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REPORT TO THE CONGRESS

Construction Costs For Certain Federally Financed Housing Projects Increased Due To Inappropriate Minimum Wage Rate Determinations B-146842

Department of Labor

*BY THE COMPTROLLER GENERAL
OF THE UNITED STATES*

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AUG 12, 1970



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WASHINGTON D C 20548

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To the President of the Senate and the
Speaker of the House of Representatives

This report presents our findings on increased construction costs due to inappropriate minimum wage rate determinations by the Department of Labor for certain federally financed housing projects in selected areas of the United States. Our review was made pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67)

Copies of this report are being sent to the Director, Office of Management and Budget; the Secretary of Labor; the Secretary of Defense; the Secretary of Housing and Urban Development; and the Administrator of General Services.

A handwritten signature in cursive script, reading "James B. Stacks".

Comptroller General
of the United States

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ABBREVIATIONS

DOD	Department of Defense
FHA	Federal Housing Administration
GAO	General Accounting Office
HUD	Department of Housing and Urban Development

D I G E S T

WHY THE REVIEW WAS MADE

In five earlier reviews, the General Accounting Office (GAO) has reported to the Congress that substantial savings to the Government could be realized through the stipulation that wage rates prevailing for residential housing construction should be the minimum rates for similar federally financed housing projects, as prescribed by law. (See p. 4.)

This review was made to ascertain whether the minimum wage rates prescribed by the Secretary of Labor for construction of certain federally financed low-rent public housing and military family housing projects in four States were the prevailing wage rates for similar housing construction in the areas, as required. (See p. 4.)

Projects in New Jersey, Oklahoma, Pennsylvania, and Virginia were selected because preliminary data indicated that there were significant differences between the Department of Labor's wage rate determinations for federally financed housing construction and the wage rates being paid in the area for similar private residential housing construction. (See p. 4.)

FINDINGS AND CONCLUSIONS

The Department prescribed minimum wage rates payable to construction workers on seven federally financed housing projects that were significantly higher than the wage rates prevailing in the areas for similar private residential construction. (See p. 8.)

For the most part, the Department had prescribed the higher union-negotiated wage rates, generally applicable to commercial-type building construction in these areas, as the minimum wage rates payable on federally financed housing construction. (See p. 8.)

Basic shortcomings in the Department's wage rate determination procedures were

- the basing of wage rate determinations on inadequate wage rate information;

- the failure to include residential wage rates in area determinations; and
- the basing of wage rates for federally financed housing construction on commercial building construction wage rates prescribed in prior determinations. (See p. 20.)

In the wage determination process, the Department should use automatic data processing equipment in the collecting, compiling, and ascertaining of prevailing wage rates and should prescribe separate schedules of wage rates for residential and commercial construction.

GAO estimated that the minimum wage rates prescribed by the Department for the construction of the seven federally financed projects--the total construction cost of which amounted to about \$15.6 million during the fiscal years 1966-69--have resulted in an increase in the contract costs of these projects by about \$2.4 million.

For four federally financed housing projects which have been authorized for construction but which have not been started in two of the areas included in this review, extra construction costs of about \$1.5 million may be incurred unless the Department prescribes actual prevailing wage rates for similar residential housing construction before contracts are awarded. (See p. 17.)

GAO does not contend that its estimates of increased contract costs are precisely the amounts by which contractors necessarily would have reduced their bids had the invitation for bids stipulated as the minimum wage rates the lower wage rates then being paid on similar private residential construction in the area. However, the wage rates required on a construction project are the principal criteria considered by a contractor in estimating labor costs for use in arriving at the amount of a contract bid. (See p. 18.)

The higher wage rates prescribed by the Department may have discouraged some contractors from bidding on some of the projects and, thereby, reduced competition and, possibly, further increased the cost of the projects. (See p. 19.)

RECOMMENDATIONS OR SUGGESTIONS

The Department of Labor should:

- Conduct more onsite surveys to supplement and verify data, obtained from various parties outside the Department, which serve as a basis for wage determinations for federally financed housing construction projects in many areas of the country.
- Make appropriate changes in those practices which have resulted in prescribing commercial construction wage rates for use as minimum rates for federally financed housing construction.

- Use, at the earliest date, automatic data processing equipment for collecting, compiling, and storing wage data.
- Where applicable, include schedules of both residential and commercial construction prevailing wage rates in its area wage determinations. (See p. 44.)

AGENCY ACTIONS AND UNRESOLVED ISSUES

The Assistant Secretary of Labor agreed with several of GAO's recommendations and stated that the Department was engaged in a substantial effort to ensure that it determined wage rates on the basis of those prevailing on residential construction projects. He stated also that requests were being considered for additional funds to recruit a qualified field staff to conduct onsite wage surveys and that the making of joint Federal-State studies would depend to a large extent on the availability of additional field staff. (See p. 32 and 37.)

The Assistant Secretary noted that the departmental data processing center was exploring the feasibility of using automatic data processing equipment for wage determination operations. He said that the Department was reviewing the systems used by some of the States under their minimum wage laws. (See p. 38.)

The Under Secretary of Housing and Urban Development stated that GAO's findings were substantiated by the Department's own experience and that the situation described in GAO's report was not limited to the low-rent public housing program but existed also in housing programs assisted by the Federal Housing Administration.

The Department of Labor has been receptive to a proposal by the Under Secretary of assistance from the Federal Housing Administration in obtaining wage rates for federally assisted residential construction. (See p. 41.) GAO believes that such action should result in the Department's making more adequate wage determinations for federally assisted housing projects. (See p. 44.)

The Deputy Assistant Secretary of Defense stated that GAO's views were in agreement with Department of Defense findings and that the military departments had been instructed to request residential wage rate determinations. (See p. 41.)

MATTERS FOR CONSIDERATION BY THE CONGRESS

GAO is reporting these matters to keep the Congress informed of the continuing need for improvements, by the Department of Labor, in the area of minimum wage rate determinations and to point out the effect of the longstanding problem of inappropriate wage rate determinations on the cost of construction of federally financed housing.

CHAPTER I

INTRODUCTION

The General Accounting Office has made a review of determinations made by the Department of Labor of the minimum wage rates required for construction workers on certain federally financed low-rent public housing and military family housing projects in selected areas within the States of New Jersey, Oklahoma, Pennsylvania, and Virginia. The total estimated construction cost, or committed funds, for these projects is expected to be about \$37.4 million. All projects reviewed were either authorized or contracted for during fiscal years 1966-69.

The purpose of our review was to ascertain whether prevailing wage rates were being prescribed in the determinations by the Department of wage rates for federally financed housing construction in selected areas of the country, as required by the Davis-Bacon Act of 1931, as amended (40 U.S.C. 276a). Our review was undertaken as a continuation of earlier reviews of wage rate determinations for federally financed housing projects. In reports to the Congress on these reviews, we pointed out that substantial savings to the Government could be realized through the stipulation that wage rates prevailing for residential housing construction be prescribed as the minimum rates for similar federally financed housing projects. A list of these reports is included as appendix VI. The review on which this report is based covered federally financed housing projects in a number of localities not covered in prior reports.

The geographical areas in which we made the review were selected because of high concentrations of planned federally financed housing construction. This information was obtained from Federal agencies' reports on low-rent housing and military family housing projects under construction or planned for fiscal years 1967 and 1968.

We made a preliminary survey in the selected geographical areas to determine whether the wage rates prescribed by the Department for federally financed housing construction projects were comparable to the rates being paid on similar

privately financed housing construction projects in the areas. In those instances where there appeared to be significant differences in the rates, we determined the wage rates being paid for certain construction worker classifications (bricklayer, carpenter, electrician, laborer, painter, plumber, and sheet metal worker) in the area and compared these rates with the minimum wage rates prescribed by the Department for the same worker classifications for federally financed housing construction projects.

As used in this report the term "federally financed housing projects" refers to projects either constructed under federally awarded contracts or financed, in whole or in part, under Federal grants and loans; "federally insured housing projects" are projects financed under federally insured mortgage loans. Further details of the scope of our review are stated on page 46 of this report.

The general procedures of the Department for predetermining prevailing wage rates are summarized in appendix I. The principal officials of the Department having responsibility for the activities discussed in this report are listed in appendix VII.

LEGISLATIVE AUTHORITY

Legislation requiring the payment of minimum wages to laborers and mechanics employed under federally awarded contracts for construction of public buildings and public works was first adopted in the Davis-Bacon Act of 1931. This act, as amended, requires that the advertised specifications for each contract in excess of \$2,000 to which the United States is a party--for construction, alteration, and repair of public buildings or public works--shall state the minimum wages to be paid to various classes of laborers and mechanics.] X

The act also provides that the minimum wages be based upon those determined by the Secretary of Labor to prevail for the corresponding classes of laborers and mechanics employed on projects of a character similar to the contract work in the city, town, village, or other civil subdivision of the State in which the work is to be performed. The minimum wage determination includes the basic hourly rates of

pay and, since 1964, the amount of fringe-benefits payments, if any.

The legislative history of the Davis-Bacon Act indicates that the Congress intended that the determined rates should be based on the wage rates established by private industry. Also, throughout debates on bills relative to the Davis-Bacon Act, the sponsors have offered statements and assurances that the bills did not require that new rates be established but merely required contractors to pay the rates that had been established by private industry for similar construction.

The principal objective of the act was to protect communities from the depressing influences of lower wage rates at which workmen might be hired elsewhere and brought into the communities on construction work. This objective was to be accomplished through contract conditions requiring payment of not less than minimum wages based on wages prevailing in the communities to be protected.

Subsequent extensions of minimum wage coverage to contracts for construction of federally assisted projects were adopted on the concept that such contracts, even though not awarded by the Government, similarly should support locally prevailing wage standards. Contracts for construction of projects involving Federal interests such as grants, loans, or insurance are subject to the wage provisions of other legislation which usually specify that, in accordance with or pursuant to the Davis-Bacon Act, the wages to be paid should not be less than those determined by the Secretary of Labor to be prevailing in the localities.

