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

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May 22, 1980

B-197436

The Honorable Jim Sasser
United States Senate

Dear Senator Sasser:

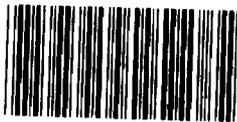
Subject: [Analysis and Comparison of Costs and Benefits Associated with Dividing Operations at Arnold Engineering Development Center] (PSAD-80-51) DLG 02382

Your letter of April 4, 1980, requested us to analyze and compare the costs and benefits associated with dividing operations at the Arnold Engineering Development Center (AEDC), Tullahoma, Tennessee, among as many as three contractors. You also requested information about the impact of a change in contractors on the efficiency of operations at AEDC and on employees of the incumbent contractor, Sverdrup/ARO, Inc. DLG 02381

Your letter also requested that we provide the preliminary results of our work by May 15, 1980, and a final report by July 1, 1980. However, as discussed with your office on April 25, and May 1, 1980, the data we have gathered to date is all that will be available until the completion of the source selection. As requested by your office, we are sending you this letter to provide you with the results of our review.

AEDC has been operated by a single contractor--ARO, Inc.--since its inception in 1950. ARO's current three-year contract expires in September 1980 but includes two 1-year options, available to the Air Force, to continue with ARO through September 1982.

The Air Force has decided not to exercise the options with ARO. The Air Force is considering dividing the operations at AEDC into three discrete functional areas--propulsion testing, aerospace flight dynamics testing, and mission



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support--and has solicited proposals from interested contractors for each of the functional areas or for the total operation. It is possible, therefore, that operations at AEDC could be divided among as many as three contractors and that ARO may not be among the three.

The Air Force has not yet decided whether it will change contractors or divide the work among as many as three contractors. The Air Force also has not made any detailed studies of the feasibility and economy of changing contractors or dividing the work. It intends to base these decisions on information it will obtain in the proposals it receives from interested contractors. The evaluations are scheduled to be completed in July 1980 and one or more cost-plus-award-fee contracts are scheduled to be awarded in September 1980.

The stated reasons for soliciting contractor competition are

- to support achievement of a true center concept,
- to offer potential to change ways of doing business for the Aeropropulsion System Test Facility, (a new facility on which construction began in late 1977 and is to be operational by mid-1983 to test high thrust turbine engines) and related operations, because of the new capabilities inherent in the activation and operation of the new test facility,
- to potentially create a competitive base and thereby motivate improved performance and costs, and
- to better define specific requirements in the existing statement of work.

The division of operations at AEDC into three functional areas is associated with the objective of achieving more competition. This objective is outlined in an October 1979 report entitled "AEDC Management Plan for Center Operations and Maintenance." Your office requested us to obtain a copy of the report for you, and the Commander, AEDC, said that a copy was provided to you.

The management plan was developed to outline organizational and personnel requirements to increase the Air Force technical management and operation to achieve an improved true center capability. Basically, the plan describes providing AEDC with the capabilities of analyzing and evaluating test results in addition to the current capability of data gathering, reduction, and reporting. Under the plan, an operations center would be formed which, coupled with an operating contractor, would provide the

interfacing required between the Air Force and a contractor or contractors to achieve what would become an "Air Force Test Center" instead of a "contractor facility." Implementation of the plan was to require about 117 additional Government employees, however, this was reduced to about 87 technical personnel in a later study.

We were advised that the management plan was not developed for the purpose of supporting a decision to divide the work at AEDC among as many as three contractors. However, the management plan and the decision to divide the work make it possible to consider a three-contractor operation.

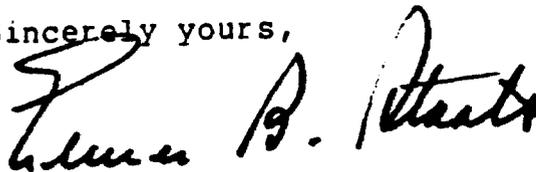
In trying to be as responsive to you as possible, we obtained information available at AEDC. Information not presented above is summarized in the enclosure to this letter. We interviewed the (1) Commander, AEDC, and his representatives, (2) president of ARO, (3) president and other representatives of the Tullahoma Chapter of the Tennessee Society of Professional Engineers, (4) president and other representatives of the Air-Engineering Metal Trades Council, of the American Federation of Labor and Congress of Industrial-Organizations, and (5) representatives from the Air Force Systems Command who previously discussed this subject with you.

As you know, we have received a protest from ARO concerning AEDC's unauthorized disclosure of ARO's personnel and cost information for operating AEDC. A decision on that matter has been issued and a copy of that decision has been sent to you by separate letter.

As agreed with your office, we did not obtain formal Air Force comments. As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this letter until 10 days from the date of the letter. At that time we will send copies to interested parties and make copies available to others upon request.

We hope that the information in this letter satisfies your need. We are not planning to do additional work; but if you need additional assistance, we will be glad to help you.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Thomas A. Stewart". The signature is written in a cursive style with a large, prominent initial "T".

Comptroller General
of the United States

Enclosure

ANSWERS TO QUESTIONS ABOUT
THE PROPOSED CHANGE IN CONTRACTOR
OPERATIONS AT AEDC

1. What effect will dividing the operations among up to three contractors have on the ability of AEDC to effectively carry out its aerospace mission?

The Air Force does not anticipate significant operational problems to result from a three-contractor operation. Interfacing will be required among the contractors if more than one is selected, but the request for proposal (RFP) indicates that the contractors will be required to negotiate cooperative agreements with each other to insure performance of required work. They will also be required to participate in discussions; provide access to technical information; and provide information, data, and services on a cooperative basis.

