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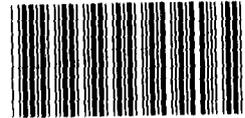
PROCUREMENT, LOGISTICS,
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B-206492

APRIL 12, 1982

The Honorable Ray Kogovsek
House of Representatives



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Dear Mr. Kogovsek:

Subject: Army's Contracting Out of Laundry
and Educational Testing Services at
Fort Carson, Colorado (PLRD-82-66)

Your August 21, 1981, letter requested us to evaluate the Army's decision to contract out for laundry and educational testing services at the Army Education Center, Fort Carson, Colorado. Specifically, you asked us to determine

- whether the Army followed the policies and procedures outlined in Office of Management and Budget (OMB) Circular A-76,
- the sources of contract funding, and
- whether the contractors have performed satisfactorily.

We found that Fort Carson complied with the provisions of Circular A-76. However, Fort Carson officials were not aware of recently issued Department of Defense (DOD) guidelines and, therefore, did not perform certain actions called for by the guidelines in contracting for educational testing services.

Funding for the contracts was generally obtained by transferring unspent funds from in-house programs to commercial contracts. Also, contractors' performance generally has been satisfactory; however, the laundry contractors have occasionally had laundry returned for rework at no additional cost.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our objectives were to examine the Army's decision to contract out for laundry and educational testing services at Fort Carson and to obtain information on the sources of funding and contractor performance. We interviewed Army officials from Fort Carson and from the Omaha District of the Army Corps of Engineers. We also interviewed representatives of the American Federation of Government Employees, Local 1345, at Fort Carson.

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We obtained and analyzed pertinent records and documents and examined applicable legislation and regulations, including the policies and procedures outlined in Circular A-76. In addition, we obtained information regarding funding sources and contractor adherence to performance and quality specifications. We performed our review in accordance with GAO's "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions."

REQUIREMENTS OF
CIRCULAR A-76

OMB Circular A-76, dated March 29, 1979, establishes the policies and procedures to be used to determine whether needed commercial or industrial-type work should be done by contract with private sources or in-house using Government facilities and personnel. The Circular reaffirms the executive branch's policy of (1) relying on the private sector for goods and services, (2) recognizing that certain functions are inherently governmental in nature and must be performed by Government personnel, and (3) using the most economical method of doing the work.

Before deciding whether to have work contracted out or performed in-house, agencies are required to perform a cost comparison analysis to determine which method is more economical. In determining in-house costs, agencies must review their operations to insure they are organized and staffed for the most efficient performance. In calculating contract costs, agencies must obtain firm bids from prospective offerors and add an appropriate amount for the Government's contract administration cost. At least a 10-percent savings in Government personnel costs is required before in-house activities can be converted to commercial contracts.

ARMY'S DECISION TO CONTRACT OUT FOR LAUNDRY SERVICES
COMPLIED WITH CIRCULAR A-76

The Army decided to contract out for laundry services when it became apparent that costly improvements or construction of a new facility would be needed to keep the services in-house. Spending money for extensive renovation was not considered economically feasible and building a new facility is prohibited by DOD appropriation acts when laundry services are available from commercial sources at reasonable rates.

The Fort Carson laundry, with an authorization of 41 full-time civilian employees for fiscal year 1980, provided services for its

organizations and personnel, including its Army hospital, and for Peterson Air Force Base, Colorado. The laundry was housed in a wood frame "temporary" building built in 1942.

On February 12, 1980, inspectors from the Army Corps of Engineers and the Fort Carson Facilities' Engineer Office found the building to be structurally unsound and in imminent danger of collapse. The building's roof supporting structure had been weakened from heavy pipes and conveyors hanging from it and from heavy snow accumulations on the roof. The inspectors recommended that temporary repairs be made to the building, but they cautioned that the suggested repair work would extend the building's use as a laundry facility only for 6 to 12 months. Temporary repairs were made to the building and laundry operations were resumed on February 25, 1980.

The 1980 DOD Appropriations Act (Public Law 96-154), as well as all appropriation acts since 1955, and the 1980 Military Construction Appropriation Act (Public Law 96-130) prohibited the use of funds for construction, replacement, or reactivation of any laundry unless the Secretary of Defense certified that laundry services were not available from commercial sources at reasonable rates. Because Fort Carson expected laundry services to be available from commercial sources at reasonable rates, it believed the cost comparison analysis required by Circular A-76 was unnecessary. Furthermore, the Circular states that it should not be applied when it would be contrary to law.