The Department's minimum wage rate determinations are applicable to both low-rent public housing projects and military family housing projects. The low-rent public housing programs under the U.S. Housing Act of 1937, as amended (42 U.S.C. 1401), were established to assist in providing safe and sanitary housing within the financial reach of families of low income. The Housing Assistance Administration, Department of Housing and Urban Development (HUD), provides financial assistance to local housing authorities in the development of low-rent public housing projects under contracts

that provide for annual contributions. These annual contributions, if made in the maximum amounts, would be sufficient to pay the principal and interest on bonds and notes sold by a local housing authority to the public or, in some cases, to the Housing Assistance Administration to obtain funds to pay the costs for developing the projects. When a local housing authority receives the maximum annual contribution, the Federal Government is, in effect, paying the entire cost of development.

Federal obligations for annual contributions contracts with local housing authorities throughout the country, for fiscal years 1966-69, amounted to about \$1 billion, or about 90 percent of the maximum allowable subsidies. Construction costs of family housing projects under the Department of Defense's (DOD) military housing program for fiscal years 1966-69 amounted to about \$360 million. Construction costs for planned military family housing projects for fiscal year 1970 were estimated to be about \$111 million.

CHAPTER 2

MINIMUM WAGE RATES PRESCRIBED FOR

FEDERALLY FINANCED HOUSING CONSTRUCTION

WERE HIGHER THAN PREVAILING WAGE RATES

Our review of the wage rate determinations for seven federally financed housing projects in four areas in New Jersey, Oklahoma, Pennsylvania, and Virginia showed that the Department prescribed minimum wage rates which were higher than the rates prevailing in these areas for similar private residential housing construction projects. The rates prescribed by the Department for these projects were the union-negotiated rates generally applicable to commercial building construction; but the Department's files did not contain adequate data to justify a determination that such negotiated rates were in fact prevailing on residential housing construction, such as references to specific construction projects on which these rates were paid, or data as to the number of workers being paid those rates.

At the time the wage determinations were made there was no similar federally financed residential housing project under construction in one of the areas (Pennsylvania). In the other three areas (New Jersey, Oklahoma and Virginia), similar federally financed residential housing was under construction and the union-negotiated wage rates generally applicable to commercial-type building construction had been prescribed by the Department for the prior projects.

We noted that, although the Department had prescribed wage rates based on private residential housing construction projects for federally insured housing (FHA residential housing projects) under construction in the Virginia area, the Department prescribed the union-negotiated wage rates for the subsequent federally financed housing projects discussed in this report and not the wage rates paid on these FHA projects.

In a prior report issued on this subject,¹ we noted that, when unrealistic wage rates were prescribed for federally financed construction projects, the error may be compounded by referring to these previous determinations for prevailing wage rate data in connection with new wage rate determinations. Although we have not suggested either in this report or in previous reports that there is any impropriety per se in the Department's using wage rate information obtained from Government contractors in making new prevailing wage rate determinations, we believe that, to be a valid source of information for determining new wage rates, the rates being paid by such contractors working on federally financed construction should be representative of wages prevailing in the area.

In our opinion, the wage rates should not, for example, be inflated by reasons of previous departmental wage determinations which prescribed the use of commercial building wage rates as the minimum wage rates for federally financed housing construction where residential construction wage rates were applicable.

We believe that wage rates required on a construction project are principal factors considered by contractors in estimating labor costs for use in computing the total amount of their contract bids.

We estimate that, because of the difference between the minimum wage rates prescribed by the Department for certain worker classifications for the construction of the seven federally financed housing projects and the lower prevailing wage rates for the same worker classifications for similar private housing construction in the same areas as determined by us, the contract costs of the federally financed housing projects were increased by about \$2.4 million. (See p. 17.)

The higher wage rates prescribed by the Department for these seven housing projects may have discouraged some contractors in these areas from bidding on the projects. We were informed by several housing contractors who were paying

¹B-164427, Sept. 13, 1968. (See p. 60.)

the lower wage rates that they had refrained from bidding on Government housing projects rather than disrupt their established wage rates. Although we could not determine whether an increase in the number of bidders would have resulted in a reduction of the costs of the seven projects discussed in this report, we believe that competition among a greater number of bidders generally tends to result in lower prices.

Following is a brief description of each of the seven low-rent public housing projects and the military family housing projects for which, we believe, the Department had prescribed rates in the construction contracts that were higher than prevailing rates for similar construction.

LOW-RENT PUBLIC HOUSING PROJECTS

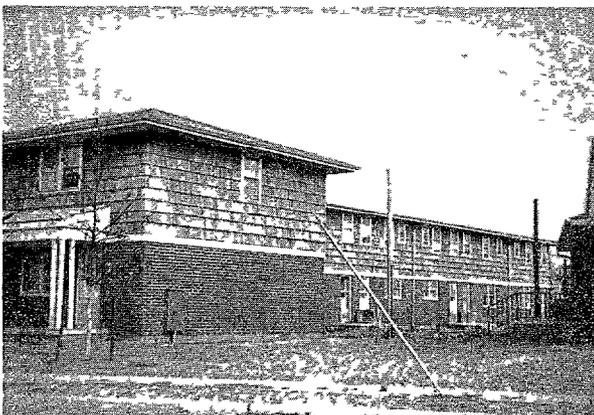
Project NJ 61-1, Millville, New Jersey

On September 16, 1966, the Millville Housing Authority awarded five fixed-price contracts totaling approximately \$1.5 million for the construction of 100 units of low-rent public housing--50 units of housing for low-income families and 50 units of housing for low-income senior citizens. The contracts contained the Department's area wage determination, AE-9756, dated April 12, 1966.

The minimum wage rates prescribed by the Department for six major worker classifications on the project were, for the most part, substantially higher than the wage rates paid on similar private residential construction in the Millville area. (See app. II.)

The public housing project is situated on two sites; one site is for low-income families and contains seven two-story buildings with brick veneer and cedar siding exteriors; the other site is for low-income senior citizens and contains seven one-story buildings with brick veneer exteriors. Each site has a community building.

The similarity of the low-rent public housing project to private housing construction in the area was substantiated by the architect who designed the Millville project. Below are pictures of the low-rent public housing apartments for low-income families of the Millville project and of similar privately constructed apartments in the area.



Hamilton Court, Oklahoma City, Oklahoma

The Oklahoma City Housing Authority awarded on June 5, 1968, a fixed-price contract amounting to approximately \$5.3 million for the construction of 400 units of low-rent public housing known as Hamilton Court (Project OKLA 2-5). The contract contained the Department's area wage determination AH-15,690, dated April 8, 1968.

The minimum wage rates prescribed by the Department for seven major worker classifications on the project were substantially higher than the rates paid to workers in the same crafts on similar private residential construction in the greater Oklahoma City area. (See app. II.)

The Hamilton Court project consists of one-story duplexes and row houses and two-story town houses in 92 buildings and a community building. The similarity of this housing to private housing construction in the area was substantiated by the architect who designed the Hamilton Court project.

Project OKLA 2-14, Oklahoma City, Oklahoma

The Oklahoma City Housing Authority signed, on October 25, 1968, a contract to purchase, for approximately \$1.2 million, a housing project to be constructed with private funds for use as a low-rent housing project under the "Turnkey" program. The contract included the Department's wage determination, AI-3317, dated August 7, 1968. (See p. 28.)

The minimum wage rates prescribed by the Department for seven major worker classifications on the project were approximately the same rates as prescribed in the April 1968 determination. These rates were substantially higher than the rates paid for the same crafts on similar private residential construction in the Oklahoma City area. (See app. II.)

The project consists of 50 units, in 16 one- and two-story buildings including duplexes and eight-unit town houses which are of frame construction with plywood siding and masonry veneer exteriors. The similarity of this

housing to private housing construction in the area was substantiated by the architect who designed the project.

The contracts awarded by the local housing authority for the Hamilton Court project and Project OKLA 2-14 contained also Oklahoma State Department of Labor's area wage determinations. The State's wage determinations were made pursuant to a State law (40 O.S. Supp. 196.1) which prescribes the use of minimum wage rates for public works contracts awarded by the State or subdivisions of the State. A provision of the Hamilton Court contract, as awarded by the local housing authority, required the payment of the highest rates contained in the Federal and the State determinations.

We noted that the Oklahoma law requires that, in determining the prevailing hourly rate of wages, the State ascertain and consider wage rates established by collective-bargaining agreements and other wage rates paid generally within the locality. The State official responsible for making such wage determinations told us that the State's determination was made once a year and that, because he lacked sufficient staff to make surveys regarding wage rates actually being paid on similar residential construction, he based his determination on union-negotiated rates.

The rates contained in the Federal wage determination for the Hamilton Court low-rent project were on a level with the negotiated rates contained in the State's wage determinations.

We were informed by representatives of HUD that, although the local housing authority's contract to purchase Project OKLA 2-14 provided that the State wage rate determination was applicable to the construction of the project, it was not applicable since the contract to purchase the property was not a public works contract of the State.

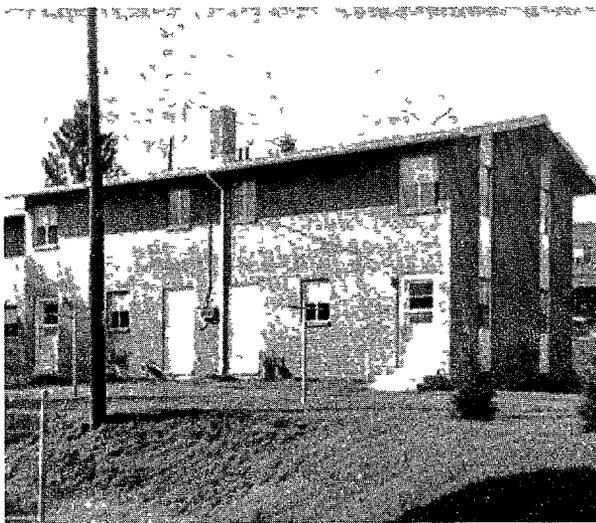
Franklin Terrace, Lancaster, Pennsylvania

The Franklin Terrace project was constructed at a cost of approximately \$1.8 million. Four fixed-price contracts were awarded by the Lancaster Housing Authority on

April 18, 1966. The contracts included the Department's wage determination, AE-9576, dated March 9, 1966.

The minimum wage rates prescribed by the Department for seven major worker classifications were, for the most part, substantially higher than the rates paid on similar private residential construction in the Lancaster area. (See app. II.)

This project consists of 124 apartments in 41 two-story buildings of frame construction with brick veneer exterior. The similarity of this housing to private housing in the area was substantiated by the architect who designed the Franklin Terrace Apartments. Below are pictures of the Franklin Terrace Apartments and of similar private apartments in the Lancaster area.



