

DOCUMENT RESUME

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Potential for Contracting Selected Operations at the Air Force Academy Cadet Dining Hall. FPCD-77-57; B-159219. June 20, 1977. Released June 27, 1977. 3 pp. + appendices (14 pp.).

Report to Rep. Frank E. Evans; by Elmer B. Staats, Comptroller General.

Issue Area: Personnel Management and Compensation (300); Federal Procurement of Goods and Services: OMB Guidelines for Relying on the Private Sector to Supply Federal Needs (1906).

Contact: Federal Personnel and Compensation Div.

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Organization Concerned: Department of Defense; Air Force Academy; Department of the Air Force; Civil Service Commission.

Congressional Relevance: Rep. Frank E. Evans.

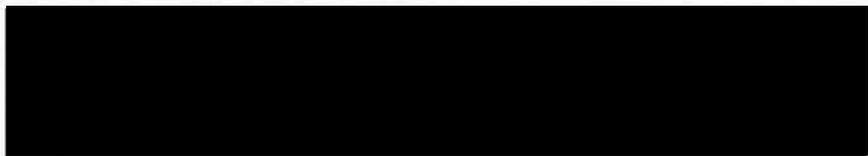
Authority: P.L. 92-392. 5 U.S.C. 5341. OMB Circular A-76.

A review of proposed contracting of sanitation and supply services at the Air Force Academy Cadet Dining Hall was conducted in response to concerns about possible job losses, validity of cost analysis, and the quality of contract services. The Office of Management and Budget Circular A-76 established the policy that Federal agencies shall rely on private enterprise for commercial products and services unless in-house services are justified. When justified because of lower costs, in-house services must be supported by periodic cost analyses. Findings/Conclusions: In response to former GAO recommendations, the Academy negotiated for services, but negotiations were canceled after the propriety of procurement techniques were questioned. Cost analysis techniques were found to be in general accordance with requirements. It indicated that contracting services would offer approximately 34% savings over in-house costs, primarily because of lower wage rates and benefits paid by the contractor. GAO believed that additional annual savings of \$845,000 could be realized by contracting for waiter services. Although there was no basis for evaluating comparative quality of services, it was believed that initially contract services are lower in quality but improve with experience. It was estimated that 61 people would have lost their Federal positions if procurement had been completed. Those working for the contractor would have been paid lower wages, which would have affected the local economy. Recommendations: The Academy Superintendent should: use formal advertising procedures in making the analysis required by Circular A-76, and justify any continued in-house operations of the cadet dining hall; and review the justification for military positions and use civilian

employees where possible. The Chairman of the Civil Service Commission should expand wage surveys to include laundry and food service industries. (HTW)

02621-2845

RELEASED



*REPORT OF THE
COMPTROLLER GENERAL
OF THE UNITED STATES*

Potential For Contracting
Selected Operations At
The Air Force Academy
Cadet Dining Hall

Department of the Air Force

The Air Force's study showed that contracting for sanitation and supply services could reduce costs for dining hall operations. However, procurement action was canceled because negotiation techniques were improperly used. The Air Force should perform its cost analysis of contracting dining hall operations using formal advertising procedures.



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

B-159219

The Honorable Frank E. Evans
House of Representatives

Dear Mr. Evans:

In response to your request of December 14, 1976, we reviewed the proposed contracting of sanitation and supply services at the U.S. Air Force Academy Cadet Dining Hall. Your principal concerns were the possibility that present employees may lose their jobs, the validity of the Academy's cost analysis, and the quality of contract services.

During our review we questioned the use of negotiation procedures for the proposed procurement; the Academy subsequently canceled the negotiations. The possibility of the employees losing their jobs, therefore, is not an immediate concern. The amount of savings cannot be disclosed in order to maintain the confidentiality of contractors' proposals but the cost analysis showed contracting would cost 34 percent less than in-house services. The Air Force and Naval Academies' experience in contracting at two other dining halls indicates that satisfactory services can be attained. Therefore, we recommend that the Secretary of the Air Force direct Academy officials to use formal advertising contracting procedures in making the analysis of cadet dining hall operations.

