

GAO

Briefing Report to the Honorable
Gordon J. Humphrey,
United States Senate

May 1987

DEPARTMENT OF
LABOR

Assessment of the
Accuracy of Wage
Rates Under the
Service Contract Act



133547

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Human Resources Division

B-200149

May 28, 1987

The Honorable Gordon J. Humphrey
United States Senate

Dear Senator Humphrey:

The Service Contract Act (SCA) requires that service employees working under federal contracts totaling more than \$2,500 be paid wages and fringe benefits based on the rates the Secretary of Labor determines as prevailing for service workers in the locality.

In a letter dated May 21, 1986, you stated that a potential problem may exist with the accuracy of wage-rate calculations in SCA wage determinations. You asked us to determine the extent, if any, of inaccuracies in wage rates in SCA determinations issued between 1981 and 1985. In later discussions with your office, we agreed to randomly select and check the accuracy of wage rates in a sample of new and active (i.e., still current at the beginning of our review in October 1986) SCA wage determinations issued during the review years. In addition, we agreed to provide information on the sources (such as union collective bargaining agreements and other SCA determinations) Labor used to obtain the wage rates in the reviewed determinations.

Our review was done in Labor's Wage and Hour Division (WHD), which is responsible for administering SCA, primarily from October 1986 to February 1987.

RESULTS IN BRIEF

WHD issued an estimated 5,300 new SCA wage determinations between 1981 and 1985. Some of these determinations included between 1 and 115 wage rates. Based on our analysis of a random sample of 285 SCA determinations out of the estimated 5,300 issued between 1981 and 1985, approximately

-- 67 percent of the determinations were active as of October 1986 and included about 31,000 wage rates;

-- 33 percent of the determinations were primarily inactive or in files that could not be located by WHD or us;

- 94 percent of the 31,000 wage rates could be verified; 6 percent could not be verified because of lack of adequate information in WHD records; and
- 98 percent of the wage rates that could be verified were accurate.

WHD inaccuracies both overstated and understated wage rates. Most of the inaccuracies in our sample were, however, small in amount, with the majority being off by 10 cents per hour or less. Inaccuracies were due to incorrect copying of rates from source documents, incorrect use of source data in calculations, and mathematical errors in rate calculations.

The most common sources of the wage rates WHD used in its estimated 5,300 new wage determinations were (1) union collective bargaining agreements and (2) SCA wage determinations that had previously been established for the same locality. Union collective bargaining agreements accounted for about 47 percent of the estimated 31,000 rates, and SCA wage determinations accounted for about 30 percent. The chief of the WHD branch responsible for SCA wage determinations suggested that this occurred because our universe of wage determinations is based only on new determinations issued between 1981 and 1985; these are, in the chief's view, more likely to be based on union collective bargaining agreements than (1) those issued before 1981 or (2) revisions to pre-1981 determinations.

During our review, we noted problems in WHD's SCA determination files and the index to them; for example, in the index, some inactive determinations were still listed as active. In addition, because of poor recordkeeping, we could not determine whether files that we could not locate were for inactive or active determinations.

The WHD branch chief told us that WHD is taking steps to correct the recordkeeping problems, including designing a computerized system for preparing and tracking SCA determinations; this system will eventually replace the manual system now used by WHD employees. As interim measures, the chief said that the determination index is being gradually updated; inactive determination files are being withdrawn and sent to storage.

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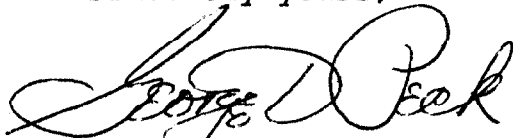
As you requested, we did not obtain official comments from Labor on this briefing report. However, Labor and WHD program

officials were given an opportunity to review a draft of this report, and their comments have been included where appropriate.

