements OMB's A-76 in a way which makes it useless.

Mr. CURRIE. I think the GAO, in their study, made some findings that indicated that agencies have not always made careful cost comparisons. I think this is certainly a problem with any policy, such as

the A-76 policy, which obviously has some contrainterest, and it's not an easy policy to administer.

Mr. CORCORAN. One other aspect of this, in previous testimony there was a discussion about the Veterans' Administration possibly being in the process of constructing six new hospitals. The question was raised with the previous witness whether or not there has been any attempt to force the Veterans' Administration to consider contracting out its laundry services rather than constructing a laundry facility.

In your experience with OMB, when an agency, like the Veterans' Administration, is contemplating the new construction of a facility like this and incurring capital costs, which obviously are included in the OMB evaluation of whether or not to support that project, is there any mechanism whereby the contracting out consideration in terms of cost effectiveness is actually evaluated and pursued by OMB?

Mr. CURRIE. Not generally, Mr. Corcoran. The agencies are responsible for the implementation of the policy. We do get into these questions, particularly if the agency asks us for advice regarding the interpretation of the policy or its application, or if some interested party asks questions about the action of the agency. But we do not have the resources normally as a routine matter to follow up on an agency's action on A-76.

But I know the Veterans' Administration has given a lot of consideration to the laundry interest. It's been a troublesome problem. In some instances where VA hospitals are in metropolitan areas, laundry service is readily available, but many VA hospitals are in smaller communities where a laundry service for the VA hospital could be the dominant part of any commercial laundry business. This gives the contractor a lock-in: It doesn't make for a competitive situation. So, there are exceptions that we have to recognize; if the VA has the dominant service requirement in the community, then it may be that the Government should establish its own facilities, simply because the competitive element is not available.

Mr. CORCORAN. I have no further questions. Thank you.

Mr. WHITE. Thank you very much, Mr. Corcoran.

On this 14 point-plus figure, that figure represents your consideration of how much more a private contractor could charge for services and still break even if the Government had done it inhouse.

Mr. CURRIE. No, sir, the 14.1 is a figure that is placed on the Government's cost side of the comparison, and it represents the cost to the Government of the retirement system for the employees involved. If you were considering an inhouse activity with 50 employees involved, you would take their salaries and multiply it by 14.1 percent to get the cost of their retirement, that's the Government's cost, and that would be added to their salaries to be weighed against the industry cost.

Mr. WHITE. You said something at one time about the income tax derived from the private contractor. Are you also taking into consideration depreciation of their equipment that, therefore, represents a loss in taxes.

Mr. CURRIE. The contractor's equipment depreciation is a cost he would have to include in his price, and consequently, we do not look to his depreciation unless we were on a cost-type contract. Normally on a fixed-price contract, he has included the depreciation as a part

of his price, whether he does or not, all he is charging us is the contract price. We would add to the Government's cost, though, an amount for the Federal tax on his estimated profit.

Mr. WHITE. At what point do you make these decisions? Do you make any of these decisions at the time the building is constructed insofar as, for instance, in laundry? A VA hospital is going to build new laundry facilities; is it going to construct a separate part of the building plus expensive equipment? If you're going to contract out, you're losing money on the machinery and the building.

Mr. CURRIE. Yes, sir, that's a problem. There are two ways to approach that: one way would be to consider the services available in the community in which the hospital is located; for example, there are many hospitals in New York City requiring hospital laundry services. In that situation there is no difficulty in obtaining a competitive contract for laundry services. In that case you might make a decision that there is no reason for the Government to invest in laundry facilities in that building, but it should, as a continuing matter, contract out for the laundry service.

On the other hand, if the competitive situation is not clear, it might be reasonable to invest in a laundry facility in the hospital construction, and at the same time contract out for its operation. That is what we call "GOCO" facility, Government owned contractor operated facility, which is also a feasible way, a very effective way of doing it. You can compete the laundry operation; you would have the facilities there to handle it. All you would be competing for is for operators to come in and operate your plant, your laundry.

Mr. WHITE. Contract out the operations.

Mr. CURRIE. Yes.

Mr. WHITE. What percentage are you saving there?

Mr. CURRIE. Well—

Mr. WHITE. Saving 14.1?

Mr. CURRIE. There's more than that. It seems in some of the analysis comparisons that it could be as much as 25 or 30 percent difference in Federal blue-collar wage rates and wage rates that are paid in the private sector.

Mr. WHITE. Using the criteria you used in your testimony, what percentage of basic services are being contracted out for the Defense Department?

Mr. CURRIE. I don't think we have any figure.

Mr. WHITE. Do you have an estimate? There must be some kind of figure.

Mr. CURRIE. Well, that's difficult, Mr. White, almost every type of contract involves some element of service, whether you're building an airplane or buying some kind of equipment, there are some service elements attached to it. In trying to determine precisely what is service and what is not service, we found no way to draw that line.

The Department of Defense may have some figure that would relate to services that are performed on the base; that is a little bit easier to handle, like the laundry I just mentioned. They have base operations which include such services as janitorial, trash removal, aircraft repair, automotive maintenance, operations of the messhall. They would, I believe, have a figure on that. I don't have such data, Mr. White, I'm sorry. But I believe DOD might have some estimate of the amount of base support service that's done by contract.

Mr. WHITE. Well, there must be some reason that Congress took the unusual step to put a moratorium on contracting out until a certain period of time. It must have been a growing problem and growing tendency toward contracting out.

Mr. CURRIE. I think there has been. I suspect that the issuance of our retirement cost factor of 24.7 percent was very instrumental in causing increased attention to the possibility of contracting out. That figure of 24.7 as compared to 7 percent would alter many cost analyses that might have previously justified an in-house performance.

Mr. WHITE. Do you feel that the Defense budget has been held down somewhat by contracting out or do you feel it's increasing, the immediate budget?

Mr. CURRIE. That is a rather complex question, and the answer is more complex I suppose. In terms of budget costs, sometimes the contract approach will cost more out of an agency's appropriation than in-house costs will, because many of the in-house costs are still there. They are front-end costs that may have been made some time ago; they are investment costs.

Also, the cost of retirement, the 24.7, only 7 percent of that is reflected in the appropriation. Even where a true comparison of an in-house versus contract costs could show that contracting was significantly cheaper; contracting out could cause an increase in the budgetary outlay of the agency.

Mr. WHITE. What happens in the event you have the contracting out provision and you have a strike with the industry?

Mr. CURRIE. I don't think we have had that kind of a problem, but it's something we would have to contend with.

Mr. WHITE. You have never had that problem?

Mr. CURRIE. I don't think there's been any problem of that nature in recent times. There's always a threat of that possibility.

Mr. KNULL. I have one question.

You talked about the possible differences in in-house where you have a contract or using Government facilities of a 24 or 30 percent wage difference in the private sector versus Government employees. Have you done any study of whether or not the Service Contract Act perhaps is being sort of manipulated to create such a differential?

Mr. CURRIE. No, sir, that is not the situation, as the Department of Labor has reported. They, of course, are in charge of service contract wage determinations, the contracting agencies are not. The Department of Labor certifies the wages that have to be paid by the contractor on any service contract.

What is occurring, however, is that in the Department of Labor's own analysis, the blue-collar wage rates are, by virtue of the design of those rates, shown to be considerably higher than the average prevailing wage under the service contract. Part of this is due to, as I understand it—and I am not an expert on this matter at all—part of this is due to a five-step arrangement under the blue-collar wage system as compared to a three-step wage in the private sector. So, employees may start off at the same base, but the Federal worker, because of his number of years of service, will be increased more rapidly, so that when comparing a job that's being performed in-house, you will find the Federal blue-collar wage that's being paid is in many instances significantly higher than the prevailing wage under the service con-

tract. It's not a matter of one being more efficient; it's a matter of basic wage rates. Added to that is the retirement cost—the Congress has been extremely generous to us Federal employees with respect to retirement. This is a major cost factor.

Mr. KNULL. Thank you.

Mr. WHITE. If I may ask one or two more questions.

Has there ever been any kind of study as to possible reduction of combat effectiveness through the contracting out procedure, whether indeed, in the Defense Department this does impair their ability to take their units and go in the field and perform all necessary services?

Mr. CURRIE. Where there is a need for troops, to be experienced in a particular field, then this is a justification under A-76 for performing the work in-house for that purpose. So far as I know, there's no problem in the implementation.

Mr. WHITE. What efforts are being made in the veterans hospitals to contract out unusual and highly costly technical procedures as in the area of cancer treatment? In other words, no hospital can have all the divisions and maintain all technological advances.

If the hospital exists in an area that may have this, what is the policy on contracting out on those individual cases?

Mr. CURRIE. I can't really speak to that.

Mr. WHITE. Wouldn't that reduce some of your costs considerably?

Mr. CURRIE. It would, and I do know the VA makes great use of the professional competence in the medical field in the private sector. They employ as consultants the highly skilled specialists. I'm sure that in this way we reduce considerably the cost increase in the service they are providing to the veterans.

Mr. WHITE. What percentage of costs in the VA hospitals is being contracted out to private physicians for particular types of specialties, such as radiology?

Mr. CURRIE. I can't answer that.

Mr. WHITE. Do you have those figures anywhere?

Mr. CURRIE. No, sir. I will see if I can get them from the VA. We will be glad to do so.

[The following information was furnished:]

While the Veterans Administration would like to respond to the Committee request, it is unable to do so within the timeframe provided. The VA's accounting system does not isolate the cost of contract physician services versus other contract personnel, research, educational, and sharing services. While VA knows that contract physicians are used to provide a full spectrum of health services within VA, it simply cannot estimate the amount of its total workload which they provided without undertaking a review at the field station level, which would require several weeks to complete.

Mr. WHITE. What is the policy existing presently regarding contracting out on minority contracts?

Mr. CURRIE. Well, under the 8-A program, which is now in suspension, there has been considerable effort made to provide minorities with the contracts that have been opened upon as a result of A-76 implementation. Certainly more contracting out it would be particularly applicable to the minority group.

Mr. WHITE. You say that's been suspended.

Mr. CURRIE. I believe that's correct, sir. I think this was a recent announcement because of some difficulties they recognized in the application of the program.

Mr. WHITE. Is this the SBA suspension you're talking about?

Mr. CURRIE. Yes, sir.

Mr. WHITE. Are there any other questions?

[No response.]

Mr. WHITE. We certainly do appreciate your coming in this morning. If there is no further business, the committee is adjourned.

[Whereupon, at 11:04 a.m., the hearing was adjourned to reconvene at the call of the Chair.]

1. The first part of the report is a general
description of the project and its objectives.
2. The second part is a detailed description of the
methodology used in the study.
3. The third part is a description of the results
of the study.
4. The fourth part is a discussion of the results
and their implications.
5. The fifth part is a conclusion and a list of
references.

CONTRACTING OUT

THURSDAY, JULY 14, 1977

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON POST OFFICE AND CIVIL SERVICE,
SUBCOMMITTEE ON EMPLOYEE ETHICS AND UTILIZATION,
Washington, D.C.

The subcommittee met at 9:30 a.m. in room 304, Cannon House Office Building, Hon. William Lehman (acting chairman of the subcommittee) presiding.

Mr. LEHMAN. The hearing will come to order.

The Subcommittee on Employee Ethics and Utilization is pleased today to have Congressman Dicks from Washington as its first witness.

Mr. DICKS. Thank you, Mr. Lehman. I appreciate having the opportunity of presenting my testimony here today.

STATEMENT OF HON. NORMAN DICKS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF WASHINGTON

Mr. Dicks. I represent a district, the Sixth District in the State of Washington, with a heavy concentration of Federal installations and Government employees. As a result, I have had a good deal of experience with the workings of OMB Circular A-76, and the general issue of contracting out. I welcome the chance to share my observations with you.

Let me start by saying that I have no problem with contracting out, if such action makes sense in terms of saving the taxpayer's dollars, and in the case of defense contracts, if such action does not impair mobilization readiness or training.

I believe that OMB's comprehensive review of Circular A-76 and its implementation is most welcome. I don't envy the job of those who must conduct this review; they have their work cut out for them, and they are bound to draw the hostile fire of some of the interested parties. I do note that pending completion of this review, OMB has lowered the retirement cost factor for computing the cost of in-house operations from 24.7 percent to 14.1 percent. This subcommittee deserves a great deal of the credit for this readjustment, for I am sure that the probing of the chairwoman and members of the subcommittee was instrumental in demonstrating that the 24.7 percent retirement factor was too high.

To me, the fluctuation in the retirement cost factor for in-house operations from 7 percent to 24.7 percent and back down temporarily to 14.1 percent demonstrates the need for extreme caution in undertaking changes in Federal procurement policy. As a first principle, we

must recognize that any changes of this sort create a great deal of uncertainty and stress on individuals on the other end of such policy decisions. I wonder, for example, how many in-house operations which were contracted out as a result of the 24.7 percent computation will reemerge as Government activities if OMB stays with a lower figure. I hope that the OMB officials involved in this review recognize that any changes they recommend will create some degree of disruption and deep concern on the part of working people. As a result, proposals for change must be fashioned with great care on the basis of extremely solid documentation.

The rest of my comments will likewise be of a general nature; I simply am not in a position to make detailed proposals as to what the proper retirement cost factor should be, for example. But I have been in a position to watch Federal procurement policy at close hand, and my observations flow from my personal experiences. I realize that this approach raises more questions than it answers; but I hope that my presentation will serve to focus the attention of those who are better versed in these matters than I to help find solutions.

How, for example, does one deal with the issue of contracting out to sole source suppliers? All too often, I am afraid that the Government enters into such contracts which appear to be less costly at the outset, only to get locked into the sole source contractor. Subsequent contracts may rise more than anticipated, as the alternative to reverting back to Government employees becomes more difficult and disruptive over time.

I know that the chairwoman and this subcommittee is well aware of the Trident submarine and its base, which is located in my district. A number of aspects of the Trident missile program are of a sole source nature. The Navy is now considering contracting out the Trident missile assembly and check out operation, which to no one's surprise is slated to go to the same contractor. I hope that OMB will pay particular attention to protecting the Government's interests in sole source contracting.

In another area, I note where OMB witnesses have stressed the need for a contracting out policy which is equitable and consistent throughout the Government. It is hard to argue with that proposition, but I believe one small caveat is in order. I hope that whatever contracting out policies are eventually decided upon, OMB will allow for some leeway on the part of the local contracting officials.

I think the need for latitude can best be demonstrated by one incident which occurred just recently at McChord Air Force Base. The food service operation at McChord has been contracted out twice in the past, and on both occasions, the contractors defaulted leaving employees without back pay and work-related benefits.

McChord officials are now in the process of contracting out the food service operation for a third time, and it turns out that the new contractor was one of the officers of the outfit which defaulted previously. Naturally, the workers at McChord were up in arms; quite reasonably, they requested McChord contracting officers to demand a performance bond from the new contractor. McChord officials had already conducted the usual credit check on the low bidder and found his new operation with sufficient assets to perform the contract. Thus, I was advised that a performance bond could not be required in this

case. I refuse to believe that the Government's best interests are served by regulations that provide so little latitude to contracting officials that they result in situations like that which is currently happening at McChord.

Another area of concern is the availability of an appeals procedure for Federal procurement actions taken under Circular A-76. I sympathize with those who do not wish to set up such a procedure; none of us want to create more layers of redtape, and the end result of which would be to increase the Federal bureaucracy still more. This is one very substantial reason why the executive branch is turning more and more to contracting out.

It seems to me that an alternative procedure which requires internal cost comparison audits pre- and post-contract makes far more sense. Virtually every agency of Government has its own audit branch, so there would be no need to expand the bureaucracy. And this mechanism appears well suited to compare a contractor's promise with his or her performance. H.R. 6188, the contracting out legislation I and 14 other members have introduced, would establish a postcontract audit requirement for selected defense contracts.

Finally, no discussion of contracting out is complete without some mention of civilian personnel ceilings. It is my strong belief that much of the increased emphasis on contracting out has been generated by these ceilings, and not because of cost savings. The June 2 GAO report entitled "Personnel Ceilings—a Barrier to Effective Manpower Management" makes the most persuasive and best documented case I know of against these ceilings. Clearly, when OMB sets personnel ceilings—or when Congress does so in the case of the Defense Department—and then when Congress overlays on this structure its own funding or program limitations, the result frustrates the most effective, efficient, and economical use of Government employees.

All of us can cite our own instances where personnel ceilings imposed by OMB have proven to be counterproductive. My favorite example is the Forest Service, which is unable to increase timber sales from National Forest land because of lack of manpower. Increased sales increases Federal revenues quite substantially; it helps to meet growing demands for housing starts; it helps keep the cost of new lumber and wood products down. Despite all of this, OMB will not increase the permanent positions at the Forest Service because of its personnel ceilings.

Congressionally imposed personnel ceilings are just as bad, in my view. In one case at Fort Lewis, over 100 civilians were RIF'd, and their jobs taken over by uniformed personnel. Why take soldiers off the line to work on civilian jobs, especially when we're having a difficult time recruiting? The answer is civilian personnel ceilings. This particular anecdote has a happy ending, however.

Turning over civilian slots to uniformed personnel happens to be against Army regulations, so this particular RIF notice was canceled. I would like to provide for the record my correspondence with Army Secretary Clifford Alexander on this matter.

I agree completely with the GAO's findings that funding or program restraints should be used rather than personnel ceilings. Congressionally imposed personnel ceilings are bad enough; OMB's ceilings are worse.

I am not aware of any act of Congress which has served to contract out the legislative branch's policymaking functions to OMB. But, to a disturbing degree, OMB continues to utilize personnel ceilings toward this end.

Mr. Chairman, I would just like to emphasize one point: I have been particularly concerned about the disruption this has caused so many workers in my district, and the fear and concern, particularly of lower grade people, that some day they are going to get a notice that their particular job has been contracted out. We have talked to the Navy, we have talked to the Army, and we have talked to many people at the executive level, and I have asked them one question: Can you show us it's cost effective? We have yet to have adequate studies and audits presented that documents and justifies the policy that's being followed.

As I say, I am not against contracting out if it's going to provide a legitimate savings. I do think we need to know clearly that it is going to provide us with a legitimate savings.

Thank you, and I appreciate the opportunity to testify today before this distinguished subcommittee.

Mr. LEHMAN. Thank you, Mr. Dicks.

I was just looking at the statement in regards to the failure of the food contractors to live up to their commitments, and the lack of an adequate performance bond. To me, it seems inexcusable that they can contract with someone and not even deal with them on the basis they would on a construction bond, where they would provide a performance bond. I think even some of the larger contractors can arrange with SPA to get performance bond assistance.

Mr. DICKS. We have liberalized those in a recent action. The person involved in this particular incident was an officer of the company that went bankrupt before on the same contract. If you can't ask for a performance bond on this operation, I think there's something very, very wrong.

Mr. LEHMAN. There's some negligence in the management of these kind of contracts certainly.

We have been holding hearings in the Manpower and Budget Committee on the Volunteer Army. Actually, they seem to be, at this moment, getting adequate volunteers in the Army, but it's been very marginal so far. A slight improvement in the private economy and you have got problems in getting the quality of volunteers.

Mr. DICKS. Do you think we can contract that out?

Mr. LEHMAN. We are going to be holding hearings—we are not, but over in the Senate side, I think they are already holding hearings on the labor organized army. Probably one of these days we are going to have some organized army.

Mr. DICKS. Do you think we will have a union hall for service personnel?

Mr. LEHMAN. This is not on the subject, but when I was at a NATO meeting, I learned the Dutch Army is completely organized now into different unions, the Norwegians are pretty well organized. The person I talked to said in 5 years most of the NATO military services will have some sort of a union. I don't see it coming to this country yet, but a lot of changes have been made in the last 15 to 20 years in the

way we operate. That wouldn't have anything to do with the contracting out of these services.

I think you have made a point that one of the really important things we deal with today is job security, and not only financial, but the emotional aspects of people who think they have job security, and all of a sudden, they are aware that their job is very tenuous.

Mr. DICKS. And literally, you have got thousands of people now because of this possibility who are worried about their jobs, who every day don't know whether what they are performing is going to be contracted out.

Mr. LEHMAN. I can see some contracting out from the standpoint of overall cost, where labor is cheaper in other countries, for example, in Guam or the Philippines, where you can have labor for less, native labor, and you can contract with a Philippine company at a scale much less than you can hire people at the regular GS level.

Mr. DICKS. I think another issue is the mission that we are going to contract out, and how critical that is too, particularly in the case of defense bases, to our national security. There's a certain premium the American people are willing to pay to make certain, for example, the Trident missile program is done properly by people that are going to be there, and that we are not going to get ourselves involved in unnecessary kinds of uncertainty. That's why I'm concerned we develop a process.

Mr. LEHMAN. I think above a certain level of security, that you can't contract for national security.

I appreciate your testimony.

Mr. DICKS. Thank you, Mr. Chairman.

Mr. LEHMAN. Your communications which you referred to will be placed in the record.

[The letters referred to follow:]

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
Washington, D.C., March 22, 1977.

HON. CLIFFORD ALEXANDER,
Secretary of the Army, The Pentagon, Washington, D.C.

DEAR MR. SECRETARY: Every reduction in force (RIF) that takes place invariably touches off a chain of events including local complaints and Congressional inquiries. A recent RIF action at Ft. Lewis in my District is evolving in the same manner, but with one disturbing twist.

Over one hundred civilian workers at the base are being RIF'ed, and press reports indicate that a number of these positions, including servicing a part of the motor pool, ammunition supply depot, facilities engineering maintenance shop, building assignment and range maintenance, will be assumed by uniformed personnel.

As I read Army Regulation 570-4, Chapter 5, Section 3, such tasks should be performed by civilian personnel. I realize that the shortages of civilian personnel spaces are the cause of current RIF actions, but as the Regulation clearly states, "Shortages of funds, civilian manpower spaces or other limitations on authority to hire civilians are not valid reasons for designation of a position for military incumbency not otherwise authorized by this regulation."

I find such personnel actions particularly difficult to justify in light of comments by you and other Defense Department officials of the difficulties we as a nation might face in recruiting a sufficient number of soldiers. Does it make sense to place military personnel who are in short supply on jobs that can be performed by civilians?

Your comments on this matter would be appreciated.

Sincerely yours,

NORMAN D. DICKS, *Member of Congress.*

SECRETARY OF THE ARMY,
Washington, D.C., June 6, 1977.

HON. NORMAN D. DICKS,
House of Representatives,
Washington, D.C.

DEAR MR. DICKS: This is in reply to your letter of 22 March 1977 concerning reduction-in-force letters issued at Fort Lewis.

The reduction in force initially planned by Fort Lewis involved the elimination of 101 civilian positions, 94 of which were filled. Review of the Fort Lewis proposal at Headquarters, U.S. Army Forces Command (Forscom) resulted in a determination that the reduction-in-force letters to the 49 civilians whose functions would be assumed by military should be cancelled because of Army Regulation 570-4.

Since a major portion of the reduction was to be cancelled, the Commander, Fort Lewis determined that a reevaluation of the total reduction in force was necessary. On 9 May 1977, all reduction-in-force letters were cancelled.

Your interpretation of Army Regulation 570-4 is correct. It is Department of the Army and Department of Defense policy to use civilians in jobs which do not clearly require uniformed military. Furthermore, any action to convert a civilian position to permanent military incumbency requires the prior approval of Headquarters, Department of the Army.

Sincerely,

CLIFFORD L. ALEXANDER, Jr.

Mr. LEHMAN. Our next witness is Mr. Blaylock, president of the American Federation of Government Employees.

Mr. BLAYLOCK. Mr. Chairman, I have a prepared statement that has already been submitted to the subcommittee. I think you have been provided a copy.

Mr. LEHMAN. Without objection, it will be placed in the record.

[The complete statement follows:]

**STATEMENT OF KENNETH BLAYLOCK, PRESIDENT, AMERICAN
FEDERATION OF GOVERNMENT EMPLOYEES; ACCOMPANIED BY
L. M. PELLERZI, GENERAL COUNSEL**

Mr. BLAYLOCK. I will simply read a summary of my prepared statement for the record. With me this morning is L. M. Pellerzi, general counsel of the American Federation of Government Employees.

Mr. Chairman, I do appreciate the opportunity to appear before the committee this morning on this very important subject. We represent some 700,000 Federal employees. I might add, that we are elated to see the focus on this subject now by both Houses of Congress and the administration. We for some time have been trying to get this type of focus; I think during our presentation, we will point out some of them.

Under OMB directive No. A-76, the Government has engaged in the contracting out of Federal jobs and in the procuring of services in a manner which has had serious adverse impact upon the civil service merit system, the integrity of affected Government operations, and upon the responsibility and accountability of Federal officials and employees for assigned functions. In many instances costs of Government operations were actually increased by these practices, or in others serious deterioration in Government services occurred. The total number of contractor service employees is not known by the Government at this time. Under A-76 no system of records or accounts is required and data as to man-year costs, level of effort, and type of effort is not available on either an agencywide or Government-wide basis. Nor is there

any comprehensive data as to performance evaluation of contractor performance.

We have, in effect, a shadow work force which is annexed to the civil service personnel system. In DOD alone, according to recently released figures, 26 percent of DOD's manpower effort is obtained by use of contractor personnel for services that come within the purview of OMB directive A-76. This totalled 97,250 civilian man years of effort for 1976. This data is admittedly incomplete and is extrapolated from records kept for other purposes.

This impact of contracting out on the civil service system was of high official concern to the Civil Service Commission a decade ago. The Commission's then general counsel, after an in-depth study, issued a significant ruling with an analysis of the adverse impacts such practices were having on the civil service system, and the conflicts it generated with the purposes and policies of the civil service laws. In a closely annotated summary entitled "The Personnel Laws as an Expression of National Policy," attachment 2¹ to my full statement, he pointed out the full range of concerns posed by these practices.

Since 1967 matters have further deteriorated. The Nixon-Ford administrations, with heavy ideological overtones concerning Government competition with free competitive enterprise, have accelerated contracting out and seriously exacerbated the problems caused by it. The unconscionable escalating of the civil service retirement and benefit costs from 7 to 28.7 percent for cost comparison purposes under A-76 was a blatant attempt to undercut the career service by inflating in-house costs. I am happy to note that the Carter administration has in part at least rejected this discredited costing methodology.

Another principal device used to overbalance the scales in favor of contracting out is the use by OMB, and in recent years by the Congress, of personnel position ceilings. We had asked the Carter administration to reject this device as a dishonest deception of the American people, however, to date we have been unsuccessful in getting acceptance of this view. Actually as anyone knowledgeable with this device knows, its main purpose is political: to tell the American people that full time permanent employment has dropped during each administration. In short, the President can proclaim, using this device, "We have less Federal employees than when I took office."

This is hogwash. First off, you have the tremendous increase in the shadow work force, the service contractor personnel. Second, you are dealing solely with full-time permanent employees on one day of the year. Term and temporary employees are not counted, and the rolls become loaded with these employees who may work continuously for as long as 5 years in the same job. The Social Security Administration, until last year, carried some 6,000 term employees in this fashion which did not show up in ceiling figures.

The American public will one day ask, "If the Federal work force is being reduced by each President, why doesn't the cost go down?" When it does, the political expediency of the personnel ceiling device will be exploded and it will be quickly discarded. That President Carter has not seen fit to discard it is a source of dismay to AFGE.

¹ Retained in subcommittee files.

We had actually expected that he would adopt fresh and credible means of measuring the proficiency of his administration in this regard. So far he has not done so.

Another thumb on the scale which tilts the cost analysis in favor of contracting out is the wage rate certified for the service contractor employees.

It's significant to note that the Service Contract Act, administered by the Secretary of Labor, requires a successor contractor to meet the wage and fringe benefit levels of the contractor he succeeds where they are contained in a collective bargaining agreement. Hence, when Pan Am and TWA bid for the base support contract at Cape Kennedy, the wage and fringe benefit issue is removed from wage cutting pressures. Indeed, the history of this amendment to the Service Contract Act shows that it came about because of the Pan Am/TWA labor strife resulting from wage cutting in the competitive bid process between these two giant competitors for the base support contract. These 1972 amendments also required the Secretary of Labor to give "due consideration" to the Federal prevailing wage rate in certifying a wage rate under the act.

This is a critical distinction. If Government work is moved out of house for the first time, the Secretary of Labor can consider but disregard the wage rates paid Federal employees in setting the contract rate. If it is already contracted out, the negotiated wage and fringe benefit paid employees doing the job cannot be cut in the bid process.

A GAO study of 1974 shows that in over 50 percent of the cases no wage rate is certified by the Secretary of Labor, thus allowing the minimum wage to apply. According to our own data where Federal employees were displaced by contracting out, the certified wage rates ranged from about 25 percent to 85 percent below the prevailing wage rate.

Hence, we have the unsavory picture of the Government of the United States firing its career employees, many of whom are also veterans entitled to preference for war service, on the sole basis that a contractor has agreed to supply workers who will accept lower wages. Yet when Pan Am and TWA could not live with such practices as successor service contractors, the law was changed and the practice stopped as between private employers. But today, a Federal employee and his union which, by law and pursuant to executive branch collective bargaining regulations, participate in the establishment of Federal pay scales, find they have absolutely no recourse to protect their wages and benefits from wage cutting by low bidders seeking profits from Government contracts.

This is simply unjust and we believe illegal. It is certainly contrary to the intent and purpose of the civil service laws and pay statutes as passed by the Congress. We are currently litigating this issue in a number of cases in different areas of the country.

The reason we believe OMB directive A-76 has led to such bad results is that its basic orientation is wrong. It assumes that Government is in competition with private enterprise because it produces certain products and services for its own consumption. Hence, the premise flows that because the Government uses large numbers of typists or key punch operators, it is competing with private sector firms which sell these services for a profit.

In short, the circular confuses what the Government does to govern with the means used to do so and equates "products" with "services" and Government production with Government consumption.

In seeking to set limits and exclusions, Circular A-76 intermixes disparate concepts and values in an illogical and dubious way which tends to confuse: The mandates of law with the discretion of policy; basic functions of management with the essential character of inherently governmental activities; program effectiveness with cost efficiency; tractical and strategical defense needs; program administration with procurement administration; and the Government consumption of products with the production of services.

As a general proposition, it can be said that there is very limited need for the Government to act as a producer of products it consumes except where relatively low level production is integral to the efficiency of an operation of which it is part. Hence, for the Government to engage in mining, manufacturing, construction, or agricultural activities to meet its product needs would place it in an unseemly competitive posture with private enterprise in these areas.

On the obverse side, it can be said that the central purpose of Government is to govern and to produce services to its citizens and that as a general proposition the former must be done by Federal employees and the latter should be done by Federal employees.

Consequently, if assumptions are to be employed as decisional guides, there should be an assumption against Government producing products which it consumes by using Federal employees and in favor of Government producing services necessary to govern and to provide direct service to the public using Federal employees.

With regard to producing products, the presumption here may well be against Government production. There are notable exceptions, namely: The production of currency, coins, certificates, and other official documents which represent the fiscal obligations of the Government; the development and production of atomic energy and related technology; the making of products incidental to research and development efforts required in the national interest; the building of dams, road, and harbors, on public lands and waterways to maintain a productive caapcity in the Corps of Engineers for national defense purposes; minor type production of needed products where the production is integral to the efficiency or effectiveness of the operation of which it is a part. An example would be the production of washers or brackets by a Government machine shop as an integral part of machine shop operations.

The decisional criteria here should be that no production shall be done by the Government except as required: To maintain national defense capability; to protect the integrity of official Government monetary and fiscal issuances; and to maintain the efficiency of low level internal operations of which the production is an integral part.

The justification for any such production should be handled as part of the normal budget process of the agency.

With regard to the production of services, here the presumption would be in favor of the Government producing those support services necessary for its inherently governmental functions and the provision of services to the public.

The decisional criteria which should be considered in determining the propriety of contracting out for any such services are as follows: (a) compatibility with the maintenance of internal agency capacity to perform its in-house functions effectively and efficiently, including national security considerations and the integrity of the function supported; (b) compatibility with government control and accountability for the total function supported; (c) compliance with the civil service laws and policies, wage and salary laws and policies, fair employment policies and practices; and (d) budgeted costs are no higher than budgeted in-house costs for comparable service.