Low-rent public housing,
Franklin Terrace Apartments



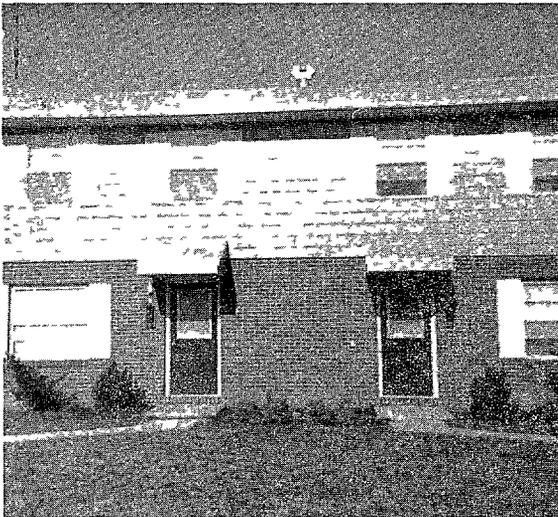
Privately constructed
apartments

Project VA 17-1, Hampton, Virginia

The Hampton Redevelopment and Housing Authority, on February 21, 1966, awarded a fixed-price contract in the amount of about \$1.1 million for the construction of a low-rent public housing project. The contract included the Department's wage determination, AE-5651, dated December 13, 1965.

The minimum wage rates prescribed by the Department for six major worker classifications were, for the most part, substantially higher than the rates paid on similar private residential construction in the Hampton area. (See app. II.)

The project consists of 100 units in 49 one- and two-story garden-type apartment buildings and townhouses and is located on two sites. The exterior of the buildings is brick on the first floor and aluminum siding on the second floor. The similarity of this project to private residential construction in the area was substantiated by the architect who designed project VA 17-1, by the city of Hampton's building inspector who is responsible for all inspections of residential construction in Hampton, and by a builder of a similar private residential project who had bid on project VA 17-1. Below are pictures of public housing project VA 17-1 and similar private housing units in the area.



Low-rent public housing
project VA 17-1



Privately constructed
housing

MILITARY FAMILY HOUSING PROJECTS

Langley Air Force Base, Virginia

The Department of the Air Force on January 10, 1968, awarded a fixed-price contract in the amount of about \$1.5 million for construction of 100 military family housing units at Langley Air Force Base, Virginia. The contract contained the Department of Labor's wage determination, AH-5,241, dated October 17, 1967.

The minimum wage rates prescribed by the Department for five major worker classifications were, for the most part, substantially higher than the rates paid on similar private construction in the Langley area. (See app. II.)

The Langley housing project consists of two-story town houses in 23 buildings. The exterior of each building is brick on the first floor and wood siding on the second floor. The similarity of the project to private residential construction in the area was confirmed by the Chief Engineer at Langley Air Force Base and a private residential contractor familiar with the Langley housing project.

Tinker Air Force Base, Oklahoma

The Department of the Air Force on December 3, 1968, awarded a fixed-price contract in the amount of about \$3.2 million for construction of 162 units of military family housing at Tinker Air Force Base, Oklahoma. The contract contained the Department of Labor's wage determination, AI-3317, dated August 7, 1968. (See p. 28.)

The minimum wage rates prescribed by the Department for seven major work classifications on the project were substantially higher than the rates paid for the same crafts on similar private residential construction in the greater Oklahoma City area. (See p. 12.)

The Tinker housing project consists of 162 units in one- and two-story row and duplex buildings. The similarity of this housing to private housing construction in the area was confirmed by the architect who designed the project.

EFFECT OF MINIMUM WAGE
DETERMINATIONS ON THE
COST OF HOUSING PROJECTS

In our opinion, the wage rates required on a construction project are the principal factors considered by a contractor in estimating labor costs for use in computing the amount of a contract bid. We estimate, that the Department's prescribing of minimum wage rates for the construction of the seven housing projects included in our review that were higher than the prevailing wage rates in the areas resulted in the contractors' labor costs being increased by about \$2.4 million which, in our opinion, undoubtedly resulted in a corresponding increase in the contract costs for the projects, as shown below.

<u>Housing project and location</u>	<u>Number of units</u>	<u>Contract cost</u>	<u>Estimated increase in contract cost</u>
Government financially assisted.			
NJ 61-1, Millville, New Jersey	100	\$ 1,460,439	\$ 200,000
Hamilton Court, Oklahoma City, Oklahoma	400	5,312,000	1,026,000
Okla 2-14, Oklahoma City, Oklahoma	50	1,166,462	208,000
Franklin Terrace, Lancaster, Penn- sylvania	124	1,804,390	273,000
VA 17-1, Hampton, Virginia	100	1,149,998	100,000
Government constructed			
Langley Air Force Base, Virginia	100	1,524,100	188,000
Tinker Air Force Base, Oklahoma	<u>162</u>	<u>3,157,710</u>	<u>431,000</u>
Total	<u>1,036</u>	<u>\$15,575,099</u>	<u>\$2,426,000</u>

Our estimate of the increase in contract costs on the above projects represents the difference between labor costs based on the Department's prescribed minimum wage rates, including pertinent fringe-benefits payments, for the projects and the lower wage rates prevailing for similar private residential construction in the area. The estimated increase in costs pertain to direct labor costs only and do not include other cost and profit factors that may have been based on direct labor costs and included in the contract bid prices. The inclusion of such factors would tend to accentuate the effect of the extra labor costs and to further increase costs to the Government.

During March and April 1968, the Department issued wage rate determinations for three other federally financed housing construction projects in the Hampton, Norfolk, and Richmond, Virginia, areas. The projects involved were for 300 units of low-rent public housing in Hampton, 624 units of low-rent public housing in Richmond, and 50 units of military family housing in Norfolk. Unlike the Department's prior wage rate determinations which had generally prescribed union-negotiated rates for federally financed projects in these cities, these later determinations prescribed the lower residential housing construction rates for the federally financed housing projects. The wage data used in the wage determination for the Hampton project was obtained by the Department from a mail survey of private housing construction, while the wage data used in the wage determination for the other two projects was obtained from surveys of private housing construction furnished by private individuals.

We estimate that the savings in labor costs on these three housing projects, as a result of the Department prescribing the prevailing wage rates for housing construction, will be about \$820,000. The total estimated construction costs for the three projects was about \$12.9 million.

Furthermore, unless the Department prescribes actual prevailing wage rates for similar residential housing construction before contracts are awarded in certain areas, we believe increased costs will be incurred in the construction of 700 units in four housing projects in Oklahoma City, Oklahoma, and Bridgeton, New Jersey, which had been authorized at the time of our review but for which construction contracts had not been awarded as of March 1970. We estimate that, if the difference between the Department's prescribed minimum wage rates for the federally financed housing projects and the lower prevailing wage rates for the same worker classifications for similar type housing construction in the same areas as shown by our review remains about the same, the extra construction costs on these four planned housing projects will be about \$1.5 million of total estimated construction costs of \$8.9 million.

We do not contend that our estimates of increased construction costs are precisely the amounts by which

contractors necessarily would have reduced their bids had the invitations for bids stipulated that the minimum wage rates would be the wage rates then being paid on similar private residential construction in the area, but we believe that the wage rates required on a construction project are the principal factors considered by a contractor in estimating labor costs for use in computing the amount of a contract bid.

The general contractor for the low-rent public housing project in Lancaster, Pennsylvania, informed us that he had offered the local housing authority a price reduction of at least \$114,000 on his bid if the wage clause requiring the payment of the higher negotiated wage rates was removed from the contract.

In addition, we believe that, because of the high wage rates prescribed, potential bidders may have been discouraged from bidding on some of the projects, thus competition may have been reduced and construction costs of the projects may have been increased. Although we could not specifically determine whether an increase in the number of bidders would have resulted in a reduction of project costs, it is generally recognized that competition among a greater number of bidders tends to result in lower prices.

Several of the private residential contractors that we visited during our field review informed us that they would not bid on federally financed construction projects because of the high wage rates they would be forced to pay. They informed us also that payment of the higher rates prescribed by the Department would (1) cause a disruption in company labor forces because the workers on a federally financed construction project would be paid hourly rates higher than the rates paid to the workers on the company's private construction projects and (2) create hardship and morale problems among the workers because their wage rates would be reduced after the federally financed project was completed and they returned to work on private construction.

CHAPTER 3

BASIC SHORTCOMINGS IN DEPARTMENT'S

WAGE RATE DETERMINATION PROCEDURES

FOR HOUSING CONSTRUCTION

Our review showed that the basic shortcomings in the Department's wage rate determination procedures for federally financed housing construction were (1) the basing of wage rate determinations on inadequate information, (2) the noninclusion of residential rates in area determinations, and (3) the basing of wage rates for federally financed housing construction on commercial building construction wage rates prescribed in prior determinations. Our review showed in addition that there were inconsistencies in the Department's determinations of prevailing wage rates for federally financed public housing projects and for housing projects financed under federally insured mortgage loans for the same area. Although the union-negotiated wage rates were prescribed as minimum rates for construction of federally financed housing projects, lower rates were prescribed as minimum rates for construction of similar federally insured housing projects in the same area.

The Department's practices and procedures are discussed in the following sections.

WAGE RATE DETERMINATIONS BASED ON INADEQUATE WAGE INFORMATION

Wage information on file in the Department at the time of our field review, in our opinion, was not generally adequate for use as a basis for determining prevailing wage rates for the housing projects reviewed. Our review showed that onsite surveys to obtain firsthand information on wage rates applicable to residential construction in the areas where we conducted our review had not been made by the Department for several years.

The Secretary of Labor's regulations which outline the procedures to be followed in determining wage rates

provided, at the time of our field review, that the Department's Office of the Solicitor conduct a continuing program for obtaining and compiling wage rate information. The regulations provided also that contractors, contractors' associations, labor organizations, public officials, and other interested parties be requested to voluntarily submit to the Solicitor data on wage rates paid to laborers and mechanics on various types of construction in each locality throughout the country. The regulations provided further that the Solicitor, whenever he considered the data on hand to be insufficient to determine prevailing wage rates for all crafts necessary to perform the proposed construction work, may conduct a field survey in the area of the proposed project to obtain additional information.