As arranged with your office, unless its contents are announced earlier, we plan no further distribution of this report until 30 days from its issue date. At that time, we will send copies to the Secretary of Labor and other interested parties, and make copies available to others on request.

Should you need additional information on the contents of this report, please call me on 275-5451.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "Janet L. Shikles".

lv Janet L. Shikles
Associate Director

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ABBREVIATIONS

GAO	General Accounting Office
SCA	Service Contract Act
WHD	Wage and Hour Division

DEPARTMENT OF LABOR:
ASSESSMENT OF THE ACCURACY OF
WAGE RATES UNDER THE SERVICE CONTRACT ACT

BACKGROUND

The Service Contract Act of 1965 (SCA) was enacted to give labor standards protection to employees of contractors providing services to federal agencies and the District of Columbia. The SCA requires that, for covered contracts exceeding \$2,500, contractors pay their employees wage rates and fringe benefits that have been determined by the Secretary of Labor to be prevailing in the locality--that is, where the contracted work will be performed. When determining prevailing wages, the Secretary is required to give due consideration to the wages and benefits that would be paid such service employees if they were federal direct-hire employees.

Under SCA, when a union collective bargaining agreement covers service employees, the wages and fringe benefits in the agreement supplant those that may otherwise prevail in the locality for these employees if the following conditions are met: (1) the agreement resulted from arm's-length negotiations, and (2) the wage rates in the agreement are at least the minimum wage. The SCA also requires that successor contractors honor earlier contractors' wage and fringe benefits arrived at in collective bargaining agreements. If the Secretary finds, however, through a formal hearing process, that the wages and fringe benefits "are substantially at variance with those which prevail for services of a character similar in the locality," they will not be honored.

SCA Wage Determination
Procedures

Labor's Employment Standards Administration's Wage and Hour Division (WHD) administers SCA; this includes developing prevailing wage rates and issuing wage determinations at the request of contracting agencies. WHD regulations (29 C.F.R. part 4) require that for anticipated contracts, contracting agencies submit a Notice of Intention to Make a Service Contract (Standard Form (SF)-98) to WHD; this must be done not less than 60 days before any invitation for bids, request for proposals, or commencement of negotiations for any contract that may be subject to the act. The SF-98 requests that WHD provide the agency with a current wage determination for the occupational classes and geographical area(s) involved in the contract.

The Register of Wage Determinations Under the Service Contract Act (hereafter referred to as a wage determination) is

WHD's form for providing SCA wage rates to contracting agencies. A wage determination states the minimum wages and fringe benefits established by WHD for applicable occupations in a geographical area. In some cases, a wage determination does not contain wage rates for specific occupations, but refers to another document (usually a union collective bargaining agreement) including the applicable rates. In addition, WHD issues a new wage determination if (1) no applicable wage rates exist or (2) WHD determines that existing rates need to be updated to reflect more current wages.

OBJECTIVES, SCOPE, AND METHODOLOGY

Senator Gordon J. Humphrey, in a letter dated May 21, 1986, stated that a potential problem may exist with the accuracy of wage-rate calculations in SCA wage determinations. Senator Humphrey asked us to determine the extent of inaccurate wage rates, if any, in wage determinations issued between 1981 and 1985. In later discussions with his office, we agreed to randomly select and check the accuracy of the wage rates in a sample of determinations issued during the review years. We also agreed to provide information on the sources (such as union collective bargaining agreements and other SCA determinations) WHD uses to obtain wage rates.

In order to assess the accuracy of WHD's SCA wage rates, we reviewed 285 randomly selected determinations out of the estimated 5,300 new determinations issued by WHD between 1981 and 1985; some of these determinations had between 1 and 115 wage rates. WHD also had active determinations at the time of our review, which represented revisions made during 1981-85 to determinations issued before 1981. We did not review any revised determinations that WHD issued during these years, primarily, because our preliminary review of WHD records indicated that we would have difficulty in identifying a universe of 1981-85 revisions.