We do not believe the separate procurement-oriented system of administrative reviews and cost comparisons required by A-76 is justified or desirable. First off, it increases administrative costs. More importantly, it isolates the decisional process from encompassing the necessary trade off values, and has totally failed to result in any sensible form of accounting or recording of service contractor effort. No one knows the total scope or cost of such activity today.

In lieu of the present A-76 cost comparison and review system, we strongly urge that the decisional process by which agencies determine to contract out for services be fully integrated into the normal agency budget processes.

The OMB decisional process would be the same as it is with respect to career employee staffing requests with one exception, that is, any proposal involving the displacement of civil service career personnel would require the approval by the Civil Service Commission and a determination that it would not adversely impact upon the operations of the objectives of the career personnel systems of Government.

We believe the recommendations, as more fully detailed and explained in my full statement, to be sound and in the best interest of the government. We believe, if adopted, they will add to the proficiency with which Government operates, and restore balance and equity to the procurement process. We do not equate Government service with private enterprise, nor do we view Government service as a fat preserve to be divided up among profit seekers. A balance of values is required and we believe it can be achieved by the changes we recommend.

Madam Chairwoman, that completes my summary. We would be more than glad to answer any questions.

Mrs. SCHROEDER. First of all, I want to thank you for your very, very complete statement. I think you did a wonderful job of trying to portray the situation. I apologize for not being here at the beginning of your presentation.

One of the things that Congressman Lehman asked me to ask is: has anyone ever looked at contracting out to find out if contractors tend to have many illegal alien workers? Have you ever looked at that aspect of it? That's something Congressman Lehman's committee has been concerned about, the number of illegal aliens.

Mr. BLAYLOCK. I don't know that anybody has really looked at that particular part of the problem. We have not, and to my knowledge, none of our people in the field deciding the contract have brought that to our attention. I can't really answer the question.

Mrs. SCHROEDER. He is chairman of the Census Subcommittee. He said that came to his mind, because he felt that probably many illegal

aliens would hesitate very much going to work for the Federal Government for fear they would be traceable, and looking at contracting out may be one way to measure that.

Mr. BLAYLOCK. With the existing system, there is no way to measure that, because contracted personnel are not accounted to for the Government, which is one of the points we make.

Mrs. SCHROEDER. You also said that most contracts don't have any certified wage rates. Are you recommending that the contracts should have certified wage rates?

Mr. BLAYLOCK. Under the Service Contract Act, the Department of Labor is supposed to certify wage rates in each area. In over 50 percent of the areas, they do not. So, under the act, the minimum wage becomes the floor. That's one of the real problems.

Now, people in the Department of Labor tell us the reason they do not do it is simply they don't have the manpower to do the survey and certify wages in those areas. So again, we are back to another problem with manpower seekers.

Mrs. SCHROEDER. And there is no recourse.

Mr. BLAYLOCK. The act has a recourse. The alternative is that the minimum wage becomes the floor. So, in over 50 percent of the areas in this country, the minimum wage is the floor, and hence, we wind up with flesh-peddling operations. Here again, in service contracts, the only thing the contractor provides is the bodies. They use Government buildings, Government vehicles, Government equipment, utilities, and facilities; they bring only the bodies.

I have seen situations personally where the contract was let on the basis of man hours, and it would have maximum and minimum man hours in the contract. In this particular case it was 55. I walked in the hangar and there was at least 15 to 20 people playing dominoes, checkers, et cetera. They were all contracted personnel.

I got to talking to one of the guys on the line. The contract called for 55, so the contractor kept 55. The foreman said they needed 30 people to do the job, but the contract said 55.

So, it's a padded situation.

Rather than bringing in a lot of examples, the point we're trying to make is there is no accounting, and there has got to be a method of determining the criteria that would determine what jobs should go contract, and what should not. There are certain functions in the Government that should not go contract, security is a good example.

There are many examples today of top security operations in DOD that have contract security people. We have had examples of people just out of prison who were hired by the contractor and put on the gates at top security activities in DOD. We don't feel that security ever should be contracted. There's other areas.

The point we're trying to make is there's no system of determining what should go contract and what should not. The system of comparative costs has so many loopholes in it that in most cases costs are higher. The contractor may take a contract based on a minimum wage of \$2.30. He's actually got the Government contract at \$7 or \$8 in many cases. This is a hell of a ripoff. There's no criteria. We simply give the agency a free hand. They do their own comparison study any way they want to. In many cases they don't compare the actual functions being done in-house and the level of services being performed.

So, there has to be some criteria for determining what goes on contract, a cost comparative study, and then performance of the contract. We just don't have that.

Mrs. SCHROEDER. Then you would agree with Congressman Dicks' statement when he suggested that contractors post performance bonds.

Mr. BLAYLOCK. Yes.

Mrs. SCHROEDER. What about personnel impact statements before a function is contracted out, would you agree with requesting that?

Mr. BLAYLOCK. That was in my summary. We definitely think that the Civil Service Commission should play a role in this; presently they play no role in the contracting out functions. We think there should be personnel impact studies made, definitely.

Mrs. SCHROEDER. One of the interesting things that we found both sides saying is they haven't known long enough when it was going to be contracted out. The unions find out after the fact; a lot of contractors find out after the fact.

Mr. BLAYLOCK. One of our recommendations was that decisions to contract out should be handled in the normal agency budget process. When agencies are preparing budgets for this year, they should be identified in their normal process. It's not handled through the budget process now. It should be; that way the operating officials at the lower levels in the agency, OMB, the Congressional Oversight Committee, the Appropriations Committee would totally be aware. That's the reason for our proposal. There's no reason that contracting out should not be handled in any other way than the normal budgeting process of this Government.

Mrs. SCHROEDER. What about contracting out positions of policy; that's something we're hearing a lot of discussions about. We have a housing agency; why are they hiring other people to study housing.

Mr. BLAYLOCK. That's a serious concern of ours. We think that is one area that should be identified that should not go contract. By the Constitution, the Congress and executive branch are charged with certain functions of serving the public of this country and developing and making policy is one of those responsibilities, and to put those functions on contract, and many of them are, many contracts are designed by the contractor, especially when you get into the computer area.

As you know, we are going to centralized programs and computerized programs, and we have contractors in this country who are designing programs that include policy to fit their equipment or their programs, and we are getting their ideas and not ideas of the elected officials of this government.

Mrs. SCHROEDER. In summary, what I hear you saying is this body should be determining what areas can specifically be contracted out, and which areas are so unique to government that they should be done by the government, like the security, it might be policy, it might be making coin. Even with the coinage, is that just running the final stamping process or does that go back to the creation of the strip? These things should be definitely set out, and then once you determine what you can contract out, then rules should be much more specific rather than just assigning some figure that OMB comes up with.

Mr. PELLERZI. I think our point there is there are other values involved in these decisions, even if you take the situation you are well

familiar with in your district, the production of coins in the U.S. Mint, at what point in the operation does it not become an operation that is not inherently governmental in its nature. We feel these decisions should be made out of the agency's control and management processes. That's what we integrate them into the normal budget process, because what you have here is a shadow work force. You have people put on the payroll. What is occurring in a macronistic sense is that the total Government full-time employment figure is being reduced a hundred thousand every year or so and the contractor figure is going up. The public is led to believe that full-time employment is going down when actually it is not. It's that contracting service employees are being substituted, and they're being substituted through a procurement process that isn't integrated into the budget process.

If the people at the U.S. Mint in Denver are justified throughout the budget process, it's meticulously tied to the appropriations committee, what they are going to do and how much it's going to cost. If they need service contract workers, they can do the same thing, they can put it in the budget; then it can be converted to man-years. At that point, when you get the cost, you would only go to incremental costs; those are the costs that change depending on what option is used. If there are some additional costs that take place, those are the costs you could compare, not the common costs, but the incremental costs.

I have been in litigation now in a New Jersey situation where they went to 10 years on the cost justification study. They programed it out for 10 years before they could get the break in favor of the contractor, 10 years in the future. At that time they said they would save money; the first nine years they lost money contracting out.

The normal procedure now is to do a 3-year projection. You will usually find that the first year's costs are higher to go contract, because you have to pay severance pay, retirement, and other costs to civil service employees who are being RIF'ed. By projecting the cost out for three years, then they project a cost savings on a three-year basis.

But, as you know, the constitution provides that appropriations, particularly for the armed services, are for 1 year. So, we are going to attack that procedure, if it isn't changed, legally. In fact, we are attacking it now.

Mrs. SCHROEDER. And they subcontract out if it's a dollar less, but they won't bring it back in-house unless they prove they can save 10 percent.

The other thing that's often not pointed out is that contracted out employees are not under the Hatch Act, which puts everybody at a political disadvantage.

Mr. PELLERZI. Correct.

Mrs. SCHROEDER. One of the things we have looked at in the Armed Services Research and Development Subcommittee are cases where very technical people are involved. There are a couple cases where they finished the research and development and also bid on the procurement, and got it. The same contractor then turned around and sued the Government saying the research and development specifications, which they wrote, not the Government, weren't detailed enough, and they won. So, we have got this incredible Mickey Mouse thing going on.

Mr. BLAYLOCK. You're just getting back to the profit motive.
 Mrs. SCHROEDER. Right, and there's no incentive for them to stop.
 I thank you very much for coming and the time you've spent on this.
 Mr. BLAYLOCK. Thank you, Madam Chairwoman.
 [The prepared statement of Mr. Blaylock follows:]

PREPARED STATEMENT OF KENNETH T. BLAYLOCK, NATIONAL PRESIDENT, AMERICAN
 FEDERATION OF GOVERNMENT EMPLOYEES

We thank you, Madam Chairwoman for this opportunity to testify on one of the most serious issues in government administration today, that of contracting out government functions and work to private contractors.

AFGE district and local officers were also privileged to testify at the subcommittee hearings held last week in Denver, and I hope the specific cases covered in their submissions will serve as a useful background for my testimony today.

May I say on behalf of the 700,000 people we represent, that AFGE is appreciative for the scope and vigor of the activities of the House Post Office and Civil Service Committee, under the Chairmanship of Mr. Nix—and of the four subcommittees of special importance to AFGE members: this Subcommittee, Mr. Clay's Subcommittee on civil service, Mrs. Spellman's Subcommittee on compensation and benefits, and Mr. Nix's investigations Subcommittee.

We especially appreciate your interest in the impact of OMB Circular No. A-76 and this opportunity to present our views concerning its impact upon the civil service merit system and the proficiency of Government operations. We have analyzed the problem presented by OMB Directive A-76 and based upon our analysis and considerable first hand experience of its impact upon our members, have formulated certain views and recommendations which we are pleased to submit for the Subcommittee's consideration. Our comments and recommendations are as follows:

DEFINITION OF THE PROBLEM

The purpose of A-76 should be refocused away from any notion that Government engages in commercial and industrial activities in competition with private enterprise. Rather, in the light of Watergate and its implications, and recent procurement scandals, A-76 should emphasize that the procurement process is totally subject to the mandates of the law. It should reflect the central tenet of representative government, namely that the government can do only what the law, i.e. the Constitution, and acts of Congress, empowers it to do. The derivative of this is that government officials can do only what the law expressly authorizes them to do. The "Watergate" formulation was the reverse—"a government official can do anything not expressly prohibited by law." This laxness in observance of the mandates of law has permeated the procurement process, which in its fiscal accountability aspects presents a stark picture of chaos and lack of control when compared with the fiscal management of Government internal operations.

The pronouncement that the current study will adhere to the "principle" that "in a democratic system, government should not engage in competition with its citizens" accepts in part a major distortion upon which A-76 is erected. This distorted assumption leads to the erroneous premise that because the Government must employ large numbers of typists, it is therefore engaging in competition with businesses which sell typing services. In so doing the study orientation appears to be somewhat pre-set by the slanted orientation of A-76. Hence, we find it necessary to suggest that any revision of A-76 should begin by correcting the basic frame of reference within which the study is to take place, and the basic "purpose" orientation of the directive itself.

We start at the beginning: Government is public. Business is private. Government is to serve the public interest. Business is to serve private interests. Government is non-profit. Business is profit directed. Government per se has no competition. Business is competitive. Government can only do what the law authorizes. Business can generally do what the law does not prohibit. Government, through acts of its officials and employees, exercises the sovereignty delegated to it by the people. Private business has no such delegation and exercises no sovereignty. The constitution provides for the methods of staffing the Government with principal authority given to the Congress. Business is free to staff itself in any way the market place allows. Government is basically a consumer of products, but a producer of services. Business is basically a producer of both products and services.

To confuse the dichotomy between the character and function of private enterprise and of Government activity, disserves both Government and the private sector and therefore disserves the public interest.

The public interest is disserved because legitimate operations of Government which must be conducted by Federal employees are often made cost-inefficient, and the services provided ineffective, as a result of the contracting out policies forced upon operating managers by OMB. Appended to this statement are illustrative examples of internal agency memoranda¹ showing the effects of one such policy, namely personnel ceilings. These memoranda reflect agency management's desire to perform the work in-house which, because of arbitrary personnel ceilings, they were required to contract out.

The services involved are ongoing Government requirements funded by the expenditure of tax dollars.

In the name of efficiency or cost savings, or personnel controls, agency managers are told they cannot manage their programs the way they deem most efficient. No private sector business could operate efficiently under such conditions nor can any Government agency.

Similarly, there are literally hundreds of essential Government activities conducted by Federal employees that are made cost inefficient as a result of procurement practices dictated by the distorted thrust of OMB Directive No. A-76. For example, a Government machine shop, fully capable of stamping out needed washers from available stock on hand, is required to go to a commercial procurement to obtain the washers at high overhead and much higher per unit cost. This is true although the production of the relatively few items of the type needed could be readily accommodated by the existing equipment and work force. In short, inefficiency is forced upon many Government operations by procurement policies steaming from OMB Directive A-76 and related funding and staffing ceilings imposed on agency salary and expense funds.

If cost efficiency and program effectiveness are major objectives of the Government, then the Government bureaucracy should be permitted to function as efficiently in the conduct of essential operations as the private sector, subject only to public interest type controls. In short, if an activity is properly performed in-house, then Government managers should be allowed the discretion to operate efficiently free of misdirected procurement policies, artificial personnel ceilings, and grade controls. Once the level of the appropriation is set, the manager should be free to operate within that dollar amount using Federal employees, in the most efficient manner possible. Contracting out simply puts additional indirect employees on the Federal payroll and either removes them entirely from managerial control, or if not, creates an illegal employer-employee relationship between the contractor employees and the Government.

Our experience demonstrates the contracting out for services in most instances, does not save the Government money, does not improve the service, and tends to leave the remaining bureaucracy in a hobbled or decimated condition which causes its operations to become more inefficient and disjointed. Further, and just as importantly, it removes responsibility for the service from agency management to private hands, and thus diminishes the accountability of Federal officials to the public they are paid to serve.

The best macro example of this when an entire department was "contracted out" is the Postal Service. Postal rates soared and service declined. When the Postal Service was a Cabinet Department with close congressional oversight, such conditions as we are now experiencing would have been unthinkable. No congressman would dare vote to raise the first class postal rate or cut off deliveries without overwhelming evidence that no other alternative existed. The ballot box would have corrected matters rapidly. Now there is a "corporation" with modern business management in charge and somehow, the responsiveness to the public and the capacity of the electorate to call the Postal Service to account has been grossly diminished. This week's press accounts note that the probable reason the Postmaster General proposed that the individual First Class mail rate not be raised to 16 cents along with the business First Class rate was to head off pressure on the Congress to put the Postal Service back under congressional control.

The same general pattern pertains when segments of an agency's support services are contracted out. The "low bidder" gets the work. The buy in, change order, renegotiations, cost adjustment techniques by which low bidders become high-cost service providers are well known and one might say accepted procure-

¹ Retained in subcommittee files.

ment practices. So unfortunately are cost overruns. Agency management, which may have opposed contracting out in the first place is now off the hook. If service fails, or the contractor defaults, or cost escalates agency management is not responsible. Neither is the procurement officer. He chose the lowest bidder in accordance with existing regulations. The procurement system thus insulates all officials from any real responsibility for what happens to the public interests involved in that particular agency's operations. Where competitive bid practices are not followed the scandals get worse. The Small Business set aside for minority enterprise recently exposed in hearings by Senator Chiles is symptomatic. Here again, the operating manager of Federal programs are off the hook. They are like the housewife who explains to an irate husband she did her duty by calling the serviceman and paying his price. It is not her fault the trouble did not get repaired or that the work was shoddy.

The point is fundamental.—Government procurement, involving billions of dollars, has a dynamic of its own. In many of its ramifications because of the ill conceived policy orientation of A-76, it impedes and detracts from efficient management of essential Government operations by responsible and accountable public employees and officers. We believe this issue deserves penetrating study and correction in any revision of A-76. Further, we believe the recommendations we make herein will substantially alleviate the problem.

The threshold issue is to determine what is, and what is not, essential governmental activity. Central to such a determination is the recognition that the Government acts both in a consumer and a producer role and the use of decisional criteria that discriminates between these two roles.

Relative cost has no materiality per se to this determination. For instance, clearly a contractor can be found who would be willing to administer the Food and Drug Act more cheaply than the Government. Just as clearly, there would be a loss of official control and accountability and an improper delegation of governmental authority and responsibility to private interests if this function were contracted out.

If the function is essentially governmental in nature, its performance costs is only a material consideration as to whether it should, or should not, be done and how much of it should be done. This is determined at the present time within the normal budget processes and should remain so.

In making the determination between Government and non-Government activity, the character of Government activity must be defined by function and type. That is, those activities that are inherently governmental in character and those that are not. Also, and just as important, a clear distinction must be drawn between the Government's use of products, i.e. its consumer role, and its provision of services to the people, i.e. its producer role. Activities which are inherently governmental cannot lawfully be contracted out under any circumstances.

They involve the exercise of sovereignty over the people. They include such activities as: law enforcement; regulation of commerce and industry; direct national defense and security functions; management and direction of the Armed Services; development and use of space, the oceans, navigable rivers and other natural resources; development and use of atomic energy; the conduct of foreign policy; intelligence and counter intelligence operations; the control and management of public lands; the collection and disbursement of revenues and taxes; control of the public treasury, accounts, and money supply; and the administration of public trusts, such as the social security system, among others.

In the area of the national defense, space exploration and atomic energy, the delineation of what is an inherent governmental activity, and what is not, has been made unduly obscure and ill defined as a result of procurement policies pursued during the past two decades.

No one would seriously question the essentiality to our national defense of a strong industrial, technological base in the private sector. The Lockheed bail out, however, is an illustration of the shadowy nature of the interface that has developed between the military-industrial complex and Government. The revolving door by which high level management and technical personnel rotate between Government policy and management positions and employment by defense and space industries, presents serious conflicts of interests and ethical questions to say nothing of possible illegal relationships. Atomic energy presents still another facet of this industry-Government relationship where procurement practices disserve the public interest. The industrial-commercial spin off of atomic technology, developed and paid for by the taxes of the American people, is not the sole preserve of private enterprise. Neither is space technology. There is a

stark distinction between the entitlement and use made of discoveries, inventions, new systems, and new designs when developed in a Government laboratory or operations as opposed to developments by contract. Although many procurement contracts call for the Government to own inventions and discoveries made under contract, there is no effective control or effort to ensure that this is done. Indeed in many areas of advanced technology the Government lacks the expertise to make such determinations.

Yet we hear and read most about the essentiality of the so-called free competitive enterprise to roam these preserves unhampered by too much Government red tape and the inefficient Government bureaucracies which have responsibilities in these areas. Federal employees are painted as incompetent, lazy and overpaid, an image which is false and distorted and rebuttable by the facts of employee performance. Its the apparent lack of governmental competence to manage and control the essential public interest involved in atomic energy and space technologies that should be our direct concern. Our attention should be directed at the lack of an adequate "core of competence" of career Government employees, sufficient in numbers, and possessed of the skills, which would enable them to deal with these complex matters solely in the public interest.

Here again the dynamics of the procurement process and the policy orientation of A-76 has permitted the emasculation of such in-house competence where it once existed and has retarded or prevented its growth where required by new developments. The reason Admiral Rickover, for example, appears as a relatively lonely figure on this horizon is because there are indeed so few like him in the public service. He appears almost like a whistle-blower, but he simply professes honesty, accountability and due regard for the public interest.

Government research laboratories have been contracted out or dismantled in consonance with the policy thrust of A-76. This we believe to be clearly wrong, and clearly dangerous to the preservation of a free society. That such a policy thrust in an Executive Branch directive violates existing congressional policy mandates is clear. For example, in the Postal Service and Federal Employees Salary Act of 1962 (P.L. 87-793, the Congress declares that "the functions of a Federal salary system are to fix salary rates for the services rendered by Federal employees so as to make possible the employment of persons well qualified to conduct the Government's programs and to control the expenditures of public funds for personal services." Congress further proclaimed that: "fulfillment of these functions is essential to the development and maintenance of maximum proficiency in the civilian service of the Government" and it enacted into law the principle of comparable pay for comparable work between the public and private sectors so that the Government could attract and retain the necessary competence to perform its mission properly.

This congressional policy is sound. It has been seriously disregarded at great cost to the civil service at all levels by contracting out on the basis of comparative costs in accordance with the skewed cost analysis required by OMB Directive No. A-76. The impact of such misdirected contracting out is not limited to erosion of the core of competence. It affects all facets of the merit system and offends numerous congressional policies relating to Government personnel, ethics, conflicts of interest and integrity as explained in an analysis after an extensive study by the Civil Service Commission's General Counsel as early as 1967. I have appended a copy of that analysis to this statement for convenience or reference, which most significantly, is entitled "The Personnel Laws as an Expression of National Policy".

A-76 recognizes as beyond its scope in paragraph 4(a) those services which are provided directly to the people by Government. This is a proper exclusion and should be retained. If inherently governmental activities are for performance by Federal employees as are services provided directly to the public the real issue is which type and how much, if any, of the support type services which are integral to its inherently governmental activities or its production of services to the public can or should be done by private business enterprise as opposed to performance in-house by career Federal employees. This in turn, requires definition of who decides, and how. In short, a prescribed process of decision making.

A-76 FAILS TO PROPERLY DEFINE AND DISCRIMINATE BETWEEN THE GOVERNMENT AND THE PRIVATE SECTOR

The current A-76 deals with the dichotomy issue in paragraphs 1 "Purpose"; 3 "Definitions"; 4 "Scope"; and, 5 "Circumstances Under Which the Government may Provide a Commercial or Industrial Service for its own use".

The "purpose" paragraph accepts the assumption of Government-Industry competition, and formulates the issue as requiring a determination between whether the "commercial and industrial products and services used by Government are to be provided by private suppliers or the government itself."

Paragraph 3(b) defines "commercial or industrial activity" (not "products or services") as providing "a product or service that is obtainable from a private source", but it excludes "a government-owned contractor-operated activity" (GOCO).

The problems with these definitions are manifold, namely they confuse what the Government does to govern, or to provide services to the public with the means used to do so; equate "products" with "services"; and equate Government production with Government consumption.

Paragraphs 4 and 5 address the inherent governmental aspect of the problem more directly. They too, however, further skew the issue, and lack logical internal consistency. Paragraph 4 provides that A-76 will not be used:

Paragraph 4 provides that A-76 will not be used as authority to contract; to justify departure from laws or regulations, including regulations of the CSC; to avoid established salary or personnel limitations; or to alter the requirement that agencies perform for themselves "basic functions of management" essential to retain control over the conduct of their programs, including such functions as: selection and direction of government employees; assignment of organizational responsibilities; planning of programs; establishment of performance goals and priorities; and evaluation of performance.

Excluded from the scope are: management advisory services, including legal services; products or services provided to the public (but not products and services used by agencies to serve the public); products or services obtained from other Federal agencies; and any application inconsistent with a treaty or international obligation.

Paragraph 5 allows the Government to provide itself with commercial or industrial products or services where: commercial procurement would disrupt or materially delay an agency's program; self provision is necessary for purposes of combat support, individual or unit retraining of military personnel or to maintain or strengthen mobilization readiness; a satisfactory commercial source is not available or developable in time; the product or service is available from another Federal agency; and commercial procurement will result in higher costs to the Government.

When carefully analyzed these paragraphs present what are patently inconsistent and illogical considerations of dubious relevance and materiality to the decisional issues presented. They confuse: the consumption of "products" with the producing of "services"; tactical and strategic national defense needs (i.e. short and long range objectives); procurement objectives with maintenance of private sector production capacity for defense purposes; "program effectiveness" with "cost efficiency"; "basic functions of management" with the essential character of inherently governmental activities; program administration with procurement administration; and the mandates of law with the discretion of policy.

Some of these to be sure are essential considerations to determining what is and what is not an inherently governmental activity, however, they are not related to this or any other discrete issue with logical consistency or clarity of purpose in the current Directive.

THE PRINCIPLES BY WHICH ESSENTIAL GOVERNMENT FUNCTIONS SHOULD BE DETERMINED

As a general proposition it can be said that there is very limited need for the Government to act as a producer of products it consumes except where relatively low level production is integral to the efficiency of an operation of which it is part. Hence, for the Government to engage in mining, manufacturing, construction, or agricultural activities to meet its product needs would place it in an unseemly competitive posture with private enterprise in these areas.

On the observe side, it can be said that the central purpose of Government is to govern and to produce services to its citizens and that as a general proposition the former must be done by Federal employees and the latter should be done by Federal employees.

Consequently, if assumptions are to be employed as decisional guides, there should be an assumption against Government producing products which it consumes by using Federal employees and in favor of Government producing serv-

ices necessary to govern and to providing direct service to the public using Federal employees.

The resulting dichotomy would require a workable definition of "products" and of "services". At the present time A-76 in paragraph 4(d) properly excludes "products or services which are provided to the public" and this exclusion should be continued. Consequently, the issue resolves itself essentially to what may be called "support services", namely, those services the Government uses in order to govern and to provide services directly to the public.

"Product" may be defined as the physical object made by the direct application of human effort. "Service" may be defined as the system or method of providing people with the use of something including the application of individual effort which does not result in a product.

GOVERNMENT PRODUCTION OF PRODUCTS

The presumption here is against Government production. There are notable exceptions—namely:

- the production of currency, coins, certificates and other official documents which represent the fiscal obligations of the Government;

- the development and production of atomic energy and related technology;

- the making of products incidental to research and development efforts required in the national interest;

- the building of dams, roads, and harbors, on public lands and waterways to maintain a productive capacity in the Corp of Engineers for national defense purposes;

- minor type production of needed products where the production is integral to the efficiency or effectiveness of the operation of which it is a part. An example, would be the production of washers or brackets by a Government machine shop as an integral part of machine shop operations;

The decisional criteria here should be that: no production shall be done by the Government except as required to maintain national defense capability; to protect the integrity of official government monetary and fiscal issuances; and to maintain the efficiency of low level internal operations of which the production is an integral part.

The process for decision, except where expressly authorized by statute, should require certification by the head of the agency that such production work is required to be performed in-house. The justification would be handled as part of the normal budget process of the agency and approved or disapproved, and funded at whatever level was determined in the annual budget formulation process. There should be no authorization outside of the normal budget channels.

THE PRODUCTION OF SERVICES

Here the presumption would be in favor of the Government producing those support services necessary for its inherently governmental functions and the provision of services to the public.

The decisional criteria which must be considered in determining the propriety of contracting out for any such services are as follows:

- (a) Compatibility with the maintenance of internal agency capacity to perform its in-house functions effectively and efficiently, including national security considerations and the integrity of the function supported.

- (b) Compatibility with Government control and accountability for the total function supported.

- (c) Compliance with the civil service laws and policies, wage and salary laws and policies, and fair employment policies and practices.

- (d) Budgeted costs are no higher than budgeted in-house costs for comparable service.

We do not believe the separate procurement oriented system of administrative reviews and cost comparisons required by A-76 is justified or desirable. First off, it increases administrative costs. But more importantly, it isolates the decisional process from encompassing the necessary trade off values, and has totally failed to result in any sensible form of accounting or recording of service contractor effort. No one knows the total scope or cost of such activity today.

In lieu of the present A-76 cost comparison and review system, we strongly urge that the decisional process by which agencies determine to contract out

for services be fully integrated into the normal agency budget processes. In final analysis what is involved is indirect staffing of the agencies by use of service contract personnel. Integration into the budget process would eliminate the special comparative cost analysis now required by A-76 and would ensure more thorough consideration of the trade off values inherent in the recommended criteria. The process would be as follows:

Each function which is proposed to be contracted out in the next budget year would be identified and justified in accordance with the above criteria within the agency budget formulation process. Each aspect would be considered and costed out using the ordinary budget and accounting methodology of the agency. The cost and the number of funded man years involved would be set forth as determined pursuant to Invitations for Bids or quotations issued by the agencies for that purpose. These requests would be submitted to OMB in the same manner and with the same justification as agency salary and expense budgets.

The OMB decisional process would be the same as it is with respect to career employee staffing requests with one exception—that is any proposal involving the displacement of civil service career personnel would require the approval by the Civil Service Commission and a determination that it would not adversely impact upon the operations or the objectives of the career personnel systems of Government.

With the exception noted, both the number of funded man years and the cost for each activity would be authorized and approved as part of the agency budget submission. The President's budget as transmitted to the Congress would contain a separate analysis of the procurement of services by contract showing the agency, the function, man year levels and costs for each agency. A separate break out of the total service contract effort would be included in the Special Analysis which is issued with the macro budget.

Contracting out would become authorized only to the extent Congress enacts appropriations therefore. If the activity involved requires authorization the regular authorization procedure for new programs would be followed both by the Executive Branch and the Congress. Each year's budget justification would be required to contain a report on the last procurement as to contractor performance, cost effectiveness and efficiency as well as continued compliance with the decisional criteria. Such a report and accounting would be required on all service procurement whether or not they are proposed for continuation.

Such a procedure would tend to ensure that the following considerations are observed:

1. The propriety of contracting out versus in-house operations under the decisional criteria noted above, with appropriate trade off decisions made by agency management responsible for the efficient operations of the total agency.
2. Control of costs and man year levels of effort.
3. Accounting for costs and man year effort on a uniform consistent basis throughout the Executive Branch.
4. Proper evaluation of contractor performance.

Other benefits would be:

- the yearly review of such operations within an existing administrative system in accordance with the same zero based budgeting concepts applicable to in-house operations;

- a two-year period of advance notice to Federal employees and to the private sector of the projected need for services by contract and the dollar amounts and level of effort involved;

- a uniform accounting and control method which would for the first time bring such activity under overall administrative control;

- a system of recorded data, including type of functions, levels of effort, and costs for each agency of Government and the Government as a whole.

We believe the recommendations here to be sound and in the best interest of the Government. We believe, if adopted, they will add to the proficiency with which Government operates, and restore balance and equity to the procurement process. We do not equate Government service with private enterprise, nor do we view Government service as a fat preserve to be divided up among profit seekers. A balance of values is required and we believe it can be achieved by the changes we recommend.

Mrs. SCHROEDER. Our next witness is Gene Raymond. We welcome you this morning.

STATEMENT OF GENE RAYMOND, DIRECTOR OF OPERATIONS,
NATIONAL FEDERATION OF FEDERAL EMPLOYEES, ACCOMPANIED BY GEORGE TILTON, ASSOCIATE GENERAL COUNSEL, AND MAUREEN CLANCY, LEGISLATIVE LIAISON

Mr. RAYMOND. Madam Chairwoman and members of the subcommittee, I am Gene Raymond, director of operation for the National Federation of Federal Employees. Accompanying me today are George Tilton, the Federation's associate general counsel and Maureen Clancy, our legislative liaison.

We are pleased to present the views of the Federation on a subject which greatly affects our membership and the public interest. We commend the chairwoman for her attention to the rampant abuse of contracting out, which wastes large amounts of taxpayer dollars annually.