As set forth in its Circular A-76, the Office of Management and Budget policy generally requires that Federal agencies rely on the private sector for the products and services it uses. The Office also requires that continuation of certain in-house activities must be supported by periodic cost analyses. In our February 1975 report, "Financial Operations of the Five Service Academies" (FPCD-75-117), we recommended that the Air Force Academy perform such an analysis for its food service operations.

The Academy was negotiating for sanitation and supply services for the cadet dining hall in response to our prior recommendation and in conformance with Circular A-76. However, we questioned the Academy's propriety in using

negotiated procurement techniques and in an April 5, 1977, letter, we requested the Secretary of the Air Force to reconsider the procurement method being used. (See exhibit B.) On April 12, 1977, Academy officials canceled the negotiated procurement action on the basis of our letter and congressional concern regarding the propriety of contracting out established Government in-house activities.

Our review was primarily concerned with whether the Academy's cost-analysis procedures followed Circular A-76 and did not cover the validity of certain of its requirements. We found the Academy cost analysis was prepared generally in accordance with Air Force guidance which implements the circular. It indicated that contracting these services offers approximately 34 percent savings over in-house costs. Similar savings have been realized by contracting for food services at the Air Force Academy's airman dining hall and the Naval Academy's midshipman dining hall.

The indicated savings are due primarily to lower wage rates paid by the contractor compared to the rates paid to Federal employees. For example, a contractor would be required to pay an employee \$3.27 an hour in wages. The employee would receive benefits costing \$0.35 an hour for retirement and health and life insurance. A Federal employee performing the same duties would receive wages of \$5.81 per hour and benefits costing the Government \$1.78 per hour. Also an in-house employee would get 9 paid holidays and 13 to 26 days vacation as opposed to the contract employee's 8 and 10 days, respectively.

The Academy's analysis was based on eliminating 67 sanitation and supply services in-house positions. If the 191 cadet dining hall waiters had been considered in the study, there would be a potential for additional annual savings of over \$845,000.

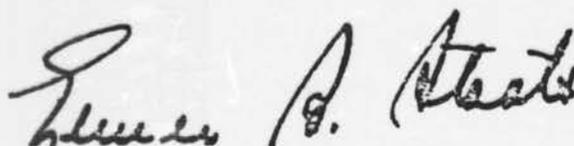
We have no basis for evaluating the quality of in-house versus contract service at the cadet dining hall since the service has not yet been contracted. However, we believe that the quality of service is directly related to the capabilities and experience of the individual contractor or in-house work force. Information we obtained about contract experiences at the airman dining hall and the Naval Academy's midshipman dining hall indicates that initially contractor services are lower in quality than in-house, but they improve to a satisfactory level with experience.

Results of our review are discussed in more detail in appendix I.

As requested by your office, we did not obtain formal comments from Air Force officials. However, we discussed the results of our work with them and considered their comments where appropriate.

This report contains recommendations to the Secretary of the Air Force and the Chairman, Civil Service Commission on page 10 of the appendix. As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken pursuant to our recommendations to the House Committee on Government Operations and the Senate Committee on Governmental Affairs not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report. We will be in touch with your office in the near future to arrange for release of the report so that the requirements of section 236 can be set in motion.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "James A. Stacks".

Comptroller General
of the United States

APPENDIX

ONE MILLION DOLLAR POTENTIAL SAVINGS
BY CONTRACTING FOR SERVICES AT
THE AIR FORCE ACADEMY CADET DINING HALL
AIR FORCE PROCUREMENT
POLICIES FOR PRIVATE SECTOR SERVICES

The Office of Management and Budget, in Circular A-76, established the national policy that Federal agencies shall rely on the private enterprise system for commercial or industrial products and services it uses. In-house services can be utilized, however, when considered militarily essential, or when commercial procurement would cost more, disrupt, or materially delay a program. The circular requires that in-house activities, justified because of lower cost, must be supported by periodic cost analyses insuring economical services. The circular is implemented by Department of Defense Directive 4100.33 which sets forth principles to be adhered to in cost analyses and defines the cost elements to be used. A Department of the Air Force Manual prescribes specific steps to be followed in making cost analyses. Should the decision be made to contract out, the procurement of those goods and services must be in accordance with Armed Services Procurement Regulations.