Most of the data presented in this report are estimates, based on projecting our sample data to all new SCA determinations issued between 1981 and 1985. Sampling errors for the estimates are stated at a 95-percent confidence level.

We reviewed WHD's file for each active determination (i.e., still current at the beginning of our review in October 1986) sampled, including (if available) a copy of WHD's determination and all available supporting information (including any calculations performed). Where a file contained insufficient information for review purposes, we attempted to obtain additional information from the WHD staff.

In order to verify the accuracy of the wage rates, we analyzed the procedures, data, and calculations WHD used. We

considered a WHD-determined rate accurate if we could reconstruct WHD's methodology and, using the same supporting data and calculations, arrive at the same wage rate. If our recheck produced a different rate from the one WHD issued, we considered the rate inaccurate.

We did not review or assess WHD's development of prevailing wage rates and fringe benefits, set under the SCA and used in wage determinations, or the bases for the wage rates and fringe benefits.

Our review was done (primarily, from October 1986 to February 1987) in accordance with generally accepted government audit standards.

REVIEW OF WAGE RATES
IN 1981-85 SCA DETERMINATIONS

WHD issued an estimated 5,300 new SCA wage determinations between 1981 and 1985. We estimated that, as of October 1986, approximately (1) 3,500 (about 67 percent) of these determinations were active and contained specific wage rates and (2) 1,800 (about 33 percent) were primarily inactive or in files that WHD or we could not locate.

Table 1: Status of New SCA Wage Determinations, 1981-85

<u>Status</u>	<u>Percent</u>	<u>Sampling error (percent)</u>
Active determinations with specific wage rates	67.0	5.5
Inactive determinations	18.9	4.6
Determination files could not be located	10.9	3.6
Other active determinations ^a	<u>3.2</u>	2.0
Total	100.0	
	=====	

^aThese were active determinations for which WHD or we could not locate (1) the source documents for the wage rates or (2) a copy of the determination.

The estimated 3,500 active determinations with specific wage rates included about 31,000 rates. We project that the accuracy of about 29,000 (93.6 percent) of these rates could be verified, an estimated 2,000 (6.4 percent) rates could not be verified because of a lack of adequate information in WHD records.

Accuracy of Wage Rates
in GAO's Universe of SCA
Wage Determinations

Of the approximately 29,000 rates that could be verified, we estimate about 98.3 percent to be accurate and 1.7 percent, inaccurate. Most inaccuracies in our sample were small in amount and due to (1) incorrect copying of rates from source documents, (2) incorrect use of source data in calculations, and (3) mathematical errors in rate calculations.

As an example of incorrect copying of rates from a source document, in a determination for employees at a Bureau of Prisons facility in Texas, WHD's records stated that two wage rates came from a federal wage schedule. We checked the cited federal rates and found that the WHD-determined rates differed from the source's rates. The rate for one occupation should have been \$6.40 per hour instead of \$7.57; the rate for the other occupation should have been \$8.09 per hour instead of \$7.48.

Another reason for inaccurate rates was the use of the wrong rates in calculations from the source data. For example, in a determination for workers in surveying and drafting in North Carolina, a surveyor's helper rate was based on a ratio of two federal pay rates, multiplied by the rate for a drafter in the same determination. We verified the rate for a drafter, \$7.89 per hour, as accurate, but WHD did not use this figure: instead, it used \$9.29 per hour. Using the correct drafter rate, the surveyor's helper rate should have been \$5.64, \$1.00 less than the WHD rate of \$6.64.

The remaining reason for inaccurate rates was mathematical errors in calculations. For example, a determination for drivers and vehicle maintenance workers in northern Ohio included 19 wage rates, of which 7 were inaccurate. Four of the inaccurate rates were due to mathematical errors: our recheck of WHD calculations yielded a rate 1 cent lower in each case than WHD's rate. In another case, for firefighters in Maryland, an annual federal pay rate was translated into an hourly rate and used as the rate for firefighters. Our recalculation showed that WHD's rate was overstated by 59 cents per hour.