Contracting-out policy is currently under review by the Office of Management and Budget. We hope that the new administration will avoid the scandalous practices which increased rapidly in the Nixon-Ford years. OMB's vague and confusing Circular A-76, the only advice agencies have in this matter, may be revised significantly. However, we believe the Government should consign A-76 to the circular file and substitute legislative guidelines.

Thus, we recommend a moratorium on contracting-out until (1) a complete inventory of all current contracts, their histories, and reports on current funding can be transmitted to Congress; and (2) legislative guidelines can be enacted.

The specific criteria for determining if a function should be contracted out should be clearly spelled out in legislation and should include: (1) whether the contracting-out is in the financial best interests of the United States; (2) national defense needs; (3) efficiency and economy of current operation; (4) productivity; (5) economic impact on the local community; (6) need for reliability; (7) quality and type of work performed; (8) consideration of which employees historically performed the function; and (9) such other circumstances as may be appropriate.

Contracting-out has been with us since the administration of George Washington. Until recent times, it has been of limited extent and closely circumscribed. During the Nixon-Ford administrations, contracting-out activities evidenced a dramatic and, in our view, irrational and uncontrolled escalation. There has been contracting-out simply for the sake of contracting-out. A 1976 directive, for example, provided that agencies should examine five functions for contracting-out purposes. The directive did not provide that increased efficiency or decreased cost to the Government is a factor, but only that there should be an effort to contract out even though the cost to the Government is significantly higher. Fortunately, this ill-advised order has been suspended by the Carter administration.

The overwhelming majority of contracting-out is wasteful, uneconomical, and promotes abuse and inefficiency. Once a contract is let, the Government is stuck with it. Initial low estimates suddenly increase and functions once performed economically and efficiently by Federal employees are accomplished in a haphazard fashion at greatly inflated costs.

For example, at this moment the Air Force is studying the feasibility of contracting out aerospace audiovisual services at Norton Air Force Base, Calif. Such a contract would violate the collective-bargaining agreement between the base and NFFE Local 687, as article IV of the union pact does not allow destruction of the unit. Approximately 250 civilian and 110 military employees there produce Air Force training films and process, store, and distribute audiovisual products. Most of the civil service employees were transferred there from Orlando, Fla.; Dayton, Ohio; and Lookout Mountain, Calif. These dedicated workers uprooted their families and moved in the naive, but understandable belief that they were taking reasonably secure jobs. Many have purchased homes and enrolled children in local schools. Although they average 15 years seniority, fully one-half of these employees are not eligible for retirement. It is highly unlikely that the workers could find such specialized employment back in either Dayton or Orlando. As there is severe unemployment in Hollywood, their prospects there and in San Bernardino are dim. Of the remaining personnel eligible for retirement, half will have to take a reduced annuity.

And what does the Government hope to gain from destroying the careers of these civil servants? For unless they go to work for the contractor, many of the employees will stand in the unemployment lines. It's hard to imagine that the public will benefit if this contract goes through. The technicians, filmmakers, and craftsmen now employed by Norton have produced Air Force products for many years. The contractor personnel will not duplicate this knowledge, experience, facility, and background in Air Force activities. In addition, experience demonstrates that the contractor's cost will dramatically increase after the first year. This is a standard ploy used by the private firms: Bid low, and jack up the price in later years in order to make desired profits. Although the Service Contract Act requires contractors to pay prevailing local wages, frequently this law is ignored at the time of the bidding. Then when this negligence is discovered, the private firm raises its pay and thus the price tag of the contract. In some areas, the Department of Labor has not certified a local prevailing wage, and so the contractor can get by with scandalously low salaries.

In the area of audiovisual production, we believe that well-financed lobbies have pushed for these lush Government contracts. Thus the public good may get lost in the shuffle in any decision such as that being considered at Norton.

Various proposals have been advanced to halt certain kinds of contracting-out in the Department of Defense, or to use a lower retirement figure to calculate the cost of in-house work in this agency, et cetera. Although these are all needed reforms, we would prefer a more total approach to the problem. Even while OMB studies the problem, new contracts simply mean more rip offs of the hapless taxpayer. Allowing agencies to continue to give away the Government to private industry further complicates the already murky picture.

No one really knows how many Government contracts exist, or how many people work for the contractors, because each agency has been given nearly absolute power in this area. There is no effective regulation or oversight by any central body. OMB only issues guidelines,

which in the past have reflected a strong proindustry bias. There has been no other control or monitoring of this activity.

Circular A-76 has not prevented abuses such as cost overruns, fraudulent competitive bidding, shoddy workmanship, and indifferent services. In our view, legislation is needed to protect the interests of the American people. Since we represent taxpayers, we are concerned that Government funds be spent judiciously. Therefore, we suggest that the law require agencies to carefully analyze the costs of contracting-out versus the costs of their actual performing functions in-house for every single contract. The estimated in-house costs and the contractor bids, after they have been opened, should be made readily available to the public, perhaps in the Federal Register.

Currently, comparative cost analyses are usually made only for contracts of \$50,000 or more. During the Ford administration, OMB advised agencies to use 24.7 percent of the gross salary as the cost of Federal employee retirement. Now this figure has been reduced to 14.1 percent. NFFE would favor dropping this number down to 7 percent, which is what it was before the infamous 1976 OMB directive. Although we believe that OMB has taken a step in the right direction with its new retirement figure, we are not impressed with the numbers game. We have seen the Government manipulate statistics for its own purposes before—classified employees' pay schedules, for example. In its latest sleight of hand, OMB has pulled out of its top hat the "nonaccrual method" of determining the cost of Federal retirement. Just the fact that the figure in question bounces around from 7 to 24 to 14 percent in 2 years is evidence that it is actually determined by using the "whimsical" method.

In addition, a General Accounting Office report prepared for Representatives Morris Udall, of Arizona, and Chris Dodd, of Connecticut, noted that a composite retirement number for all occupations is probably inaccurate. Moreover, GAO said, OMB does not advise agencies to factor in the potential unfunded liability of social security, which could run into the trillions of dollars, into the cost of contractor employees.

Another important factor in the comparative cost of Government versus contracting work is the productivity of the employees. Studies have shown that in the last few years the productivity of Federal employees has increased, while that of private sector workers has decreased. OMB continues to ignore the whole subject of worker performance. The high productivity of Federal employees lowers their cost to the public.

A new abuse in this area has recently been exposed. A Senate subcommittee chaired by Senator Chiles has received shocking evidence that many Government contracts intended for minority business firms actually went to wealthy, white-owned enterprises.

These workers secure their jobs by qualifying under rigid civil service standards. The Government cannot guarantee the competence of private contractor employees. In addition, when a contractor first comes into the Government, his workers will experience a period of low productivity while they acclimate themselves to their new responsibilities. Contractor bankruptcies and defaults are not unknown either. These costs should be factored into the contracting estimate, also.

In its recommendations to agencies on costs for contracting, the OMB also failed to include the cost to the Government of laying off a Federal employee or the unemployment compensation that might be due this worker. We also recommend that agencies include in their reports to the American taxpayer the "social" costs of any contracts. This would include data on the effect on the department's equal employment opportunity, jobs for veterans, and hiring the handicapped programs.

The current practice of agency contracting whilly-nilly has led to many other abuses, including the unethical behavior of defense contractors lavishly entertaining Pentagon officials. Thus, most public-spirited persons would agree that some regulation is needed. Agencies policing themselves is not advisable. We would not recommend that OMB accept oversight functions because of its proindustry bias and its failure to produce adequate guidelines in the past. An independent authority should be created which, in addition to monitoring contracting-out, could handle labor-management relations, Hatch Act violations, whistle-blowing cases, and conflict-of-interest problems.

The waste of taxpayers' money is not the only problem with contracting-out. NFFE is concerned about the shoddy workmanship of many of the contractors. The Government effectively loses quality control once it ceases to perform the activity in-house. Moreover, with the prohibition against an employer-employee relationship between Government supervisors and contract workers, the Federal employee often finds it difficult to correct mistakes and deficiencies. We believe that the only way the taxpayer can be assured of getting quality for his or her dollar is for the Government to perform the function in-house—except in cases where it is clearly demonstrated that contracts are more economical and more effective. Where contracts are in effect, the independent regulatory agency should make frequent quality control inspections. If a company defaults on a contract or otherwise fails to perform satisfactorily, it should not be given Government work in the future.

In summary, NFFE, an organization representing dedicated employees, taxpayers, and citizens, believes that every agency should submit as soon as possible a comprehensive report on its contracts to Congress. Legislation should be enacted containing the criteria we spelled out earlier. A Government-wide moratorium on contracting-out should be initiated until such a law is passed.

NFFE believes that such stringent regulations will significantly decrease the numbers of contracts in the Federal Government, with only those remaining which positively benefit the public. We believe that honest comparative cost analysis will demonstrate that dedicated, experienced Federal employees can do most jobs more economically and efficiently than profit-hungry private industry. Our organization, with 60 years experience representing Government career workers, has known this all along.

This concludes my prepared statement. I thank the subcommittee for its invitation to testify. I will now respond to questions.

Mrs. SCHROEDER. Thank you very much. As I say again, it's hard when there's been a series of people that all agree as to exactly what further additions we should make.

Have you heard anything from the prior testimony you would like to comment on? Is there anything you would like to add?

Mr. TILTON. Madam Chairwoman, there is one thing that occurs to me. I believe it was Mr. Lehman who mentioned the cost of employees on large Air Force bases in Guam and the Philippines. As it happens, I spent some time on Guam, and I am familiar with that contract. It's true that these employees will sometimes cost less than if you carried the work over to this country and used civil service employees. That may well be true.

The question that occurred to me, and I believe should be considered by the Congress is this: Should the Federal Government, in fact, be subsidizing low-cost labor, or should the Federal Government instead be trying to uplift the standards of workers of this country? I think if you answer that question, there's two answers: if you say, no, the Federal Government should get the best bargain possible, then you have made a policy judgment which is contrary, I would suggest, to national labor policy: that the ultimate welfare of workers is secondary to saving a few dollars. That's a current that runs throughout the whole issue that has never been addressed. I think the Congress should consider that.

Is the Government to be a leader in uplifting the standards of the American people or is it to act as a depressive force in keeping wages down.

Mrs. SCHROEDER. Of course, I think one of the real problems we have had is it's always politically difficult for people to come out for spending more money. I think what we have been hearing in these hearings is that while we are often being told we are saving money, we are not really saving money. We are being told that fewer people would be more efficient. As we look at contracts, we are finding out that's not what's happening. It's not the employees who are getting the money, it's the contractors, and you're not getting the service or getting the products that often you think you need.

Mr. TILTON. Madam Chairwoman, you raised an interesting point yourself about the Hatch Act. Contract employees, no matter how you slice it, are, in fact, Federal employees, perhaps once removed, but nonetheless, they are Federal employees, perhaps not legally, but practically, they are. So, you have one set of employees operating under the private sector, and when they are unhappy, they can strike and do many, many things other Federal employees cannot do. I submit that it's just inherently unfair.

Mrs. SCHROEDER. They can also put part of their pay away and make political contributions, which is illegal on the other side, too, which is a very interesting commentary on where we are going and why a lot of this may have gone on.

But while I think what you're saying is important, we should be looking at how it impacts on the employee, to give the false notion

we have been saving a lot of money by contracting out, I think is false. It's a question of who is getting it.

Mr. TILTON. I would suggest there's no one in this Government in either the executive or legislative branch that knows, No. 1, how much the contracts cost, and No. 2, how many there are, and No. 3, how many employees there are. It's a poor way to run a government when we don't know how much it costs, or how many people work for it, or how many contracts there are. It seems to me the Congress has given up too much; it's time for the Congress to reassert some effective control and to establish some stringent guidelines so we know where we are going.

Mrs. SCHROEDER. It's just become such a grandiose issue, it's very difficult to get back to the beginning again.

I assume, then, you would agree with the prior witnesses as pertaining to personnel impact statements and bonds and wage surveys and those types of things.

Mr. TILTON. Unquestionably.

Mrs. SCHROEDER. I thank you very much for appearing and for your fine statement.

Mr. Bun B. Bray, Jr., national executive director of the National Association of Supervisors, is next.

Mr. BRAY. Our national president, Mr. Cater, is not able to be here today. We would like to insert his statement in the record, and I will briefly summarize the contents of his statement.

Mrs. SCHROEDER. You may do that.

STATEMENT OF BUN B. BRAY, JR., NATIONAL EXECUTIVE DIRECTOR, NATIONAL ASSOCIATION OF SUPERVISORS

Mr. BRAY. I would like first to say, Madam Chairman, that we certainly appreciate the opportunity to be here today and to present our views. We, as you already know, are not a union; but an organization of managers. We certainly find ourselves on the same side of the table as the previous witnesses, because, in my humble opinion, this ranks as one of the most important issues before over 2 million Federal employees today. There's no doubt about it. They are very interested in this. They are disturbed.

Our association of all levels of managers in 15 different departments and agencies finds it a most irritating and disquieting subject. Let me, for just a minute, read for you some of the basic questions they are asking. They are saying to themselves:

Is there a congressional policy authorizing the use of contractors to furnish people to perform services for the Federal Government?

Why does the Office of Management and Budget allow the use of contractor personnel to avoid personnel ceilings?

Do the departments and agencies have an accurate accounting of man-years purchased from contractors?

Our Government is spending yearly millions of dollars to improve the purchasing power of its employees, to be a model employer; and turns around and tries to find someone who will pay less. Why the inconsistency?

Then one question that really must be answered soon because in August 1976, a U.S. circuit court judge, Judge Joseph H. Waddy,

ruled illegal a large number of personal service contracts that had been executed by NASA with several contractors. The decision revolved around the employer-employee relationship. We are certainly wondering to what extent there are other like personal service contracts that would also be considered illegal.

Until about 3, 4 months ago, it looked to us in the Government as if there were a run away to put everything on contract. It's been most encouraging to see congressional action, as reflected by you, Madam Chairman, by your individual efforts and by the subcommittee and full committee, as well as by other Members of Congress, and your recent actions concerning the Department of Defense budget.

Likewise, we are applauding Mr. Lance in OMB for asking us and others for comments on revision of OMB policy. It's most encouraging.

Here are some of the things that we are going to tell OMB as to what we think of the present policy. One, there is no doubt the 24.7 percent was too high for the indirect or add-on cost to the Government. Maybe 14.1 is on target. It's certainly is more nearly correct than 24.7 percent.

Then there's one thing, Madam Chairman, that has not been brought out here today that I would like to mention.

For example, last year in the HEW budget, the Congress voted \$5 billion to stabilize the unemployment insurance trust funds and \$13.5 billion for improving stabilizing—at least keeping liquid the social security fund. Now, Madam Chairman, these are add-ons on the contractor's side that are not being considered under present policy.

Another thing, as we look at A-76 is the matter of indirect costs, and I will briefly name a few which have already been named to some degree by other witnesses, such as security clearances and training courses. We have contractors who are using Federal-sponsored people, the Government paying part of all the labor costs, the add-on due to strikes, and of course, cost of the Government to back up the contractor.

Madam Chairman, I have two official Navy documents showing how in one case a lack of contract expertise caused the grounding of certain planes by Navair coming out of Norfolk. And I have a document from Navair in Jacksonville, Fla., indicating that the Navy has had to remove from service the F-41 engine because such engines were worked on at the contractor's facilities while the contractors were on strike. As a result, they found failures in the workmanship, and therefore, they have had to put those aside.

Representative Lehman brought out an interesting point earlier today concerning the use of foreign people. May I, Madam Chairman, because he did that, take your time a moment to read from a letter signed by an employee to us. This particular employer had a contract with Edwards Air Force Base for refurbishing the kitchens in base houses. They bid the contract on union scale wages and got it. The employees they used were paid as low minimum wage as permitted and no fringe benefits.

I wish to quote from this employee's letter:

I know one individual that was a Vietnamese refugee that was being paid \$2.30 an hour, and was told if an Air Force sergeant came around checking, and if the sergeant came back and asked how much he was being paid, he was to tell him he was making \$9.40 an hour.

The refugee was promoted to the crew. He got top rating, but the man who replaced him as a cleanup man started at \$50 net increase per pay period. No complaint was made by the refugee for fear of losing his job.

I have here an official document from the George Air Force Base from a lieutenant colonel who is chief of the procurement division. He says:

We have had contractors in the past who have paid employees only once each month without the employees' consent. We have had contractors who have not given vacations that are required by the wage determinations. We had had contractors who have not paid fringe benefits required by the wage determination. We have had contractors who have withheld fringe benefits that were to be paid into unions but have not done so. We know of another contractor who withheld fringe benefits telling the employees they are going to health insurance plans for their benefit. All the statements in this paragraph are based on allegations and statements and observations by employees.

I think that's rather interesting.

Now, Madam Chairman, as we come near the end of my statement, I would like to reemphasize some of the inconsistencies that this contracting out brings about. The one most ever present that you have heard about and will continue to hear about is the matter of ceiling restraints.

Madam Chairman, it was my privilege 19 years ago this fall to arrange the first hearing for the manpower subcommittee on contracting out. During the course of these hearings, Congressman Porter Hardy from Norfolk made this classic statement that has been told and retold hundreds of times across America; namely, "The Government's personnel ceilings are merely fooling the American taxpayer." He was the originator of that now-popular statement.

We want to keep that in mind, because just the other day I met with a group of GSA employees, including the Regional Director for Public Housing; he was speaking to the Federal managers of GSA, and he said, "I have 1,800 fewer people to maintain Federal buildings today than I had 4 years ago, yet more floor space." OMB proceeds to cut down the number of employees. What is the result of that?

This is one of the most classic stories that I have to give you, and I get many every week. A top official of the Navy came to me last week and said, "We are trying to get more ceiling for this reason: in Navair here in Washington, this year we have bought 173 man-years to do such work as: position classifiers, electronic engineers, specification writers, and budget analysis." Their average cost, Madam Chairman, is \$49,600, but the contractor gets that. The contractor employees get about 50 percent of that paid the contractor.

The Navy official said, "Mr. Bray, what we want is an additional ceiling so we can hire civil service personnel because their cost would average \$25,100 including the fringe benefits."

We have today in our Air Force Logistics Center, the precision measurement instrument lab, highly technical work that guarantees that our equipment measuring the calibration of all our electronic equipment is exact—it's like the Bureau of Standards—it's an integral part of the mission of those operations, but due to ceiling limitations, the Air Force has been considering contracting this function out. The same lab, same equipment, the only things that happens is the "flesh merchants," contractors bring people in to work at the Government desks.

I have a letter here from Representative Henry Gonzales, and he says:

I know of at least one case in San Antonio, Tex., where contracting out simply meant a reduction of about 40 percent of the employees' compensation. It doesn't mean that different people are doing the job, just that the same people got paid less. It doesn't mean the Federal Government is employing fewer people, simply they weren't counted any more. I sincerely appreciate your concern about this serious and rapidly growing problem.

It seems to me it's high time we stopped and thought a few minutes today. This week, we will spend millions of dollars to improve the purchasing power of our Federal employees. We hope to be and try to be the model employer for the rest of America. It was my privilege to help write both the blue-collar and white-collar legislation. This is what the pay is supposed to be; then we turn around and ask for bids from someone who will do the work cheaper.

Proponents of the current use of out-of-Government groups to furnish employees to do work normally and efficiently done by civil service personnel make their case on two items: (1) the Government should not compete with the private sector, our Nation is built on the free enterprise concept; and (2) current Government policies help many small businesses, especially those owned by minorities.

As to the first point, it appears questionable economics or good business to allow a few officials with little or no fiscal risk to merely furnish people to work on Government property with Government-owned equipment and to make relatively large profits off of their employees. We have aptly described these entrepreneurs as "flesh merchants."

As to the second point, for the public good, is it better for thousands of minorities to receive realistic, equitable wages as Government employees or a few dozen officials in minority corporations to get large profits and pay these same employees a minimum wage?

Madam Chairman, I have great faith in the Federal work force. Federal employees at all levels do a good job.

At an Army base, the lowest bid to construct a dam was \$225,000. The Army, using civil service employees, did the job at a cost less than \$75,000.

The Air Force has been using a contractor, whose name I won't divulge here, who was being paid \$3 million to pull missiles out of their silos and take them in for renovation. The Air Force replaced the contractor using civil service employees and saved over \$2 million on the operation.

We have those kinds of stories all day long.

In conclusion, Madam Chairman, we certainly appreciate having this opportunity to present our views.

"Are there any suggestions, Mr. Bray," you'll say to me, "after all these years you have been working on this, can we improve?"

One way would be to amend the Service Contract Act of 1965 to require Government contractors to pay wages comparable to Federal Government wages for comparable work, or do away with the civilian personnel ceilings and use total labor dollars instead as the control device for operating officials. Madam Chairman, we developed that in the manpower subcommittee at least 10 to 15 years ago; we have been trying to sell it ever since. We think it's a fundamental principle. Thank goodness the concept is supported now by a recent GAO decision.

Another recommendation, and we had a lot of fun with this one, develop legislation, and we did, for more congressional control over contracting out practices by requiring congressional approval for any executive branch contract that would adversely affect 50 or more Government employees.

Thank you again for this opportunity to testify. I'm sorry other members of our association couldn't be here due to illness and other reasons. It's a real privilege to be here.

Mrs. SCHROEDER. Thank you, Mr. Bray, we certainly appreciate your testimony and your long trying experiences in this area.

Let me ask you, since you represent supervisors, are you aware of any agencies that talk to supervisors before they make this decision to contract out? Are supervisors at all involved in the decisionmaking process as to whether or not to contract out?

Mr. BRAY. I would say to a very slight degree, far too little. I would imagine that some of the super grades, at that level, are brought in. The great rank and file are not, certainly first- and second-level supervisors are not.

Mrs. SCHROEDER. They are just told.

Mr. BRAY. They are just told; that's one of the things, as several of the previous witnesses said, which causes the pent-up, emotional feeling.

Mrs. SCHROEDER. When that happens with the first- and second-level supervisors, if they subcontract out the workforce they have been supervising, does the supervisor go, too?

Mr. BRAY. Yes.

Mrs. SCHROEDER. So they take the whole thing out.

Mr. BRAY. Right.

Mrs. SCHROEDER. I would assume that this is really rather devastating on the morale; from the things we have heard since A-76, everybody feels as though they're being hunted and stalked.

Mr. BRAY. Absolutely.

Mrs. SCHROEDER. Have your supervisors been asked to participate in the work description before they put it out for bid?

Mr. BRAY. Yes, and of course, that is very irritating, too, because they have to make preparations for those things, but as to decision-making processes, no, it's totally "we are going to do so-and-so."

Mrs. SCHROEDER. Do you know how many contractors there are that basically do nothing in the private sector—or let's say a majority of their contracts are with the Federal Government? I know you were calling them flesh merchants, which is kind of a loaded word.

Mr. BRAY. Yes; it's a loaded word, and it's a word that's disparaging, and we sometimes feel we shouldn't use it. They are also called another word. A top management official in the Defense Department called them "beltway bandits." It has the same connotation.

We have many of the finest corporations in America that are also in the business of furnishing people. I was out at the Trident base in Mr. Dicks' district in Washington State in January. There I found due to the ceiling, Pan Am was furnishing people to run the fire department and to provide guards at the gates. The only reason in the world, the captain told me, was he had ceiling limitations.

Or I found a supervisor who sat down at the table and said, "Mr. Bray, there's a conflict of interest of employer-employee relations;

what can I do? I have contractor people from another large corporation furnishing people to perform work in the supply function, and I have my own people. So, they are commingling."

We have many, many companies in this country that have made terrific profits and are out to make more, furnishing employees to the Federal Government.

We have many, of course, that are in the hardware business, and this is just an add-on, a frill. Someone said when the Vietnam affair ended there was 12 billion dollars' worth of personal service work that was being performed. We no longer have a market for the hardware business, so this is a place to go—furnish janitors, maintenance people, mechanics.

Mrs. SCHROEDER. As far as you know, there has never really been a big breakout.

Mr. BRAY. Yes.

Mrs. SCHROEDER. I think the minority contract scandal that's broken shows there are certain companies, in which all their contracts, basically, are with the Federal Government.

Mr. BRAY. Absolutely. For example, there's a outfit out on the beltway in McLean, I visited them their first 6 months of operation. They actually got started by the Army giving them a quarter of a million dollars to meet their first quarter's payroll. They had nothing. Many of them were former officers, military and maybe civil service. It's a think tank, and the reason those kinds of things started back there, when I first got interested in this, because then we couldn't get the talent; our Government salaries were limited. Now it's the reverse, and we can easily get the talent. Now the only reason for this excuse is (1) we have ceilings restrictions, or (2) that it's good business in the private sector to do this.

Mrs. SCHROEDER. It seems to me we have several conceptual problems. We have a group of companies that should be considered Federal employers in a way, and at that level we are really competing with the ceilings. Then we have another sector that's doing some public contracts and some private contracts.

One of the things I wonder about is if they are really bidding in the public sector and doing quite well, doesn't that also pass through to the private sector? In other words, that forces the cost of their competition up in the private sector because it becomes more lucrative.

Mr. BRAY. Absolutely. The GAO just issued a report that shows they have commingled their pension funds. Over \$1 million has been charged the Government pension fund and it's a commingling of public and private work.

Mrs. SCHROEDER. Then they tend to turn down more private work, so you pass that inflation through.

Mr. BRAY. I have seen people make terrific profits. One company with no financial risk is making \$40,000 to furnish a handful of guards at a Navy installation out on the west coast.

Mrs. SCHROEDER. I really like your idea of doing away with ceiling limitations and dealing with man year evaluations on whether they should be contracted out or in-house.

Mr. BRAY. I would like to make this other statement, because it also applies to the subcommittee you have.

Due to our long-time interest, we went to the Pentagon about 1965 and set up an accounting system for various functions. We broke the various functions down from janitorial to dismantling a jet engine, all activities in the Department of Defense. We broke this down by military, civil service, and contracting, so that I could go over and review this and come back to the subcommittee and sit down and say, "The Air Force this past year has been using x number of man-years of civil service, y number of military, and z number of contractor personnel for aircraft overhaul work."

It's very interesting to see the trend. I went back over there this past spring to look the situation over and they told me that the contractor figure in man-years was no better than the first year.

These witnesses before me are saying what I have been saying for 20 years: Nobody knows how many man-years we in the Federal Government are buying.

Mrs. SCHROEDER. So it's difficult to get the cost.

Mr. BRAY. Yes; you have to have legislation to get these man-years.

Mrs. SCHROEDER. Counsel, do you have any questions?

Mr. KNULL. No.

Mrs. SCHROEDER. Thank you very much, Mr. Bray. We appreciate your testimony.

Mr. BRAY. Thank you very much. I enjoy working with your staff.

Mrs. SCHROEDER. The committee stands adjourned.

[Whereupon, at 11:18 a.m., the hearing was adjourned, subject to the call of the Chair.]

[The prepared statement of William R. Cater, national president of the National Association of Supervisors, follows:]

PREPARED STATEMENT OF WILLIAM R. CATER, NATIONAL PRESIDENT, NATIONAL ASSOCIATION OF SUPERVISORS, FEDERAL GOVERNMENT

Madam Chairman, members of the subcommittee, my name is William R. Cater, National President of the National Association of Supervisors, Federal Government. I am an employee of the Federal Government employed by the Air Force as a Manager at Tinker Air Force Base, Oklahoma.

INTRODUCTION

Madam Chairman, we certainly appreciate this opportunity to present the views of our Association relative to the contracting out of work normally and effectively performed by Government personnel.

The National Association of Supervisors, Federal Government is a management organization of approximately 12,500 members—all management personnel—in 15 departments and agencies of the Federal Government. Our membership is about evenly divided between so-called blue collar and white collar. For examples, we have members who are first level supervisors at Wage Grade pay level WS-9, members who are Superintendents in the large industrial-type operations of Department of Defense, and managers at the GS-15 thru GS-18 pay levels in both military and civilian agencies.

Madam Chairman, the contracting out of work is certainly one of the most irritating and disturbing problems facing Federal workers today; and it is not just in the Military Departments but throughout the Federal Government, for examples—General Services Administration, Veterans Administration, Department of Health, Education, and Welfare and Department of Treasury.

As Federal employees we have noticed that since the mid 1960's an increasing emphasis to contract out service after service, which has over the years been performed efficiently and economically in house by Civil Service employees. This tempo increased over the past four years until a sudden change in policy within recent weeks.

BASIC QUESTIONS

Our thousands of Federal managers have been and are continuing to ask many basic questions. They feel as taxpayers, as careerists in Government, and as managers proud of their jobs, that they should have answers to such questions as these:

1. Is there a Congressional policy authorizing the use of contractors to furnish people to perform services for the Federal Government?

2. Why does the Office of Management and Budget allow the use of contractor personnel to avoid personnel ceilings?

3. Do the Departments and Agencies have an accurate accounting of man-years purchased from contractors?

4. There are differing pay scales in our Nation—The Government work force has pay schedules set by Congress. The private economy, in this instance contractors, has a minimum wage scale set by Congress. The contractors are generally able to pay considerably less than the Federal Government for the same work. Why put the Government managers at a big disadvantage in bidding for work?

5. Our Government is spending yearly millions of dollars to improve the purchasing power of its employees—to be a model employer; and then turns around and tries to find someone who will pay less. Why the inconsistency?

6. We know there are many hidden costs by using contractors to furnish personal services, for examples—often inferior quality of work, monitorship of contracts, and costs to transfer displaced Government personnel. To what extent are such indirect costs recognized in developing contractor-versus-inhouse cost comparisons?

7. In August, 1976 a U.S. Circuit Court (Judge Joseph H. Waddy) ruled illegal a large number of personal service contracts executed by NASA with several contractors. The decision revolved around the employer-employee relationship. We wonder to what extent other personal service contracts currently in force might also be considered illegal.

APPLAUD CONGRESSIONAL INTEREST

Madam Chairman, within the past several weeks the American taxpayer, including the Federal employees, have viewed with optimism and admiration moves by you and your Subcommittee, the House Appropriations Committee, the House Armed Services Committee, Congress in general and President Carter to halt the run-away to use contractor employees for all kinds and types of Government functions.

These public hearings attest to your Committee's interest. We most certainly applaud your efforts.

Likewise, recent Congressional actions directed to the Department of Defense's authorization for 1978 represent the deep concern of members of Congress for this important management item—labor.

RECOMMENDED CHANGES TO PRESENT POLICIES

It was reassuring to learn a few weeks back from officials of OMB that current contracting out policies are to be overhauled. We have been asked to make recommendations; and most assuredly will.

The Association recognizes the need to have a more realistic indirect cost factor than the 24.7% previously used. It is conceivable that the present OMB figure of 14.1% is within range. But, at the same time the contracting policy guide lines at present fail to recognize the unemployment insurance and Social Security tax burdens underwriting corporations in the private sector by the Government.

We, likewise, feel that there are many hidden costs to the Government, due to use of contractors that are at present not brought to light in computing contractor versus in-house costs. We have in mind such items as: security clearances of contractor personnel, training costs of contractor employees, relocation costs of displaced Government personnel, replacement and repair costs to Government equipment, and add-on charges due to strikes by contractor personnel.

The present Office of Management and Budget policy on contracting for personal services, Circular A-76, prohibits the use of contractor employees to avoid personnel ceiling. However, the reason most frequently advanced for using Government contractors has been restricted civilian personnel ceilings. Any new

policy statement must be more emphatic on this item and certainly more vigorously enforced.

INCONSISTENCIES DUE TO CONTRACTING OUT POLICIES

The increasing use of personnel furnished by contractors over recent years has brought out many inconsistencies in the management of our labor force. Let's review some of these.

Congress, each year, places a limit on the total man-years for a department or agency. Then in other sections of the authorization and appropriation acts, Congress often provides funds for more work than the specified ceilings can handle. Or, OMB proceeds to set its own personnel ceilings, despite Congressional interest or intent.

This results in such current operations as—Navy is using contractor personnel to develop next year's budget; GSA is contracting out all new Government building maintenance; and Air Force is planning to contract out a highly essential job—precision measurement work. All for lack of civilian ceilings.

A former Congressman, Porter Hardy of Norfolk, Va., once said during a public hearing on use of contractors—"The Government's personnel ceilings are merely fooling the American taxpayer".