The information relative to wage surveys for the areas we reviewed showed that a wage survey was previously conducted by the Department in early 1965 in the Hampton, Newport News, and Langley, Virginia, area. This survey showed that rates lower than the union-negotiated wage rates prevailed at that time on private residential construction in that area.

Most of the wage data in the Department's files at the time of our field review consisted of data from negotiated union wage agreements submitted by local labor organizations and data on wage rates paid for commercial and industrial construction. The files did not contain adequate data showing the types of construction for which the union-negotiated rates, or other rates, were being paid, and the number of workers being paid union-negotiated and other wage rates.

After we started our review, three wage rate surveys were conducted in 1968. One survey was by the Department in the Hampton-Newport News area and another was by private individuals in the Norfolk area. These are referred to on page 18. The third survey was conducted by the Department in Oklahoma City.

Our examination of the Department's files pertaining to the minimum wage rates prescribed for federally financed housing in Oklahoma City showed that the wage rates prescribed for some worker classifications were the commercial

construction (union-negotiated) wage rates that had previously been prescribed by the Department as minimum rates for federally financed housing projects and that wage rates prescribed for other worker classifications were not adequately supported by the wage data obtained by the Department in its survey in Oklahoma City. We noted that, although wage data was obtained for only 11 worker classifications, the Department prescribed minimum wage rates for 38 building worker classifications and a number of power equipment operator classifications. Also, the minimum wage rates prescribed by the Department for three of the 11 worker classifications were higher than the prevailing wage rates shown by the Department's survey.

Our analysis of the Department's compilation of the wage data for 11 worker classifications in the survey for Oklahoma City showed that (1) some of the wage rates for workers on private housing construction were not considered applicable by the Department for federally financed projects because the wages were lower than the Department considered equitable for that type of worker, (2) wage data obtained was not considered sufficient to change the union-negotiated rates previously prescribed for certain worker classifications, and (3) some of the wage rates for other worker classifications were not used because they were lower than the rates the Department recognized as prevailing for a related craft. As a result, the Department continued to prescribe the union-negotiated rates as minimum wage rates for construction of the federally financed housing projects in the Oklahoma City area.

We believe that the Department's use of wage rate data as shown above and its decisions to prescribe the union-negotiated wage rates for certain worker classifications, as well as the use of wages paid as a result of a prior wage decision for federally financed housing construction in Oklahoma City, will result in the union-negotiated wage rates' being prescribed as minimum rates for future federally financed housing construction in the area. The effect of the Department's wage determinations on the cost of this housing project is shown on page 17 of this report.

In commenting on the inadequate wage data and lack of onsite wage surveys as shown in an earlier report¹ by our Office, the Secretary of Labor advised us in a letter dated November 29, 1967, that determining wage rates under the Davis-Bacon Act for residential construction had been a troublesome problem and would continue to be a problem as long as the Department lacked adequate facilities for collecting wage information in the various parts of the country. He stated that wage rates in the construction industry varied from time to time and that up-to-date information was essential.

The Secretary stated also that the Department then had a staff of some 70 individuals in Washington engaged in wage determination and five field representatives handling special matters as required but that this staff was not nearly enough for making accurate wage determinations, particularly in the residential construction field. He stated further that the Department had requested "4 additional field representatives as a modest improvement in the procedures for determining residential rates." The Department, as of January 1970, had not hired these additional field representatives.

We agree with the Department that its determination of wage rates under the Davis-Bacon Act for residential construction will continue to be a problem as long as the Department lacks adequate facilities for collecting such wage information in the various parts of the country. We believe, however, that continued efforts should be made by the Department to augment its wage determination staff and to make on-site surveys of residential construction wage rates whenever a request for wage determinations for federally financed housing construction is received.

As stated in a prior report on this subject,¹ we believe that the Department may find a partial solution to its current problem of insufficient staffing by seeking

¹B-164427, Sept. 13, 1968. (See p. 60.)

greater cooperation and assistance from the contracting agencies of the Government in the collection of wage rate information, especially wage rates paid on private residential construction. To obtain more wage rate information, we believe that the Department should consider using the data-collecting facilities of the Department's Bureau of Labor Statistics and the Bureau of the Census, Department of Commerce. Furthermore, we believe that a study should be made by the Department to determine the feasibility of using automatic data processing equipment in collecting, compiling, and ascertaining prevailing wage rates.

RESIDENTIAL RATES NOT INCLUDED
IN AREA DETERMINATIONS

Our review showed that the Department had issued area wage determinations which prescribed the minimum wage rates to be used for all building construction; however, no distinction was made between the wage rates for residential and commercial building construction.

The Davis-Bacon Act provides that the Secretary's wage determinations be based upon wages prevailing on projects similar to the Federal contract work. Therefore, an area determination for general building construction should include a schedule of wage rates for federally financed housing projects.

The wage rates incorporated into construction contracts for the low-rent public housing projects in Millville, New Jersey, and Oklahoma City, Oklahoma, were obtained from area wage rate determinations issued by the Department. These area determinations contained union-negotiated wage rates more applicable to commercial-type building construction than housing construction. In our opinion, the Department's failure to include appropriate housing wage rates in its area determinations or to issue separate determinations for federally financed housing construction resulted in the commercial construction wage rates being improperly applied to housing construction contracts.

COMMERCIAL BUILDING CONSTRUCTION RATES IN
PRIOR WAGE DETERMINATIONS USED AS BASIS
FOR FEDERALLY FINANCED HOUSING CONSTRUCTION
RATES

The Department has continued to specify commercial building wage rates in its wage determinations for federally financed housing construction once it has issued a determination establishing the commercial building wage rates for prior federally financed housing construction in the area.

The Secretary of Labor, commenting on a prior report¹ by our Office, stated that the Department had an established policy of determining separate and different wage rates wherever they prevail on housing and residential work and that the Department had followed this policy consistently since July 1962.

Our review showed that the Department had prescribed the union-negotiated wage rates, primarily applicable to commercial building construction, as the minimum rates for the housing project at Langley Air Force Base discussed on page 16 of this report even though wage rate information available to the Department showed that substantially lower rates prevailed on similar private residential construction in the area. In addition, union-negotiated wage rates primarily applicable to commercial building construction have been prescribed for the military housing project at Tinker Air Force Base and for certain low-rent public housing projects in Oklahoma City, Oklahoma. Furthermore, according to a Department official, union-negotiated rates will be determined for all further low-rent public housing projects in Oklahoma City. A discussion of the Department's use of wage rates in prior determinations in its wage determinations for housing projects at Langley Air Force Base and Oklahoma City follows.

Langley Air Force Base--Our review showed that, as a result of a request from the Department of the Air Force, in August 1967, for residential housing wage rates for the Langley Air Force Base military family housing project, the Department attempted to conduct a mail survey to update the residential housing wage rates obtained by a survey conducted in early 1965. Because no additional wage data was received from the local home builders, other contractors, and labor organizations, the Department issued a wage determination in September 1967 for the Langley military family housing project which prescribed the residential housing wage rates obtained by the 1965 survey. The use of these rates was justified in a memorandum contained in the Department's files as the best available information. The

¹B-164427, Sept. 13, 1968. (See p. 60.)

residential housing wage rates prescribed in this wage determination were subsequently protested as being too low by various union organizations. A description of the project is shown on page 16.

Following the unions' protests, the Department reversed its position and issued another wage rate determination in October 1967 which contained the higher union-negotiated wage rates. The Department based its new wage determination on payroll information from a prior federally financed housing project at Langley Air Force Base for which the Department in 1965 had prescribed union-negotiated wage rates, instead of the residential housing construction rates, as the minimum wage rates for the project. Our estimate of the effect of the Department's wage determination on the cost of the new housing project at Langley is shown on page 17.

Oklahoma City--Our review showed that the Department prescribed union-negotiated wage rates for the construction of low-rent public housing and military family housing in Oklahoma City even though the Department was aware that lower rates were being paid on similar private residential housing construction in the Oklahoma City area.

The Department's area wage determination, AH-11,025, dated December 8, 1967, prescribed union-negotiated wage rates as the minimum rates for construction of federally financed building construction, including low-rent public housing, in Oklahoma County, Oklahoma. In January 1968, in accordance with Department of Defense procedures, the Department of the Air Force requested a residential housing construction wage rate determination for 300 units of military family housing at Tinker Air Force Base, Oklahoma County.

The Department issued another area wage rate determination, AH-15,690, dated April 8, 1968, for several Government agencies, including the Department of the Air Force, for Oklahoma County, prescribing the same level of union-negotiated wage rates, or slightly higher rates, as contained in the Department's December 1967 determination.

Our field survey of the wage rates being paid on private residential housing construction in the Oklahoma City area showed that rates, substantially lower than the

union-negotiated rates, were being paid for seven major classifications of workers on similar private residential housing construction in the area. We furnished the wage rate data which we had obtained from housing contractors and subcontractors in the area to the Department of Labor in March 1968. We suggested that the Department also conduct a field survey to obtain more detailed wage data relative to residential housing construction in the area.

Wage determination AH-15,690 was issued, however, before the Department had completed its wage survey and without due consideration, in our opinion, of the wage rate data furnished by us in March 1968, which showed that lower wage rates were being paid in the area on similar private residential housing construction. As shown on page 12, this new wage determination was also applicable to the contract-awarded in June 1968 for the construction of 400 units of low-rent public housing known as Hamilton Court.

The Department's wage survey covered wage data obtained for 10 two-story walk-up residential housing projects under construction in the area only during the week of July 8, 1968. We noted that some of the wage data we had previously furnished the Department in March 1968, which was representative of the prevailing wage rates on private residential housing construction in the area, was not considered by the Department to be appropriate in determining prevailing wage rates because construction of some of that private housing had been completed prior to the 1-week period in July covered by the Department's survey.

Our examination of the Department's wage survey showed that the wage rates paid to the workers employed largely on three federally financed housing projects being constructed in the area under the Department's April 8, 1968, area wage determination--which prescribed union-negotiated wage rates as the minimum rates--was the principal basis for the Department's deciding that the higher negotiated rates were prevailing on federally financed housing construction in Oklahoma City. On the basis of the results of this survey, the Department issued area wage determination, AI-3317, dated August 7, 1968, which again prescribed the

union-negotiated wage rates for federally financed building construction in the area.