In March 1980 Fort Carson's headquarters command requested Army headquarters to waive a cost comparison analysis before the command contracted out for laundry services. The command said that to continue an in-house laundry service would require a new building and to construct a new building would require a certification that laundry services were not obtainable from commercial sources at reasonable rates. The command also said that repairing or rehabilitating the building would not be economically feasible since repair costs would exceed 50 percent of the cost of a new facility.

In April 1980 Army headquarters waived the cost comparison analysis and approved Fort Carson's request to contract out for laundry services. In October 1980, anticipating additional snowfalls which would further weaken the laundry roof, Fort Carson moved its laundry operations to a nearby drycleaning building. Because of limited space, services were supplemented with commercial contracts until March 1, 1981, when all laundry services at Fort Carson were converted to commercial contracts. Contracts were awarded to two commercial firms because one contractor could not handle the total requirement. Fort Carson no longer provided laundry services to Peterson Air Force Base after the October move.

Sources of funding for laundry contract

Estimated fiscal year 1981 requirements for the laundry contracts were not in Fort Carson's budget. Contract funding of \$384,700 was provided by transferring unspent funds from the in-house laundry operation and by obtaining a supplement from Fort Carson's headquarters command as follows:

In-house operating expense	\$ 12,900
In-house payroll	129,200
Headquarters command supplement	<u>242,600</u>
Total	<u>\$384,700</u>

Contractors' performance generally satisfactory

Fort Carson officials determined that the contractors generally met expected performance standards. According to these officials, the contractors have occasionally performed unsatisfactorily and have been required to reprocess poor quality work at no additional cost. Sometimes, the contractors have also been required to pay penalties for not meeting delivery times established in the contracts. One of the contractors has also been cited on various occasions for contractual deficiencies, such as improper handling of laundry items and not making minor repairs to items.

FORT CARSON OFFICIALS NOT AWARE OF RECENT DOD GUIDELINES

Fort Carson complied with Circular A-76 in contracting out for educational testing services. We did find, however, that Fort Carson officials were not aware of recently issued DOD guidelines which required certain actions to convert in-house functions to contract.

The Army Education Center at Fort Carson administers a wide variety of tests. Tests are given individually or to groups of military personnel, their dependents, and Army civilian employees. In 1978 the Center's testing program was reduced by three full-time permanent positions as a result of a reduction-in-force, leaving one person in the testing activity. Because of increasing workloads, additional testing capacity was required and, in March 1981, a contract was awarded to provide testing and proctoring services. At the same time, the employee, an education technician, was promoted and made responsible for administering the testing program.

Education officials told us that a contract allowed the Education Center to obtain testing services when needed. Since testing requirements fluctuated from day to day, permanent civil

service employees could not be kept busy at all times. In addition, the Education Center could not obtain authorization for additional in-house staff for the testing function after the 1978 reduction-in-force.

The estimated annual cost of the testing contract was \$37,474. Actual contract expenditures through September 1981 were \$12,288. Fort Carson officials did not compare the costs of using a contractor versus in-house personnel because Circular A-76 generally exempts cost comparisons for activities costing less than \$100,000 a year. DOD, however, following provisions in the 1981 DOD Appropriations Act, issued guidelines in October 1980 addressing proposed conversions of in-house activities. The Army sent these guidelines to its commands in December 1980.

The guidelines require, even in those instances where the annual operating costs are less than \$100,000, a notification to the Congress of (1) a decision to study a commercial activity for possible performance by a private contractor, (2) a summary of a cost comparison of some type demonstrating that performance by a contractor would result in a savings to the Government, and (3) a certification that the calculation of the Government's cost is based on the most efficient and cost effective organization for performance. The guidelines also require that the Congress be notified of the decision to contract, the date of contract award, and the projected starting date.

Fort Carson officials said they were not aware of the guidelines at the time they contracted out for testing services. The officials also said that should a situation of this type reoccur, they will submit it to their headquarters command for a decision.

Sources of funding for testing contract

Fiscal year 1981 contract costs were not included in the budget for the Army's continuing education system. The bid for another contract for a logistics school was lower than budget estimates and, therefore, funding was available for other educational activities, including the testing contract.

Contractor's performance satisfactory

Education officials at Fort Carson told us that they have experienced no problems with the contractor. All services being performed are meeting the specifications set forth in the contract.

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As instructed by your Office, we did not obtain agency comments on the matters discussed in this report. Further, as agreed with your Office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 5 days from the date of the report. At that time, we will send copies to interested parties and make copies available to others upon request.

Sincerely yours,

Donald J. Horan
Donald J. Horan
Director