BACKGROUND

In an earlier report, "Financial Operations of the Five Service Academies," ^{1/} we estimated potential annual savings at the Air Force Academy of \$741,000 if food services were contracted and recommended that the Secretary of Defense direct the Air Force to make the analysis required by Circular A-76 and to justify continued in-house operation. The Department of Defense responded that the Air Force was reviewing the food service operation at the Academy. In the same report we also recommended that military positions at the Academy be reviewed and civilian employees used where feasible.

In September 1975 the Superintendent of the Air Force Academy notified the Air Force Chief of Staff that a contractor would operate the airman dining hall. In the same letter, however, he recommended that the operation of the cadet dining hall remain in-house. The Vice Chief of Staff of the Air Force then asked the Academy to take a "hard look" at the costs of operation.

^{1/}Report to the Congress, FPCD-75-117, February 6, 1975.

In January 1976 the Superintendent notified the Vice Chief of Staff that action had been taken to eliminate 31 waiter positions--an annual savings of \$350,000. By contracting the 91 sanitation and supply positions, an estimated annual cost savings of \$184,000 could be achieved. He stated that the partial contracting would not seriously jeopardize cadet dining hall operations. The Chief of Staff concurred and granted approval to continue in-house performance of the remaining functions.

Work specifications for sanitation and supply services were drafted in July 1976, and a Determination and Findings statement was prepared in October 1976. A Determination and Findings statement is a document that justifies use of the authority to enter into contract by negotiation. The Request for Proposals was issued on November 17, 1976.

PROPRIETY OF CONTRACTING PROCEDURES

The Armed Services Procurement Regulations require that contracts for services be procured through formal advertisements with authority to use negotiation techniques when appropriately justified.

We questioned the propriety of procurement by negotiation and in an April 5, 1977, letter to the Secretary of the Air Force we asked that this action be reconsidered. Subsequently, Academy officials advised us they were canceling the negotiated procurement on the basis of our letter and current congressional concern regarding the propriety of contracting out established Government in-house activities.

The congressional concern was prompted primarily by increased employee cost factors to be applied to the civil service employee portion of a Circular A-76 cost comparison. These factors, on which several congressional committees have expressed reservations about their preciseness, were Government's cost for employee retirement and insurance benefits which were raised from 8.44 to 28.7 percent 1/ of employee

1/In mid-June 1977 just before this report was published, the Office of Management and Budget (OMB) temporarily reduced the factor for employee retirement from 24.7 to 14.1 percent, making the combined employee retirement and insurance benefits 18.1 percent of employee pay. The temporary change reduced the potential average annual savings from 34 to 29 percent. OMB is in the process of reviewing the basis for contracting out for goods and services.

pay. This increases the relative in-house cost which could lead to more contracting out.

CADET DINING HALL COST ANALYSIS

We determined that the Academy generally followed Air Force procedures in preparing the cost analysis and that contracting out would result in considerable savings.

Although the Academy generally followed prescribed procedures, there were some differences in its and our handling of costs. Some of those differences, though, had an offsetting effect and did not materially change the results of the analysis. We considered as a contract cost the potential expense of relocating affected employees and cost of work performed on special details by in-house sanitation and supply workers during the summer months, whereas the Academy did not include any such costs in its analysis. We also included, both on the contract side and on the in-house side, full cost for 15 in-house employees whose pay we believed would be different under the two operations but which the Academy considered would be the same under either operation.

In addition, Air Force procedures require new wage rates which go into effect prior to bid opening to be used in cost studies. The new wage rates for in-house employees, effective March 27, 1977, were not used in the Academy cost analysis, but Academy officials assured us that the new rates would have been included in the study before contracting.