2. Have the multiple contractor interface problems been fully identified by AEDC?

The Air Force has not formally studied and documented the extent of interfacing that will be required between contractors.

The Air Force staff at AEDC has categorized the areas which will require interfacing as follows:

Major interface

Machine and fabrication
Central instrumentation
Photographic support
Chemical and metal labs
Engineering services
Utilities operation
Utilities maintenance
Computer services
Supply

Minor interface

Industrial health
Plant protection
Center communications
Fire protection
Inventory procurement
Information services
Administrative services
Refuse collection
Transportation
Real property accounting
and administration
Base equipment maintenance
Transportation equipment
maintenance
Janitorial/custodial
Corrosion control

3. Has AEDC given the prospective contractors adequate guidance on how they will work together?

We were not able to evaluate the adequacy of guidance given to prospective contractors with respect to interfacing with other contractors because the Air Force has not made a documented study of interface requirements. As indicated in question 1, however, the contractors have been made aware of potential requirements for working cooperatively with other contractors.

4. Will each contractor have direct control over the resources necessary to accomplish its assigned job?

If operations are divided among two or more contractors, each contractor will not have direct control over the resources necessary to accomplish all assigned jobs. The interfacing areas identified by the Air Force and listed in question 2 show that the accomplishment of some jobs will require use of resources under the control of more than one contractor.

5. Has AEDC adequately defined its own role in supervising as many as three contractors? Will AEDC incur increased costs to employ additional personnel to supervise and coordinate up to three contractors?

The Air Force does not anticipate a significant increase in supervisory requirements. They estimate that administration of three contracts will require two additional GS-12s.

6. What effect will the presence of up to three contractors have on labor relations at AEDC? Will split operations increase the possibility of jurisdictional disputes and work stoppages?

These questions cannot be reliably answered at this time. However, dividing the work among as many as three contractors will probably require the negotiation of three union contracts. It is also possible that requirements for interfacing among the contractors will increase the chances for jurisdictional disputes and work stoppages. Representatives of the Air Engineering Metal Trades Council and the Tennessee Society of Professional Engineers believe that the presence of two or three contractors will significantly increase labor problems.

7. Is there a sufficient pool of professional and skilled persons available in the AEDC area to meet the employment demands of competing contractors? Can it be assumed that persons employed by the incumbent contractor will accept employment with a new contractor if the incumbent is totally or partially replaced?

Interviews we held and the wording in the RFP indicate that the Air Force believes that most of the approximately 3,200 employees of the incumbent contractor will accept employment with any successor contractors. If this happens, sufficient numbers of professional and skilled persons should be available in the AEDC area to meet the needs of a three-contractor operation.

However, an officer of the incumbent contractor said that he would retain a significant number of managers and supervisors even if his company loses all of the work at AEDC. He conjectured that a large number of his employees may seek a more stable employment environment than will be available at AEDC with the threat of contractor changes every few years.

8. What effect will split operations have on individual employees at AEDC? Will persons employed by the incumbent contractor lose any pension or other accrued benefits if a new contractor is awarded the work in whole or in part? What effect will a changeover of contractors have on career continuity and planning by employees?

The impact of split operations on individuals employed at AEDC cannot be fully assessed at this time. The RFP indicates that wages and other economic benefits of most blue-collar workers hired by successor contractors will be fully protected by the Service Contract Act of 1965, as amended, and that salaries and other economic benefits of professional workers will be partially protected by the policy outlined in Office of Management and Budget Policy Letter 78.2, dated March 25, 1978.

9. What impact will multiple contract awards have on the Government's costs to operate AEDC? Will total contractor costs increase as a result of the duplication of certain efforts? What effect will any increased operating costs have on AEDC's basic testing mission? Will an increased proportion of AEDC's operating budget be expended on administration and services at the expense of propulsion and aerospace flight dynamics testing?

As previously explained, the Air Force has not studied the cost impact of dividing the work at AEDC among two or three contractors. The Commander, AEDC, said that the potential cost impact can be best assessed when proposals from competing contractors are evaluated. The evaluations are scheduled to be completed in July 1980.

10. Has AEDC adequately taken into account all phase-in costs associated with the possible new contract awards?

The RFP requires that responding contractors, other than the incumbent, submit separate, fixed-price proposals for phase-in costs. The Air Force will take these costs into consideration when deciding whether to change contractors or to divide the work among two or three contractors.

11. What consideration has been given to potential work force recruiting problems, training of new employees, and renegotiation of existing union contracts?

The RFP requires responding contractors to submit plans for recruiting, training, and retaining personnel. The plan is to include (1) an analysis showing the extent to which employees of the incumbent contractor are expected to be employed and (2) contingency plans in case employees of the incumbent contractor are not available. The Air Force realizes that new union contracts will be required if work at AEDC is awarded to other than the incumbent contractor.

12. What phaseout liabilities will the Government incur if the incumbent contractor loses all or part of the competition? How are these potential costs factored into the Air Force's contractor decision?

The Air Force estimates maximum phaseout costs of about \$20.6 million as follows for the incumbent contractor.

Severance pay	\$14,490,000
Vacation pay	4,850,000
Sick leave	333,000
Government property inventory	133,000
Relocation	390,000
Closeout staff	260,000
Home office expenses	<u>144,000</u>
Total	<u>\$20,600,000</u>

The costs for vacation and sick leave would be incurred at some future date if the incumbent contractor is not replaced.

ENCLOSURE I

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The RFP indicates that closeout costs will not be considered in determining whether to award contracts to one or more different contractors.