On September 4, 1968, the Department suggested to the Housing Assistance Administration that the new area wage determination, AI-3317, be used for the construction of the single-story, low-rent public housing projects in Oklahoma City. In a letter dated September 20, 1968, the Department also suggested to the Department of the Air Force that the same wage determination be used for the construction of the military family housing project at Tinker Air Force Base. The Department's letter stated in part:

"We have no information to indicate that there is any separate schedule of wage rates for residential-type construction in Oklahoma City. We suggest, therefore, that Wage Determination No. AI-3317 issued for building construction in Oklahoma County, be used. However, if you or any other interested party should forward to us information indicating, the existence of a residential wage rate schedule, this matter would be reviewed."

In view of this action, we advised the Secretary of Labor by letter dated October 17, 1968, of the detailed wage data that we had previously furnished the Department and stated that we believe the prescribing of union-negotiated wage rates for the military and low-rent public housing projects in Oklahoma City was contrary to the Department policy, stated in its prior correspondence to the Secretary of Defense and to us, of determining separate and different wage rates, wherever they prevailed, on housing and residential work.

On October 18, 1968, we also brought the matter of the high wage rates to the attention of the Secretary of Defense. The Deputy Secretary of Defense informed the Secretary of Labor by letter dated October 23, 1968, that the contract bid opening date for the Tinker Air Force Base housing project had been extended to November 7, 1968, so that the Department of Labor might review its wage determination. The Deputy Secretary pointed out to the Secretary of Labor that the utilization of appropriate residential-type wage rates was basic to the development of the

military family housing construction program and to the competitiveness and breadth of participation of bidders.

The Under Secretary of Labor advised us on October 29, 1968, that, after a survey in the Oklahoma City area of wage rates paid on projects similar to the proposed military family housing, the Department had concluded that the wage rates contained in area wage determination, AI-3317, of August 7, 1968, were prevailing for housing construction as well as for commercial building construction. He further stated that, in the Department's view, it would be improper to exclude for wage determination purposes wage rates that had previously been prescribed for similar Federal or federally financed projects.

As shown above, the Department's use of wage rates paid to workers on three federally financed housing projects being constructed in the area under the prior area wage determination--which prescribed union-negotiated wage rates as the minimum rates for all types of building construction in the area--was the principal basis for the decision that the higher union-negotiated rates were prevailing on housing construction in the Oklahoma City area. Our review showed that wage rates lower than those being prescribed for federally financed housing were prevailing on similar private housing construction in the area.

INCONSISTENCIES IN WAGE DETERMINATIONS FOR HOUSING PROJECTS

Our review showed that there were inconsistencies between the Department's wage rate determinations for federally financed housing and for federally insured housing projects in the same area.

The Secretary of Labor is responsible not only for prescribing applicable wage rates for housing construction financed with Government funds, but also for prescribing the applicable wage rates for housing construction financed with private funds when such housing is mortgaged under certain agreements insured by the Federal Housing Administration (FHA).

Our review revealed that, during calendar years 1965 to 1967, the Department had received six requests for wage determinations for housing projects to be built in the Hampton, Langley, and Newport News, Virginia, labor market area. In three of the six projects, private funds (with FHA-insured mortgages) were involved. The wage rates prescribed by the Department for these three projects were lower than the union-negotiated rates; whereas, for the remaining three projects for federally financed low-rent and military family housing, the higher union-negotiated rates were prescribed. A list of these projects is shown below.

<u>Date of determination</u>	<u>Type of project</u>	<u>Wage rates prescribed</u>	<u>Type of funds used to finance project</u>	<u>Location of project</u>
January 1965	Military family housing	Union-negotiated	Government	Langley Air Force Base, Virginia
July 1965	FHA-insured housing	Other than union-negotiated	Private	Newport News, Virginia
December 1965	Low-rent public housing	Union-negotiated	Government	Hampton, Virginia
January 1966	FHA-insured housing	Other than union-negotiated	Private	Hampton, Virginia
October 1966	FHA-insured housing	Other than union-negotiated	Private	Newport News, Virginia
October 1967	Military family housing	Union-negotiated	Government	Langley Air Force Base, Virginia

CHAPTER 4

AGENCY COMMENTS AND OUR EVALUATION

By letter dated August 27, 1969 (see app. III), the Assistant Secretary for Administration, Department of Labor, in commenting on our draft report, agreed with several of our proposals and advised us that the Department was also very concerned about costs of federally financed housing construction and was engaged in a substantial effort to ensure that it determined wage rates that were prevailing for residential housing construction.

The Assistant Secretary stated that the Department believed, however, that it was not possible to conclude with finality that the issuance of a schedule of lower wage rates would inevitably result in directly proportional savings in the cost of an entire project. He stated also that an astute architect, engineer, or contractor would not prepare his bid without weighing wage rates against quality of men and workmanship and production. He stated further that, in making a realistic appraisal of total project costs all factors must be considered--that is, wage rates, workmanship, production, interest rates, cost of building materials, and the profit factor.

The Assistant Secretary explained that the Department was not in a position, by using a different set of factors, to reconstruct with any degree of accuracy the exact circumstances that existed at Millville, New Jersey; Lancaster, Pennsylvania; Hampton and Langley Air Force Base, Virginia, prior to the Department's decisions. He said, however, that the Department would continue its policy of conducting wage surveys within its capabilities at these locations and others.

We recognize that, to make a realistic analysis of total project costs, all factors must be considered, including wage rates, workmanship, production, interest rates, cost of building materials, and the profit factor. We believe that the prescribed high minimum wage rates generally have increased housing construction costs, notwithstanding any allowance made in contractors' bids for the quality of the

workmanship and for production. We believe, however, that such factors are not appropriate for consideration by the Department in the predetermination of prevailing wage rates required by the Davis-Bacon Act.

With regard to the low-rent housing projects in Oklahoma City, Oklahoma, the Assistant Secretary pointed out that the wage rates predetermined under the Oklahoma State minimum wage law were the same as the rates determined by the Department and that, even if the Federal rates had been lower than the State rates, the contractor would have had to pay the higher rate where two dissimilar rates (Federal or State) appeared in the contract. He said that, under these circumstances, the Department could not ignore the rates paid on projects subject to the State minimum wage law.

We do not suggest that the wage rates paid on State projects be ignored in the Department's wage determination process. However, in regard to the Oklahoma City situation, if the Department had initiated a joint Federal-State study of wage rates in the area, including an appropriate survey of wages paid on similar private construction, we believe that the minimum rates prescribed for the federally assisted and State-awarded projects would have properly reflected the prevailing wage rates in the area. We also believe that, if such studies and wage surveys were made, there would be no need for a provision in the contract requiring the highest wage rates to be paid and the Department would be carrying out its responsibilities in accordance with the requirements of the Davis-Bacon Act.

The Assistant Secretary of Labor indicated that action had been or would be taken to implement several of our proposals. These proposals, and pertinent Department comments and our position thereon, are discussed below.

We proposed:

1. That periodic onsite surveys be conducted to serve as a basis for making wage determinations for federally financed housing construction.

Agency comments (See p. 53.)

The Assistant Secretary agreed with our proposal and stated that onsite surveys were the most effective way of developing adequate and complete wage information. He stated also that more data, more reliable data, and better firsthand knowledge of local conditions was obtained when the Department personally contacts architects, engineers, contractors, labor unions, local officials, and others. He stated further that, during fiscal year 1969, the Department had made 57 wage surveys for housing construction projects--between 30 and 35 were initiated within the Department--but that these surveys represented only a small percentage (4 to 6 percent) of the total requests for wage rates for housing projects.

Our examination of the files furnished by the Department relative to these 57 wage surveys, showed that, although the residential construction rates were determined as the minimum wage rates for some of the federally financed housing projects, several other surveys, in our opinion, were not adequate because the files showed that the wage data were obtained (1) from only commercial building construction projects and not from residential housing construction projects, (2) from counties other than the county where the project was to be built, and (3) for only a few (sometimes only one) worker classifications although workers in several other classifications were to be used in the construction of the projects.

Our examination showed further that the wage data obtained during some of the surveys were not used as the basis for the minimum wage rates in the subsequent wage determinations. Instead, determinations were based on the rates prescribed in a prior wage determination for the area.

2. That appropriate changes be made in the Department's practices which have resulted in wage determinations for residential construction not in accordance with the provisions of the Davis-Bacon Act.

Agency comments (See p. 54.)

The Assistant Secretary expressed the belief that with adequate staffing the Department's policy and practices would prove to be responsive to the Department's responsibilities. He said that, because of the staffing problem, the Department had been required to establish certain priorities on the utilization of field personnel in making onsite surveys. He commented that it had been the Department's intention during the past 2 years to make surveys for all military housing construction projects before the issuance of wage determinations for them. He pointed out that the Department of Defense had instructed the military services to make individual requests for wage determinations for their housing projects instead of proceeding under the regular determinations issued to them. He stated that, in addition, the Department had obtained lists from the military services of their proposed projects and had investigated each one prior to issuance of a wage rate determination.

The Assistant Secretary also said that these wage surveys were conducted either by available field personnel or by mail and that, if a schedule of rates other than the commercial construction rates prevailed for housing construction in a county, that schedule was issued for the military housing project and for any other housing projects which might be requested in the county. He said that the Department did not consciously differentiate between military and other types of federally assisted housing construction.

It appears from our reviews of the Department's determinations of wage rates for federally financed housing construction that the Department, prior to 1968, had generally considered federally financed housing construction as similar to commercial building construction and had generally prescribed the union-negotiated wage rates for commercial building construction as the prevailing rates for housing construction. We noted that prior to 1968 the Department normally had not collected wage data pertaining to private residential construction in determining the minimum rates for federally financed housing projects.

Although our review had shown that in certain instances the Department had changed its policy and practices and had been obtaining more wage data for private housing construction in an area, the Department continued to utilize the union-negotiated wage rates determined by the Department for prior federally financed housing projects as the principal basis for minimum wage rates for construction of subsequent housing projects even though the rates previously determined for and paid on federally financed projects were based principally on the commercial construction wage rates.

It was noted that, in fiscal years 1967 and 1968, there were 770 wage determinations and modifications for residential construction which were based upon commercial construction wage rates and that the Department estimated that, in fiscal years 1969 and 1970, 1,600 residential wage determinations would be based on commercial construction wage rates.