Both analyses showed that an average annual saving of at least 34 percent ^{1/} over in-house costs can be achieved by contracting for the sanitation and supply services. But in order to maintain the confidentiality of contractors' proposals, we cannot disclose the amount of savings.

We estimated that, based on in-house and contractor wage rate differences only, additional savings of over \$845,000 annually could be realized by contracting for services provided by 191 waiters.

These potential savings are further supported by contracting experiences at the airman dining hall and at the Naval Academy's midshipman dining hall. In October 1975 the Academy contracted the entire food service operations at the airman dining hall. The Academy's cost analysis showed an anticipated first-year cost savings of about \$143,000 and a 3-year cost savings of approximately \$492,000. Our review of

^{1/}See footnote, appendix I, page 3.

the first year's contract service costs showed that the actual savings were about \$30,000 less than anticipated in the study.

Naval Academy officials informed us that waiter and sanitary services at the midshipman dining hall were first contracted in January 1976. While they encountered unforeseen costs in the first year of contract operation, large cost reductions were still realized.

ANTICIPATED IMPACT ON EMPLOYEES

Although the cost analysis demonstrated that contracting out would be less costly for the Air Force, we found that it would have adverse effects on current employees. These effects, which include potential unemployment and/or greatly reduced wages and fringe benefits are not considered in the study required by Circular A-76.

Had the procurement been completed and the sanitation and supply services contracted, 67 positions would have been eliminated. Although the Academy's civilian personnel office would place as many employees as possible in available Academy positions, we estimate 61 people would still have lost their Federal positions. About 40 percent of the affected employees are minorities. Academy officials pointed out that losing these people would be contrary to the Academy goal of employing more minority personnel.

Based on information obtained from the civilian personnel office and the Colorado State Employment Office in Colorado Springs, it is doubtful that gainful employment could be found for these employees elsewhere in the local area. For example, from October through December 1976, the Colorado Springs State Employment Office had on file about 614 applications which fell within the same occupational category as the employees in the sanitation area. Only 64 of the 614 applicants were placed during that period.

Contractor employees would earn less per hour than in-house employees for the same work and their lower wages would affect the local economy.

The comparison in exhibit C between the wages and benefits that certain employees receive under an in-house operation and what the same employees would have received from a contractor shows that the contractor employees would have received from 42 to 44 percent less.

Although we did not analyze in detail all of the reasons for the different wage rates, the major reasons were (1) the employees are in the fifth step of the Federal

Wage System's schedule which is 12 percent above the prevailing average private sector rate and (2) the surveys on which the wage rates are based involved different industries.

Wage rates for Federal employees at the Academy are determined by the Department of Defense with concurrence by the Civil Service Commission as provided for in 5 U.S.C. 5341 which established the Federal Wage System. The minimum wage for contractor employees is determined by the Department of Labor in accordance with the Service Contract Act of 1965. Defense officials informed us that their latest wage survey for the Colorado Springs area was conducted in January 1977. Labor's determination as required by the Service Contract Act was based on surveys made in September 1975 and March 1976. The Defense wage survey included 57 firms with 17,650 workers and the 1975 Labor survey included 52 firms with 12,550 workers.

The Defense survey included the following industries: communication, public utilities, transportation, manufacturing, and wholesale trade. The Labor survey covered laundry and dry cleaning, moving and storage, and a cross-industry category which includes those industries in the Defense survey, plus selected service industries such as eating establishments, personal services, and engineering and architectural services. Defense officials stated that no wage data compiled by Labor is used in their wage rate determinations. Defense officials said that the Civil Service Commission prevented them from including food and laundry service industries in their survey.

The Labor survey determined that the average wage for food service workers in this area was \$2.60 per hour. When the higher paid Federal workers were included, on a weighted average basis, the minimum wage for contractor employees was set at \$3.27 per hour. Thus the Federal employees receiving \$5.81 per hour were paid 123 percent more than comparable positions in the local community while contractor employees would have been paid 26 percent more.

