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

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Dear Mr. Helstoski:

As requested in your letter of April 8, 1971, we have reviewed charges made by your constituent that, through irregular labor practices, Burns and Roe Western Hemisphere Corporation has made excessive profits under a Department of the Navy contract for operating and maintaining a water desalinization and power plant at Guantanamo Bay, Cuba. 20%

The contract was awarded for 1 year, beginning July 1, 1968, and had two 1-year renewal options which were exercised. The total negotiated contract price for the 3 years was approximately \$1.8 million. The contractor, a subsidiary of Burns and Roe, Inc., is engaged primarily in water development engineering services. Its principal activities are located in Puerto Rico and Guantanamo Bay. Approximately 74 percent of 1970 sales were made to the Federal Government.

We estimated that the contractor's profit rate was 6.6 percent compared with a negotiated rate of 5 percent. Included in the estimated profits was about \$75,000 due to payment of wage rates lower than the rates which had served as a basis for contract negotiations. Under the contract adjustment provisions, the lower labor rates actually paid should have resulted in a contract price reduction of about \$60,000. We called the lower rates to the attention of the cognizant Navy command, and we plan a further meeting with Navy officials to provide them with additional information as may be needed for a recovery of contract costs. Burns paid about \$4,600 less in food allowances than the amount negotiated. The contract did not provide for recovery of unpaid food allowances. Consideration should be given to this matter in future negotiations.

Our findings relating to each of the constituent's charges are discussed below.

EMPLOYEE QUALIFICATIONS AND WAGE RATES

Allegation--Unqualified people were hired locally at Guantanamo Bay and were paid at wage rates lower than called for in the contract.

Personnel files showed no evidence that employees had been unqualified or that any employee had been terminated for technical incompetence. In addition, the desalinization plant was reported by the Department of the Interior to have been operated at about 95-percent efficiency.

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A comparison of actual and negotiated labor costs showed that, for each of the 3 fiscal years of the contract, the actual direct labor costs had been less than the negotiated costs, as follows:

<u>Fiscal year</u>	<u>Negotiated costs</u>	<u>Actual costs</u>	<u>Difference</u>
1969	\$ 424,169	\$ 403,325	\$20,844
1970	470,810	431,324	39,486
1971	<u>507,919</u>	<u>493,376</u>	<u>14,543</u>
Total	<u>\$1,402,898</u>	<u>\$1,328,025</u>	<u>\$74,873</u>

Analysis of the underruns in direct labor disclosed that employees hired in the United States, as well as at Guantanamo Bay, had been paid less than the hourly rates negotiated in the contract. The contractor's practice was to pay a starting wage rate below the contract rate. Burns officials said that this permitted the rewarding of employees who performed efficiently with pay raises during their period of employment. Due to a relatively high turnover of employees during fiscal years 1969 and 1970, wages paid to most of those who terminated had not reached the contract rates, which resulted in an underrun in total labor costs. Another factor which contributed to the underrun was the contractor's practice of hiring local dependents of military personnel to fill positions in the lower labor-rate categories. Wage rates for persons hired locally were established by the Navy and were significantly below the minimum contract rates because these persons were already residing on the base.

Contractual implications of labor underrun

The contract provided that the negotiated price be adjusted during the life of the contract for changes in the direct labor rates that affected the contract price by a net change of at least 3 percent. Actual direct labor underruns of about \$21,000 and \$39,000 in fiscal years 1969 and 1970 were 3.8 and 6.6 percent of the respective contract prices. The Navy did not adjust the contract for these underruns of about \$60,000. The underrun for fiscal year 1971 was less than 3 percent of the contract price; hence, no adjustment was required.

The contract provided that the contractor notify the Navy 60 days prior to renewal of any increase or decrease in labor rates which resulted in a change in direct costs. The contractor also was required to certify, with submission of his final

invoice, that decreases in labor rates had not been experienced or that notice of decreases had been given prior to renewal. The contractor did not comply with these reporting requirements in fiscal years 1969 and 1970. Burns project management officials stated that the Navy was fully aware of the day-to-day operations of the plant, the level of effort provided, and the labor rates paid. The officials said that they had been remiss only in not advising the Navy, in writing, within the time required by the contract, of changes in labor rates.

The Navy told us that the contractor had not notified it of the direct labor underruns as required by the contract and agreed that such underruns would entitle it to a recovery of contract costs. Navy officials informed us that an audit was needed to establish the amount subject to recovery. We plan to meet with representatives of the Navy and the Defense Contract Audit Agency to provide them with additional information they may need for a recovery of contract costs.

### Conclusions

We found no evidence that the contractor had been hiring unqualified employees. Labor rates paid, however, were lower than those negotiated in the contract, and the contractor failed to advise the Navy of the resultant decrease in labor costs. Under the terms of the contract, a recovery of contract costs should be obtained.

### TURNOVER OF EMPLOYEES

Allegation--A high turnover of employees hired in the United States was encouraged so that the contractor could retain a \$200 return transportation fund, although the Navy paid for all transportation.