But, it looks good for public officials to beat their breasts in self praise by citing declining Federal employment. Total labor dollars expended are never mentioned. The public is given the impression that a decline in Federal employment is great, that the costs of Government have gone down; but, the taxpayers are never told that the actual costs of labor often have gone up.

In a recent report to Congress, (B-165959 dated June 2, 1977) as I am certain you are well aware, Madam Chairman, the Comptroller General stated, "Although employment ceilings may be a tool to assure that concern about the total number of Federal employees are met, ceilings are at best an inferior substitute for effective management".

Now to top this, Madam Chairman, we can find no place in the Federal Government that has the total number of man-years the Federal Government purchased this year or any year from contractors. But, we have exact records of man-years, even man-days, of Federal Civil Service employees.

This approach has been likened to the property owner who places two locks on his front door and leaves the back door unlocked.

Another inconsistency in the current contracting out procedures revolves around actual versus theoretical savings to the American taxpayer.

Our Association believes there are innumerable indirect costs attached to the Government's use of corporations to provide services formerly done by Government personnel. As I mentioned earlier, these relate to security clearances, training costs, monitorship of contractor performance, quality of product and contractor add-on charges. Many of these charges are not or can not be specified in cost computations; but over the long-haul become ever important and must be so recognized.

There is the case of having to use Government employees to rectify a contractor's poor performance. There is the loss of product due to the contractor employees' strike. There is the loss of Government capability once the contractor takes over. Many of these losses are beyond immediate fiscal accountability.

Madam Chairman, an outstanding inconsistency in our Government's use of corporations to provide services is a conflict of labor-management philosophy.

Today the Federal Government is spending millions of dollars striving to be a model employer, to lift the purchasing power of our Federal work force—We have innumerable programs dedicated to this end.

The pay of Federal employees is set by Congress, not by Government unions. Then we turn around and try to find some one in the private sector who will pay less for the same work.

Proponents of the current use of Out-of-Government groups to furnish employees to do work normally and efficiently done by Civil Service personnel make their case on two items: First, the Government should not compete with the private sector—our Nation is built on the free enterprise concept; and second, current Government policies help many small businesses, especially those owned by minorities.

As to the first point, it appears questionable economics or good business to allow a few officials with little or no fiscal risk to merely furnish people to work on Government property with Government owned equipment; and, to make

relatively large profits off of their employees. We have aptly described these entrepreneurs as "Flesh Merchants".

As to the second point, for the public good is it better for thousands of minorities to receive realistic, equitable wages as Government employees or a few dozen officials in minority corporation to get large profits and pay these same employees a minimum wage?

Madam Chairman, I fear that point is being overlooked all too frequently.

GOVERNMENT EMPLOYEES CAN DO AND DO WELL

This Association continues to receive data indicating that the use of Government personnel, in-house operations, can be just as efficient and as economical, in fact, often more so than contractor operations.

In a Navy shipyard, in the past two years, the same jobs were performed on two aircraft carriers. The costs through in-house operations were \$400,000, and a contractor was paid \$1,200,000 for the other job.

At an Army base, the lowest bid to construct a dam was \$225,000. The Army using Civil Service employees, did the job at a cost less than \$75,000.

In the Air Force, a contractor was paid \$3 million to pull missiles out of their silos. Air Force replaced the contractor, using Civil Service employees, and saved over \$2 million on the operation.

We have strong belief in Civil Service employees. They are as efficient, as productive, as mindful of quality of product as any employees in our Nation's economy. All of us have reason to be proud of the Government's work-force.

SUGGESTIONS—CONCLUSION

In conclusion, Madam Chairman, we believe the present contracting out problems could be diminished to a significant extent by one or more of the following suggestions: (a) Amend the Service Contract Act of 1965 to require Government Contractors to pay wages comparable to Federal Government wages for comparable work; (b) do away with Civilian personnel ceilings and use total labor dollars instead as the control device for operating officials; or (c) Exercise even more Congressional control over contracting our practices by requiring Congressional approval for any Executive Branch contract that would adversely affect 50 or more Government employees.

Madam Chairman, Committee members, we certainly appreciate this opportunity to show our concern as to the use of contractors to furnish people to do work historically, economically, and efficiently done by Government personnel. Your interests and your efforts are most encouraging.

If you have any questions, we will be most happy to attempt to answer them.

I thank you.

CONTRACTING OUT

TUESDAY, JULY 19, 1977

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON POST OFFICE AND CIVIL SERVICE,
SUBCOMMITTEE ON EMPLOYEE ETHICS AND UTILIZATION,
Washington, D.C.

The subcommittee met at 9:40 a.m., in room 311, Cannon House Office Building, Hon. Patricia Schroeder presiding.

Mrs. SCHROEDER. The subcommittee meeting will come to order.

This is a continuation of the hearing that has been going on for quite some time on subcontracting out.

We're delighted to have with us this morning Congressman Dodd from Connecticut who has some insight into this matter. Christopher, we welcome you.

STATEMENT OF HON. CHRISTOPHER J. DODD, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CONNECTICUT

Mr. DODD. I thank you, Madam Chairwoman, I apologize to you for being a little late, and I'm grateful to you and the committee for allowing me to participate in these hearings. I recognize that some of my colleagues have had an opportunity to testify in these hearings, and I appreciate your allowing me the opportunity to be here this morning to express some of my concern and observations about the subject of contracting out.

Members of the Post Office and Civil Service Subcommittee on Employee Ethics and Utilization, it is a pleasure for me to appear here before you today to discuss Federal Government contracting out policies and practices.

I want to thank you for allowing me this opportunity, because I believe that contracting out policies and practices of the Federal Government are in serious need of reform.

Your subcommittee is to be complimented for recognizing this need, and for holding hearings now and last March about contracting out.

Federal contracting out involves billions of taxpayers dollars and thousands of workers in both the public and private sector. It is a policy which properly should be the subject of congressional scrutiny and deliberation, and if necessary, of ameliorative legislation.

I have been working on Federal contracting out for the past 2½ years, Madame Chairwoman. Initially, I became involved in the issue because two major U.S. Navy installations in my district—the Naval Submarine Base New London, in Groton, Conn., and the Naval Under-

water Systems Center, in New London, were experiencing problems with the policy of contracting out.

Later, I expanded the focus of my interest to include contracting practices throughout the Federal Government, not just those in the Department of Defense.

After 2½ years, I must conclude that Congress and the executive branch must act as expeditiously as possible to reshape Federal contracting policies and procedures.

These policies and practices, certainly in the recent past, have seemed to be unfairly weighted against the best interests of the Government, our civil servants, and the taxpayers.

A thorough examination of the full spectrum of issues surrounding contracting out has been long overdue, and it is time to restore accuracy, fairness and balance to this policy.

In the past, Federal contracting out decisions have not been based on the best, most comprehensive information as to their human and economic costs now and in the future, their appropriateness, and their effects on the ability of the Government to fulfill necessary missions. Contracting out has had tremendously unhappy results.

The House Appropriations Committee, for example, informed me it has found that efforts to convert in-house Government services to commercial contract have generally led to higher costs, needless confusion and consternation on the part of Government personnel, poorer management since contract employees are not as closely supervised as Government employees, and a general deterioration of services.

In addition, while conversion of services to commercial contract often appears to be attractive at the outset, the Committee told me contract costs frequently rise after the initial award when the contracts must be renewed. Contract employees also can strike and stop vital support functions at critical times, while Government personnel cannot strike against the Government.

I am hopeful that your deliberations about contracting out, of which these hearings today are a part, will produce solutions to some of these problems, or at least the beginnings of such solutions.

At the very least, Congress must begin to define more specifically the magnitude of contracting out, its effects on the public and private sector, and its problems, so we might propose improvements to the policy.

With these general thoughts in mind, let me now turn to some specific suggestions and observations about Federal contracting out.

First of all, I would like to engage in a little heresy about the philosophy of contracting out, and its underlying assumptions, because I believe these should be replaced by a new, more realistic philosophy.

Contracting out is a government policy because about 22 years ago it was decided that the Federal Government should, with certain exceptions, obtain needed goods and services from the private sector.

Some 11 years ago, the latest permutation of that policy, Office of Management and Budget Circular A-76, was issued stating commercial or industrial products and services should be obtained from private enterprise unless the Federal Government can provide them less expensively or the national interest requires a Federal agency to provide them in-house with military or civil service personnel.

Inherent in these policies is an underlying assumption that private enterprise can do a better, more efficient, less expensive job of providing these goods and services than can the government. Also, it is viewed as a sound public policy to promote private enterprise.

I think few can argue that, in theory, Government reliance on the private sector for goods and services should be encouraged.

However, I would suggest that obtaining these needed goods and services at the lowest possible costs to taxpayers is a sound public policy that must be given equal consideration, and that, if the Government is the cheapest supplier of equal quality goods and services, then it should supply these contracts.

Inherent in this statement, Madam Chairwoman, is the "heretical," and I place that word in quotation marks, assumption that the Federal Government might be able to accomplish certain tasks better, less expensively and more efficiently than the private enterprise.

I would contend, based on my discussions with federal procurement specialists at the General Accounting Office, that where a function is relatively simple, unspecialized and reoccurring, it can, in most cases, be performed more cheaply in-house by Government than by the private sector.

This is because there is no profit margin to be paid to the Government, and it assumes equal wage rates, good Government management and equal operating efficiencies. These are reasonable assumptions, according to my discussions with GAO. It is also because a contractor would experience higher startup costs he would have to bill to the Government.

Thus it would seem to make little sense to contract out for simple functions, such as janitorial services, especially when there would be few additional general and administrative costs to the Government to continue them in-house.

I would add that when a relatively simple function is to be carried out for the long term and involves minimal investment in equipment and expertise, it would be wise not to assume that it can be performed less expensively under private contract.

Conversely, I think it is accurate to say, in general, that a short-term function requiring technological expertise and sophisticated, expensive equipment probably could be accomplished more efficiently and economically on a contract basis, assuming proper monitoring by Federal officials to minimize contractor improprieties and costs overruns.

Therefore, based on the new philosophy of contracting out—that lowest costs are reasonable criteria for deciding to remain in-house in certain cases and for letting a contract in other instances—I think we can conclude that some functions the Federal Government performs are, more or less, suitable for contracting than are others.

In line with this, I would like to present my second major observation: that Federal contracting out should be accomplished on a more flexible basis in the future, rather than be driven by the arbitrary policies we have experienced in this area in the past.

Many questions remain unanswered about the economy and efficiency of contracting out generally throughout the federal government. Past evidence has demonstrated that contracting out is not cost-effective in certain situations and could result in costing tax-

water Systems Center, in New London, were experiencing problems with the policy of contracting out.

Later, I expanded the focus of my interest to include contracting practices throughout the Federal Government, not just those in the Department of Defense.

After 2½ years, I must conclude that Congress and the executive branch must act as expeditiously as possible to reshape Federal contracting policies and procedures.

These policies and practices, certainly in the recent past, have seemed to be unfairly weighted against the best interests of the Government, our civil servants, and the taxpayers.

A thorough examination of the full spectrum of issues surrounding contracting out has been long overdue, and it is time to restore accuracy, fairness and balance to this policy.

In the past, Federal contracting out decisions have not been based on the best, most comprehensive information as to their human and economic costs now and in the future, their appropriateness, and their effects on the ability of the Government to fulfill necessary missions. Contracting out has had tremendously unhappy results.

The House Appropriations Committee, for example, informed me it has found that efforts to convert in-house Government services to commercial contract have generally led to higher costs, needless confusion and consternation on the part of Government personnel, poorer management since contract employees are not as closely supervised as Government employees, and a general deterioration of services.

In addition, while conversion of services to commercial contract often appears to be attractive at the outset, the Committee told me contract costs frequently rise after the initial award when the contracts must be renewed. Contract employees also can strike and stop vital support functions at critical times, while Government personnel cannot strike against the Government.

I am hopeful that your deliberations about contracting out, of which these hearings today are a part, will produce solutions to some of these problems, or at least the beginnings of such solutions.

At the very least, Congress must begin to define more specifically the magnitude of contracting out, its effects on the public and private sector, and its problems, so we might propose improvements to the policy.

With these general thoughts in mind, let me now turn to some specific suggestions and observations about Federal contracting out.

First of all, I would like to engage in a little heresy about the philosophy of contracting out, and its underlying assumptions, because I believe these should be replaced by a new, more realistic philosophy.

Contracting out is a government policy because about 22 years ago it was decided that the Federal Government should, with certain exceptions, obtain needed goods and services from the private sector.

Some 11 years ago, the latest permutation of that policy, Office of Management and Budget Circular A-76, was issued stating commercial or industrial products and services should be obtained from private enterprise unless the Federal Government can provide them less expensively or the national interest requires a Federal agency to provide them in-house with military or civil service personnel.

Inherent in these policies is an underlying assumption that private enterprise can do a better, more efficient, less expensive job of providing these goods and services than can the government. Also, it is viewed as a sound public policy to promote private enterprise.

I think few can argue that, in theory, Government reliance on the private sector for goods and services should be encouraged.

However, I would suggest that obtaining these needed goods and services at the lowest possible costs to taxpayers is a sound public policy that must be given equal consideration, and that, if the Government is the cheapest supplier of equal quality goods and services, then it should supply these contracts.

Inherent in this statement, Madam Chairwoman, is the "heretical," and I place that word in quotation marks, assumption that the Federal Government might be able to accomplish certain tasks better, less expensively and more efficiently than the private enterprise.

I would contend, based on my discussions with federal procurement specialists at the General Accounting Office, that where a function is relatively simple, unspecialized and reoccurring, it can, in most cases, be performed more cheaply in-house by Government than by the private sector.

This is because there is no profit margin to be paid to the Government, and it assumes equal wage rates, good Government management and equal operating efficiencies. These are reasonable assumptions, according to my discussions with GAO. It is also because a contractor would experience higher startup costs he would have to bill to the Government.

Thus it would seem to make little sense to contract out for simple functions, such as janitorial services, especially when there would be few additional general and administrative costs to the Government to continue them in-house.

I would add that when a relatively simple function is to be carried out for the long term and involves minimal investment in equipment and expertise, it would be wise not to assume that it can be performed less expensively under private contract.

Conversely, I think it is accurate to say, in general, that a short-term function requiring technological expertise and sophisticated, expensive equipment probably could be accomplished more efficiently and economically on a contract basis, assuming proper monitoring by Federal officials to minimize contractor improprieties and costs overruns.

Therefore, based on the new philosophy of contracting out—that lowest costs are reasonable criteria for deciding to remain in-house in certain cases and for letting a contract in other instances—I think we can conclude that some functions the Federal Government performs are, more or less, suitable for contracting than are others.

In line with this, I would like to present my second major observation: that Federal contracting out should be accomplished on a more flexible basis in the future, rather than be driven by the arbitrary policies we have experienced in this area in the past.

Many questions remain unanswered about the economy and efficiency of contracting out generally throughout the federal government. Past evidence has demonstrated that contracting out is not cost-effective in certain situations and could result in costing tax-

payers more, rather than less, than if civil servants continued performing these functions.

Clearly, good management philosophy and prudent fiscal doctrine dictates that the Federal Government should approach decisions whether to contract out on a more flexible basis.

These decisions might be based on a broad policy, but individual circumstances should be considered in each case, so as to only take advantage of contracting out where costs savings are properly demonstrated and where efficiency and mission accomplishment will not be impaired.

Quotas, such as those established by the past administration, and other arbitrary approaches to contracting out should not be acceptable methods for implementing that policy.

Such across-the-board contracting out, as a matter of policy and practice, would seem to be extremely unwise, especially from an economic perspective, because it would remove proper management flexibility from the Federal Government. This would risk repetition of past instances when the Government sadly, has been "penny wise and pound foolish" in its attempts to save money and increase efficiency.

Contracting out policies also should be more flexible to allow the Government to avoid the practice in certain critical areas, such as security and fire fighting at national defense installations.

Madam Chairwoman, just to paraphrase here: we had a situation in our own district, at the Naval Underwater Systems Center, where a suggestion was made to the previous administration to contract out the security force at that particular installation.

I asked the GAO to review that practice and what the ramifications would be of it. Our own fears at the outset were that there would be a security loss. This is a highly sensitive, high priority, scientific research center where some of our more sensitive work is being done.

The Government, I don't think, really gave much consideration to that as the administration made a decision to contract out. GAO came back and confirmed what our fears were, that it would have caused a serious deterioration in the security at that particular installation.

Probably as important, anyway, as that is also the effect on the other employees at these installations. When you're talking about cost savings and efficiency, there is nothing that causes more unrest and insecurity in an installation than to start talking about contracting out. And this situation, had it been better planned—better thought out in the first place, had they looked at the security issue as they should have in the first instance, they could have saved themselves the pain and heartache of having to go through the situation that, ultimately, resulted in abandoning that program.

I would like to insert at this point GAO's further conclusions on that particular thing which I think you and the committee may find interesting.

[The material follows:]

GAO listed four possible security problems connected with contracting out for guards at NUSC:

(1) Loss of flexibility to assign guards to contend with daily security problems; and a loss of direct supervision over guards by NUSC officials;

(2) Need to train lab employees to serve as guards to maintain security should the contract force strike or fail to report to work, or if the contract is terminated.

(GAO also said the cost of such training was not included in the cost analysis comparison of in-house vis-a-vis a contract operation.) ;

(3) Contractor employee turnover—The larger the turnover rate, “the greater the possibility of compromising security;” and

(4) “Reaction time to a security problem may be compromised,” because it could be more difficult to reassign contract guards identified as security risks, the report indicated.

There also could be a lack of cooperation between contract guards and local and state police in investigations by those civilian law enforcement agencies, the GAO indicated. Such cooperation now exists with the in-house guard force, which also can work outside NUSC boundaries in connection with its duties.

Mr. DODD. It was only after these serious security questions were raised by the GAO and myself, and after much upset to the morale of the NUSC guard force and to the efficiency of its operations, that the Navy halted its contracting out plans.

All this would have been unnecessary if the Navy’s contracting out policies were more flexible. Similarly, these policies force the Navy to periodically raise the spectre that the guards at NUSC-New London are being considered for contracting out.

I have no reason to believe that the security situation has changed since my initial concerns, so we will again have to protest this action.

A more flexible contracting out policy in this sensitive function area would remove the pressure from the Navy to contract out. It would enable the NUSC guard force to concentrate all their efforts on worrying about laboratory security rather than job security. And it would enable GAO to expend resources in other problem areas.

In addition to all of this, I would hope our Federal contracting out policies would contain the flexibility to allow the Government to maintain the national security. Personally, even if the price is more, I would prefer to pay it for more highly-trained, capable civil service guards to protect a facility charged with a national defense mission, such as the Naval Underwater Systems Center.

Proper implementation of Federal contracting out requires much more accurate and complete cost comparison data and information than the Government presently uses.

The controversy about the past administration’s 24.7 percent retirement cost factor, and the present administration’s decision to reduce that factor to 14.1 percent of the Federal civil service payroll is representative of this problem.

While it is generally agreed that the old 7 percent retirement cost factor was too low to accurately represent the costs to the Government in using civil servants, there is much less agreement as to what constitutes the correct costs to be used in making comparisons between in-house and contracted-out functions.

Prudent fiscal and personnel management would dictate that an accurate retirement cost factor be developed. The great possibility of inaccurate cost comparisons, when accurate cost studies are essential to proper Federal decisionmaking about contracting out, could otherwise actually result in costing taxpayers more, rather than less, dollars.

Such a result would be directly contrary to one of the major goals of the contracting out of Government functions in most cases—the realization of cost savings.

The past administration’s trebling of the retirement cost factor, which appeared to be unduly biased toward promoting wholesale contracting out, prompted myself and your colleague on the full com-

mittee, Congressman Morris Udall, to challenge the move through a GAO investigation.

The GAO's report, which was printed in the record of your contracting out hearings in March, took sharp exception with two crucial elements in the past administration's policy shift toward contracting out.

GAO disputed both the substance and methodology of arriving at a single, composite rate to measure civil service retirement costs to the Federal Government, and the use of such a single rate itself; and the exclusion of social security costs to the Government for private sector employees in any cost comparisons used to determine validity of contracting out decisions.

GAO recommended that a range of retirement rates be developed for specific civil service occupations considered for contracting, since, and I quote here, "it is improbable that pension cost factors are the same for all occupations."

The use of a single composite rate could lead to inaccurate cost comparisons, GAO indicated, and an analyst there explained to me that using a single rate could artificially hike retirement cost estimates for lower scale civil servants, such as maintenance and food service personnel. It could artificially lower such estimates for higher scale Federal employees, such as engineers and skilled technicians.

It seems dubious to me to estimate the same level of retirement benefits for a scientist and a food service worker, especially since their career longevity and overall earnings are probably so very different.

Since we expect the lower level civil service functions to be the ones most likely to be targets of contracting out, it just does not seem wise to use an estimate which could overstate Government costs if these continue in-house.

I would strongly agree with GAO's recommendation that a range of retirement rates be developed for those functions considered for contracting out, and I would add my support for GAO's position that social security costs for private employees should be factored into any cost comparisons with in-house operations.

I would request the support of your subcommittee for these recommendations by GAO and would urge you to do all that you can to see that they are implemented.

GAO said social security costs should be included in comparisons for contracts because it is unlikely employer and employee contributions will be able to fully pay future costs of the social security system. OMB's position up to this point has been contrary to this.

However, GAO points out that government funding of social security is a likelihood because of the projected, huge future liability for the social security trust fund.

Since there is a possibility that some portion of any additional costs will eventually be borne by the Federal Government, we believe that consideration should be given by OMB to developing a factor for cost comparison purposes that could be applied to labor costs of private sector employees.

GAO said. And I agree with that statement.

Further, they said: "It is our position that cost comparisons are meaningless if similar costs are not included in both comparisons."

In my opinion, ignoring social security costs for contract workers in any cost comparison would be like comparing apples with oranges,

would give an unfair advantage to private contractors, and could seriously understate true costs to the Government for contracting out.

These new, more accurate civil service retirement and social security cost factors should help to ensure that Federal contracting out decisions, in policy and practice, will be based on the best, most comprehensive information.

In the area of cost comparisons, I would add only two more considerations:

One, that any cost comparisons should include the indirect or hidden costs to the Government for contracting out. Among these additional costs for contracting out which should be considered are shut-down and startup costs in the transition from in-house to contract; cost of maintaining additional contract development and compliance monitoring personnel; costs due to reduction in efficiency and morale of civil servants—and this might be a difficult one to actually tabulate, but at any rate, the morale factor is serious, I think, of civil servants affected by contracting out proposals or the implementation of those proposals; separation or early retirement costs to contracted out civil servants; costs of retraining displaced employees; unemployment compensation and welfare costs; losses in tax revenue; costs of those Federal workers reassigned to lower grades, rather than separated, but still receiving their pay guaranteed at the higher scale for at least 2 years.

Second, I would urge that the subcommittee resist any initiative by OMB to severely reduce the number of cost comparisons which now must be done to evaluate contracting out proposals. Far fewer cost comparisons would greatly increase the risk of selecting an uneconomical source of goods and services.

A major reduction in cost comparisons would seem highly inadvisable without a careful analysis of the costs of the studies that have been made in the past as compared to potential savings disclosed.

My final thoughts, Madam Chairwoman, to the subcommittee will be summarized briefly in outline form. These are some of my recommendations:

One, a periodic review of contracts. A government-wide policy should be adopted providing for the review every 3 years of functions which could be considered for contracting out, and of existing contracts to determine whether they should be ended and the functions returned in-house.

Circular A-76 presently is a "one-way street" with functions only flowing away from the Government. Prudent management would suggest some periodic review to determine whether the contractor remains competitive in the existing market, and whether contract cost has increased unduly during the 3 years of the contract, would seem to be advisable.

Union-management advisory groups on contracting out—I would suggest here that advisory groups consisting of Federal employee union representatives and management representatives should be established to allow both groups to better understand each other's positions regarding contracting out, and to enable them to develop mutual solutions to contracting out problems.

We've had some serious problems at the Naval Submarine Base in Groton—New London—with this particular situation—very, very im-

portant communication. Had there been some sort of advisory groups by which some complaints could have been handled, I think we could have alleviated an awful lot of the problems.

Contracting out administration, review and evaluation offices—each Federal department or agency should have one office with the administrative responsibility to coordinate, administer and evaluate contracting out programs within that department or agency.

Such centralized coordination could mean more efficient administration of contracts and better evaluation of proposals to contract out, retain functions in-house, or terminate contracts and return functions in-house.

I believe that such offices could provide for better communication between management and labor, and could promote awareness among both groups as to the proper possibilities and limits of contracting out in each federal department or agency.

Moratorium on Federal contracting out until mid-1978—There are, at present, at least three major government studies underway regarding Federal contracting out—as I know the chairwoman knows—involving both policies and practices of this particular procedure: by OMB, by Department of Defense as mandated in the Fiscal 1978 Procurement Authorization Act, and by the General Accounting Office.

By law the DOD, the Government's largest contractor, is restrained until March 15, 1978 from further contracting out of commercial and industrial activities, presumably to allow the Armed Services Committees the opportunity to evaluate its contracting out review.

GAO has informed me it expects to complete its comprehensive study by April or May or next year.

In view of these studies and of the fact that they might produce significant reforms of Federal contracting out policies and practices, and in light of their completion dates, I would urge that a moratorium be placed on most, new nonemergency government contracting out for commercial and industrial activities until at least March 15, 1978. Emergency or extremely high-priority contracting out could still be permitted, however.

This moratorium would allow Congress and the executive branch enough time to properly evaluate any proposed changes in OMB Circular A-76, and it would allow for appropriate implementation of any approved reforms, before any further major Federal contracting out expenditures are made.

The additional time involved in these evaluations and reforms would seem to be a small price to pay for the assurance that future government contracting out decisions will be made in the most considered manner possible, on the basis of the best available information, and with the best interests of all those involved uppermost in mind.

Madam Chairwoman, I do want to thank you and the committee again for allowing me to appear before you and discuss the subject. It is rather esoteric. It's not one, certainly, that ignites fires and sparks and attracts national attention, but I think it's a subject matter that we in this House have a real responsibility to address. It does affect the taxpayers and the efficiency of our governmental operations tremendously. And I think the fact that you and the committee are willing to go through this rather laborious task of dealing with this issue is

highly commendable, and, again, my thanks to you and to the committee for allowing me to appear before you today.

Mr. SCHROEDER. Thank you very much.

We appreciate the thoughts that you have given us. I think it's an area where it's easy just to jump up and down and say something is wrong. And I appreciate your also coming forward with some positive suggestions. I think that's where we need to go. I don't think it's any great secret that something is wrong, when we've seen so many different committees and everybody interested in it.

One of the things that we have found—and I wonder if you have found this at the submarine base, or if you had inquired about this—it seems that one of the areas that gets subcontracted out tends to be the area where veterans preference gets cranked in so often, like security guards and what-have-you. And there's also the Hatch Act provisions which are a little bit different, and any number of those kinds of things. I know you've been interested in veterans in the past.

Have you seen any of that?

Mr. DODD. We haven't. We noticed—and I guess it's no great surprise—that the efforts made in contracting out always seem to be not at the lowest level, although we've had some problems there with the lowest skilled job areas, the janitorial services, those jobs which don't have the highest skilled levels, and on up to the middle area. They do seem to, time after time, include the higher veteran preference jobs.

I hesitate to say that's a national situation, but we've certainly noticed it in our limited situation in my district where two or three facilities are involved in contracting out, but I would not be surprised if that's the situation nationally.

Mrs. SCHROEDER. Your suggestion about the rumors—I think that's one of the things. All of the switchboards at your office light up, and then you find people calling in and saying, "What have you heard now, and so on, and so on."

I think your suggestion of having employees and management together on this is a very interesting one, and one that we're hearing from both sides. We hear the contractors saying that they're not being notified early enough when the contracting out occurs. And employee groups never find out, although there are lots of rumors, until it seems like it's too late.

Maybe, if you had a very formalized procedure if you're going to do contracting out—or even going to consider contracting out—that there had to be notification, 90 days and so forth and so on; it must be to the employers and it must be to the outside groups, and it must be for everyone so that they have a time to look at the work—the definition—which, in our area, we've had trouble with. They never seem to get the work definition together right, which would make it all the easier, and so forth and so on.

Mr. DODD. I think that's an excellent suggestion, because in so many cases you are dealing with rumors and the efficiency factor. I don't know if it can be properly graphed, but I'd be very interested in seeing it in various Federal installations where, at certain times of the year, the rumors start to fly. I think if there were some way to graph productivity during the rumor period; I think it would be an interesting analysis to find out how much money is lost and how inefficiency seems to increase during that period. If there were mechanisms set up that

would allow for the proper handling of contracting out proposals I think it would alleviate a tremendous amount of problems that were incurred.

Mrs. SCHROEDER. I really do appreciate your suggestions. Does counsel have any questions?

Mr. KNULL. No.

Mrs. SCHROEDER. Thank you very much.

Mr. DODD. Thank you very, very much.

Mrs. SCHROEDER. The next witness that we have with us this morning is Mr. Gillespie, president of the Council of Naval Employee Groups.

Mr. GILLESPIE. If I may, I would like to just place my statement in the record. However, I would like to make some additional comments.

Mrs. SCHROEDER. You may continue.

STATEMENT OF LARRY GILLESPIE, PRESIDENT, COUNCIL OF NAVAL EMPLOYEE GROUPS

Mr. GILLESPIE. I am Larry Gillespie, president of the Council of Naval Employee Groups, which is an organization of the four Western Naval Shipyards. They are located at: Pearl Harbor; Bremerton, Wash.; Vallejo, Calif.; and Long Beach, Calif.

In addition, I'm also president of the Employees Association at the shipyard in Long Beach.

As I have stated, Madam Chairman, we of the CONEG group of naval shipyards are unalterably opposed to the concept of total contracting out. We are especially concerned with what appears to be purely programed to decrease employment under the guise of economy, yet there is no real reduction of cost; in fact, costs escalate and performance under the contract decreases.

The Chairman of the House Appropriations Committee has questioned the cost effectiveness of contracting out, and the Comptroller General has conducted numerous studies relating to personnel savings. Our particular concern involves the concept that's currently understood in the probable contracting out of individual shipyard shops to the ultimate of contracting out complete naval shipyards.

Currently, naval shipyards and private shipyards share in a ratio of 70 to 30 respectively the ship repair funds appropriated by the Congress. Such distribution provides to both segments a fair distribution of work within the capabilities of both to perform.

We recognize that we work under different managerial constraints—naval shipyards, and the civil service regulations, and constraints of the OMB—while the private sector works under an itinerant work force.

Additionally, naval shipyards respond immediately to any situation, as I have noted in my formal comments presented to you in the two circumstances under which we had prevailing at Long Beach.

It cannot bid or select the type of work it would like to do as a private shipyard does.

Because of ceiling constraints, we recognize our responsibility to complete and repair naval ships timely, and have, on occasion, had to contract out work to the private sector in order to meet the specific overhaul dates.

We are also responsible for the completed work, whether it's done by naval shipyard workers or private shipyard workers.

The concept of a Government-owned contractor operated facility was first broached to me by a small private contractor. He expressed deep concern of being left out of all bidding and not receiving any work under the Go/Co concept.

Our thinking tends to lean towards the idea that under a Go/Co operation, rather than promoting competition, it will stifle it or inhibit competition.

Finally, I would like to make one brief comment with regard to new shipbuilding construction. Naval shipyards with shipbuilding capabilities, of which there are three presently, the CONEG group having two of these shipyards, have not had any new ship construction assigned to them in approximately 10 years. In fact, the last new ships that they built for the shipyard for the Navy and delivered to the Navy was in 1970.

All new ship construction is done by the private sector, and today, as you recognize, we're facing large claims from the private sector for contract overruns.

We feel that these naval shipyards should be put back into the shipbuilding area. These shipyards have the physical facilities and they also have the work force. It is a shame that a national resource that we've had over the years has been allowed to dissipate.