Although the Secretary stated that it was the Department's intention during the past 2 years to make wage surveys for all military housing projects prior to issuance of wage determinations for them, our review of the wage rates prescribed for construction of two military housing projects showed that the Department did not make a wage survey for these projects until after we had started our review. The Department had prescribed the union-negotiated wage rates as the minimum wage rates for the construction of these housing projects even though the wage information available showed that substantially lower rates prevailed on private residential construction in the areas.

3. That prevailing wage rates for residential construction be shown in area wage determinations.

Agency comments (See p. 54.)

The Assistant Secretary stated that it had been the Department's practice to take an alternative to this approach. He stated that, in counties where the Department had recognized a separate schedule of wage rates for walk-up housing construction and had an area wage determination, the Department either excluded the housing construction from the application of the area

determination, or did not distribute the area determination to the Federal agency regularly engaged in housing construction. He said that, in effect, this approach required the contracting agencies to make individual requests for wage rate determinations for their housing projects. He said further that this approach gave the Department more control over the application of the rates than would exist if schedules of wage rates were merely included in the area determination.

In this regard our review showed that, of about 300 area determinations listed as being in effect at April 1969 and prescribing general building construction wage rates, only seven were shown as not being applicable to federally financed housing construction projects. Furthermore, we noted that the military services and the Department of Housing and Urban Development, the agencies most involved in federally financed housing construction, were usually included among the agencies for which the determinations were applicable.

The Department's method of handling area determinations shown above was not, in our opinion, an adequate means of notifying the agencies whenever other wage rates were prevailing in an area. The current practice of the military services of making specific requests for residential construction wage rates for military family housing instead of proceeding under a general building construction wage determination regularly issued to them by the Department of Labor was adopted after we brought some of the wage determination deficiencies for housing construction to the attention of the Department of Defense in 1967.

4. That the possibility of making joint Federal-State studies of prevailing wage rates be explored.

Agency comments (See p. 55.)

The Assistant Secretary stated that this proposal had merit but that its implementation would depend to a large extent on the outcome of requests for additional funds for a field staff. He stated further that application of this proposal would depend somewhat upon the

compatibility of the Federal and State minimum wage laws.

We note that 37 States and the District of Columbia have prevailing wage laws for public works contracts and that most of these laws are similar to the Davis-Bacon Act. We believe that the Department should initiate action for making joint Federal-State studies of prevailing wage rates where these laws are similar.

5. That the Department should continue efforts to obtain additional staff for wage determination functions.

Agency comments (See p. 54.)

The Assistant Secretary said that requests were being considered for additional funds to recruit a qualified field staff with experience in and knowledge of the construction industry necessary to conduct onsite surveys. A Department official subsequently informed us that the Department's budget request for fiscal year 1971 included a request for 32 new staff positions.

6. That automatic data processing equipment be used in the compiling and determining of prevailing wage rates.

Agency comments (See p. 54.)

The Assistant Secretary stated that the departmental data processing center was exploring the feasibility of using automatic data processing for the wage determination process and that the Department was reviewing the systems used by some of the States under their minimum wage laws.

We were also informed by Department representatives responsible for determining the workload requirements for the departmental computer center that, on the basis of a prior review by them of the wage determination operations, the operations had been found to be adaptable to automatic data processing. They indicated, however, that the Department's new computer center would not be established until the

summer of 1970, that a feasibility study for the Division of Wage Determinations could not be made by the Department until early in 1971, and that, if feasible, the automatic data processing equipment could be used in the operation of the Division by the summer of 1971.

In this connection, we believe that most of the wage determination operations, such as the collection, compilation, and storage of wage data, could be performed more efficiently and effectively if automatic data processing equipment were utilized. We believe that, because of the needs of Federal agencies for accurate and timely wage determinations and the increasing number of determinations that must be processed yearly by the Department, substantial benefits could be obtained if the Department would, at the earliest possible date, initiate the use of automatic data processing equipment in its wage determination operations.

7. That greater cooperation in the collection of wage data be sought from the Federal contracting agencies.

Agency comments (See p. 54.)

The Assistant Secretary said that the Department would continue to pursue its efforts to obtain greater cooperation from the Federal contracting agencies.

HUD has extended assistance to the Department of Labor to assure that residential rates will be prescribed for federally assisted housing construction. (See app. IV.) In addition, DOD has issued instructions for the military services to request residential wage rate determinations. (See app. V.) On the basis of these specific requests, the Department of Labor has made more wage rate surveys than previously. In reply to a prior report,¹ we also received correspondence from five other departments and agencies which have indicated or expressed desire to assist and cooperate with the Department of Labor.

¹B-164427, Sept. 13, 1968. (See p. 60.)

8. That use be made of the data collecting facilities of the Bureau of Labor Statistics and the Bureau of Census.

Agency comments (See p. 54.)

The Assistant Secretary stated that the Bureau of Labor Statistics data, at present, represents only seven building crafts in 100 cities and reflects hourly union wage scales. He said that the Department's problem relates primarily to residential rates and rural areas.

Although the data presently being obtained by the Department's Bureau of Labor Statistics may not pertain specifically to wage data from construction projects similar to federally financed housing, we believe that the data collecting facilities of the Bureau, which are available in many areas of the country, could be used to obtain pertinent wage data for the Division of Wage Determination.

COMMENTS OF OTHER AGENCIES

In commenting on a draft of this report by letter dated September 30, 1969 (see app. IV), the Under Secretary of Housing and Urban Development, stated that HUD was most acutely aware of the rapidly rising cost of housing construction and that, for this reason, the prevailing wage determinations made under the Davis-Bacon Act were of great concern to it. He stated that our finding that minimum wage rates prescribed by the Department of Labor on certain federally financed housing projects were not the wage rates actually prevailing for similar private residential construction projects was accurate and was substantiated by the Department's own experience. He stated further that this situation was not limited to the low-rent public housing program but existed also in housing programs assisted by FHA.

The Under Secretary advised us that, as a result of our draft report and the Department's investigations into the problem, HUD had proposed that FHA assist the Department of Labor in establishing the prevailing wage rates for federally assisted residential construction. He expressed the belief that each FHA insuring office could maintain, or obtain when necessary, current wage rates for all trades involved and that this would enable the insuring offices, upon receipt of an application or proposal, to record the current prevailing wages for the specific locality on the basis of residential construction and to submit them to the Department of Labor for approval and endorsement. He stated that the Department of Labor was most receptive to the proposal and that meetings were being held to ascertain the type of information which FHA could provide to the Department of Labor and the procedures for obtaining the information.

The Under Secretary stated that HUD was hopeful that this approach would go a long way toward solving the problems discussed in our draft report.

In commenting on the draft of this report by letter dated October 3, 1969 (see app. V), the Deputy Assistant Secretary of Defense stated that our draft report confirmed

the Department's findings and that he was in agreement with the report.

The Deputy Assistant Secretary stated also that, on the basis of our previous reporting on this subject, the military departments had been instructed to request residential wage rate determinations and to follow the Armed Services Procurement Regulation procedures for appealing Department of Labor wage rate determinations where appropriate. He stated further that the Department was continuing to monitor this matter closely in an effort to ensure that the military departments attempt to obtain the most favorable wage rates for housing projects.

CHAPTER 5

CONCLUSIONS AND RECOMMENDATIONS

CONCLUSIONS

The review on which this report is based, as well as those reviews covered by our prior reports to the Congress on this general subject, showed that, for certain areas, the Department of Labor had established minimum wage rates for federally financed housing construction which were, in our opinion, considerably higher than the prevailing wage rates being paid in the areas on private housing construction projects similar to the federally financed projects.

Although the Department appears to have improved its wage determination operations in the last few years and in a few instances has determined residential construction wage rates for federally financed housing construction, we believe that our review indicates that the Department has not taken action to determine residential construction wage rates for most of the federally financed housing projects. Also, although the Department made more housing wage surveys in fiscal years 1968 and 1969 than in prior years, it appeared that generally these surveys were made because of specific requests for residential rates or a specific protest or inquiry regarding the wage rates that had been prescribed for construction of federally financed housing.

We noted that, as a result of our prior report¹ to the Congress on the high wage rates prescribed for military family housing in the Washington, D.C. area, the Department generally had made wage surveys upon receipt of specific requests from the Department of Defense for residential construction wage rates for military housing projects. Nevertheless, in our opinion, a continuing effort has not been initiated by the Department to obtain wage data on residential construction in many areas of the country. We

¹B-164427, Sept. 13, 1968. (See p. 60.)

believe that the recent action by HUD to furnish the Department of Labor wage rate data pertaining to residential housing construction should assist the Department in making more appropriate wage determinations for federally financed housing projects.

In addition, we believe that, when prescribing minimum wage rates for construction of federally financed projects in States which have prevailing wage laws such as Oklahoma, the Department should ensure that prevailing wage rates be determined in accordance with the Davis-Bacon Act.

RECOMMENDATIONS TO THE SECRETARY OF LABOR

In view of the continuing nature of the problem discussed in this report and in our earlier reports to the Congress, we recommend that the Secretary of Labor:

1. conduct more onsite surveys to supplement and verify data, obtained from various parties outside the Department, which serves as a basis for wage determinations for federally financed housing construction in many areas of the country,
2. make appropriate changes in those practices which have resulted in prescribing commercial construction wage rates for use as minimum wage rates for federally financed housing construction,
3. use, at the earliest date, automatic data processing equipment for collecting, compiling, and storing wage data,
4. where applicable, include schedules of both residential and commercial construction prevailing wage rates in its area wage determinations,
5. continue efforts to obtain additional staff,
6. give high priority to obtaining and utilizing wage data from other departments and agencies, and

7. explore the possibility of making joint Federal-State studies of prevailing wage rates in those states which have prevailing wage laws so that both governmental units will be assured that they have complied with their respective laws and that the minimum wage rates prescribed for projects are based on the wage rates prevailing in the area for similar construction.

CHAPTER 6

SCOPE OF REVIEW

Our review was directed toward a comparison of the minimum wage rates determined by the Secretary of Labor for federally financed housing construction with the rates being paid on similar non-federally financed housing construction in selected areas of the country.