Each employee agreed to having \$200 withheld from his pay as a return transportation fund. If the employee resigned or was discharged before the stipulated term of the employment (usually 1 year) had expired, the \$200 was retained by the contractor. If the term was completed, the \$200 was returned to the employee. The purpose of the fund was to cover cost-of-living expenses incidental to returning the employee to the United States and the costs of recruiting and processing a replacement. Part of these expenses, when incurred, were recorded as general and administrative expenses.

Contractor accounts showed that a total of \$13,901 had been deposited in the return transportation fund from the inception of the contract to December 31, 1970. During that

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time, \$3,927 had been repaid to employees and \$3,014 had been forfeited by employees who had not completed their contracts. The latter amount was recorded as a reduction in contract costs. At December 31, 1970, the account had a \$6,960 balance.

Burns experienced a high turnover of employees. The attrition rate was about 70 percent for the 145 employees put on the payrolls during fiscal years 1969 and 1970. During this period only 43 employees completed the 1-year term of the employment agreement. For the 102 employees who left their employment within a year, the average period of employment was about 15 weeks.

There was no evidence that the contractor purposely had maintained a high turnover of employees. In our opinion, a high turnover rate would have been inconsistent with the contractor's responsibility for having a staff sufficient to operate the plant 24 hours a day, 7 days a week.

Navy officials did not believe that the turnover rate was high in view of negotiated wages considerably below the national norm, inadequate living quarters, and an isolated overseas location.

### Conclusions

The contractor complied with employment agreements, and we found no evidence that Burns deliberately had maintained a high turnover rate for economic advantage.

### FOOD ALLOWANCES

Allegation--Some employees were not paid a food allowance of \$1.70, although the Navy was paying the contractor the allowance.

The employment agreement provided that board and lodging be furnished at no expense to employees while at the jobsite. The contract provided that Burns pay a fixed messing allowance of \$1.60 a day to each man during fiscal years 1969 and 1970 and \$1.70 a day during fiscal year 1971. This allowance was payable to employees not accompanied by their families and living in Government quarters.

Between July 1, 1968, and June 30, 1971, Burns received about \$4,600 more than the allowances it had paid to employees. This occurred because some employees had been hired locally who

were not living in Government quarters and therefore were not entitled to the food allowance under the terms of the contract.

### Conclusions

The contractor incurred costs of about \$4,600 less than the amount included in the contract price because it did not pay food allowances to all employees. Employees contractually entitled to the allowance did receive it, and those ineligible did not. The contract did not provide for recovery of food allowances that had not been paid to employees. Consideration should be given to this matter in future negotiations.

### CHARGES FOR HOME OFFICE EMPLOYEES

Allegation--Home office employees were charged to the contract even though they were not working on, and provided no support for, the contract.

Burns charged costs to the contract for the expenses of a home office project manager, his assistant, and clerical help, but, according to the contractor's records, it did so only when these employees performed duties relating to the contract.

### ADEQUACY OF MAINTENANCE

Allegation--Proper maintenance was not performed, and this caused breakdowns and contract change orders costing the Government more money.

Burns was contractually bound to correct and to bear all costs of any damage to plant equipment or facilities that resulted from improper operation by its employees. Burns could be fined \$6 an hour for every hour that a competent and qualified employee was not provided. The contractor was penalized approximately \$5,000 between July 1, 1968, and December 31, 1970, for insufficient staffing in accordance with contract terms.

Only one change order increased the contract amount during the life of the contract. The amendment increased the scope of Burns' work by adding to the operation three diesel generators and five positions to operate and maintain the generators.

Near the end of the first contract year, the Department of the Interior reported that Burns had operated the plant at about 95-percent efficiency and that the plant was perhaps the

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most successful desalinization plant in the world. We found no evidence of serious breakdowns of equipment.

### Conclusion

The data we reviewed did not show that the contractor had improperly maintained the plant.

### HOSPITALIZATION AND MEDICAL COSTS

Allegation--The employees have no hospitalization or medical program of any kind. Check to see if costs of a nonexistent program are being charged to the Government.

Under the terms of the contract, Burns was to provide minor and emergency first-aid treatment at the plant and the Navy was to provide hospitalization at current rates for contractor employees and dependents. Burns' records showed that it had paid for outpatient medical services rendered its employees at the U.S. Navy Hospital at Guantanamo Bay at costs of \$10 a visit during 1968 and 1969 and of \$11 a visit during 1970. The negotiated contract price included monthly medical costs of \$2.50 a man, or \$30 a year, amounting to about \$3,000 over the 3-year period.

### Conclusions

The contract provided for limited medical coverage, and the contractor reimbursed the Navy for medical services rendered.

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We obtained the information in this report from available records and discussions with officials and personnel at the contractor's Oradell and Paramus, New Jersey, offices and at the Defense Contract Audit Agency, New York Region, the cognizant Federal contract audit organization. In addition, we discussed the results of our review with the Naval Facilities Engineering Command, the responsible Navy facility. We also interviewed the constituent who had made the charges.

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No other distribution of this report is being made. If we can further assist you in this matter, please let us know.

Sincerely yours,



Deputy Comptroller General  
of the United States

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The Honorable Henry Helstoski  
House of Representatives