Defense also determines the wage rates for nonappropriated fund employees under provisions of Public Law 92-392. The law requires the survey to include retail, wholesale, service, and recreational establishments having employees in similar occupations. Based on the most recent survey, Defense set wage rates ranging from \$2.38 per hour to \$2.78 for nonappropriated fund food service workers employed in the military clubs and other eating facilities at the Academy. Thus the Federal employees in the cadet dining hall would receive wages 109 percent higher than comparable workers in nonappropriated fund eating facilities at the Academy.

In our June 1975 report entitled "Improving the Pay Determination Process for Federal Blue-Collar Employees" (FPCD-75-122), we highlighted this problem. We recommended that the Civil Service Commission expand coverage so that food and laundry service industries could be included in the wage surveys. The Civil Service Commission has not made any changes in this area.

In addition to reducing employee wages, there would also have been a substantial loss of fringe benefits. The average differences in fringe benefits range as follows:

- Eighteen cents, or 56 percent, less per hour paid to contractor employees for health and life insurance benefits.
- Three to 16 less days per year annual leave/vacation provided to contractor employees, depending on length of service.
- One less paid holiday per year, provided for contractor employees.
- Civil Service retirement benefits are more generous than Social Security benefits.

Contract employer contributions toward retirement are also less than those of the Government. Under Social Security an employer contributes 5.85 percent of each employee's annual salary up to \$16,500 while the Government's cost is 24.7 percent 1/ of each employee's full salary.

In response to a congressional inquiry, we evaluated the reasonableness of the 24.7 percent retirement cost factor and the economic assumptions used in calculating it. In reporting our findings (PSAD-77-6 and 77-7, Nov. 5, 1976), we pointed out that the Government's annual retirement costs are greater than the 7 percent of payroll previously used in cost comparisons. This is regardless of whether reference is being made to net Government outlays from the retirement fund, the Government's annual contributions to the retirement fund, or the Government's share of the value of currently accruing benefit rights earned by employees during the year.

Our report concluded that, based on the economic assumptions used, the retirement cost factor was reasonable. We did suggest, however, that the Office of Management and Budget consider developing a series of retirement cost

1/See footnote, appendix I, page 3.

factors tailored to each type of activity that is a candidate for contracting out, such as guard services, grounds maintenance, and food service, since it is improbable that pension cost factors are the same for all occupations.

We pointed out that in comparing in-house and contract costs, it is very important that proper consideration be given to costs under both alternatives. Concerning contracting, we reported that the current employer and employee contributions to the Social Security system may be insufficient to cover the full cost of employee benefits accrued under the system. Further, we commented that since there is a possibility that some portion of any additional costs will eventually be borne by the Federal Government, we believe the Office of Management and Budget should consider developing a factor for cost comparison purposes that could be applied to labor costs of private sector employees to reflect the full annual accrual of retirement benefits of employees under the Social Security system.

PERFORMANCE AND QUALITY OF SERVICE

We have no basis for evaluating the quality of in-house versus contract service at the cadet dining hall since the service has not yet been contracted. However, it is our opinion that the quality of services is directly related to the capabilities and experience of the individual contractor or in-house workforce. Information we obtained about contract experiences at the airman dining hall and the Naval Academy's midshipman dining hall indicate that initially contractor services are lower quality than in-house, but that quality improves with experience.

The entire food service operation at the airman dining hall was contracted starting in October 1975. We interviewed Academy food service officials, inspectors, and customers, most of whom had been at the Academy while in-house services were provided. Most felt the quality of service declined below the level of in-house service at the beginning of the contract, then later improved. In June 1976 the first contractor was given a notice to correct deficiencies resulting from failure to provide adequate sanitation and to perform certain services. After the notice, the contractor's performance improved and the Academy notified the contractor of its intent to exercise the second-year option. However, the contractor was debarred for violations of the Service Contract Act and was replaced by another.

The second contractor began operating the hall in February 1977. Academy officials are pleased with its

performance and told us they plan to compete for the Hennessy Trophy Award, an Air Force-wide competition for excellence in dining hall operations.