The CONEG group, therefore, views contracting out as a subterfuge and a deterioration of ability and capability to provide and perform a vital and needed service to maintaining our naval forces in defense of our country, and in assuring the freedom of the seelanes to our commerce.

With that, I would close, Madam Chairman.

I would like to make one comment: I'm very appreciative of being back in California where we have hot weather but not humid weather. [Laughter.]

[Complete statement follows:]

PREPARED STATEMENT ON LARRY GILLESPIE, PRESIDENT, COUNCIL OF NAVAL
EMPLOYEE GROUPS

Ms. Chairperson, members of the committee, I am Larry Gillespie, President, Council of Naval Employee Groups, representing approximately 33,000 employees of the four western Naval Shipyards of Puget Sound, Bremerton, Washington; Mare Island, Vallejo, California; Long Beach; and Pearl Harbor, Hawaii. I am also President of the Long Beach Naval Shipyard Employees Association.

May I express my sincere appreciation to you and the Committee for the opportunity to present the views of our Employee Group with respect to Contracting Out.

My presence here today is to express the concern of not only the "CONEG" group of Naval Shipyards but also our deep concern as citizens interested in the defense of our country. The need for a strong defense posture is not centered only in our Armed forces but also in the ready and responsive capability of those facilities such as Naval Shipyards so vitally needed to maintain Naval ships.

Our concern emanates from the current policy direction within the Navy being given to implement OMB Circular A-76. Under the direction of Chief Navy Material (Navmat), who is the Navy wide coordinator for implementing Circular A-76, as indicated by Naval Material Industrial Resources Office (Navmiro) personnel who have presented the program philosophy that nothing is exempt from the contracting out concept. The increased emphasis on the implementation of A-76 is being directed by the Department of Defense (DOD). The objective currently projected by DOD is to increase contracting out by 35-50 percent

above fiscal year 76 level and reducing personnel positions to the extent possible by 1980.

The program concept as we envision it, based on the Navmat presentation, there exist the possibility of contracting out shipyard shops such as machine, electronics, sheetmetal and others. If shops were contracted out individually there would be chaos which could effect the ability of the Navy's operating forces to meet its commitments. The ultimate result would be to contract out a whole shipyard to one contractor to be operated as a government owned/contractor operated (Go/Co) facility. Theoretically contracting out is suppose to promote competition. Contracting out complete shops or a facility would reduce competition rather than promote it. Currently Naval Shipyards and the private shipyards share in a ratio of 70/30 the ship repair funds appropriated by the Congress. It is in our opinion a very satisfactory distribution of funds within the capability of both segments to perform according to their physical plant. In fact, it in effect maintains the necessary capability required in the Report of the Armed Services Subcommittee on Seapower chaired by Honorable Charles Bennett.

It should be understood the overhaul of a Naval ship is not a simple task. It takes months to plan, it is a complex highly technical operation encompassing many skills and craftsmen requiring an experienced workforce available in Naval Shipyards. A facility such as a Naval Shipyard with its sophisticated equipment and experienced skilled technicians can instantaneously respond to any emergency or changing situation that may arise which a private shipyard cannot. I would like to cite a couple of situations which occurred both at Long Beach. Last October the carrier Constellation CVA-64 had to have emergency work done requiring dry docking. The work had to be accomplished before she could deploy to the Western Pacific. She came into the Shipyard and work commenced on 23 Oct. It departed the Shipyard on 24 November. The original forecast projected a work package of approximately 2400 man days. Due to increase in scope of work after arrival 8000 man days were worked a growth of 343 percent.

With this excessive growth in work and lack of leadtime for planning the Shipyard responded with a completion within one day of original contract. The second episode is currently in progress. The carrier Okinawa LPH-3 was to have a regular overhaul (ROH) lasting about 9-10 months encompassing 77,000 man days of work. The overhaul was planned, designed, scheduled, and was changed to a restricted availability of nine (9) weeks to be followed by completion of the overhaul provided that the Carrier Tripoli LPH-10 which was scheduled for deployment and undergoing repairs in San Diego could meet its date. The Tripoli subsequently came to Long Beach on 1 July for replacement of her Turbine Engine. This work is underway and Tripoli is expected to meet her deployment date so that we can get on with the regular overhaul for the Okinawa. Only in a Naval Shipyard would this kind of a situation be accomplished successfully and within the prescribed costs for the work. Actually as you can see Navy Shipyards are not in a position to reject our customers requirements.

A Naval Shipyard reacts favorably to requests for work from the Fleet because that is our sole mission, service to the Fleet. Under similar circumstances in the private sector the costs accountants would have a field day computing and accounting for costs associated with disruption and delay of work including restart costs. Can you imagine the consternation and turmoil a private contractor with an itinerant work force would find himself in under these conditions. In the first place he wouldn't accept these conditions of contract because as you and I recognize he would insist on guarantees and performance type insurance for protection which would be added costs to the job but would not contribute to the quality of the work.

Contracting out does not decrease costs. I refer you to the Comptroller General Report B-165959 Personnel Ceilings. A barrier to Effective Manpower Management of June 2, 1977 which identified a study by the staff House Committee on Appropriations (page 65) that disclosed "It is clear that in many instances contracting is more expensive than In-House Performance"—Undoubtedly it was this study which contributed to a letter of March 16, 1977 from Honorable George Mahon, Chairman, House Appropriation Committee to Defense Secretary Brown, relating to contracting out, the following excerpts "We have found such efforts to generally lead to higher costs,"—"poorer management since contract employees are not closely supervised"—"and a general deterioration of services."

Finally, I would like to comment on building Naval Ships in Naval Shipyards. There are three (3) Naval Shipyards with the facilities and personnel capable of building ships. These Shipyards have built ships in the past. This is a waste of physical facilities and an experienced work force. These facilities can be used to build ships today which the Navy needs now. Based upon current projections for building ships by the private sector we are looking to a future time which can only add to the cost of these ships by inflationary pressures. These inflationary costs could be negated by Naval Shipyards if they were to commence building at an early date. Of particular interest to we of CONEG in this area are two (2) Shipyards, Mare Island which has built Nuclear Submarines and Bremerton which has built surface ships.

Mrs. SCHROEDER. I thank you very much for appearing. We appreciate it, and your statement is very good.

If you compare standby repair facility which is in-house with private facilities which may or may not bid, is that fair?

In other words, if you are taking the cost analysis for holding on to an in-house facility, and you've been putting it out and comparing it to bids from yards that are taking lots of other bids, too—if they don't get the work it's OK. I mean, they still survive. Do you see a problem with that kind of comparison?

Mr. GILLESPIE. I really don't understand your question.

Mrs. SCHROEDER. I was on the Seapower Subcommittee of the armed services, so we've been round and round the shipyards over and over again, and one of the things that I think has happened to the shipyards that are Government owned is that you were there and you had a work force and they report everyday. And, obviously, you cannot go out and bid on private ships. You cannot go to Japan and say, "Let us build your fishing fleet, or what-have-you." I mean, really, you have only one source of work.

And when they pit you against companies who can also go out and have the whole market to deal with, it's very difficult. You get put in a very bad position, depending on whether they're in a very flush circumstance, or they're in an unfortunate circumstance. They're apt to increase or decrease the bids, depending on how business is out there, and not really so much on their cost. Because their cost, they're having to look at on a long-term basis and say:

Well, we're down now, so let's go bid for some of those Government repair contracts. We'll bid in really low, as it's cheaper to keep the trained forces on even if loose a little bit, because we can foresee 6 months from now we're going to be up and we'll need them.

Do you see what I'm saying? Have you ever been able to measure that?

Mr. GILLESPIE. No, I haven't; but having had experience over the last 8 years of arguing for the Shipbuilding Council of America before the Appropriations Committee on this distribution of work between the public and private yards where we have finally come to this gentlemen's agreement of 70-30, the contentions during those hearings were that it cost more to do work in naval shipyards.

Possibly there is additional cost which we have to take into consideration. I can only speak for the greater loss in the Long Beach area, in which we find that the private yards do not have the physical facilities to do most of the work that is being done in Long Beach Naval Shipyard and at the other naval shipyards simply because of the broad aspect of the type of work that we are called on to do, and all of the type specialties that we have to have which is a complex sys-

tem. We have, in effect, a complete work force that can handle any particular situation on an emergency basis such as I pointed out to you in constellation. You never would have gotten that job in a private shipyard. We have the equipment to handle that unusual circumstance.

If we want to compare the unrelated costs, such as apprentice training, I think if you look into the record you'll find that naval shipyards have, perhaps, the largest apprentice program in the United States, as a complete package. All eight naval shipyards have an apprentice program; in fact, the last figures I saw, for example, at Charleston Naval Shipyard in South Carolina, a major portion of their work force is made up of apprentices that are in the process of training simply because they don't have the work force in a geographical area to draw from.

But over all, I would say, on a comparable basis, if you were to take job for job without some of the ceiling constraints and such, we can perform equally with the private sector. Naturally we're under the industrial fund concept. We don't try to make money, but now and then we do have a good ship where we have an excellent opportunity to do the work. Get it planned well in advance, get all of the materials in, and, without qualification, we can perform as highly skilled task as any private sector. In fact, I think we do it better.

At the hearings Mrs. Spellman conducted in San Diego a week ago, I think she was astounded to hear some of the qualifications that were required of a naval shipyard blue collar worker as compared to the private sector.

But we have all of these qualified people who can perform and do all sorts of tasks way and above what you are requiring in the private sector. I don't feel that we are overcharging them. We would like to see some management practices change, but they come from the heirarchy back here that imposes constraints on us, and we have no other choice.

We do contract out work in order to meet dates. We just have to do it; there's no other way we can do it.

Mrs. SCHROEDER. All right. Thank you.

Counsel, do you have any questions?

Mr. KNULL. No.

Mrs. SCHROEDER. Thank you again. We appreciate your testimony.

The next witness we have this morning is Mr. Leeson, who is the executive director of the National Council of Technical Industries.

Mr. Leeson, welcome. We're delighted to have you with us.

**STATEMENT OF EDWARD C. LEESON, EXECUTIVE DIRECTOR,
NATIONAL COUNCIL OF TECHNICAL INDUSTRIES, ACCOMPANIED
BY JEAN CAFFIAUX, VICE PRESIDENT, ELECTRONIC INDUSTRIES
ASSOCIATION; AND LLOYD KUHN, VICE PRESIDENT, AEROSPACE
INDUSTRIES ASSOCIATION**

Mr. LEESON. Good morning, Madam Chairwoman, and thank you for the privilege of being here today.

As noted in our testimony, I am a spokesman for four major industrial associations, all interested in service contracting. And, therefore, I am simply the spokesman. This is a consolidated opinion of the

several groups involved. This is self-explanatory in the prepared statement, which, with your permission, I would like to read.

Madam Chairwoman and members of the subcommittee, I am Edward C. Leeson, executive director of the National Council of Technical Service Industries, appearing here today on behalf of four national industry associations with a strong interest in support service contracting.

In addition to my association, which has 17 members directly involved in support service contracting, I am speaking for: The Aerospace Industries Association of America, Inc.—Mr. Lloyd Kuhn, who is on my left—representing 46 of the Nation's major manufacturers of aircraft, spacecraft, missiles and related components and services; the Electronic Industries Association, which is represented by Mr. Jean Caffiaux on my right, who is vice president of the Electronic Industries Association, composed of 275 members with extensive experience in providing goods and services needed by the government; and the National Security Industrial Association, which has a membership of 261 companies representing all segments of defense industry. Their representative is not present.

All four associations and the majority of the companies they represent have extensive experience in the procurement area and in the all-important area of government services contracting in particular.

I appreciate the opportunity to be here today to convey our serious misgiving concerning recent developments in the executive and legislative branches affecting industry's contributions to the operation of the U.S. Government.

Since the earliest days of the Republic, when patriotic businessmen supplied the American Revolutionary forces, American business has worked hand in hand with Government to insure the health and welfare of the citizenry. Private enterprise accepted the wishes to continue to accept the major responsibility for providing goods, services, and jobs to all sectors of the national economy. A traditional and obvious exception to this rule has been the presence of a bureaucracy to administer various Government policies and purchasing programs at the National, State and municipal levels.

Now, subtly, this limited bureaucratic role is expanding and we feel that the change will not be to the ultimate liking of informed Government officials, whose responsibility it is to run the Government with the greatest efficiency at the least possible cost, or to the general well being of the taxpayer, whose responsibility it is to pay for these activities. In the end, should the present erosive trends, actions, and attitude prevail, everyone will lose.

The first detailed inquiry into the desirability of contracting out was made in 1932 by a special committee of the House of Representatives. Several other congressional committees and subcommittees also looked into the issue.

In 1955, the second Hoover Commission presented 22 recommendation aimed at eliminating or curbing Government activities which were in competition with the private sector.

On January 15, 1865, the then Bureau of the Budget issued Bulletin 55-4, which stated, and I quote:

It is the general policy of the Administration that the Federal Government will not start or carry on any commercial activity to provide a service or product for its own use if such service or product can be procured from private enterprise.

The only exceptions were to be in those cases where procurement from the private sector was not deemed to be in the public interest.

Bulletin 55-4 was updated and revised several times, but the principle remained the same: Work was to be done by industry unless national security would be affected, industry costs were disproportionately high or it was clearly infeasible.

Then, on March 3, 1966, BoB Circular A-76 was born, superseding earlier directives. The principle, however, remained the same. Government commercial or industrial activity could be authorized only if one or more of the following conditions existed: Procurement from a commercial source would disrupt the agency's program; internal provision was required to maintain military readiness; a satisfactory commercial source was not available; or procurement from industry would result in higher costs to Government.

This fourth exception, as we shall see, became a stumbling block to consistent implementation of this policy. Nevertheless, it is clear that under OMB Circular A-76, the rule is to acquire goods and services from the private sector and the exception is to provide them in-house.

Unfortunately, it has not worked that way. Most Government agencies, in effect, fail to implement this long-standing Government policy. In 1967, for instance, total Federal goods and services totaled \$90.706 billion, or 60.5 percent of which were contracted out. In the succeeding decade, however, industry's share declined and in 1974, total goods and services were \$116.900 billion, but only 52.3 percent were procured from the private sector.

Why has this happened? It is not too difficult to detect a rather tangled web of motives and attitudes at work. The Government, like many other large institutions, seems to be cursed by a self-perpetuating urge to bigness and self-sufficiency. Few bureaucracies phase themselves out, or would reasonably be expected to. Controls must be provided from outside.

A second force toward greater in-house performance is perhaps equally understandable, if in our view shortsighted, and that is the attitude of the public employee unions. Again, this is an instance of self interest taking precedence over the interests of the taxpayers and the national economy. For instance, these unions cite the hardships worked on individual government employees by conversion to contract, yet thousands of union employees in industry are equally jeopardized if companies cannot maintain an adequate level of contracting.

These two forces, then, have resulted in a total lack of effective implementation of Circular A-76 on the part of government agencies. In our view and in the view of several respected government agencies, including the Congress' own General Accounting Office, neglect of the A-76 policy has drastic dollar-and-cents repercussions.

In its latest report on the subject, entitled "How to Improve Procedures for Deciding Between Contractor and In-House Military Base Support Services", March 28, 1977, the GAO revealed that the Army, Navy, and Air Force spent over \$2 billion in fiscal year 1975 to provide their installations with support services. Despite the dictates of Circular A-76, the Services saw fit to perform 77 percent of this work using government personnel. In the course of this study, the GAO looked at 27 contracting situations and found that 22 would

have been less costly if performed by contractors and would have resulted in a \$3.7 million savings to the Government, while only 5 of the 27 were performed more economically by Government workers, showing a savings of \$137,000. As a result the GAO recommended, in part, that the Secretary of Defense:

Require the military services to exclude from contracting consideration only those activities properly excludable under the terms of Circular A-76 and to reconsider the many activities previously excluded improperly.

Similar instances were singled out and examined by the General Accounting Office in previous reports, including "Navy Aircraft Overhaul Depots Could be More Productive," December 23, 1975; and "Should Aircraft Depot Maintenance be In-House or Contracted: Controls and Revised Criteria Needed," October 20, 1976.

A striking example of the desirability of contracting out is the operation of Vance Air Force Base, Okla. As you are probably aware, this installation is run under contract. In a study performed by the RAND Corp. and reported in a study entitled, "Defense Manpower: The Keystone of National Security," issued by the Defense Manpower Commission in April 1976, the contract operations at Vance were compared with similar functions at Reese Air Force Base, Tex., a comparable facility run by the Air Force. RAND found that Vance exceeded Reese and most other bases in the Air Training Command in measures of quality and responsiveness of support, such as availability of aircraft and parts. Furthermore, Vance used only 74 percent of the manpower and 87 percent of the budget consumed by Reese to accomplish approximately the same mission.

On the basis of the RAND study, the Defense Manpower Commission concluded as follows:

Increased contracting for services at the installation level can reduce manpower costs without reducing military capability. Accordingly, the DOD should incorporate private sector manpower into its Total Force policy, and award contracts for installation services when they would yield a satisfactory product at less cost to the Government.

It is also interesting that the Defense Manpower Commission saw fit to add:

The Department of Defense should improve and standardize its techniques for comparing costs of work of contractors and Federal employees, in order to obtain more valid comparisons.

I will address the latter point more fully in a moment.

Another, more recent example which testifies to the value of contracting out, is the competition—under DOD directive 4100.33, an implementing regulation of circular A-76—for major nonmilitary support functions at some 13 aircraft control and warning squadrons in Alaska. The Air Force's in-house bid for the job was close to \$100 million higher than that of the private sector winner, the RCA service Co. In terms no one could misunderstand, contracting that work out saved the Government \$100 million. This story had a happy ending, but one cannot help but wonder how many times in similar situations the regulation has been circumvented with heavy ultimate costs to the U.S. taxpayer.

Even more frustrating and difficult to comprehend are recent actions of the avowedly cost-conscious administration and Congress concerning this situation. I alluded earlier to the portion of A-76, which

allows the Government agency to perform work in-house when it would be more expensive to contract it out. This little loophole has become a floodgate. When agencies make cost comparisons of the two modes, unrealistically low computation factors for figuring pension costs for Government employees have often tipped the scales in favor of in-house performance.

And effort was made in 1976 to alleviate the glaring discrepancy between contract employee and Government employee costs. The unrealistically low 7-percent Government employee retirement cost factor was studied and an increase to 36 percent was recommended and issued for comment. Comment was heavy, to put it mildly, and the Office of Federal Procurement Policy recommitted the matter to study. For nearly 6 months, actuarial experts from OMB and the Civil Service Commission studied the matter and finally reduced the figure to 24.7 percent, although both bodies of experts felt that the 24.7 figure was very conservative.

Now, on June 13, 1977, the Office of Management and Budget, through the Office of Federal Procurement Policy, dropped the figure to 14.1 percent and cancelled a previous order that Government agencies examine at least five in-house projects with an eye toward converting them to contract. We view this as a crippling blow to improving industry-Government cooperation for provision of goods and services. Further, it appears to reject the fruits of years of study and experience.

Added to this problem has been a recent action by the Congress under the defense authorization bill of fiscal year 1978 which places a moratorium on further conversion of DOD projects to contract until March 15, 1978, unless that conversion is economically indicated using the old, totally discounted, 7-percent computation factor.

In a letter dated April 20, 1977, to Senate Armed Services Committee Chairman John Stennis, Defense Secretary Harold Brown warned that such a moratorium "would severely limit defense activities." He went on to say: "The DOD must be free to contract with the private sector when it will save the taxpayers money without reducing defense capability." Secretary Brown also noted that section 809 in the deauthorization bill is contrary to the intent of Congress as expressed in the fiscal year 1975 Defense Authorization Act that DOD should use the least costly mix of manpower.

Coupled with these administration and authorizing moves are initiatives which succeeded last year and are underway again this year to expand the coverage of the Service Contract Act of 1965, a measure created to deal with unscrupulous contractors who abuse the rights of their blue-collar employees.

Over the years, however, the act has been extended in small increments to other categories of workers it was never designed to cover. Last year, under the Thompson bill—now Public Law 94-489—white collar workers were included under the act. This year legislation has been proposed and hearings held to place professional employees, meaning virtually anyone below general manager, under the act's wage-setting structure.

As you probably know, the Service Contract Act, through its implementing arm, the Department of Labor, holds wages on a given contract firm when a successor contractor takes over. Naturally, how-

ever, these arbitrary and inflationary wage levels seep into the non-governmental branches of the service industries. By inflating wages and forcing a contractor to pay those inflated wages no matter how many improvements in efficiency he had instituted that would theoretically allow him to use lower-skilled workers, once again the Government has managed to price the contractor above the in-house level and once again the policy of reliance on the private sector has been circumvented.

We in industry see these developments as extremely serious, even alarming, and we invite you to consider this question: Is this erosion of the contracting-out policy—and, by extension, of private enterprise itself—prudent, cost effective and necessary? We think not. But if that should be determined to be the case—only after serious study—do we really want to accomplish this end in such a disjointed, piecemeal fashion? In our view it is the responsibility of Congress, in hearings such as this one, and of the executive branch, working both with industry and Government employee organizations, to answer these questions candidly, basing the answers not on emotional appeals, but on facts.

To assist in this process, the four associations I am representing here today are offering for inclusion in the record a copy—with your permission, Madame Chairwoman—of the detailed comments and recommendations we submitted to OMB Director James McIntyre in response to his request for comments on OMB circular A-76 and its implementation set forth in transmittal letter No. 3.

That concludes my testimony. I appreciate the opportunity to voice these grave concerns about the direction the Government-industry relationship seems to be taking regarding some of these issues. We regret the dislocation which has already taken place and we feel strongly that without affirmative action on the part of Congress and the executive branch, this delicate working relationship might be irreparably damaged.

[The document referred to follows:]

AEROSPACE INDUSTRIES ASSOCIATION
1725 DeSales St., N.W., Wash., D.C. 20036

ELECTRONIC INDUSTRIES ASSOCIATION
2001 Eye St., N.W., Wash., D.C. 20006

NATIONAL COUNCIL OF TECHNICAL SERVICE INDUSTRIES
888 17th Street, N.W., Washington, D.C. 20006

NATIONAL SECURITY INDUSTRIAL ASSOCIATION
740 15th Street, N.W., Washington, D.C. 20005

July 13, 1977

The Honorable James T. McIntyre, Jr.
Deputy Director
Office of Management and Budget
Washington, D. C. 20503

Dear Mr. McIntyre:

In response to your invitation, we are pleased to provide the following comments and recommendations on OMB Circular A-76 and its implementation.

These recommendations are offered on behalf of four major trade associations whose member companies provide many of the goods and services used by the Federal Government. These Associations are:

AIA - The Aerospace Industries Association of America, Inc., representing 46 of the nation's major manufacturers of aircraft, spacecraft, missiles and related components and services;

EIA - The Electronic Industries Association, composed of 275 members with extensive experience in providing electronic products and services needed by the government;

NCTSI - The National Council of Technical Service Industries, with a membership of 17 companies engaged in support services work; and

NSIA - The National Security Industrial Association, which has a membership of 261 companies representing all segments of the defense industry.

We believe that by coordinating our responses, we will relieve your office of the necessity of evaluating four separate submissions with many common aspects. We do request, however, that this response be given the full weight that would otherwise have been accorded to four separate replies.

With the issuance of Bulletin 55-4 by the Bureau of the Budget in 1965, the policy of reliance on the private sector has been formally recognized as desirable and consistent with the national interest. Now, as then, we support this principle, which provides that it is the function of the government to set policy and manage the affairs of the Nation and the role of private enterprise to provide the goods and services needed in that endeavor.

In its original version, this policy recognized that certain exceptions should and could be made, a fact which industry accepts. We fully recognize that there are limited circumstances where government in-house performance can be justified as an exception to the basic policy.

In recent years, however, the rationale for exceptions to the policy is, in our opinion, increasingly being used to circumvent the basic intent of the policy. The apparent reasons are the normal tendency, particularly of military organizations, towards self sufficiency and the natural inclination of governmental institutions towards self perpetuation. We believe these forces have overbalanced the interests of the taxpayer and the national economy. For example, in 1967, total federal goods and services totaled \$90.706 billion, 60.5 percent of which were contracted-out. In the succeeding decade, however, government bureaucracy ballooned and in 1974, total goods and services were \$116.900 billion, but only 52.3 percent were procured from industry.

Thus, while strongly supporting the basic premise of Circular A-76, we offer the following comments concerning recent OMB actions relative to this policy. Additionally, we offer recommendations for consideration by the A-76 Review Task Group.

Procedures and Precedent Violations

We believe that OMB acted precipitously, unfairly, and possibly in violation of the Administrative Procedures Act, by its issuance, on June 13, 1977, of Transmittal Memorandum No. 3 (which changed the cost factor for retirement) without having provided an opportunity for all affected parties to be heard. The companies represented by the signatory Associations are substantially affected and feel they should have had as ample a chance to comment on reduction of the factor as they did on the earlier increase to 24.7%.

Further, because of its drastic impact, we believe reduction of the pension factor may well be a "major policy matter" which, by law (41 USC 407(b)), requires a submittal to Congress 30 days prior to effective date, with a full description and other details of the policy or regulation. Failure to take this step constitutes

further denial of the opportunity for full and fair consideration prior to issuance.

"Stability for Workers"

The Background Statement accompanying the OMB announcement identified "stability and predictability for the workers" as one of the principles under which the OMB study of A-76 would be carried out. While the concept of stability and predictability is a commendable objective for both industry and government workers, it must be balanced with the equally important factors of efficiency and economy. In the private sector the forces of competition dictate maximum use of a flexible work force to allow optimization of employee talents and control of costs for each specific job to be performed. The government organization is not as dependent on such competitive factors for its survival and this principle of "stability and predictability" could easily be misused by government personnel as a basis for retaining and/or enlarging in-house capabilities at the expense of efficiency and economy. We, therefore, urge that this element be weighed with great care and discrimination and also considered as a factor on the industry personnel side in determining a proper balance between in-house and contracted effort.

Government Retirement Cost Factor

The former 24.7% retirement computation factor was arrived at only after a careful, six-month study by actuarial experts from the Civil Service Commission and the OMB itself. Since this figure was not arrived at arbitrarily, but instead is the result of a considerable effort by the government's own experts, we can only conclude that the decision to reduce it was based on considerations other than the true cost of the government retirement program.

Since this factor was developed to permit a comparison between the government's cost of doing business and that of industry, it seems only appropriate that the comparison criteria be the same. Industry is required, under the provision of the Employee Retirement Program Income Act of 1974 (ERISA), to establish the retirement fund under certain guidelines based upon sound retirement fund practices which took several years to develop. It ensures that industry does not incur liabilities to future annuitants without maintaining an ability to meet such obligations. ERISA procedures require industry to plan for growth and changes in benefits. Contingencies such as inflation, interest rates on loans or transfers of money, growth of participant population and increases in dollar value of benefits must be taken into account. What is wrong with also using such criteria to judge the cost of the Civil Service retirement plan to the

government? Why is the government plan excluded from full coverage under ERISA?

The accrual method is a practice acceptable to accountants and actuaries. What are the questions being raised as to this method of computation which suddenly call for the 24.7% factor to be swept aside as invalid?

Discrimination Against Defense Contractors

OMB Director Bert Lance has directed all government agencies to use the 14.1% retirement cost factor in computing the cost of in-house performance. However, recent action pending in Congress would deny even that figure to defense contractors, who instead will be obliged to be compared with the factor of 7% in force before June 1976. We urge appropriate action to eliminate this discriminatory action against defense contractors by requiring the use of the 14.1% factor by DoD, as is required of other government agencies.

Mission Essential Functions

One of the areas which might prove most beneficial in the work of the A-76 Review Task Group is the area of "mission essential" decisions. We all recognize that there are good and valid reasons why certain functions should be held in-house by the government. Certainly in those areas dealing with safety, special armament and munitions requiring special handling, hazardous duty, and intelligence gathering, there can be little doubt that such activities should be conducted in-house.

It is in this context that we urge the task group to set up clear rules and criteria as to what constitutes a "mission essential" function. Too many times under this proviso, programs or services well within the capability of industry are held in-house at great cost when they could and should be contracted-out. We refer specifically to the great volume of work conducted in the area of maintenance of electronic equipment by the government which could generally be done more efficiently, and certainly more cost effectively, by industry without any impairment of government military capability.

Diminishing Tax Base

We recommend that the Review Task Group devote a part of its study to the adverse impact of in-house performance on the tax base available for the production of revenue. Cost comparisons

between in-house and industry performance are certainly important, but even more important is the burden put on taxpayers for the accomplishment of government functions. We invite the task group to consider this aspect as a special part of the study and as a key factor in deciding whether to contract-out to industry.

Case Studies

Any fair and informed action on implementation of A-76 will require that objective case studies be conducted. While we hold no particular brief for any specific quota requirement, we do believe that trial comparison studies, such as those established by OMB in Circular No. A-113, are needed now more than ever. We urge that such studies be initiated as soon as possible.

Government Agency Implementation

The A-76 Review Task Group should also include in its study a review of the implementing directives and instructions which each agency is required to submit to OMB to insure that such directives do exist and are comprehensive, effective, and consistent with the policy and provisions of A-76.

Further, the study group should favorably consider requiring annual summary reports from each department and agency which would include as a minimum:

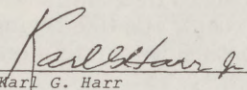
- an inventory of the number and dollar value of commercial and industrial activities;
- the number of activities reviewed and exempted from review during the last year, including the numbers approved and discontinued as a result of review; and
- the number of new starts proposed and whether approved or disapproved.

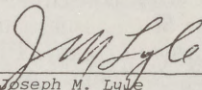
In summary, we believe the historic policy of government reliance on the private sector for its goods and services is fundamentally sound, politically and economically, and is essential to cost effective procurement of such goods and services by the government. We believe that an objective, unbiased review

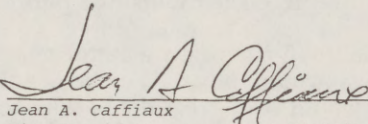
prior to promulgation of any revisions to A-76 will provide significant benefit to both the government and the industry that provides its needed goods and services.

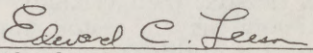
Representatives of our organizations are willing to meet with members of your A-76 Review Task Group to discuss our comments and recommendations in further detail.

Yours very truly,


Karl G. Harr
President
Aerospace Industries Association


Joseph M. Lyle
President
National Security Industrial Assn.


Jean A. Caffiaux
Vice President, Government Division
Electronic Industries Association


Edward C. Leeson
Executive Director
National Council of Technical
Service Association

Mr. LEESON. We will be delighted to answer questions now, Madam Chairwoman. Thank you.

Mrs. SCHROEDER. Thank you very much. We appreciate your extensive statement. I know it took a lot of time and effort.

One of the problems that we've had in trying to deal with this issue has been that, unfortunately, the Federal Government has not kept track of the number of private employees that are now working on a contracting-out basis, and how many Government employees they have replaced. As a consequence, it is very difficult to determine cost and a lot of the other issues that we are talking about. It's like trying to get your hands on steam; I mean, you know, both sides can find one example, but we don't have any total picture.

Has the private sector done any analysis from this standpoint? Do you have any better figures than the Federal Government does on the number of private employees that would replace the number of public employees?

Mr. LEESON. Well, certainly it's available in the private sector as to how many private sector employees we would have. We have not compiled it in this format. It probably would be a great deal easier to compile it in the private sector if we had to do it; however, this is an extremely dynamic situation and it's something that doesn't lend itself to a long-term analysis.

I think it's infinitely worse in the executive branch of the Government. Without being critical of their operations, they are so fractionated and so scattered, and there are so many hundreds of various organizations that are analyzing these figures, that there is no central repository or place to put them together.

I think the answer to it is that there is no such set of figures available on either side.

Mrs. SCHROEDER. Well, I think that is one of the problems that we're dealing with, as you well know, and that's one of the reasons that there's been so much going on in this area all of a sudden, and that is that both sides make a case for specific instances.

But we don't have, really, a pool of impartial data. The Government side, GAO, your side. I'm not sure how impartial either side really is, and we don't have a total office summary that just plain has the data that you can pull out and look at.