Our review included (1) an examination of the provisions and legislative history of the Davis-Bacon Act; the U.S. Housing Act of 1937, the Housing Act of 1949, the Housing Act of 1956, and the National Housing Act relating to the responsibilities of the Department of Labor for making determinations of wage rates prevailing in the area for similar construction, (2) a study of the general procedures established by the Department for determining prevailing wage rates, (3) a review of the Department's files pertaining to wage rate determinations for the areas selected for review, (4) a survey of wage rates paid on privately constructed houses and walk-up and garden-type apartments in Millville and Bridgeton, New Jersey; the metropolitan Oklahoma City area, including Oklahoma City, Midwest City, Del City, and Moore, Oklahoma; Lancaster, Pennsylvania; Hampton, Newport News, Norfolk, Virginia Beach, Portsmouth, Chesapeake, and Richmond, Virginia; (5) discussions with representatives of labor organizations, contractor organizations, contractors, architects, and officials of Federal and local agencies who have contact with the building construction industry, and (6) an examination of the files pertaining to the housing projects selected for review at the Lancaster Housing Authority, Millville Housing Authority, Bridgeton Housing Authority, Hampton Redevelopment and Housing Authority, Richmond Redevelopment and Housing Authority, Oklahoma City Housing Authority, Langley Air Force Base, Tinker Air Force Base, and the Atlantic Division, Naval Facilities Engineering Command, Norfolk, Virginia.

APPENDIXES

DEPARTMENT OF LABOR
PROCEDURES FOR PREDETERMINATION
OF PREVAILING WAGE RATES

The Secretary of Labor delegated the authority for the operation of the wage determination program to the Department's Solicitor. The Division of Wage Determinations, which has performed most of the work relating to the making of wage rate determinations was, until July 1, 1969, in the Office of the Solicitor. As of that date the Division was transferred to the Wage and Labor Standards Administration (WLSA) of the Department.

Pursuant to the requirement of the Davis-Bacon Act and the provisions of other laws, the Secretary of Labor has established procedures for the predetermination of wage rates, which are set forth in title 29 of the Code of Federal Regulations (CFR). Under 29 CFR 5, a Federal agency intending to contract for construction, alteration, repair, painting, or decorating of public buildings or public works of the United States, applies to the Department of Labor for a determination of prevailing wage rates.

The regulations, at the time of our review, provide that the Solicitor of Labor conduct a continuing program for obtaining and compiling wage rate information. The Solicitor is to obtain the wage rate information by requesting contractors, contractors' associations, labor organizations, public officials, and other interested parties, to voluntarily submit data on wage rates paid to laborers and mechanics on various types of construction in the area. The Solicitor, in making wage determinations, is to consider statements showing wage rates paid on projects, signed collective-bargaining agreements, information on wage rates determined pursuant to State and local prevailing wage legislation, information supplied by Federal and State agencies, and any other relevant information.

The scope of consideration may, but need not, cover projects completed more than 1 year prior to the date of

request for the determination. If there has been no similar construction within the area in the past year, wage rates paid on the nearest similar construction may be considered.

The regulations further state that, whenever the Solicitor deems that the data at hand are insufficient to make a determination with respect to all the crafts necessary to perform the proposed construction work, he may have a field survey conducted in the area of the proposed project for the purpose of obtaining sufficient information upon which to make a determination of wage rates. Furthermore, whenever he deems it necessary because of insufficiency of information or impracticality of a field survey, or both, the Solicitor may direct a hearing to be held. Upon determining the prevailing wage rates in a locality, the Solicitor issues for the Secretary a formal "Decision of the Secretary" showing, for the various classes of laborers and mechanics, the rates which must be incorporated into the construction contract as the minimum rates to be paid on the project. On July 1969, the Associate Administrator, Division of Wage Determination, Wage and Labor Standards Administration, instead of the Solicitor, was authorized to issue these decisions for the Secretary. The decision is effective for a period of 120 calendar days from the date of the decision.

The term "prevailing wage rate" is defined in 29 CFR 1.2 as the rate of wages paid to the majority of those employed in each classification of laborers and mechanics on similar construction work in the area. If there is not a majority paid at the same rate, then the rate paid to the greatest number which is at least 30 percent of those employed will be considered prevailing. When less than 30 percent of those employed receive the same rate, the average rate will be considered the prevailing rate.

COMPARISON OF WAGE RATES DETERMINED BY
THE DEPARTMENT OF LABOR FOR CERTAIN FEDERALLY
FINANCED PROJECTS WITH RATES PAID ON SIMILAR
PRIVATE HOUSING CONSTRUCTION DURING
FISCAL YEARS 1966, 1967, AND 1968

<u>Classification</u>	<u>Millville, New Jersey</u>			<u>Oklahoma City, Oklahoma</u>		
	<u>Minimum rate deter- mined Apr. 12, 1966</u>	<u>Private housing rate</u>	<u>Dif- fer- ence</u>	<u>Minimum rate deter- mined Apr. 8, 1968</u>	<u>Private housing rate</u>	<u>Dif- fer- ence</u>
Bricklayers	\$4.55	\$4.31	\$0.24	\$4.975	\$3.25	\$1.725
Carpenters	4.95	3.03	1.92	4.25	2.50	1.75
Electricians	5.54	3.25	2.29	5.095	2.50	2.595
Laborers	3.25	1.79	1.46	2.975	2.00	0.975
Painters	4.00	2.45	1.55	4.15	2.75	1.40
Plumbers	5.20	3.39	1.81	4.90	3.15	1.75
Sheet metal workers	5.00	-	-	4.82	2.58	2.24

Note: The private housing rates shown above were compiled using the Department of Labor's own regulations and formula for determining prevailing wage rates. (See app. I.) The minimum rates determined and the private housing rates, as shown above, consists of the basic hourly rate and applicable hourly fringe-benefit payments.

<u>Lancaster, Pennsylvania</u>			<u>Hampton, Virginia</u>			<u>Langley Air Force Base, Virginia</u>		
<u>Minimum rate determined Mar. 9, 1966</u>	<u>Private housing rate</u>	<u>Difference</u>	<u>Minimum rate determined Dec. 13, 1965</u>	<u>Private housing rate</u>	<u>Difference</u>	<u>Minimum rate determined Oct. 17, 1967</u>	<u>Private housing rate</u>	<u>Difference</u>
\$3.95	\$3.00	\$0.95	\$4.15	\$3.00	\$1.15	\$4.30	\$4.00	\$0.30
3.75	2.57	1.18	3.35	2.50	0.85	3.60	2.82	0.78
4.65	2.88	1.77	4.19	2.70	1.49	4.49	3.50	0.99
2.35	2.18	0.17	1.90	1.50	0.40	2.20	2.25	-0.05
3.275	2.41	0.865	3.00	2.50	0.50	3.00	3.00	-
4.30	3.13	1.17	4.12	2.60	1.52	4.52	3.19	1.33
4.35	2.68	1.67	3.80	-	-	4.05	3.00	1.05

U S DEPARTMENT OF LABOR
OFFICE OF THE ASSISTANT SECRETARY FOR ADMINISTRATION
WASHINGTON, D C 20210



AUG 27 1969

Mr. Henry Eschwege
Associate Director, Civil Division
United States General Accounting Office
Washington, D. C. 20548

Dear Mr. Eschwege:

Thank you for making available to us for review and comment your draft of a proposed report to the Congress of the United States relating to the "Need for More Realistic Minimum Wage Rate Determinations for Certain Federally Financed Housing Construction in Selected Areas of the United States."

The thrust of your report is that wage rates issued or which have been used by Federal contracting or assisting agencies for construction of residential projects at selected locations were not prevailing on similar housing projects in the vicinity of the proposed construction. The report concludes that if more accurate wage rates had been made available by the Department, savings of almost \$1.8 million would have been realized by the Government, and that, as far as certain proposed projects in these areas are concerned, if lower wage rates are determined, the ultimate savings might reach \$5.4 million on all projects.

We are very concerned about these costs, and are engaged in a substantial effort to insure that we determine wage rates that are prevailing on residential housing construction.

We believe, however, that it is not possible to conclude with finality that the issuance of a schedule of lower labor wage rates will inevitably result in directly proportional savings on the cost of the entire project. An astute architect, engineer or contractor does not prepare his bid without weighing wage rates against quality of men and workmanship and production. Wage rates paid on some projects cited in the report were in excess of those predetermined. One contractor informed us that he paid his workmen substantially higher than the predetermined rates in order to assure good production and workmanship. In order to make a realistic appraisal of total project costs all factors must be considered, i.e., wage rates, workmanship, production, interest rates, cost of building materials, and the profit factor.

We are not in a position at this time, using a different set of factors as suggested in the report, to reconstruct with any degree of accuracy the exact circumstances that existed at: Millville, New Jersey, prior to April 12, 1966 when our decision AE-9756 was issued; Lancaster, Pennsylvania, prior to March 9, 1966, when AE-9576 was issued; Hampton, Virginia, prior to December 13, 1965 when AE-5651 was issued; or Langley

Air Force Base, Virginia, prior to October 17, 1967, when AH-5241 was issued. We will, of course, continue our policy of conducting wage surveys within our capabilities at these locations and others. We assume that the projects noted above were used only to illustrate the points raised in the report. For this reason, and since the projects are under contract, our comments relate to the basic problems rather than to individual projects. Since it is indicated that the investigators of the General Accounting Office obtained wage rate information from housing projects in both Millville and Lancaster, we would appreciate being provided with copies of this information so we might consider it for possible future projects.

With respect to the Hamilton Court project at Oklahoma City, the issue seems to rest on our use of Federal projects on which we had previously predetermined "unrealistic" rates. Of course, we have no way of knowing what rates the contractor would have paid had the predetermined rates been lower. Furthermore, as the report indicates, wage rates predetermined under the Oklahoma State minimum wage law were the same as the rates in AH-15,690. Even if the Federal rates had been lower than the State rates, the contractor would have had to pay the higher rate under a contract provision requiring payment of the higher rate where two dissimilar rates (Federal or State) appear in the contract. Under these circumstances we believe we could not ignore the rates paid on projects subject to the State minimum wage law. With regard to a statement attributed to an official of the Department that negotiated rates would be issued for all subsequent residential construction in Oklahoma City, we will, of course, continue to use negotiated rates only if in our judgment they continue to prevail.

The report estimates extra labor costs of \$3.4 million on nine additional projects which have been authorized but not started. We would appreciate additional information on these so that we can identify them and take appropriate action.