The Naval Academy also experienced contractor problems. During the first few months the contractor had problems hiring enough waiters and sanitation workers and meeting sanitation standards. The contract started in January 1976 and by May the services were satisfactory. However, as the result of a dispute over operating costs, the contract was canceled for default on May 4, 1976. A second contractor who took over operations the next day also had staffing and sanitation problems. In December 1976, the second contractor was told to correct deficiencies caused by failure to provide adequate sanitation services and an adequate number of mess attendants. These problems have caused inconveniences such as midshipmen sometimes having to obtain their individual tableware from the center of the table and some tables not being served on time. However, midshipmen whom we interviewed did not feel these problems were serious or lasting. Naval Academy food service officials also seemed optimistic and anticipated increasing improvements in contract services.

OPPORTUNITY TO REDUCE COSTS

It is generally the Department of Defense policy to use contractors or civilians in positions which do not require military incumbents, military background, or unusual hours. In a previous report, "Financial Operations of the Five Service Academies," we estimated that about \$3,000 per position could be saved by using civilians in Academy positions held by military personnel.

Twenty-three military positions are authorized for the cadet dining hall. Of these, three are in management and 20 are in food service specialty positions. The Academy justified the military positions because they relate to management and training functions. Neither of these reasons are justified by Defense policy.

Academy officials noted that civilianizing those positions seems contrary to current Presidential and Office of Management and Budget guidelines on restricting the number of civilian employees. Since civilianizing should produce a cost savings and would decrease the overall number of Federal civilian and military employees, we do not believe it would be contrary to the desired objective of managing Government programs more efficiently.

CONCLUSIONS

Although the Academy's cost analysis generally complied with established procedures, we differed with the Academy's handling of several cost items. The analysis demonstrated the Air Force could realize potential average annual savings of at least 34 percent ^{1/} by contracting for sanitation and supply services. This savings is largely due to the disparity in wage rates and fringe benefits. We estimate additional annual savings of over \$845,000 could be realized by contracting for waiter services.

If the contractor's performance in the cadet dining hall were similar to that experienced in the airman dining hall and in the midshipman dining hall at the Naval Academy, the quality of service could be expected to decline at first and then to gradually improve to a satisfactory level.

The majority of the current in-house employees in the affected area would then probably be laid off. Those working for the contractor would be paid from 42 to 44 percent less per hour than in-house employees being paid for the same work. Contractor employees would receive lower fringe benefits and fewer paid holidays and vacation days. Further, the exclusion of certain service industries from wage surveys which results in Federal blue-collar pay being substantially above prevailing private sector rates will likely contribute to Federal agency decisions to contract for services.

RECOMMENDATIONS

We recommend that the Secretary of the Air Force direct the Air Force Academy Superintendent to:

- Use formal advertising procedures in making the analysis required by Circular A-76, and justify any continued in-house operations of the cadet dining hall.
- Review the justification for military positions in the cadet dining hall and use civilian employees where possible.

To improve the Federal Wage System's pay determination process, we further recommend that the Chairman of the Civil Service Commission expand the wage surveys to include laundry and food service industries.

^{1/}See footnote, appendix I, page 3.

EXHIBITS

FRANK E. EVANS
19 DISTRICT, COLORADO

HOUSE COMMITTEE ON
APPROPRIATIONS

(PC-4128)

DISTRICT OFFICE:
ROOM 128, POST OFFICE BUILDING
P. O. BOX 5728
PUEBLO, COLORADO 81002

2860 SOUTH CIRCLE DRIVE
ROOM 418
COLORADO SPRINGS
COLORADO 80906

Congress of the United States

House of Representatives

Washington, D.C. 20515

December 14, 1976

Elmer Staats
Comptroller General
General Accounting Office
441 G Street
Washington, D.C. 20548

Dear Mr. Staats:

Recently, constituents of mine in the Colorado Springs area who work for the Air Force Academy as civilian employees have complained that they may lose their jobs because the Academy is attempting to turn many duties performed by civilian employees including one hundred jobs in the Cadet Dining Hall, over to contractors.