And I'm using that as background for why there is some great difficulty and why we have the appropriations, the armed services, and almost every other committee in the Congress suddenly looking at this issue again.

You mentioned in your statement that few bureaucracies phase themselves out. Do you have any statistics in the private sector of how many contractors have attempted to phase themselves out once the contracts are awarded?

Mr. LEESON. No; I don't think we do. I think it would be difficult to say—unless my colleagues have some different answers to this—what would be phased out. I think that falls into a category that is extremely controversial. We've heard testimony that has been given before your committee and others, and newspapers articles and various other forms of media transmissions, that the Government employees are just kicked out in the streets and all of these terrible things have to happen to them. This becomes an emotional situation.

If you take that case by case, analyze the dislocations and the problems that happen to the Federal employees in certain circumstances, you find that most of them have gone out either by attrition or by retirement, or by some form of transfer. And repeatedly we have been accused of displacing hundreds of people, and suddenly discovering that only about eight people went out the door when private sector contracting was introduced.

Those, again, are highly flexible figures, and it's very difficult. I think they're done more on emotion than they are on fact.

Mrs. SCHROEDER. Well, let me just say that both sides, I think, are also guilty of emotions. You were saying that bureaucracies won't phase themselves out, and I've never seen any indication that a private contractor was interested in not getting a job. All we have to do is say we have a wonderful rebidding every year, and they go crazy.

So, I think, you know, my question was directed to saying that I have seen absolutely no indication that if you're wanting to phase down the size of Government, this is the way to do it. I don't think it really does it either, because I am yet to see anybody surface with any area where the private contractors have been any more willing to give up a contract after they got it because it was not needed.

But let me move on to what you brought up in answer to the question about employees. You cited, in your service contract of 1965, and you also mentioned in your statement, that in the emotion and rhetoric surrounding this issue, so often we hear of Federal employees being thrown out; and you were right, many of them are reemployed. But by my understanding of the service contract, the Department of Labor does not have a wage survey, and it does not have one in about 50 percent of the areas. If it does not have a wage survey, then the minimum wage is the standard, so the person may be reemployed, but at a much lower pay level; is that not correct?

Mr. LEESON. The industry has to pay competitive wages, whether or not it be the minimum wage; the absolute floor. That's the law; there's no question about that.

But we have a dichotomy here. We have the reverse situation in the Service Contract Act, whereby wage determinations are issued, and in many cases they are issued arbitrarily, and they are creeping toward being issued on the basis of what a GS employee, or a Wage Board employee, would be paid by the Federal Government in that area, regardless of what the local economy should or would support.

We, in turn, as contractors, have to be competitive with each other. It is a competitive world because we have profitmaking organizations and we're proud of that. We don't feel that's anything we should be concerned about. So we have to work on that basis.

But when we are put in a position of being told exactly what we must pay by the Wage and Hour Division of the Department of Labor prior to our bidding, it eliminates competition.

Now, we are not for "wage busting." We've repeatedly gone over that with the Education and Labor Committee. We are not for destroying a man's home and life or anything else of which we've been constantly accused. We have to pay competitive wages to keep people in the first place. We have to perform under the procurement laws, and under the contracts which we sign we have to perform certain functions, and we have to perform them under myriad regulations

which are not necessarily included in some of the Government operations. I don't think the Government operations are measured by some of the same standards that we are measured by.

We must pay reasonable, competitive wages with the local economy and local area to get good people, or we are going to be unable to do the job. And the procurement organization can very quickly and very easily default us if we're not doing our jobs according to the contract requirements.

Now, to go back for a moment, if I may, in the service contract, when it started in 1965, it was to protect blue-collar workers who were being exploited by unscrupulous contractors paying the lowest level of wages to employees.

We totally agreed—industry agreed—and applauded the fact that this was necessary to kick the fly-by-nights out. The association here today representing a major portion of the top service industries in the United States, deplore these policies. On the other hand, we equally deplore the Service Contract Act, running the whole system and telling us how we can handle our employees and handle our operations.

So, you have a problem here in working out this wage situation.

Mrs. SCHROEDER. Well, I think you made a point.

I take it that the contractors that you are representing are not the ones who are, mainly, doing some of the really gross violations, like the dining halls and the motor pools. You represent the more sophisticated group of contractors.

But, we've had extensive testimony here that when the security guards and the driving and what-have-you were offered, in 50 areas there was no wage equivalency. Yes; they did get rehired, but they got rehired at the minimum wage, so they lost all credit for their time in service.

My understanding is that the groups that you are dealing with are, probably a much more highly skilled employee, which would be a little bit different; is that correct?

Mr. LEESON. I think that is generally so, but we also include the entire spectrum because the so-called "umbrella contract," does include yard maintenance employees and people of that sort. I think the classic example, one that tends to disprove some of the allegations that are being made, is the Air Force Food Service at the Air Force Academy, which is in your backyard. And I've forgotten the exact figures, but we came out with a contracting out situation which proved, after a year's study, that some 26 percent of the total cost of doing it in-house were saved by contracting it out, and the efficiency hadn't dropped at all; if anything, it had been improved as the statement of the commandant indicated. And there again, that's what we would term the lower end of the spectrum, perhaps, of the contracting industry as opposed to Ph. D's and systems management and analysis and things of that sort. And there is a classic example of how it can be done if it is properly managed and done by a reputable company. We deplore the fly-by-nights just as much as Congress does.

Mrs. SCHROEDER. One of the areas that we've become involved in is research and development, for example, in the Armed Services, and we've done a lot of work on it in the last 2 years, has been by closing down the in-house research and development. We have found that re-

search and development in the private sector is going on and on and on and on and taking longer and longer periods of time to complete, which is really quite dangerous. Look at the rule on missiles; I think those have been a lot of the problems that we can express. But that's of great concern for us where the contractor almost becomes a bureaucracy, because we hate to shut off the funds for your research and development that help sustain your lab.

Have you any suggestions as to what we might do as we deal with this very technical area to shorten the research and development period?

As you also know, we've had tremendous problems with the research and development contractors often bidding in on procurement and then winning procurement, and then coming around and suing, saying that the procurement specifications, which they wrote in the contract, were not adequate enough to bid properly, and winning on all of them.

Now, you know, those are the greatest things that make the press and that cost the taxpayer a tremendous amount of money.

Have any of the companies that you have represented tried to find some guideline for policing their own, so that we don't tend to be subjected to these kinds of things?

Mr. LEESON. Yes, I think we do. I don't think they are in finite form, but I have to revert a little bit, I think, in analyzing that situation, to the management of the program itself.

These are contracts which are given out by the Federal Government, and DOD, I think, is your prime reference here. The management of DOD needs, many times, capabilities far beyond its continuing existing in-house staff. Therefore, programs are let out which can do it. They need different sources of information, even discounting Rand, or Aerospace, or some of the other captive organizations, and it's necessary to get them from the expertise of the private sector.

Advance research and development is hardly a finite situation. It's a little bit like the Cromagnum inventing the wheel, perhaps, when you go out for something and say, "Here is a mission profile," or "Here is something we want to achieve if possible; if logical, how can we do it? Can you decide a program for that that will give us an option to proceed?"

This is pure research and development. It could, conceivably, be done in-house; it could, equally conceivably, be done in the private sector. There are many capabilities in the private sector that simply do not exist in the Federal Government.

Now, I'm not naive enough to deny the fact that there have been some misapplications but it is incumbent on the Government to manage. It is their function to manage; it is their function to control. Lord knows we have enough regulations which they can use if they want. They have at their disposal the DCAS, various audit agencies, et cetera, they have all kinds of rules and regulations, 2 inches thick and difficult to read. I think there has to be a management program, which must be a workable program between Government management and the industry performing the contract.

Mr. CAFFIAUX. May I make a comment?

Mrs. SCHROEDER. Certainly.

Mr. CAFFIAUX. I think the problem has been addressed in industry. I think that in those programs which have been found to be operated

very efficiently, there has been a good continuity on the part of the military program management. In the programs that seem to suffer, it's where the program managers get changed around constantly. We've spoken to people in DOD; and I think they are aware of this. I think they would favor longer continuity in their own program managers. Now, there it's not always easy to achieve, but I think we do have agreement that that would certainly benefit the whole system.

Mrs. SCHROEDER. OK. I think part of the purpose of these hearings is to educate both sides, but, you know, if you look at it from the policy-maker's standpoint here on the Hill, what we find is private contractors coming to us and saying, "We're more efficient and will save you money." We say, "All right here are these areas."

And, you know, we really had some programs jeopardized, and all of the other problems, and you say, "Well, that's because the Federal Government didn't manage the private sector well." We get into this incredible ping-pong match, and I think that's why they're just throwing up their hands and saying, "Heaven's sakes, this is a real can of worms."

But I'm sure you've seen the statistics on the Polaris and Poseidon versus the Aegis, which, no question, the Polaris is more difficult than the Aegis, and the time frames are absolutely astounding, the enrollment, and so on.

Another approach that is being taken, and this is the "revolving door" being proposed in the ethics package, which this committee is also writing, marking up, and will be reporting on in the next couple of weeks. And many people are suggesting that there should be an antirevolving door.

Do you feel that the "revolving door" problem—DOD or any other agency—of people being on one side, and 2 years later on the other side as part of the program, is this part of what's causing a lot of these difficulties? Because when you're on the Government side, you're trying to figure out where you're going to be in your next job slot.

Have you any feelings as an industry about the "revolving door" and how that is impacting on the contracting-out problems that we're talking about?

Mr. CAFFIAUX. I think that's a little more that we were prepared to address today, and I would only like to say that many times there is expertise available in the Government on the military side which is often very valuable later in helping to develop a program on the industry side. I think that we should be concerned about getting the best people to do the best job, and at times that will involve what is commonly addressed as the "revolving door syndrome." It is subject to abuse as anything is, and abuses should not be put up with, but I think that, in large part, the motivation for that is to get people with experience into the proper job whether they're in the military or the private sector.

Mrs. SCHROEDER. Thank you. One of the other questions that we have kind of been skirting around as we go through this is the amount of non-Government work that is performed by a lot of private enterprise companies seeking Government contracts.

On that subject, has your group done any analysis of the Government contractors you represent, as to what percentage of their total yearly income comes from Government contracts versus private con-

tracts? I mean how private are the private companies you represent, I guess is what I'm trying to say, or are they almost wholly owned. Are they really quasi-governmental? That's a very difficult issue.

Mr. KUHN. The Aerospace Industries Association has roughly 46 member companies, and there was a time, 10 years ago, when the percentage of Government work at some of our member companies went as high as 90 percent, but in the past several years, the spread between Government contracts and commercial business has changed and now runs closer to 50-50. A few of our members have, maybe, one-half of 1 percent Government contracts and are 99.5 percent commercial. But I would say the average would be close to half-and-half—50 percent Government, 50 percent commercial.

Mr. CAFFIAUX. May I comment on that?

Mrs. SCHROEDER. Certainly.

Mr. CAFFIAUX. Mr. Kuhn is speaking of the aerospace industry, and 50-50 is probably correct. In the electronics industry there's been a rapid decline in the percent of work being done for the Government. That's not surprising, because in electronics our industry has so many other alternative markets to pursue which, by and large, are much more profitable, so that having a greater opportunity in the nondefense area, and finding, frankly, it's an easier environment to deal in and more profitable, many of our companies have reduced their percentage of Government work down to the point where 10 or 15 or 20 percent is being done with the Government and the rest is non-Government activity.

And I would like to suggest this is a very serious problem. It has been addressed by other parts of DOD. I know Members of Congress are quite concerned about what's commonly referred to as the "eroding industrial base." And part of the reason for the erosion—there are two main reasons: One is the general low profitability of Government work, which has been shown in at least three profit studies—it's about one-half of what it is for comparable commercial work—and plus the increasing amount of Government regulation, which is really not serving either the Government or the industry very well. It's a very complicated problem but a very serious one.

Mrs. SCHROEDER. To pursue finding what the groups that you represent do, I assume that the companies you gentlemen represent don't use Government-owned facilities for the services you provide in most instances; is that correct?

Mr. LEESON. That's not, necessarily, completely true, in some cases we do. I think in most cases we probably do not. It depends on how you do it, and I think you have to address yourself, as Mr. Caffiaux has just commented, to the fact that this is a highly complex subject. If each individual problem has to be broken down into infinite pieces to get an intelligent answer, a composite analysis of all of this is complicated almost beyond computer capability.

Let's take overhaul and repair of aircraft engines for instance. It could be done at Tinker Air Force Base; it could be done in Pratt-Whitney's shop; it could be done at another depot maintenance shop; it could be done anywhere. Many times we take contracts without even knowing where the actual base is going to be, and it could well be intermixed with new engines, for instance, so that the only difference would be numbers. This is a very complex thing to analyze.

Now, a laundry, obviously, has to be done on the base where the laundry is required to be, and you have everything in between. It's a very broad spectrum.

Mrs. SCHROEDER. And what about wage levels of your companies' employees compared with the equivalent Government employees?

Is there any way, really, for comparability? I know that's done on a different basis, and, again, we're talking about very complex computations. I'm just wondering if you have any idea whether, in most instances, when we replace the contracts with the specific companies you represent, have the wages been about the same as the Federal Government employees you've replaced, or have they been less or more?

Mr. LEESON. Well, here again you're dealing in almost the inside of a sphere to try to pinpoint this, because the Service Contract Act comes into play. With the extension of the Service Contract Act very much more of this is being dictated. We do not agree with the Service Contract Act setting all wages for all the competitive private sector contractor personnel to be the same as GS or Wage Board employees of the Federal Government. We think this destroys the private sector enterprise system.

On the other hand we recognize the security problems that are involved for the people that are employed. But to ask are our wages generally comparable to the Government wages, it's almost an impossible question to answer. That's a "have-you-stopped-beating-your-wife" type of question.

Mrs. SCHROEDER. I will tell you why I'm asking. I take it from your testimony that you feel that the higher retirement cost for Government employees was a fair figure, and then, again, you thought it was too low; the one that's currently been replaced with the 14 percent. In other words, you supported A-72.

Now you're also testifying that it's much less costly to the taxpayer in most instances to contract out—and we're also saying that the employees are going to suffer because they have to be reemployed—and the Government Service Act, which you don't especially like, would bring them in at about the same wage level.

And so, my question would be: How do we save money? Are we saving money by this artificial multiplier which you like; other people don't like. There's both sides to that. What the multiplier should be I don't know.

Are you saving by cutting down the numbers of employees, or are you saving by cutting wages, or are you saving by trying to kick up the multiplier to the highest amount? That's one of the real mystifying things—where the savings come from when you look at all of these different recollections and things the contractors are having to operate on.

Mr. KUHN. I think it is basically numbers and efficiency. Our companies have the flexibility to shift workers to an other plant if they don't need all of those particular employees. Government cannot always do that. But I believe it also is a little bit of each—the wage differential, the numbers of employees, and management.

Mr. CAFFIAUX. It often happens that in operating a military base under contract for the Government, initially a higher level qualification for employees is required because it's a learning process, and the bugs are not out of the system yet, and people have to be, perhaps, a

little more capable of handling something like that. But many of these operations go on year in, year out, and after a while the "bugs" have been ironed out, the activity falls into somewhat more of a routine than is otherwise required, so it requires then a less qualified person to maintain and operate or do whatever the job is that has to be done.

And it's under conditions like this, when these jobs get repeated, that a successful contractor can come in and very carefully structure his workforce to provide the level of activity that's needed and no more. And that, then, results in an opportunity for savings for both the industry and the Government.

Mrs. SCHROEDER. But wouldn't the contractor be the one who makes the money on that, because it's a fixed price when you go in.

Mr. CAFFAUX. No, not when it gets recompeted. It's an extremely competitive business.

Mr. LEESON. It's a jungle.

Mr. CAFFAUX. Each competitor is motivated to come in with the tightest figure he can, and that represents trying to very clearly structure his work force to provide the service needed at the minimum cost.

Mrs. SCHROEDER. What would you say the problems are in the industries you represent with meeting contract requirements and the difficulty of doing that because of strikes? I mean, do you have a lot of problem with that?

Mr. LEESON. I think this is a subject that, again, we are not statistically prepared to go into in depth. We have heard how horrendous statistics have been bandied about, and been published by our union friends—some other people—and individuals that have testified from time to time.

But in looking back—and we've searched our own operations—at our board of directors meetings and in those areas where we have access to the data, I think this has been blown so far out of proportion that it has no posture of reality whatsoever. I think that a strike threat is so remote, relatively, under these conditions that it is just being taken as a term like wage busting, which has been made into a catch phrase that really has no bearing in fact, and it is not so. The statistics do not prove it, and AGO has been through this. Any statistical data that could be generated on this would prove that the strike threat—causing a disruption of efficiency and operation in the military, for instance, or any other Government agency—is relatively negligible by the contracting force. There would be some exceptions, but, again, by fly-by-nights who are fringe operators, who we deplore just as much as you do, Madam Chairwoman.

We also have another problem here. We can put "no-strike" clauses in our union contracts with our private sector contracts and bargaining agreements. And we do, and we will; and we think it's a good idea, and the unions think it is a good idea. That will be for the life of the contract, including whatever options are involved, so that the renegotiation of a bargaining agreement would have in it the carryover phrase which would guarantee no strike to the Government, which must then be administered by the Government in the procurement process, being taken into consideration by the contracting officer. In addition to which we have many bills before Congress now, and I know your committee's involved in some of them, in which the right to strike by

the Federal employees union is very strongly being represented as the only way out. In H.R. 77 it gives them a lot more latitude. We're not at all sure that all the blame should be placed on the private sector. The Government employees unions are working toward the same end, and with the organization, potentially, of the military, have the right to strike.

We feel that the foot and shoes are going to get awfully mixed up here in an awful hurry. We don't think the private sector is being fairly evaluated. On one hand we're told, "Well, you folks can strike; you can destroy the Government anytime you want to."

And we can put no-strike clauses in to eliminate that entirely. The unions are perfectly happy to negotiate; and we would be happy to negotiate. On the other hand, we have the Government employees unions saying, "We're going to shut down the Government anytime we please."

So, I think we have a dichotomy here that has to be looked at from both sides.

Mrs. SCHROEDER. What about the companies you represent. Do you know if any of them withhold voluntarily for the management's volunteer political contributions fund?

Mr. LEESON. Well, I don't. The question's never been asked. I don't know; I assume they probably do.

Mr. CAFFIAUX. Could you restate the question, please?

Mrs. SCHROEDER. Well, my understanding is that there are some companies—and this is, again, a comparison with the Hatch Act and non-Hatch Act employees—some companies have voluntary program, obviously not mandatory, where the employees or management can put away so much money a month. It's like a Christmas program, I guess, except that Christmas comes in October, to the political candidate of that person's choice [Laughter.]

Mr. CAFFIAUX. I think what you are referring to is the political action committee, which, of course, is a legal mechanism that has been made available to anyone, whether it's industry or a collection of citizens. It's a means of voluntarily collecting money under very carefully prescribed rules and regulations for the support of a political candidate.

And, to answer your question: Yes; many companies do have political action committees. They do voluntarily collect money under the very carefully defined rules and regulations, and spend that money under equally carefully defined rules and regulations.

Mr. LEESON. I agree with Mr. Caffiaux on this. I don't know, statistically, exactly how many companies or what the details are in corporations that I'm involved in, but that also applies to the commercial sector as well. Those funds are not put aside for the sole purpose of trying to get Government business and elect representatives that would favor contracting out. That may be a partial result, but it's for the general good of the whole economy.

Mrs. SCHROEDER. Oh, I agree. As I say, that's one of the things that's pointed out in the hearings—these differences.

Mr. CAFFIAUX. May I add one comment. I'd like to remark that the organized labor, of course, has political action committees, and I think in the sheer amount of dollars that are committed, they far exceed what the private sector is able to put together.

Mrs. SCHROEDER. I'm not sure that they've exceeded, but it's interesting to know the extent of what is going on on both sides.

Counsel, do you have any questions?

Mr. KNULL. No.

Mrs. SCHROEDER. We want to thank you for appearing and for patiently going through all of this.

Mr. LEESON. We thank you. It's our pleasure, and we think a mutual solution is the only way to go. "

Mrs. SCHROEDER. The hearing is adjourned.

[Whereupon, at 11:15 a.m., the hearing was adjourned.]

[The statements and letters which follow were received for inclusion in the record.]

TASK FORCE ONE,
INTERORGANIZATIONAL ASSOCIATION, REPRESENTING THE FEDERAL
EMPLOYEE AND GOVERNMENT SERVICE,
Oxnard, Calif., July 14, 1977.

HON. PATRICA SCHROEDER,
Chairwoman, Subcommittee on Employee Ethics and Utilization, House Office
Building, Washington, D.C.

DEAR CHAIRWOMAN SCHROEDER: We appreciate the opportunity to present Task Force One's views on the contracting-out issue.

TFO is an employee association with a constituency of approximately 4,000 civil service employees at the Pacific Missile Test Center, Point Mugu, Calif. We have many years experience with the effect of contracting out on the morale of civil service employees, with the substandard quality of service generally received by the Government from the service contractors, and with the exploitation of service contractor employees.

It is TFO's opinion that legislation must be developed to cover the contracting-out issue if we are to retain a viable civil service structure. The present reliance on executive policy is susceptible to wide variations in application with changing administrations. These variations create a high level of anxiety and unrest among civil service employees.

Madam Chairwoman, we thank you for allowing us to present our views and hope that our testimony will aid you and your committee members in developing meaningful legislation.

Sincerely,

RICHARD P. CARPENTER, *Chairman.*

PREPARED STATEMENT OF RICHARD P. CARPENTER, CHAIRMAN, TASK FORCE ONE

Madam Chairwoman, Task Force One is pleased to have the opportunity to submit this statement on the contracting out for services by the United States Government. We would like to thank the Chairwoman and the members of this subcommittee for taking an interest in this subject, and for putting forth the effort to investigate what we believe is a matter of crucial importance, not only to our civil service employees, but also to the future well-being of our democratic form of government.

DEFINITION OF OUR AREA OF CONCERN

The term "contracting out" is applied to the complete spectrum of government contract procurement, including acquisition of both products and services. Therefore, we will define the term as we will use it in this discussion. Task Force One has been concerned primarily with a narrow segment of contract activity, specifically with contracts for services which have the following characteristics: Performance is on the Government's premises; the services are expected to be required indefinitely, perhaps as long as the installation remains active; principal tools and equipment are furnished by the Government; and the services are applied directly as an integral part of the work of the installation; they are required on a continuing basis.

CONTRACTING OUT NULLIFIES THE PURPOSES OF CIVIL SERVICE LAW

Our modern civil service system was initiated by law in 1883 to eliminate the evils of the old spoils system. It is the intent of our body of civil service laws that the Government perform its in-house work with personnel employed according to those laws. I believe that the original authors of the laws did not provide for "indirect hire", or service contract, employees because they had no intention that such employees would be used. I believe that they did not specifically prohibit the use of contract employees to do in-house work because they thought their intent was so clear that there was no need. Now we have a situation which threatens to destroy the purposes for which the Civil Service System was established and pave the way for a new regime of corruption.

Contracting out bypasses the merit system of selecting employees. Therefore, the Government has no effective assurance that the employees will be qualified. All too frequently they are not. The Government's principle that employees should receive substantially equal pay for equal work is violated because contractor employees have no assurance of parity with any other employee. Almost invariably their compensation is lower than that of civil servants doing the same work. This violates the intent of the Salary Reform Act of 1962. This Act provided for salary comparability with private salaries and provided the first white collar pay policy. Salary comparability, when it is fully achieved, relieves the classification people from labor market pressures. But when jobs are contracted out to the lowest bidder, equal pay for equal work goes out the window and proper classification does not exist.

The role of the Civil Service Commission in the Classification System is standard-setting, including a check on the application of standards to some individual positions, the adjudication of appeals, and, most important, leadership. Who sets the standards and checks on the application of standards when the jobs are contracted?

CONTRACTING OUT SUBVERTS THE INTENT OF THE VETERANS' PREFERENCE ACT

It is our opinion that contracts to the private sector for custodial services and guard services violates the intent, if not the letter, of the Veterans' Preference Act which is found in Title 5 of the United States Code. The basis for this opinion stems from our reading of 5 USC Section 3310 which provides:

"S. 3310. Preference eligibles; examinations, guards, elevator operators, messengers and custodians: In examinations for positions of guards, elevators, messengers, and custodians in the competitive service, competition is restricted to preference eligibles as long as preference eligibles are available." Public Law 89-554, Sept. 6, 1966 Stat. 420.

Logic leads us to believe that, in restricting examinations for these positions to preference eligibles, the law would also reserve the positions themselves for preference eligibles. It would make no sense to restrict examinations if there are no positions available.

It is our further opinion that:

(1) The law restricts examinations for these positions to preference eligibles as long as there are preference eligibles available, not as long as there are positions available.

(2) Service contractor employees fall outside the definition of Competitive Service.

(3) These positions are considered entry level positions into Civil Service employment. By contracting out these positions, we bar the pathway into the Civil Service for many of our preference eligibles, just the ones that the law was written especially to help.

Therefore, we must conclude that contracting out of those positions specified in section 3310 is a violation of the law.

We realize that there is a differing opinion as to the intent of the Veterans Preference Act. In a letter to Congressman Robert J. Lagomarsino (R. Calif.) dated October 19, 1976, Mr. Carl F. Goodman, General Counsel of the Civil Service Commission, stated the Commission's position on S. 3310:

"Under our interpretation of this section, examinations for janitorial jobs are restricted to veterans as long as they are available. The law does not absolutely restrict these positions to veterans. That is to say, when veterans are not available or when this work is contracted out, it may be performed by non-veterans.

"If a Federal agency decides to have an independent contractor perform the tasks enumerated in Section 3310, the veterans preference provisions of that section are not applicable to the contractor. It is, therefore, possible that these jobs may, under these conditions, be performed by non-veterans."

Madam Chairwoman, we are compelled to take exception to this loose and expedient interpretation. The term "preference eligible" as defined in 5 USC S. 2108 applies, not only to veterans, but also to a long list of other people, including widows of servicemen killed in action. To deny entry level civil service opportunities to these people is a gross miscarriage of justice.

The expansion of contracting-out to cover more and more tasks, traditionally performed by career civil servants, is causing further and further erosion of the Veterans Preference Act and highlights the need for meaningful legislation in the area of service contracting.

CONTRACTING OUT VIOLATES OMB CIRCULAR

That title may seem like a contradiction; nevertheless, in Circular A-76, Paragraph 4, we find these words:

"4. Scope. This Circular is applicable to commercial and industrial products and services used by executive agencies except that it: a. Will not be used as authority to enter into contracts if such authority does not otherwise exist nor will it be used to justify departure from any law or regulation, including regulations of the Civil Service Commission or other appropriate authority, nor will it be used for the purpose of avoiding established salary or personnel limitations."

First, in the more than four years that Task Force One has been concerned with this problem we have not found any authority for firing civil servants and contracting out the performance of their jobs.

Second, a major excuse for firing civil servants and contracting out their jobs, the one almost invariably given, is that contracting out will have the Government money. Now the only way to save money in the performance of these services is to change the pay scale, because the cost of labor is the major element in any of these contracts. Therefore, a major purpose of contracting out is to "avoid established salary limitations." The civil service pay scale in an established salary limitation regarding how much or how little you can pay an employee for performing a job.

Third, another major excuse for firing civil servants and contracting out their jobs is lack of ceiling points. This lack is common nowadays because of ceiling cutbacks. But again, contracting out because of reduction in ceiling is "for the purpose of avoiding established personnel limitations." At PMTC there is an existing contract which has been declared illegal by the Navy Audit Service as a proscribed personal services contract. However, the Range Commander is powerless to convert that contract to civil service operation because he does not have the ceiling points.

Government managers have not hesitated to state publicly that their reasons for contracting are to avoid personnel and salary restrictions. For example, in 1973 when the Navy put forth a major effort to contract approximately one-half of the jobs at the Pacific Missile Range, Point Mugu, California, the reason given for this action was: "To reduce the number of civil service and military employees and to turn the operation of this Range to industrial management and the open labor market. . . ." This statement is contained in the Fact Sheet of Draft 613 Congressional Report. Elsewhere in the Discussion section of that report the statement is made: "The planned action is part of an overall effort to reduce the total number of DOD government employees and will turn over a substantial government operation to industrial management and to open labor market." The problem was that DOD and Navy ceilings were being cut, the Navy needed the points elsewhere, and they were going to contract out to get the work done in spite of their ceiling limitations. The statement "the open labor market" has only one meaning: that the intent is to avoid established salary limitations.

Contracting out of existing civil service and military jobs also violates A-76 by violating regulations of the Civil Service Commission, e.g. FPM Ltr. 300-8. Other regulations which TFO cited in 1973 as being violated by contracting out were: Navy Comptroller's Manual, Volume 7, Paragraph 075209 and ASPR Section 22.

The courts have ruled repeatedly that the Government must obey its own regulations as though they were law as long as those regulations are in force. Yet Task Force One has found that certain high level government executives have respected neither the laws nor the regulations and that they have responded to the courts only when they absolutely had to.

CONTRACTING OUT ENCOURAGES CORRUPTION

Inside the Government, the people who promote contracting out are some of our high level executive appointees, some of our high ranking military officers, and perhaps even some of our high graded civil servants. These are our senior people, those in positions where they have power and influence. These are people who will be leaving the Government in a few years, through having reached retirement age or for some other reason. We believe that their purpose in promoting contracting out is not to save money nor to make the Government more efficient or effective. We believe that their purposes are to help their friends in the private sector and to set themselves up for lucrative positions on the day they shall leave the Government. Some of these people appear to seek executive appointments deliberately and specifically for the purpose of doing all they can to weaken the Civil Service, destroy the Government's in-house capability, place the Government at the mercy of the contractors, and fatten the coffers of the industry from which they come. And they expect to be well rewarded by their friends outside when they leave the Government.

Thus, contracting out is a new kind of spoils systems. It is the road to a more vicious order of corruption. The potential for unbounded conflict of interest, fraud, bribery and associated crimes is rampant. If contracting out is allowed to grow, it will ultimately seriously weaken or destroy our non-political Civil Service. The result will be a Government that is run by private interests for the benefit of those private interests and the taxpayer will pick up the tab. Such a process could well bring about the end of our democratic form of government.

CONTRACTING OUT COSTS THE TAXPAYER MORE

One of the arguments invariably advanced by the proponents of contracting out is that it costs the Government less to contract out than it does to do the work with civil servants. This argument is apparently based on the following assumptions or "givens":

(a) That managers in private companies are somehow inherently more able than are government managers.

(b) That individual productivity of the private employee is inevitably higher than that of the Federal employee.

(c) That the overall efficiency of a private company is always superior to that of a comparable government organization.

There is a fourth assumption which is fostered as the basis of the first three, namely that the government service contract industry is free enterprise in the usual American sense of the term. All of these assumptions are myths.

First, the service contract industry is not American free enterprise as we usually think of it. We think of our free enterprise system as involving the following:

(a) Investment of private capital, usually substantial.

(b) Risk taking.

(c) Provision of products or services for consumption of the general public or a segment thereof; these products or services may or may not be also consumed by the Government.

(d) The right to make a profit is morally predicated on private investment and risk taking in a competitive environment; the right to make a profit also includes the right to fail.

There is one area of enterprise wherein American private industry has been the unquestioned leader for the entire world. That area is in the mass production and merchandising of consumer products. The peculiar American genius in that area has caused the rest of the world to emulate us. Therein American management has been unquestionably and superbly innovative, efficient and effective. The government service contract industry can lay no comparable claim to excellence.