WHD inaccuracies both overstated and understated wage rates. Most of the inaccuracies were, however, small in amount, with the majority being off by 10 cents per hour or less.

Sources of Wage Rates in
GAO's Universe of SCA Wage Determinations

Before 1972, determinations were normally based on local wage rate and fringe benefit data gathered through surveys by Labor's Bureau of Labor Statistics. However, when the act was

amended in 1972 to provide for use of union collective bargaining agreements, such agreements became a major source of data for wage determinations. Other wage rate sources include SCA determinations establishing rates in the same locality and federal pay schedules.

The most common sources of the approximately 31,000 wage rates in the new and active determinations issued from 1981 to 1985 are shown in table 2.

Table 2: Sources of Wage Rates in GAO's Universe of SCA Wage Determinations, 1981-85

<u>Source</u>	<u>Percent^a</u>	<u>Sampling error (percent)</u>
Union collective bargaining agreements	47.0	13.0
Existing SCA wage determinations	30.2	11.4
Bureau of Labor Statistics surveys	16.1	7.6
Federal wage schedules	10.1	4.3
Other or unknown sources	5.4	3.7

^aThe percentages in table 2 add up to more than 100 percent because some wage rates were based on two sources. For example, a calculation may be based on a Bureau of Labor Statistics survey rate and a federal wage rate. Because rates with two sources are counted twice in this table, we estimated that the 31,000 rates had a total of about 33,500 sources.

As shown in table 2, we estimate union collective bargaining agreements as representing the largest proportion of our universe--47 percent. The chief of the WHD branch responsible for SCA wage determinations suggested that this is because our universe of wage determinations is based only on determinations first issued between 1981 and 1985; these are, in the chief's view, more likely to be based on union collective bargaining agreements than 1981-85 revisions to pre-1981 determinations. We did not review revisions to pre-1981 determinations, active at the time of our review, primarily because our preliminary review of WHD records indicated recordkeeping problems in WHD. These problems made it difficult for us to identify a universe of 1981-85 revisions.

GAO OBSERVATIONS ON WHD'S SCA
WAGE DETERMINATION RECORDS

We noted some problems with WHD's records, primarily its SCA determination files and index, in our review of SCA wage determinations. For example, based on WHD's determination files and index, we could not identify all active SCA wage determinations issued between 1981 and 1985. This is because the index (a card file of SCA determinations used by WHD staff for reference purposes) carried some inactive determinations as active. In addition, because of WHD's poor recordkeeping, we could not determine whether some files that we could not locate were for inactive or active determinations.

The chief of the WHD branch responsible for issuing SCA wage determinations told us that WHD recognizes these recordkeeping problems, and is taking steps to correct them. For example, WHD has contracted for the design of a computerized system that will, according to the chief, eventually replace the existing SCA determination files and index. As interim measures, the chief said that the determination index is being gradually updated, and inactive determination files are being withdrawn and sent to storage. In addition, he said that WHD is developing new guidance, including a training program, on the SCA wage-determination process.

**GAO REPORTS DEALING WITH OR INCLUDING
SERVICE CONTRACT ACT ISSUES**

The following is a list of the reports:

- Service Contract Act Should Not Apply to Service Employees of ADP and High-Technology Companies (HRD-80-102, Sept. 16, 1980)
- Service Contract Act Should Not Apply to Service Employees of ADP and High-Technology Companies--
A Supplement (HRD-80-102(A), Mar. 25, 1981)
- Pension Losses of Contractor Employees at Federal Installations Can Be Reduced (HRD-81-102, Sept. 3, 1981)
- Assessment of Federal Agency Compliance With the Service Contract Act (HRD-82-59, July 21, 1982)
- The Congress Should Consider Repeal of the Service Contract Act (HRD-83-4, Jan. 31, 1983)

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