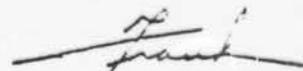
Often cost analysis shows that using contractors does save money, however, the cost analysis procedures and formulas used by OMB and the military have come under criticism recently by the GAO and members of Congress.

I would request that the GAO look into the cost analysis procedure used by the Air Force Academy in determining whether contract work or work by civilian employees cost less. In addition, I hope some light can be shed on the difference in quality of work, pay, fringe benefits, etc., between civilian employees and the contract employees.

There is some urgency concerning this study since the Air Force Academy plans to let out bids for contract on the Cadet Dining Hall in the spring of 1977.

Thank you for your cooperation.

Sincerely,



FRANK E. EVANS
Member of Congress

FEE:bns



UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

APR 5 1977

PROCUREMENT AND SYSTEMS
ACQUISITION DIVISION

The Honorable
The Secretary of the Air Force

Dear Mr. Secretary:

At the request of Congressman Frank E. Evans, our office is reviewing the cost analysis procedures used by the Air Force Academy in considering contracting for food sanitation services in its Cadet Dining Hall. The Academy's use of negotiation techniques in seeking to contract for these services is questionable and we are, therefore, requesting your comments on why the Air Force is planning to negotiate a contract instead of advertising for bids.

The Academy's original Determination and Findings (D&F) statement cited 10 U.S.C. 2304(a)(10) as the basis for competitive negotiation. This exception allows negotiated procurement essentially when it is impracticable to draft adequate specifications for the required services. It is our understanding that subsequent to our questioning the use of that basis, the Academy revised the D&F statement to cite exception 10 U.S.C. 2304(a)(1) as the basis for negotiation because the procurement is a small business set-aside. In this regard, ASPR 1-706.5(b) calls for the use of small business restricted advertising wherever possible.

We are not aware of why specifications adequate for formal advertising could not be drafted, or why formal advertising or small business restricted advertising would not be possible in contracting for the food sanitation services, and Academy officials have not been able to clarify this matter. Accordingly, we question whether the circumstances in this case meet the criteria for negotiating.

We would appreciate your reconsideration of this matter with a view toward awarding this contract on an advertised basis. In this connection, it is our experience that military agency contracts embracing this kind of work are almost universally awarded under formal advertising or small business restricted advertising.

Sincerely yours,

R. W. Gutmann
Director

bc: Mr. Flynn (PSAD/GP)
Mr. Wolin (PSAD/GP)
Denver Regional Office
Mr. Eikmeyer (FPCD)

SW/ms

COMPARISON OF IN-HOUSE
AND CONTRACT WAGES AND BENEFITS

		<u>Government</u>	<u>Contract</u>	<u>Difference</u>	
				<u>Amount</u>	<u>Percent</u>
WAGES:					
(per hour)					
Mess Attendant	(WG-2/5)	\$5.81	\$3.27	\$2.54	44
Warehouseman	(WG-6/3)	6.21	3.62	2.59	42
FRINGE BENEFITS:					
(per hour)					
Mess Attendant					
Retirement costs	a/	1.44	b/ .19	.22	
Life insurance costs		.03			
Health insurance costs		<u>.31</u>	<u>.16</u>	<u>.18</u>	
Total		<u>\$1.78</u>	<u>\$.35</u>	<u>\$.40</u>	
Warehouseman					
Retirement costs	a/	1.53	b/ .21	.22	
Life insurance costs		.03			
Health insurance costs		<u>.31</u>	<u>.16</u>	<u>.18</u>	
Total		<u>\$1.87</u>	<u>\$.37</u>	<u>\$.40</u>	
Annual leave/vacation		13 to 26 days per year depending on length of service	10 days per year after 1 year of service		
Paid holidays		9 days per year	8 days per year		

a/Civil Service retirement 24.7 percent.

b/Social Security 5.85 percent.