By contrast, since the principal cost in a service contract is for labor, the service contractor makes a very minimum capital investment. The Government provides the bulk of the investment required. The contractor's investment is primarily engaged in the preparation of bid proposals and the acquisition of

contracts by a small cadre whose primary skill is in the preparation of such proposals. By contrast with the usual private company, the service contractor does not invest in a relatively sizable and stable body of skilled employees who represent a capability in being, ready to take on new work on a continuing basis. Rather, the service contractor, once he is awarded a contract, must create a capability to do work by hiring and training the required employees. If a government activity is converting from civil service to contract operation, he will attempt to hire as many of the civil servants as possible because they represent the highly trained capability he needs to perform and the Government has already paid the cost of training them. He must even hire most of his management skills. At Point Mugu in 1973, the prospective contractors hoped to convert at least 80-85 percent of the civil servants to contractor employees. Otherwise, they would have been hard pressed to keep the Range in operation during the changeover period.

Almost the only risk the service contractor has is whether or not he will get a contract. Once he gets the contract, the Government assumes essentially all of the risk. The Government provides offices, shops, furnishings, major tools and equipment, pays all his allowable costs, and guarantees that he will make a profit. These are cost-plus contracts and, although the profit may be based on a sliding incentive scale, there is a floor beneath which his profit cannot fall. The fees awarded tend to run from two-thirds to three-fourths of the maximum possible incentive fee. The contractor really has to "goof up" for his fee to be reduced below that level.

Thus we see that service contract companies bear very little resemblance to the usual concept of American free enterprise. When one examines the principal companies involved, he finds that either the entire company or, at least, certain of its divisions were organized for the sole purpose of doing service contract work for the Government. They sometimes, just incidentally, do work for public consumers. These then are parasitic captive industries to the Government whose primary function is the hiring of personnel to work for the Government, while inserting an unnecessary and expensive layer of management between the Government and these employees. If these service contract companies were the only "private industries" we had, we really would have none at all.

Nor is there evidence that service contract managers are in any way superior to government managers. The companies are very willing to hire most or all of the government managers available as a result of a contract conversion. Government managers are chosen according to high standards, if anything more carefully than are private company managers. They are educated and trained, on the average, as well or better than managers of private companies. And, since the goals and purposes of Government are different than are those of private companies, the experienced government manager has a viewpoint and philosophy which is much more applicable to the objectives of Government than is that of the private manager.

There is no reason to believe that individual productivity of the private employee is any greater than that of the government employee when they are both doing the same work under similar circumstances. In fact, just the opposite is true. It may be true that the government employee works somewhat fewer hours per year than does the service contract employee, but he more than makes up the difference in loyalty, motivation and skill. The government employee is carefully selected according to the high standards of the civil service merit system and is therefore, on the average, superior to the contract employee. The contractor's typically inferior wages and benefits almost guarantee that his employees will be substandard. The civil service employee is also superior by virtue of more experience because of a lower turnover rate. Because the contractor provides inferior compensation, his turnover rate is invariably high. This means he has a higher percentage of trainees on the job and there will be a higher incidence of botched work and aborted operations by reason of employee error. The Government, of course, must bear the cost of these errors, either directly or indirectly. These errors are generally very expensive.

TFO's studies over the past four years have indicated that contract support services generally cost about 25 percent more than the same services when performed by civil servants. The basic operational cost formulas are as follows:

- (1) Cost using civil servants equal labor plus government overhead
- (2) Cost using contract services equal labor plus contractor overhead plus fee plus government overhead.

At Point Mugu, during SER in 1973, we learned that government overhead does not change as a result of contract conversion. This is because that, for every

government overhead billet that can be reduced as a result of conversion, the Government will have to add an employee in the area of contract administration to perform the additional work in that area that accrues from conversion to contract operation. Therefore, we can eliminate government overhead as a factor in the comparison.

Since fees average about 6 percent and contractor overhead varies from about 25 percent to 40 percent, these formulas show that the wages and benefits for contractor employees must be from 25 percent to 35 percent lower than are the wages and benefits of civil servants for the contractor just to "break even" in cost comparisons with government in-house costs. To achieve a savings to the Government, the remuneration to his employees must be lower still.

Although it may sometimes be possible for a contractor to bid in with the kinds of numbers indicated, once the contract is awarded there is a tendency for costs to grow and life cycle costs are generally much higher than the cost of government in-house operation. One major support service contract of which I am aware costs about 50 percent more than the original bid. In 2 years time the money that was budgeted for three years is just about expended and the activity must scurry around and find funds to cover the remaining year.

There are several reasons for this cost growth. One is that the civil servant can be assigned additional tasks or different tasks without additional costs being necessarily incurred; whereas, when the contractor is requested to perform additional or different tasks, he will insist on negotiating for additional dollars. Another reason is that the contractor's underpaid workers will probably unionize, the union will negotiate new agreements, and may possibly strike. The Government must pay the increased costs, both direct and indirect, caused by these and other factors and the indirect costs, e.g. facility closed down during a strike, are frequently greater than the direct increases.

In addition to direct operating costs, when the Government converts from in-house to contract operation, it incurs a number of one-time costs associated with contract conversion. At Point Mugu in 1973, the costs to convert some 1,400 government employees to contract was estimated at \$8 million. Today that figure would be higher because of inflation. These costs are supposed to be returned to the Government from the supposed savings that will accrue from conversion to contract operation by amortization over a reasonable period of time, say five years. Conversion costs increase the risk to the Government and to the taxpayer of contracting out. These conversion costs are seldom, if ever, recovered because the projected savings rarely materialize.

In summary, then, it seems clear that only rarely can a service contractor do work at a lower cost than the Government can do its own work with its own employees. If quality of work is to be kept the same, then the contractor is at a still greater disadvantage. When the contractor is able to achieve competitiveness, it is only at a great cost in human misery. Any general rule or assumption that contracting out is cheaper is pure fantasy.

CONTRACTING OUT DEBILITATES THE GOVERNMENT'S OWN CAPABILITY BASE

The Government, through its skilled engineers, scientists and technicians must evaluate the performance of its contractors, e.g. systems and equipment suppliers. Without a strong in-house technical capability, the Government is at the mercy of the vendor. When in-house functions are converted to contract, there is a strong tendency to contract out these areas of expertise or at least to contract out the work that these specialists need to do to keep their knowledge and skills sharpened. Government is prohibited, by A-76, from contracting out its management functions. However, government managers cannot make decisions wisely and effectively without a foundation of technological experts at their disposal to provide them advice and counsel. Contracting out tends to dissipate the Government's foundation of technical expertise.

CONTRACTING OUT FOSTERS A VISCIOUS SYSTEM OF WORKER EXPLOITATION AND ABUSE

Our nation is looked upon by many, and we think of ourselves, as the moral leader of the world. We think of ourselves as the most enlightened, progressive great nation the world has ever seen. We can point with perhaps justifiable pride to a continuing process of legislation which has led to significant advances in labor-management relations. We can cite our large body of civil service law and regulations, all of which are designed to promote fairness in the human processes in our work-a-day world. This body of laws and regulations is no doubt imperfect

and we would disagree among ourselves as to which parts were good and which parts were bad. Yet, on balance, they have tended to make life better for worker and manager alike and few among us would want to go backward to the days when there were no rules. Unfortunately, the proponents of contracting out, it seems, would like to do just that.

When the Government began in earnest to contract out for services in the early 1950's, it created a situation which was so regressive, so vicious, that it was and remains a disgrace to our supposedly enlightened nation. Many of the early contracts were for services previously performed by Federal blue-collar Wage Board employees. As service contracting grew, a new type of industry grew with it and the bidding process became intensely competitive. Since under government procurement policies, the lowest bid is invariably accepted, and since the dominant cost element in these contracts is labor, contractors had an incentive to use the lowest possible wage scales. The result of the ensuing cutthroat competition was that workers who replaced Federal employees would end up getting substantially less than the employees they replaced, despite the fact that they were performing identical tasks.

Despite the passage of the Service Contract Act of 1965 and subsequent amendments, the basic problem remains substantially the same: the contractors' employees are compensated with severely substandard wages and fringe benefits for the work they were hired to perform.

There was a noteworthy exception to the contracting out of blue collar jobs in the early days. In 1950 the Air Force contracted out the operation of the Air Force Missile Test Center headquartered at Patrick Air Force Base. This contract involved the services, not only of blue collars, but also many sub-professionals and professionals, technicians, scientists, engineers, etc. One of the reasons for this contract was that government statutory pay scales were so low, it was difficult to hire the required employees under the Civil Service System. So those Federal employees who converted to the contractor at that time generally got a significant raise in pay. The contractor was Pan American with RCA as their major subcontractor. That contract was not recompeted for some twenty years and during that period the employees prospered. When the contract finally was recompeted, the employees took severe cuts in pay if they stayed with the companies. And many of them were so locked in to benefit systems by virtue of many years of service that they often could ill afford to leave. So they were at the mercy of the new environment. No longer were just the blue collars suffering but highly educated and trained professionals and sub-professionals were thrown into the same boat. Articles on this situation in various magazines show that engineers were typically taking cuts of one-third to one-half.

In an article in the May 1976 Government Executive entitled "Government: Wrong Kind of Competition," John F. Judge effectively admits that the service contractors abuse their employees. For example, he writes: "It is worthy to note that industry gets 2,080 hours of labor per man-year allowing for its standard leave and sick leave work rules while Government claims only 1,860 (hours) of labor per man-year." This sounds fine but what does it mean? If Mr. Judge's statement is literally true, it means that the standard industry leave package allows no holidays, allows no sick leave, and provides no vacation leave. An alternate possibility is that the employee gets these benefits but must work overtime without compensation to make up for any time he is off!

I doubt that Mr. Judge meant what he said literally. But this statement is an example of the many inaccuracies, misrepresentations, and half-truths that one can find sprinkled generously throughout any industry-written article in support of contracting out.

As further evidence of my point, cases have come to our attention of employees of a service contractor, employed on a Federal base, receiving such low pay that they were eligible to draw supplementary welfare benefits and were drawing them.

Another type of abuse: although the Service Contract Act theoretically gives wage protection to certain classes of employees, we know of cases where the contractor is paying the wage scale established by the wage determination so that his books, as inspected by the Government, comply with the law. But he is then requiring the employees to kick back either in extra time worked without compensation or in under-the-table cash so that he is accruing an unrecorded and illegal profit at the employees' expense. The employees are not organized and have no recourse but to keep quiet unless they are willing to risk losing their jobs. Most cannot afford the risk.

In summary, the history of support service contracting has been one of brutal exploitation of the workers. The Service Contract Act has not been effective in

stemming abuses, partly because it does not cover all categories of employees. For those workers who are covered, it has not been adequately enforced. Because of the abuses evident in contracting out, strong measures need to be taken against it.

CONTRACTING OUT PROMOTES LABOR UNREST AND THE POTENTIAL FOR STRIKES

I have mentioned the potential for strikes elsewhere but I want to highlight the fact that "indirect hire" government employees, that is, service contractor employees have the legal right to strike whereas civil servants do not. Because of their substandard compensation, there is a strong tendency for the contractor's employees to organize and to use the strike as a weapon to redress their grievances. There have been numerous instances of government facility being shut down, sometimes completely, by a strike of service contractor employees.

The Government bears the expense of such strikes, both in the loss of productivity during the strike and in the increased wages and benefits that the contractor may offer to bring the strike to an end. One strike during the life of a contract will most probably wipe out any real or estimated savings which might have been credited to contracting out.

CONCLUDING REMARKS

Our list of complaints against contracting out is not exhaustive. We only touched on its impact on Civil Service employee morale and the consequent adverse effects on quality and quantity of work. Contracting out also compromises Government confidentiality because the contractor becomes a part of the Government, his employees work in offices adjacent to those of Government employees, they may use the same coffee mess or the same duplicating machine. The Government, in reality, cannot protect its necessary administrative secrets under such circumstances.

The Supreme Court has established the principle that a tenured employee has a constitutionally protected interest in continued employment. This implies that as long as his job is required to be done and as long as the employee performs the job satisfactorily, that employee has an ownership interest in that job. Contracting out that job robs the employee of something that belongs to him, his job.

Contracting out creates a conflict of loyalties and interests in the contractor employees. They of necessity must serve two masters, the Government and their direct employer. When the interests of the two diverge, the Government's interests will suffer. The civil servant has no such divided loyalties.

One of the most costly possibilities for the Government is that, if large numbers of civil service jobs are contracted out, Congress will have to appropriate more dollars from general tax revenues to pay retiree annuities. This is because present employee contributions to the retirement fund go toward paying for present annuities. If large numbers of civil servants are removed from the rolls, their contributions would be lost.

We could go on but suffice it to say that the Government is seldom, if ever, better off with a service contract than it would be with its own direct hire employees. The employees themselves are invariably worse off working for the contractor. The only ones who benefit from contracting out is the contract company and its executives. Service contracting is a system that makes the rich richer and those who are not so rich, poorer. Yet there is no investment or risk on the part of the "rich" which would justify their getting richer. And all of this costs the taxpayer more. Corrective legislative action is sorely needed in this area.

COMPUTER AND BUSINESS EQUIPMENT MANUFACTURERS ASSOCIATION,

Washington, D.C., July 13, 1977.

HON. PATRICIA SCHROEDER,

Chairwoman, House Subcommittee on Employee Ethics and Utilization, U.S. House of Representatives, Washington, D.C.

DEAR MRS. SCHROEDER: CBEMA is pleased to provide the attached statement for the Record, as I indicated in my letter of June 30, 1977. We appreciate this opportunity to submit our views and wish you success with your hearings.

Sincerely,

PETER F. McCLOSKEY, *President.*

STATEMENT

The Computer and Business Equipment Manufacturers Association represents manufacturers of automated data processing equipment, office equipment and related equipment and services, with approximately \$35 billion in annual sales.

CBEMA and the member companies it represents have the following views on contracting out, as defined in OMB Circular A-76.

CBEMA fully supports the policy of reliance on the private sector for both goods and services.

The Government should have the same options for contracting out as those available to the private sector, and should carefully weigh the competitive alternatives offered by industry for either in-house performance or outside contracting.

The financial factors that are prerequisite to any decision concerning contracting out should be properly developed to accurately reflect the realities of the Government's costs, including overhead or burden, as compared to the costs for using commercially available service.

The dollar thresholds that require considering contracting out as an option should be high enough to avoid impacting day-to-day operations with unnecessary delay and cost.

The guidelines as to when contracting out should be considered need to be clear and concise as to all the factors that may be involved and the exceptions that are allowable. In this regard, any new or revised procurement approval procedures should be reduced in complexity so as to provide a simplified policy framework for agency guidance.

The decision and approval authority process should be consistent with the scope of the proposed activity. The final authority should rest with the agency head who has ultimate responsibility for mission performance.

PREPARED STATEMENT OF ALAN J. WHITNEY, EXECUTIVE VICE PRESIDENT OF THE
NATIONAL ASSOCIATION OF GOVERNMENT EMPLOYEES

Thank you Madame Chairwoman for the opportunity to testify on one of the gravest problems facing federal employees today; the contracting-out of government functions to private contractors at the expense of government employees, who have historically performed the work.

The National Association of Government Employees represent approximately 100,000 federal employees, of whom a large number have been adversely affected by the emphasis placed on contracting-out in recent years.

As a result of New Office of Management and Budget (OMB) regulations, which were incorporated in Circular A-76, in the Fall of 1976, federal agencies are pressured to contract-out many functions of an industrial or commercial nature. The new regulations changed the figure used to represent the cost to the government of federal retirement from 7 percent to 24.7 percent. According to the rationale of the OMB, this new figure makes the cost of performing certain commercial or industrial work prohibitive when compared to the bids of private contractors.

When the decision to contract-out government functions or to retain them in-house is made on the basis of this simplistic cost comparison, the government, its employees and the public they serve are all adversely affected because the hidden costs of contracting-out and its impact on displaced government employees are not considered.

When government functions are performed by government employees, the government retains managerial control of the employees and their work output. Government employees work under standardized personnel laws and regulations. They must maintain an acceptable level of job performance to qualify for within-grade salary increases, and employees who consistently perform at a less than acceptable level don't remain in their jobs. They are under the managerial control of other government employees subject to the same personnel laws and regulations, who insure the acceptability of the employees' work.

When work is performed in-house by federal agencies, these inherent factors of government employment guarantee the competency of their employees and the most efficient use of man-hours per job.

When work is performed by a private contractor, this guarantee is lost. Employees of the private contractor are not subject to the federal personnel laws

and regulations and are not under the managerial control of government employees. As a matter of fact, an illegal employer-employee relationship would result, if the employees of the private contractor were subject to federal personnel laws and regulations and managerial control of federal employees. This illegal relationship would make the contract illegal.

Under these conditions, the government has only indirect control of the employees hired to perform its work and the most efficient use of man-hours cannot be guaranteed.

When the costs of in-house work versus private contract are compared, the results are not valid unless there is a guarantee that the employees of the private contractor are as efficient and will produce as much per man hour as their government counterparts. When the government has only indirect control of employees, there can be no such guarantee. Under the current procurement procedures; however, federal agencies don't seek this guarantee. Federal agencies seek only to find the lowest bidder and determine if his cost is lower than the agency's cost of performing the work itself. When it turns out that the contractor is inefficient and the agency could have performed the work more efficiently itself, the agency is off the hook because it adhered to the procurement procedures when it awarded the contract. The agency is off the hook, but the government employees, who were displaced by the private contractor, and the public suffer.

The government employees who performed the jobs that are contracted-out are displaced; to their immediate detriment. The adverse psychological impact of losing their jobs is heightened by the economic upheaval that affects not only the employees, but their families as well. The displaced employees who aren't given other positions within the agency, enter a job market already swelled with nearly 7 million unemployed job seekers. Until they find a job, they collect unemployment compensation, the agencies share of which is an additional hidden cost of the contract which displaced the employees in the first place.

In addition to the financial drain placed upon the agency by the decrease in efficiency of the functions performed by the private contractor, there is further financial loss due to the decreased efficiency of its other employees when their morale and esprit de corps plummets as a result of the realization that years of dedicated service mean nothing to the government.

The government's mandate to serve the public is not fulfilled when the wasteful and capricious contracting-out of its functions lessens its efficiency, unnecessarily using more of the public's tax dollars to provide them with less service. Agency management, who are paid by and accountable to the public, remove themselves from this accountability when they relinquish control of the employees performing the agency's work.

The best example of the loss of efficiency and the increase in costs that result when a federal agency contracts-out work is the Postal Service. An entire agency was contracted-out and the result was an increase in costs and an appalling decline in service.

Government exists to serve the public. When contracting-out serves to undermine that purpose by reducing the government's effectiveness and increasing its costs, it is time to drastically alter its thinking in relation to contracting-out. The criteria used to determine whether or not to retain a particular function in-house have to be re-evaluated to give proper weight to the factors I have discussed above. The simple cost analysis used now to make that determination harms the government, its employees and the public it serves.

The twin moves to re-evaluate these criteria, one initiated by the Congress and the other by the Administration, coupled with the interim roll-back of the Civil Service retirement cost factor to 14.1 percent (14.1%), represent substantive steps forward.

The National Association of Government Employees intends to propose to the Defense Department and the OMB that the review of contracting-out policies specifically provide for adequate consultation and discussion with labor organizations prior to any final determinations. Hopefully, this study will result in revised policies that, for the first time, will give appropriate weight to the conditions which we have outlined in our statement.

Chamber of Commerce of the United States of America

Washington

STATEMENT

on

CONTRACTING OUT FOR GOODS AND SERVICES

FOR THE FEDERAL GOVERNMENT

for submission to the

SUBCOMMITTEE ON EMPLOYEE ETHICS AND UTILIZATION

of the

HOUSE COMMITTEE ON POST OFFICE AND CIVIL SERVICE

by

Barry A. Friedman

July 26, 1977

The Chamber of Commerce of the United States, representing more than 68,000 members, is deeply concerned over recent changes in contracting-out policies, a matter of considerable importance to our members.

President-elect Carter put the issue in a nutshell at a news conference on November 15, 1976. He said: "When there's a choice to be made between the private sector and the Government sector, my option would be for the private sector to assume the responsibility." We support fully that statement.

Again, as President, he said: "Part of our task is to keep the Government out of areas it should not be in and to improve the way it works in those areas where government operation is necessary or desirable." We couldn't have said it better.

The basic concept of reliance on the private sector has been supported for many years by both political parties. The Office of Management and Budget's (OMB) Circular A-76 has been the document reflecting this position, and although it has come under attack a number of times over the years, it still stands as a fundamental statement of policy.

In spite of this stated policy, many in the federal government who are responsible for implementing this policy have no incentive to implement it and, accordingly, have not implemented it. This fact has been supported by the General Accounting Office studies and reports.* We are discouraged by the current lack of adherence to the policy.

Positive actions taken over the last few years by the newly created Office of Federal Procurement Policy (OFPP) were intended to prevent this sort of situation. Congress created OFPP to improve the procurement

* See Statement of Elmer B. Staats, Comptroller General of the United States, before Subcommittee on Manpower and Personnel of Senate Committee on Armed Services, July 12, 1977 at p. 2.

94-833 460

system and included Circular A-76 as one of its primary responsibilities. OFPP took its job seriously. Responsible officials in all federal agencies were made aware of their duty to enforce this policy and weaknesses in some agency procedures were pointed out. Finally, an in-depth study of the cost of federal employees was made. Updated cost factors for such items as retirement and life and health insurance were issued for use by the agencies.

On October 18, 1976, OMB issued its Transmittal Memorandum No. 2 to Circular A-76. The purpose of this action was to establish the retirement cost factor for government activities at 24.7 percent of salary. This document received close and critical scrutiny by both the public and private sector, and was developed by OMB working in conjunction with the U. S. Civil Service Commission. It detailed the objections to this cost factor, and then explained in a logical manner why such objections were not valid. For instance, the basis for using dynamic normal cost* instead of static normal cost was explored in depth.

In addition, the controversial issue of adding certain costs of the social security program to contractors' costs was covered logically and thoroughly. The idea that the OMB should guess what the unfunded liability of social security would be, then guess what part would be paid by the employee, the employer, and the Government, based upon a prediction as to what may happen in the future is illogical. No one knows what the President might recommend to solve the social security problems and a guess as to what Congress might finally legislate is unworkable. A process built on such guess work is not worthy of consideration.

The business community was encouraged that action was finally being taken to support a policy issued during the administration of President Johnson and supported by each succeeding President. What previously had been only statements for public consumption was now a firmly-backed policy. Regarding the new cost factors, it had been common knowledge among people in and out of government that such factors as 7 percent of salary for retirement cost were outdated. Business applauded the new 24.7 retirement cost factor, although many knowledgeable people in the retirement area are convinced that even this factor is still too low and does not reflect true government cost.

* The dynamic cost takes into consideration future general pay increases and cost-of-living annuity adjustments.

It was a great blow to the private sector, therefore, to learn that the retirement cost factor had been lowered from 24.7 to 14.1 percent. (The National Chamber, in the attached letter, wrote to OMB expressing our dismay). It is understandable that business felt that all of the gains which had been made so laboriously were lost. Although the OMB Director refers to "reviews" to be made of the Circular and its implementation, these gains may well be lost unless Congress acts to remedy the situation.

Certainly, the combat operations related to our nation's defense should not be contracted out. OMB Circular A-76 provides that the combat element of defense functions, along with some others, utilize federal employees. At the same time, there are many industrial and commercial functions, both within and without the defense establishment, that can best be performed, and should be performed, by the private sector on a competitive basis.

A retreat from the cost factors issued last year will do irreparable harm to the efforts to use the private sector of the economy where it should be used. The record is replete with examples of cost savings where in-house functions were moved to contract. The American taxpayer will be the big loser if we halt continued conversion of such functions to private industry.

For example, we know of instances where replacing a government guard service with a private contractor saved 30 percent of the previous cost. Where government building cleaning personnel were replaced by contract, the cost saving was 32 percent of the previous expenditure.* These are just a few examples, and when spread throughout the massive government establishment reflect the kind of saving that can be effected. Why the OMB should turn its back on these kinds of spending reductions is difficult to understand.

To summarize, it is our position that both industry and federal employees have their place in the total government workload picture. For many years the trend was toward a bigger in-house share. Then, just as efforts were underway to use the private sector more fully, the OMB issued

* See Staats testimony supra at p. 13.

its June revision of the cost factors. This switch was a damaging blow to the basic policy itself and to those who are trying to enforce it.

The National Chamber urges this Subcommittee to take whatever measures are necessary to reinstate the 24.7 percent retirement cost factor. This is vital to the maintenance of a proper and balanced system of use of both the private sector and federal employees.

Chamber of Commerce of the United States

LEGISLATIVE ACTION VICE PRESIDENT
HILTON DAVIS

202-659-6140

July 12, 1977

Mr. Lester A. Fettig
Administrator for Federal Procurement Policy
Office of Management and Budget
726 Jackson Place, N.W.
Washington, D.C. 20503

Dear Mr. Fettig:

On June 6 of this year I wrote to express the National Chamber's opposition to Section 809 of H.R. 5970, the Defense Authorization bill, on the grounds that this section ignored OMB Circular A-76. The Chamber was pleased to see that Mr. Lance on June 3 had expressed similar opposition to Section 809 in a letter to Senator Stennis. Consequently, it came as a shock to read Mr. Lance's June 13 Transmittal Memorandum No. 3 on Circular A-76 directing heads of executive departments and establishments to lower the cost factor for retirement from 24.7 percent to 14.1 percent pending a further review of the cost factor.

The Chamber wishes to make the following comments on this action:

1. The justification for a "further review" is unclear, considering the recent OMB review that resulted last October in raising the retirement factor percentage from an unrealistically low 7 percent to 24.7 percent, a level that is only moderate according to the Board of Actuaries of the Civil Service Retirement System in its Fifty-Second Annual Report (House Document 94-203).

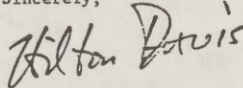
2. Transmittal Memorandum No. 3 offers no real explanation for reducing the retirement factor percentage immediately. This arbitrary action gives the impression that the issue of the appropriate retirement cost factor has already been prejudged. The Memo "explains" the change with the simple statement that "both the validity of (the 24.7 percent) figure and the use of the accrual method have been questioned"; but we are not told by whom and on what basis questions have been raised.

In sharp contrast, the October 18, 1976 Revised Transmittal Memorandum No. 2 and its supporting documentation discuss in detail the reasons for selecting the 24.7 percent factor for retirement costs.

3. The Administration has set government efficiency and cost saving as an important national goal. How, then, can the Administration explain Memorandum No. 3 which clearly goes in the opposite direction? OMB surveys have revealed an average saving of 30 percent on the costs of certain services. The contracting-out savings of almost \$98 million for non-military support functions for Aircraft Control and Warning Squadrons in Alaska is a recent example of such savings.

We respectfully urge the Administration to reconsider its Transmittal Memorandum No. 3 and at the very least to reinstate the 24.7 percent retirement factor in calculating in-house government costs for comparison with private contractor bids.

Sincerely,

A handwritten signature in dark ink, reading "Hilton Davis". The signature is written in a cursive, slightly slanted style. The first name "Hilton" is written in a larger, more prominent script, and "Davis" is written in a similar but slightly smaller script to its right.

Hilton Davis
Vice President
Legislative Action



UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

AUG 16 1977

FEDERAL PERSONNEL AND
COMPENSATION DIVISION

The Honorable Patricia Schroeder
Chairwoman, Subcommittee on
Employee Ethics and Utilization
Committee on Post Office and Civil Service
House of Representatives

Dear Madam Chairwoman:

On July 8, 1977, your Committee held field hearings in Denver, Colorado, concerning contracting out of jobs. One of the witnesses who appeared before your committee was Mr. Albert C. Derby, President of Local 1867 of the American Federation of Governmental Employees. Mr. Derby's testimony focused almost exclusively on our report of June 20, 1977, on the potential for contracting selected operations at the Air Force Academy Cadet Dining Hall. During his testimony Mr. Derby made certain statements concerning the report which we would like to correct for the record. Our discussions with a member of your staff indicated that our views on Mr. Derby's testimony could be made part of the record.

During his appearance before your Committee Mr. Derby took the opportunity to criticize by name certain members of our staff and questioned their impartiality in conducting and reporting on our investigations. I would like to point out that our reports are not the product of one or two GAO staff members and that singling out and criticizing our staff members was unwarranted. Even if, and I stress the word if, our staff has personal preferences on matters under audit, our internal review procedures are designed to insure that objective, factual data is included in our reports and are appropriately supported in our audit work papers. Our procedures are designed so as to preclude any distortion of the facts.

Enclosed are our detailed responses to Mr. Derby's assertions. We trust that this information will be of assistance to the Committee in their deliberations of the issues involving contracting out.

Sincerely yours,

H.L. Krieger

H.L. Krieger
Director

Enclosure

GAO Responses to Testimony
Presented by Albert C. Derby, President
of Local 1867 of the American Federation of
Government Employees

Mr. Derby's comments pertain to GAO report of June 20, 1977 on the potential for contracting selected operations at the Air Force Academy Cadet Dining Hall (FPCD 77-57). Our responses on the more significant matters presented by Mr. Derby are provided below. Each of our responses is preceded by Mr. Derby's citation and his comments.

Citation:

I also question this statement of, "34 percent less than in-house services."

Comment: What figures were used for this, are they valid figures? We have the right to proof of the validity of these figures as our jobs are in jeopardy.

Response: While we understand the union official's concern, as stated in the cited paragraph, the amount of savings (and other figures in the cost analysis) cannot be disclosed in order to maintain confidentiality of contractors' proposals. If this same activity were to be contracted out later, new bidders would have an unfair advantage if they knew how much contractors bid this time. Likewise, a knowledge of in-house service costs would give all bidders an unfair advantage.

Citation:

"The Air Force and Naval Academies' experience in contracting at two other dining halls indicates that satisfactory services can be attained."

Comment: The basis for this statement would be hard to find since neither dining halls, as per my information, have as yet attained satisfactory service.

Response: The statement was based on interviews at the Air Force Academy with food service officials, food service inspectors, and customers who had eaten at the airman dining hall under both in-house and contractor services. It was based on interviews at the Naval Academy with food service officers and midshipmen.

Citation:

"We recommend that the Secretary of the Air Force direct Academy officials to use formal advertising contracting procedures in making the analysis of cadet dining hall operations."

Comment: I would like to know how you can use formal advertising procedures in an unbiased analysis when a formal advertising procedure is used only when a decision has been made that contracting out would be cheaper.

Response: The Air Force also uses contracting procedures in its decision process of determining whether work should be performed in-house or by contract. In the cost-comparison process of the decision, the Air Force estimates the in-house costs of performing a particular function, seals the estimate, solicits bids from qualified contractors, and gives the work to the lowest bidder, whether it is in-house or a contractor. Therefore, it does not decide which is cheaper until its in-house cost is compared to the bids.

Citation:

"As set forth in its Circular A-76, the Office of Management and Budget policy generally requires that Federal agencies rely on the private sector for the products and services its uses."

Comment: Circular A-76 merely states that the Government get the best price not necessarily go contract.

Response: Circular A-76, page 1, paragraph 2, states:

"Policy. The guidelines in this Circular are in furtherance of the Government's general policy of relying on the private enterprise system to supply its needs."

Citation:

"Similar savings have been realized by contracting for food services at the Air Force Academy's Airman dining hall and the Naval Academy's midshipmen dining hall."

Comment: I question this statement due to the fact that I have reliable sources which have told me that it costs 25¢ to 35¢ per meal more for the contractor to operate at the Air Force Academy's Airmen Dining Hall than it did for in-house operation.

Response: If a comparison is made of the Academy's cost of operating the airman dining hall for the year prior to contracting and the first year of contracting, a slight increase in the cost per meal will be noted. However, to make a proper comparison between the two operations it would be necessary to develop estimates of what it would have cost the Government to provide in-house services under the same circumstances as the contractor. The in-house service costs for the year prior to contracting do not reflect increased wages the Government would have had to pay had it provided the services. Also the in-house cost has not been adjusted to account for the fact that almost 60,000 fewer meals were served during the first contract year than in the preceding year. Regardless of who was providing services, a larger portion of the overhead cost would be allotted to each meal than in the previous year.

Citation:

"The indicated savings are due primarily to lower wage rates paid by the contractor compared to the rates paid to Federal employees."