We would like to make the following comments on the recommendations in the report:

- a. Continue efforts to augment staff and make on-site surveys. We agree fully with this suggestion. Experience has shown that we get more data and more reliable data, and get a better first-hand knowledge of local conditions when we personally contact architects, engineers, contractors, labor unions, local officials and others. The report noted that the Department generally makes surveys only when a protest is made or as a result of General Accounting Office reviews. Our records show that of 57 wage surveys made during FY 1969 between 30 to 35, over half, were initiated within the Department. The 57 surveys represent only a small percentage (4-6%) of the total requests for wage rates for housing projects.

Requests are being considered for additional funds to recruit a qualified field staff with the experience in and/or knowledge of the construction industry necessary to conduct on-site surveys. Our policy to predetermine separate and different rates where they prevail has not changed. We will continue this policy within our capability.

- b. Seek greater cooperation from contracting agencies. We will continue to pursue our efforts to obtain greater cooperation from the Federal contracting and assisting agencies.
- c. Use automatic data processing. The Departmental Data Processing Center is exploring the feasibility of using automatic data processing. The Department is currently reviewing the systems used by some of the States under their minimum wage laws.
- d. Use data collected by BLS and other agencies. At present BLS data represents only 7 building trades in 100 cities and these reflect hourly union wage scales. Our problem relates primarily to residential rates and rural areas.

We hope the following comments on your recommendations will be helpful:

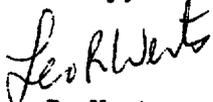
- a. On-site surveys. We believe that on-site surveys are the most effective way of developing adequate and complete wage information.
- b. Changes in practice. We believe our policy and practice will prove to be responsive to our responsibilities with adequate staffing. Due to the problems of staffing which have been explored at length in the report we have been required to establish some priorities on the utilization of our field personnel in making on-site surveys. It has been our intention during the past two years to survey all military housing projects prior to the issuance of determinations for them. The military services were instructed to make individual requests for determinations for their housing projects instead of proceeding under the regular determinations issued to them. In addition we obtained lists from the military services of their proposed projects and investigated each one prior to issuance. These surveys were conducted either by available field personnel or by mail surveys. If a schedule of rates other than commercial construction rates prevailed on housing construction in the county, that schedule was issued for the military housing project and for any other housing projects which might be requested in the county. We do not consciously differentiate between military and other types of Federally-assisted housing construction.
- c. Show residential rates on area determinations. It has been our practice to take an alternative to this approach. In counties where we have recognized a separate schedule for walk-up housing construction and where we also have an area determination, we have expressly excluded the housing construction from the application of the area determination, or we have not distributed the area determination to the Federal agency regularly engaged in housing construction. The effect of this is to require the contracting agencies

to make individual requests for determinations for their housing projects. In our opinion this gives us considerably more control over the application of the rates than would exist if the schedules were merely included in the area determinations.

- d. Explore the possibility of making joint State-Federal studies. This recommendation has merit. Its implementation will depend to a large extent on the outcome of requests for additional funds for a field staff. Also the extent to which this suggestion can be applied will depend somewhat upon the compatibility of our respective minimum wage laws.

We appreciate the opportunity to present our views on this matter. We assure you that this Department will continue its current effort to insure that wage determinations reflect the prevailing wage rates for corresponding classes of laborers and mechanics employed on projects of a character similar to the contract work, as required by the Davis-Bacon Act and related statutes.

Sincerely,



Leo R. Werts
Assistant Secretary for Administration



THE UNDER SECRETARY OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D C 20410

SEP 30 1969

Mr. Max Hirschhorn
Associate Director
United States General
Accounting Office
Washington, D.C.

Dear Mr. Hirschhorn:

I have your draft report of July 29th on the minimum wage rate determinations made by the U. S. Department of Labor pursuant to the Davis-Bacon Act for construction of certain federally financed low-rent public housing and military family housing in selected areas of the United States.

This Department is most acutely aware of the rapidly rising cost of housing construction and for this reason the prevailing wage determinations made under the Davis-Bacon Act are of great concern to us. Your finding that minimum wage rates prescribed by the Department of Labor on certain federally financed housing projects were not the wage rates actually prevailing for similar private, residential construction projects but rather were the higher, union-negotiated wage rates paid on commercial-type building construction certainly is substantiated by our own experience. Indeed, we find that this situation is not limited to the low-rent public housing program, the subject of the draft report, but exists also in housing programs assisted by the Federal Housing Administration of our Department.

We understand that one of the basic reasons for the acceptance of the union-negotiated, commercial rates rather than the non-negotiated, residential rates is an extreme shortage of staff in the Labor Department to make the

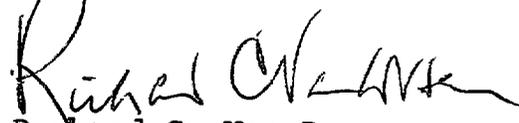
Mr. Max Hirschhorn
Page 2

prevailing wage determination on a given project. As a result of your report and our own investigations into the problem, we have proposed that the Federal Housing Administration of this Department assist the Department of Labor in establishing the prevailing wage rate for federally-assisted residential construction. We have reason to believe that each FHA insuring office can maintain, or obtain when necessary, current wage rates for all trades involved and that this would enable them, upon receipt of an application or proposal, to record the current prevailing wages for the specific locality on the basis of residential construction and submit them to the Department of Labor for approval and endorsement. The Department of Labor has been most receptive to this proposal and we are currently meeting to ascertain the type of information which the FHA can provide to the Department of Labor and the mechanics of obtaining this information.

We are hopeful that this approach will go a long way toward solving the problems which the General Accounting Office so accurately catalogs in its draft report. It is our understanding that some consideration was given to this approach in past years but that the two Departments were not able to agree on a suitable format for the information needed; you may be assured that, given our great concern over this subject, we will pursue a satisfactory solution most aggressively.

We appreciate having this opportunity to comment on the draft report.

Sincerely,



Richard C. Van Dusen



ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, D C 20301

3 OCT 1969

INSTALLATIONS AND LOGISTICS

Mr. C. M. Bailey
Director, Defense Division
U. S. General Accounting Office
Washington, D. C. 20548

Dear Mr. Bailey:

This is in reply to your letter of July 28, 1969 to the Secretary of Defense which requested comments on the draft report entitled, "Need For More Realistic Minimum Wage Rate Determinations For Certain Federally Financed Housing Construction in Selected Areas of the United States, Department of Labor" (OSD Case 2979).

Your draft report confirms our findings and this office is in agreement with the draft report.

Based on your previous report on this subject, the Military Departments have been instructed to request residential wage rate determinations and to follow the Armed Services Procurement Regulation (ASPR) appeal procedures where appropriate. A copy of our memorandum to the Military Departments is attached. We are continuing to monitor this matter closely in an effort to insure that the Military Departments attempt to obtain the most favorable wage rates for housing projects.

If we may be of further assistance in this matter, please advise us.

Sincerely,

A handwritten signature in cursive script, appearing to read "Glenn V. Gibson".

Glenn V. Gibson
Deputy Assistant Secretary of Defense

Attachment
a/s



C O P Y

OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE
. WASHINGTON, D C 20301

16 JUNE 1967

INSTALLATIONS AND LOGISTICS

MEMORANDUM FOR THE ASSISTANT SECRETARY OF THE ARMY (I&L)
ASSISTANT SECRETARY OF THE NAVY (I&L)
ASSISTANT SECRETARY OF THE AIR FORCE (I&L)

SUBJECT: Davis-Bacon Wage Rates for the Military Family Housing
Construction Program

The utilization of appropriate wage determinations is basic to the development of the family housing construction program. It is important that residential wage determinations be requested from the Department of Labor, and that the wage determinations issued be reviewed for their validity and accuracy.

Section 18-704.2 of the Armed Services Procurement Regulation (ASPR) provides the procedures to be followed in requesting the determination as well as the appeal procedure to be followed when such is necessary. It is incumbent upon your contracting officers to take full advantage of these provisions, and it is requested that they be reminded of their obligations in this matter.

Copies of your implementation of this memorandum are requested.

(Signed)
JOHN J. REED
Deputy Assistant Secretary of Defense
(Family Housing)

C O P Y

APPENDIX VI

GENERAL ACCOUNTING OFFICE

REPORTS TO THE CONGRESS

ON REVIEWS OF WAGE RATE DETERMINATIONS

FOR

FEDERALLY FINANCED HOUSING CONSTRUCTION

Report titled "Review of Wage Rate Determinations for Construction of Capehart Housing at the Marine Corps Schools, Quantico, Virginia" (B-145200, dated June 6, 1962).

Report titled "Wage Rates for Federally Financed Housing Construction Improperly Determined in Excess of the Prevailing Rates for Similar Work in Southeastern Areas of the United States" (B-146842, dated August 13, 1964).

Report titled "Wage Rates for Federally Financed Building Construction Improperly Determined in Excess of the Prevailing Rates for Similar Work in New England Areas" (B-146842, dated January 26, 1965).

Report titled "Wage Rates for Federally Financed Housing Construction Improperly Determined in Excess of the Prevailing Rates for Similar Work in the Dallas-Fort Worth, Texas, Area" (B-146842, dated March 26, 1965).

Report titled "Need for More Realistic Minimum Wage Rate Determinations for Certain Federally Financed Housing in Washington Metropolitan Area" (B-164427, dated September 13, 1968).

PRINCIPAL OFFICIALS OF
THE DEPARTMENT OF LABOR
HAVING RESPONSIBILITY FOR
THE ACTIVITIES
DISCUSSED IN THIS REPORT

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
SECRETARY OF LABOR:		
George Shultz	Jan. 1969	June 1970
W. Willard Wirtz	Sept. 1962	Jan. 1969
UNDER SECRETARY OF LABOR:		
James D. Hodgson ^r	Feb. 1969	June 1970
James J. Reynolds	Mar. 1967	Jan. 1969
John F. Henning	Oct. 1962	Mar. 1967
SOLICITOR OF LABOR:		
L. H. Silberman	May 1969	Present
Harold C. Nyström (acting)	Mar. 1969	May 1969
L. D. Friedman (acting)	Jan. 1969	Feb. 1969
Charles Donahue	Mar. 1961	Jan. 1969
ASSISTANT SECRETARY FOR WAGE AND LABOR STANDARDS:		
Arthur A. Fletcher	May 1969	Present