Comments: (a) I believe that the indicated savings are due to the 24.7% used to compute the benefits, which has been proven to be a faulty figure, much over the true comparable figure. The figure now used to compute their benefits is 14.1% and I feel that figure is somewhat questionable. (b) Also the example used by GAO is purely speculation and unbecoming to the fine GAO organization's reputation, along with their speculation on the savings of \$845,000 if the waiters positions were included. How they can speculate on the savings if they were to contract out the waiter positions is beyond me. (c) Where are their factual figures on this?

Response: As we stated in our report, the indicated savings are due primarily to the lower Service Contract Act wage rates that a contractor can pay as compared to the wage rate paid to Federal employees. The major reasons for the different wage rates were cited in our report (pages 5 and 6). Regarding the percentage used to compute the cost of Federal employee benefits, this factor represented only a small portion of the indicated savings. This is demonstrated by the data in footnote 1 on page three of the Appendix to our report which shows the effect that a reduction in the retirement factor would have on the potential average annual savings percentage, i.e., reducing the retirement

percent from 24.7 to 14.1, or 10.6 percent, only reduced the potential savings percentage from 34 to 29 percent, or 5 percent. Also as stated on page 7 of the Appendix to our report, we had previously reported that based on the economic assumptions used, we believed the 24.7 percent retirement cost factor was reasonable. We did suggest, however, that the Office of Management and Budget make certain changes relative to the retirement factor.

The example cited in our report reflects the wage rate required by the Service Contract Act for contractor employees and a wage rate which approximated the weighted average wage rate of the 67 affected in-house employees. Employee benefits were computed based on the benefits provided by current contractors, the average for the pay grades of affected in-house employees and the percentages used by the Government to factor in the cost of certain benefits. Therefore, the only speculation in our example was the assumption that a contractor could hire employees in the employment area of Colorado Springs, Colorado, at the wage rates established under the Service Contract Act. As stated in the Appendix to our report, our estimated savings of contracting the waiter services was based only on in-house and contractor wage differences. Multiplying these wage differences times the hours worked per year by the number of waiters disclosed the potential savings.

Citation:

"Information we obtained about contract experiences at the Airman dining hall and the Naval Academy's Midshipman dining hall indicates that initially contractor services are lower in quality than in-house, but they improve to a satisfactory level with experience."

Comment: What do they base this statement on? It is a known fact that when the contractor is pushed to meet satisfactory requirements he is forced to default on his contract and a new contractor replaces him and it begins again. Can GAO truthfully state that the contractors at the Naval Academy and Air Force Academy dining halls are operating satisfactorily in all areas, including sanitation.

Response: Our statement was based on comments of food service officials at both Academies, Midshipmen at the Naval Academy and Airmen and inspectors at the Air Force Academy. The records do not support the so called "known fact" that when the contractor is pushed to meet satisfactory requirements he is forced to default. He was debarred from receiving Government contracts for violations of certain wage requirements of the Service Contract Act on certain of his Government contracts.

Citation:

"We estimated that, based on in-house and contractor wage rate differences only, additional savings of over \$845,000 annually could be realized by contracting for services provided by 191 waiters."

Comment: GAO seems to be strong on figures and speculations but lacking in the ability to support their figures. If there are figures which are valid that can substantiate their speculations, I wish to be furnished with these figures.

Response: As the quote from our report shows, our estimate was based only on the differences in contractor and in-house wages. We did not anticipate that anyone would have a need to check our computations but for those that do the following figures were used.

2,088 average hours per year (8 hours included to account for shift differentials, holidays, overtime, etc.)
 x 191 waiters
 398,808 total hours per year
 x \$2.12 per hour - Difference between the Government employee wage rate for waiters (\$5.60) and the rate contractors would be required to pay (\$3.48).
 \$845,473 or \$845,000 potential annual savings.

Citation:

"About 40 percent of the affected employees are minorities. Academy officials pointed out that losing these people would be contrary to the Academy goal of employing more minority personnel."

Comment: How can the federal government justify destroying the goal of hiring minorities in the federal government by destroying entry level positions within civil service?

Response: The goals for hiring minorities relate to the overall employment of civilians not to any one specific functions. The report merely points out for consideration the fact that 40 percent of the affected employees are minorities.

Citation:

"...the surveys on which the wage rates are based involved different industries."

Comment: Here GAO admits that figures used in their study are questionable.

Response: The surveys referred to were not GAO studies but the wage studies that are used in establishing the applicable Federal and contractor employee wages. Yes, GAO believes the Federal employee wage rates are questionable but from the standpoint that such wages probably do not portray the prevailing wage rates in the area. The wage rates are not questionable from the standpoint of their use in the A-76 required cost analysis. The wage rates used in our examples represent the actual wage rates the Academy must pay its employees and the minimum wage rates that contractors have to pay their employees.

Citation:

"We recommended that the Civil Service Commission expand coverage so that food and laundry service industries could be included in the wage surveys."

Comment: Why did not the GAO team address themselves more squarely to the issue at hand? It seems as though Ms. Copeland and Mr. Eickmeyer are evading the main issue and brings a question of doubt upon their impartiality.

Response: The report, which is a GAO report and not one issued by individual GAO staff members, responds directly to Congressman Evans' request and to the basic issues as GAO viewed them.

Citation:

"Concerning contracting, we reported that the current employer and employee contributions to the Social Security system may be insufficient to cover the full cost of employee benefits accrued under the system."

Comment: Here it seems as though GAO dances around an important point on cost to the Government. I can only assume that they do this due to the fact that they are not maintaining their impartiality.

Response: The report directly addresses the potential cost to the Government of the Social Security system. This is presented in the report in order to be impartial and show both sides - the costs to the Air Force as required by Circular A-76 and considerations affecting employees and the local economy which are not addressed by Circular A-76, but are a cost of contracting.

Citation:

"The second contractor began operating the hall in February 1977."

Comment: I would like to know if the first contractor did so well why is there a second?

Response: We stated in the report that the first contractor "...was debarred for violations of the Service Contract Act..." The debarment was not as a result of unsatisfactory service but as a result of back wage liabilities under the Service Contract Act. The quality of service under the first contractor for the Airman's dining hall operation declined. However, after he was given a notice to correct certain deficiencies, the first contractor's performance improved and the Academy was planning to renew his contract when the Service Contract Act violations became known.

Citation:

"To improve the Federal Wage System's pay determination process, we further recommend that the Chairman of the Civil Service Commission expand the wage surveys to include laundry and food service industries."

Comment: Has GAO done anymore than this vague analysis on what they feel is the problem here?

Response: The quoted statement represents a GAO recommendation which is covered in more detail on pages 6 and 7 of the Appendix to our report. On page 7 a reference is made to a previous GAO report which highlighted the particular problem of exclusion of certain industries in the surveys plus others. This report issued in June 1975 was entitled "Improving the Pay Determination Process for Federal Blue-Collar Employees" (FPCD-75-122).

Citation:

"I would request that the GAO look into the cost analysis procedure used by the Air Force Academy in determining whether contract work or work by civilian employees cost less."

Comment: I feel that the GAO team has only scratched the surface of what is happening in the matter of contracting out. I feel that figures have been manipulated to show inaccurate savings, which I feel I cannot condone or allow to happen due to the fact that we are dealing with the livelihood of close to 300 employees. I am not condemning the entire GAO office...I merely question the impartiality of Ms. Copeland and Mr. Eickmeyer of the GAO office.

Response: This report was in direct response to Congressman Evans' request and was focused on the potential contracting out of services at the Cadet Dining Hall, not on the entire matter of contracting out.



NATIONAL TREASURY EMPLOYEES UNION

Suite 1101 -- 1730 K Street, N. W.
Washington, D.C. 20006 (202) 785-4411

July 19, 1977

The Honorable Patricia Schroeder
Chairwoman, Subcommittee on Employee
Ethics and Utilization
Committee on Post Office and Civil Service
603 House Office Building Annex 1
Washington, D.C. 20515

Dear Chairwoman Schroeder:

On behalf of the 95,000 employees in the U.S. Treasury Department represented by the National Treasury Employees Union, I wish to thank you for your invitation to testify before your Subcommittee on the Federal government's policy on the contracting of goods and services to the private sector.

Unfortunately, due to a series of conflicting engagements on the dates you have set aside for these hearings, I will be unable to appear and present a statement on this most important issue.

Therefore, I am enclosing a copy of a letter I recently sent to Mr. James McIntyre, Deputy Director of the Office of Management and Budget, in which NTEU comments at length on the changes in OMB policy on contracting out. I respectfully request that this letter be included as part of the hearing record on this issue.

With kindest regards.

Sincerely yours,

A handwritten signature in dark ink, reading 'Vincent L. Connery'. The signature is fluid and cursive, with a large, sweeping 'V' and 'C'.

Vincent L. Connery
National President

Enclosure

NATIONAL TREASURY EMPLOYEES UNION

Suite 1101 — 1730 K Street, N. W.
Washington, D.C. 20006 (202) 785-4411

July 12, 1977

Mr. James T. McIntyre, Jr.
Deputy Director
Office of Management and Budget
Washington, D.C. 20503

Dear Mr. McIntyre:

Thank you for your letter of June 13 inviting our comments on OMB Circular No. A-76 which outlines the Federal government's policy on the contracting of goods and services to the private sector.

We are encouraged to see that the Office of Management and Budget has suspended the previous Administration's ill-conceived policy of setting contracting quotas for Federal agencies while it engages in a thorough study of the entire contracting out program. In addition, we are pleased that the mandatory "load" factor added to in-house estimates to determine the government's costs for Federal employee retirement benefits has been reduced from 24.7 percent to a more reasonable 14.1 percent.

We are hopeful that, as a part of this study, OMB will take a fresh look at every facet of the contracting out program and not merely seek to refine or modify Circular A-76. In our opinion, the circular is, at best, a vague guide for what has become a highly complex and unwieldy process.

The full impact of contracting out remains unknown. OMB neither maintains complete statistics on the number and dollar value of all Federal contracts, nor requires agencies to submit ongoing cost comparisons to justify their contracting out activities. This haphazard system has fostered the unnecessary waste of tax dollars, while the lack of clear policy directives has caused much confusion on the part of Federal agencies.

For example, only with the recently released revision of Circular A-76 was it even stated that certain functions, such as policymaking, are inappropriate for contracting out. We believe that this should have been clearly enunciated from the beginning. But because it was not, there have been many abuses in this area.

In one case, as discussed in recent Congressional hearings on contracting out, a private firm was intimately involved in a decision to contract a certain service. Subsequently, because its detailed knowledge of the contract requirements placed it in an unfairly advantageous position, the company easily won the contract to furnish that service to the government.

Obviously, conflict of interest situations like this are allowed to exist partly because Circular A-76, even in its revised form, fails to provide Federal agencies with a detailed list of functions, or types of functions, that are deemed inappropriate for contracting out. We believe that such a specific list should be an integral part of the government's contracting out policy in order to safeguard the public interest and reduce the possibility of abuse.

Another problem with Circular A-76 is that it does not provide a true picture of the total costs of contracting out to the Federal government. Because OMB has taken great pains to set specific factors which must be included in Federal in-house estimates, but has failed to consider the hidden costs of contracting out, agencies, in effect, are encouraged to contract with the private sector. In many instances, when those factors which are currently not included in determining the cost of a contract are considered, the function or service to be contracted out could be performed at less cost and greater efficiency by Federal employees.

Among the many items which agencies are not required to recognize in determining the cost effectiveness of a contract are the start-up costs, the logistical problems in transferring a function to a private company, and the administration, supervision, and paperwork that accompany the granting of a contract. Nor do they consider the cost to the government of processing reductions-in-force which very often are caused by the contracting out of a function to the private sector.

In addition to these factors, contracting out can cost the government a great deal in terms of decreased service. When a function is transferred to a private company, the Federal agency loses much of its control over that activity. This can seriously impact on the accountability, efficiency, and cost effectiveness which the government should continually strive to maintain in its programs.

By forfeiting this control, the agency can lose much of its ability to effectively achieve its mission. The recurring problems of defaults and poor performance by contractors serve as constant reminders that this practice often results in greatly increased costs to the government as compared to when the work could have been performed more timely and efficiently by Federal employees.

Much controversy has arisen in recent months concerning the retirement factor which Federal agencies must include in their cost estimate. Last year, the former Administration directed that an additional 24.7 percent be added to straight salary expenses when an agency is calculating the cost of continuing to perform a function itself. This 24.7 percent was supposed to reflect the cost to the government of providing retirement benefits to the Federal employees performing the work in-house.

While we have serious questions concerning the 24.7 percent figure, merely reducing the retirement factor to 14.1 percent pending further actuarial study, will not resolve a more fundamental problem. Even though retirement costs are part of a Federal agency's computations in determining in-house estimates for continuing a program, no factor for Social Security is considered in calculating the cost of contracting out a service to private industry.

The General Accounting Office, among others, has taken the position that, despite the differing methods by which Social Security and Civil Service Retirement are funded, such a factor would be appropriate in determining the full cost to the government of contracting-out. Opponents, however, argue that since the government makes direct contributions into Civil Service Retirement, but not to Social Security, this factor would not be justifiable.

We believe that merely because the costs of Social Security to the Federal government may be indirect, that is no reason to ignore them. We strongly urge that OMB seek the cooperation of GAO, Federal employee unions, and other informed parties in developing a formula to figure these costs into the total cost of a contract. If, as is presently being proposed in Congress, Social Security becomes funded out of general tax revenues, the calculation of these costs will become even more necessary since the funding of Social Security will then be directly analogous to that of Civil Service Retirement.

Another problem with the current retirement factor is that one figure is used in the estimation of all Federal in-house costs. In reality, there are several different retirement systems within the Federal government, each with a different annuity computation formula. In light of this, we believe that different cost factors should be developed for each system, as applicable, in order to provide a more accurate estimate of the true cost of keeping a function within the government.

Besides all of these deficiencies in the present methods of determining contracting out, there has been no effective oversight program to review contract costs on a continuous basis.

Under present policy, an agency is required to submit to OMB cost comparisons between in-house estimates and contractor bids only upon the initiation of a contract. Once a contract has been established, no further communication exists between the agency and OMB. Though

some agencies review the cost efficiency of their contracts, others do nothing since OMB has no requirement that the agency regularly cost-analyze its contracts.

Obviously, the result of this lack of effective oversight has been confusion and unnecessary expense to the government. Though a contractor's price might seem less expensive than performing the same function in-house at the time the contract is awarded, through cost overruns and subsequent price increases, the government can pay more in the long run for particular goods or services.

Not only is this lack of a review mechanism inconsistent with the stated rationale for contracting out, it is especially appalling when one considers that the government exercises such strong oversight authority in other areas of the program.

For example, the Department of Labor assiduously monitors companies who contract with the Federal government to assure that certain standards are maintained. Acting under the authority of the Service Contract Act, the Labor Department works to insure that such standards as equal employment opportunity, affirmative action, and minimum wage requirements are not sacrificed for the sake of cost savings. Companies who fail to comply with the Labor Department standards can be debarred from doing business with the government.

There is absolutely no justification for the Federal government failing to monitor with equal rigor the question of cost efficiency in its contracts. Through its haphazard oversight of agencies' contracting out practices and its inadequate guidelines for computing the true costs of contracts, OMB is encouraging a tremendous waste of taxpayer money while, at the same time, reducing service to the public.

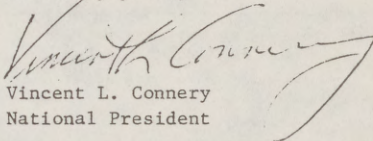
In addition, Federal agencies and OMB have placed too little emphasis on the issue of employee relations in deciding whether to contract out a service. When a function is contracted to the private sector, this normally results in a reduction-in-force and a loss of jobs within the agency. Not only do many employees find their very livelihood suddenly cut off, but the morale of those who do retain their jobs is adversely affected, resulting in decreased efficiency.

We believe that any decision that can have such devastating effects on employees should be made only after thorough consideration of the costs in human, as well as budgetary, terms. This will not only ensure fairer treatment for Federal employees, but the resultant improved morale will maintain the efficiency of an agency at high levels.

In conclusion, we submit that Circular A-76 has not provided adequate standards with which to judge the true impact of contracting out. We believe that the standards contained in the circular should be broadened to give OMB a much more complete view of the costs involved in contracting out, and that reporting requirements should be adopted that will present a more accurate estimate of the dollar impact of this practice. In addition, OMB should seek the input of other agencies, such as the General Accounting Office and the Department of Labor, as well as the union representatives of Federal employees, in developing a more efficient system to measure the effects of contracting out.

Perhaps legislation will be required to accomplish the goals we have set forth. But whatever steps are necessary, we urge that a sound, comprehensive set of standards be developed to govern the contracting out program and that the current insufficient guidelines contained in Circular A-76 be discarded. This is vital if the interests of the government, Federal employees, and the taxpaying public are to be adequately served.

Sincerely yours,



Vincent L. Connery
National President

NATIONAL COUNCIL OF

NAVAL AIR STATIONS EMPLOYEE ORGANIZATIONS

(904)772-2469/2329

Post Office Box 996

Orange Park, Florida 32073

July 18, 1977

JUL 25 1977

The Honorable Patricia Schroeder
House of Representatives
Washington, D.C. 20515

Dear Ms. Schroeder:

We appreciate the opportunity granted by your letter of July 7th to submit written testimony for the record on the issue of contracting out for goods and services. I also appreciate Ms. Yaros' favorable response to my Secretary's request of July 12th for a week's delay in this submission because of my unexpected emergency surgery.

The position paper which we have prepared and which is attached is in three sections as follows:

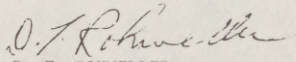
- I Factors Related to Contracting Out Government Work
- II Examples of Work That Has Been Contracted Out
- III Suggested Changes to OMB Circular A-76

My spokesman in this matter, Mr. R. J. Kemen of Jacksonville, Florida (telephone 904-772-2308), is available for clarification of any of the above points and, if it would be helpful, he will travel to Washington to work with you and your staff in this vital effort.

Please contact me or my Secretary, Mrs. Virginia Dail, at the above telephone locations if any further material would be helpful.

Thank you for your courtesy.

Sincerely,


D. T. ROHWELLER
President

Enclosure

EXHIBIT IFACTORS RELATED TO CONTRACTING OUT GOVERNMENT WORKINTENT

This Council does not disapprove contracting out industrial type defense functions which can be accomplished at less cost in the private sector without adversely affecting mobilization requirements. We also recognize that, as commercial/industrial activities, we have a responsibility to improve our productivity and our competitiveness with our counterparts in the private sector.

However, we do feel that contracting out should be accomplished under adequate controls and ground rules which are readily understandable to all concerned and that long range impact on the community, the installation, and the Federal employees concerned should play a key role in the decision-making process.

It is in this spirit that the information and recommendations contained herein are submitted.

CAPABILITY

1. The Surge Factor, or that portion of in-house capability which must be maintained for any crisis at any cost, is a substantial part of the cost of every Department of Defense activity. It represents the fixed cost to open the door and to process the first item of business, such as costs for utilities, maintenance of buildings, security, etc. In 1977 terms, it represents the zero-base budget. This fixed cost should be removed from the Government's prices before making any comparison with commercial enterprise (which does not maintain this factor).
2. The Response Factor, or those risk-elements that occur when a private contractor assumes the responsibility to support a military function. The potential/possibility of poor response from private contractors during national emergencies can adversely affect the military mission. During wartime, the military services can exert pressure on a private contractor to expedite production; however, in times of relative peace, the amount of control that can be exerted on the contractor to respond is questionable.
3. The Strike Factor is an ever-present potential hazard in a contractor's plant. The cost, the delays, and the effect of non-delivery of military products are difficult to cost out. The Department of Defense activities maintain capability to meet required production at any level of effort.

4. The Location Factor. Department of Defense activities are co-located in the geographical area with their prime military customers. This advantage may, or may not, occur at a private contractor's plant, which may be poorly located in relation to the ultimate customer/user.

5. The Condition of Unit Factor. A private sector contractor agrees to perform certain pre-identified elements of work at fixed cost based on anticipated condition of aircraft or other weapons systems. This contract does not take into consideration the variation of weapons systems condition due to operational requirements or conditions. Therefore, when damage or deterioration to units being reworked exceeds the norm, work must be stopped while cost overrides are negotiated to accomplish the additional repairs or rework. This is probably the major factor resulting in cost overruns and delays in delivery of weapons systems reworked by private contractors.

COSTS

1. Recent Study Results. The National Council of Naval Air Stations Employee Organizations has been informed that a study recently completed within the Department of Defense by the Naval Air Systems Command proves conclusively that contracted out work costs fifty-five percent more to the taxpayer than when the same work is accomplished by an industrially funded activity.

Note: If only 1/3 of the work now contracted out (4 million man-hours) were brought back into industrially funded activities where capability already exists, a savings of \$64,000,000 a year could be realized.

Fiscal Year 1979 plans call for contracting out an additional 2.5 million man-hours of work. This plan would cost the American taxpayer another \$40,000,000, and implementation should definitely be held in abeyance until the results of current investigatory reviews are known.

2. Total Cost. Cost proposals submitted by Government activities represent the total Government cost, not the Navy or the industrially-funded activity cost. This total cost includes depreciation of equipment, insurance, interest, 28.7% for fringe benefits, 9% added to the present pay factor, and costs involved in determining whether or not an item should be contracted out. Inclusion of all these factors gives a very definite advantage to private enterprise as they are under no obligation to include these factors.

3. Non-profit Status. Industrially funded activities operate on a "no gain, no loss" philosophy. Private contractors must realize a profit to stay in business. It follows that Department of Defense activities can produce a quality product more cost effectively than private industry all things considered. Also, industrially funded activities do, in effect, bid against one another for the same workload, thereby producing the lowest bid possible.

4. Underbidding. Private contractors can underbid to obtain initial contracts and then raise prices later during the term of that contract or when bidding for subsequent contracts on the same item (without substantial justification) when capability has been disestablished by Department of Defense activities.

5. Hidden Costs. Costs for functions such as inspection and verification, are included in cost proposals submitted by Government activities and should be included also in those prepared by private industry.

6. Cost Comparison. Implementation of a Uniform Cost Accounting System by the Department of Defense is approximately 1-1/2 years in the future. This system will allow a realistic comparison of costs incurred by commercial and Government activities.

RESPONSIBILITY

The Federal Government has certain responsibilities to the citizens of this Country, such as maintaining a high employment level throughout the Country, gainful employment of minorities, disabled veterans, unskilled youths, etc.

The long range impact of contracting out industrial type functions must be taken into consideration relative to the economic effect on the surrounding community, loss of training facilities for unskilled citizens, and high cost of disestablishing capability at a Government activity.

This responsibility has been acknowledged by President Carter and cannot be ignored.

EMPLOYEE BENEFITS

Cost factors directed by the Office of Management and Budget on October 18, 1976 include:

Retirement.....	24.7%*
Health insurance..	3.5%
Life insurance....	.5%

*Changed to 14.1% on June 13, 1977

The retirement factor imposed on Government activities and the Social Security factor (5.85%) are grossly out of line. Future unfunded liability from the present Social Security System must be one of the considerations in cost proposals submitted by the private sector.

Another factor which should be considered in the retirement costs is that when a retired Civil Service employee has recovered his investment (normally within two years), he then pays taxes on his retirement income while Social Security recipients receive their annuities tax-free for life.

Acceleration factors imposed for sick leave benefits should be overhauled since the 5%+ now directed is calculated on all sick leave earned (104 hours per year) being used. This is a misrepresentation of the facts.

RELATED FACTORS

Factors which are less tangible than those set out in preceding sections of this document, but which must be taken into consideration during the decision-making process of contracting out, include:

1. Depth of rework performed. There is a vast difference in performing only that work required to put an aircraft, engine, or component back on line and that which is called for by engineering specifications as required at specific intervals in the life of that unit, together with the immediate requirements of that particular item.
2. Condition of unit on receipt at rework point. This is a difficult point to measure since no two aircraft, engines, or components arrive at the designated rework point, be it commercial or organic, in exactly the same condition, requiring the same amount of rework for return to service.
3. Permanency. As a matter of necessity, commercial organizations must look to the ultimate goal of making money. As a result, if a particular program is not profitable for them, they will either avoid bidding on subsequent contracts or raise their prices to an exorbitant level. While industrially funded activities operate on a "break-even" philosophy, they can balance profitable programs against those which are costly and remain in business in both categories.
4. Product quality. Industrially funded activities have built-in quality reliability checks whereas governmental control over the private sector's performance in this regard is costly and time-consuming.

EXHIBIT IIEXAMPLES OF WORK THAT HAS BEEN CONTRACTED OUTMAINTENANCE CONTRACT WITH HAYES INTERNATIONAL CORPORATION

The following article is quoted from the July 4, 1977 issue of "The Federal Times":

"CONTRACT-OUT PLANES DELAYED BY STRIKE. A United Aerospace Workers strike against Hayes International Corporation in Birmingham, Ala., caused the delay of 49 Air Force aircraft, including 30 Strategic Air Command jet tankers, which were to have been delivered under a maintenance contract.

"At least six KC-135 tankers were delayed sufficiently to force a change in the "due back" dates, an Air Force spokesman told "Federal Times".

"The strike and the subsequent delays underscore a major problem in contracting-out work to private industry, William Cater, president of the National Association of Supervisors - Federal Government, said.

"Cater, chief of the logistics division, plans and programs, for the Air Logistics Center, Tinker Air Force Base, Okla., said that "we have been fighting the problem for years without much success."

"I guess it takes a case like this one to catch people's attention," he added.

"In all, 30 KC-135's and 19 C-130 transports were affected by the job action.

"The Air Force spokesman said the strike concerned wages and benefits - "More wages than benefits, I gather."

"Cater said that the manpower squeeze has caused the Air Force and other branches of the Defense Department to rely upon private industry to relieve pressures.

"This really is not the Air Force's fault -- it's just the system of austerity that puts us in the position of having to go to private industry for help," he said.

"The strike affected two contracts - one at Tinker, the other at Warner-Robins AFB, Ga.

"The spokesman said the aircraft were located at Birmingham, although they belonged to more than a dozen different bases scattered across the country.

"He said that the strike had no effect on SAC's operational readiness. But Cater said that because SAC is "always in a war posture, any delay in scheduled maintenance is frowned upon.""

Attempts to obtain actual costs and delays resulting from this strike have been unsuccessful to date. If any are received after submission of this document, they will be forwarded.

CUSTODIAL SERVICES CONTRACTS

Custodial services are currently contracted out at many industrially funded activities with generally unsatisfactory results.

Attempts to enforce contract provisions are time-consuming and costly.

One activity has resorted to intermittently assigning an inspector to check the sanitation level of restrooms throughout the facility and generally monitor the contractor's performance.

Facility cleanliness is highly visible and has a great effect on employee morale. It is, therefore, a prime target for labor-management disputes.

The wages and employee benefits offered to employees of bidders on custodial contracts generally provide only the most unskilled, unreliable personnel. As a result, quality of work performed is low and the security of the facility is threatened.

OFFICE EQUIPMENT MAINTENANCE CONTRACTS

Maintenance for the majority of office equipment in our industrially funded activities is contracted out.

Costs for the resolution of attendant problems must be absorbed by the Government activity. Some of these problems follow:

1. Effort and cost negate attempts to cancel a contract because of poor performance and reaward it to another bidder.
2. Contractor response time is excessive and "loaner" equipment, specified in the contract to be furnished by the contractor, is almost nonexistent.
3. Monitoring costs to ensure full contractor performance are prohibitive.
4. Quality of work performed is often very bad and exceedingly difficult to dispute.
5. General Services Administration contract award policies and procedures are generally unsatisfactory because of time lags from award of contract to notification to field activities and inconsistencies in administration of contracts.

AIRCRAFT REWORKED BY CONTRACTOR

An aircraft was reworked by a commercial contractor, flown to California, and turned over to the operating squadron.

The aircraft was in such poor condition that the squadron requested it be examined by the cognizant field activity. A five-man team flew from Florida to California (\$2500 for five days, plus \$1600 travel costs). The aircraft was found to be a "strike", or one which should be surveyed.

If this aircraft had been processed in a Department of Defense activity (a Naval Air Rework Facility), it would not have been inducted and \$81,000 in processing costs would have been saved.

A contract was recently let to Ling-Temco-Vought to install certain air-frame changes in Reserve A-7 type aircraft (work traditionally performed by Naval Air Rework Facilities).

It is extremely questionable as to whether the bid submitted by the contractor covers the total work package as described to the competing Naval Air Rework Facility.

This particular contract, by its timeliness if for no other reason, would be an excellent one to be monitored by either an arm of your Office or by the Congress through the services of the General Accounting Office from the cradle to the grave. This would be particularly informative as the Naval Air Rework Facility bid for total rework completion is readily available.

EXHIBIT III

SUGGESTED CHANGES TO OMB CIRCULAR A-76

COMMENTARY

While this Council feels the following suggested changes would have some impact on making OMB Circular A-76 a more realistic document, we feel the only real resolution of the problem is in the issuance of a completely new directive which takes into consideration all factors relative to contracting out of work in today's environment.

SUGGESTED CHANGE #1:

Page 3 - Paragraph 5e:

Delete the words "or continuing" from the first sentence of the second part of paragraph 5e.

Rationale:

It is believed the intent of A-76 is to apply to new starts, acquisitions, and to an inventory of activities of the Government presently authorized to produce commercial/industrial products or services. The phrase "or continuing" implies that the new start has been made or that acquisition has been completed. This suggested change would remove the implication that it can be applied beyond its scope.

Comment:

This implication has been exploited during late 1976 by those interested in contracting out existing Government work. At that time, there was great emphasis on Circular A-76 by these interests, and A-76 was used as the premise for examining every existing functional area of Department of Defense activities. Fortunately, a moratorium on these activities has been declared.

SUGGESTED CHANGE #2:Pages 3 and 4 - Paragraph 5e:

Delete the second and third sentences from the second part of paragraph 5e.

Rationale:

These statements are not required in a policy directive such as A-76 because the intent of A-76 is to provide policy guidance for new starts. Inclusion of these two statements provides a negative tone to the directive.

Comment:

The factors cited are appropriate at the operating level as well as numerous other constraints that must be considered prior to a new start.

SUGGESTED CHANGE #3:Page 4 - Paragraphs 5e and 6:

Delete the words "or continued" from the last sentence in paragraph 5e. Also, delete the phrase "is incurring or" from the first paragraph of paragraph 6.

Rationale:

Same as that for Suggested Change #1

SUGGESTED CHANGE #4:Pages 5 and 6 - Paragraph 6c:

Place a period after the word "incurred" on the second line of paragraph 6c.

Delete all of paragraph 6c that follows.

Rationale:

Same as for Suggested Change #2.

It would seem appropriate to review the cost elements that were first provided in 1967. Cost comparisons should contain comparable elements. A-76 has provided many elements of cost incurred by Government activities and very few elements related to comparable costs in the private sector. Those elements of cost that can be compared should be more specifically described, as well as the methodology for comparison with identical elements of cost with the private sector.

Comment:

It is inequitable to require the Government to justify elements of cost that the private sector cannot, or will not, identify in terms that would lead to comparability.

SUGGESTED CHANGE #5:Page 5 - Paragraph 6a:

Delete the first two complete sentences on page 5, beginning with "If discontinuance...." and ending with "should be added to the cost of procurement from commercial sources."

Rationale:

Same as for Suggested Change #4

SUGGESTED CHANGE #6:Page 8 - Paragraph 7c(1):

Place a period at the end of the seventh line.

Omit remainder of paragraph.

Rationale:

The procedure for placing Government activities on the inventory list is specified in paragraph 7 and is based on the reasons listed in paragraph 5. The cost and effort that relate to the justification to get on the inventory list are such that it should not be frequently repeated. A five-year period is a minimum period to review a functional area; eight years is probably the optimum. The use of a longer timeframe for the review would place the review in a period of the succeeding administration, as well as provide adequate time to establish the functional area history of operation.

Comment:

There is no requirement in the private sector to rejustify their existence with any frequency, nor does the Government require them to do so. The same principle should be applied to Government activities.



