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Information Obtained
On Practices In Subcontracting
For Technical Writing Services

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Statements made by Mr. S. R. Weinstock in letters to certain members of the Congress and in discussions with representatives of the General Accounting Office indicated many circumstances which he considered to be evidence of unfair or illegal practices in the hiring of technical writers by Government prime contractors. We concentrated our review work on two principal areas covered by Mr. Weinstock's statements.

--Government prime contractors hired technical writers from his competitors at prices higher than those offered by his firm for the same writers.

--A subcontractor, engaged in the business of supplying technical writers, misappropriated overtime pay based on per diem to employees who both lived and worked in the Baltimore area.

We also considered a representation that Government prime contractors charged excessive rates for employees' services.

TECHNICAL WRITING CONTRACT SERVICES

Several hundred firms in the United States, including S. R. Weinstock and Associates, Inc., subcontract to supply technical writers to other firms. These technical writers are not permanent employees of any firm, and it is common practice for them to be listed with a number of subcontractors who sell technical writing services. Consequently, more than one subcontractor may offer the services of a given technical writer--sometimes to the same prime contractor.

The technical writers provided by subcontractors like S. R. Weinstock and Associates, Inc., are used by prime contractors principally to produce technical manuals explaining the operation or the maintenance and repair of sophisticated technical equipment. Writing assignments of this kind require highly qualified, proficient, technical writers who are capable of quickly adapting themselves to the task of producing accurate and complete data.

The prime contractors ordinarily maintain their own staffs of technical writers and subcontract for such services only when the workload exceeds the capacity of their staffs. Technical writers acquired under subcontract usually work on the premises and under the direction of the prime contractors. Prime contractors consider subcontractors' rate proposals and then usually make a choice of the technical writers that they want to employ on the basis of resumes. The subcontractors serve largely as middlemen in getting the writers and the prime contractors together for the purpose of specific assignments.

In the early part of 1969, Weinstock submitted unsolicited proposals to supply technical writers to a number of prime contractors. Prime contractors generally send requests for proposals for technical

writers to those subcontractors with whom they have dealt in the past or whose capabilities are known. Other subcontractors, such as Weinstock, make known their capabilities by submitting unsolicited proposals.

FINDINGS AND CONCLUSIONS

Statement that writers were employed through competitors at higher prices

We examined into price proposals submitted by Weinstock to six prime contractors. In one case Weinstock's rates for two writers were lower than those offered by competitors; however, Weinstock could not supply the writers. In the case of a second prime contractor, Weinstock did not direct its proposal for one writer to the contractor's division which required a writer. In the third case, its proposal was not timely for one writer and included another writer who had already been engaged through another subcontractor. Weinstock's price proposals to two other prime contractors were higher than its competitors' price proposals. In addition, a sixth prime contractor rejected Weinstock's proposal because Weinstock had not completed required security clearance arrangements. Details follow.

RCA, Defense Electronic Products, Missile and Surface Radar Division, Moorestown, New Jersey (writers not available)

Mr. Weinstock stated that Mr. K. Schroyer, senior technical writer, was hired by RCA from a competitor at a price higher than the price offered in his firm's unsolicited proposal dated January 31, 1969. He stated also that his firm should have received a subcontract to provide all of the writers in connection with RCA's Quotation Request P-417-2 for 10 technical writers dated February 27, 1970, but that his firm did not receive the award because RCA restricted competition.

RCA officials informed us that Weinstock's unsolicited proposal, received on February 4, 1969, was reviewed for then-current requirements covered by a quotation request issued on January 22, 1969, with a deadline of January 27, 1969. The officials stated that, although the procurement was officially closed, they decided it would be in the best interests of both the program and RCA to review the proposal because two positions for technical writers were still open.

On February 12, 1969, RCA notified Weinstock that the technical qualifications of writers offered did not meet RCA's requirements and that the procurement was being closed. RCA officials confirmed that Mr. Schroyer, whose services had been offered in Weinstock's proposal, had been hired from a competitor. They said further that Mr. Schroyer's resume had been submitted by the competitor during the

quotation request time period and that Mr. Schroyer had been selected for the job before the receipt of Weinstock's unsolicited proposal.

RCA's Quotation Request P-417-2 was sent to Weinstock and to 21 other companies. The request indicated that RCA would require the services of 10 technical writers for approximately 6 weeks. In responding to that request, Weinstock offered firm billing rates for all 10 writers as a group award and separate firm billing rates if partial awards were made for individual writers. RCA placed an order by telegram with Weinstock to supply two writers at specified hourly billing rates for about 7 weeks. Weinstock subsequently advised RCA that the two writers ordered by RCA refused to work for his company and requested that RCA consider other writers available at low rates. RCA canceled the order because Weinstock was unable to supply the two writers offered.

Since Mr. Schroyer had already been hired through another contractor, he was not available for employment at the time his services were offered by Weinstock. RCA did not indicate in its quotation request that it would hire all 10 writers from the same subcontractor; therefore, RCA was not obligated to do so. In view of the importance placed upon the qualifications of the individual writers, RCA's actions do not seem unfair or in restraint of competition. The inability to obtain a subcontract for the two writers ordered by RCA seems to be attributable to Weinstock's failure to provide the promised individuals rather than to any unfair practices on RCA's part.

Westinghouse Electric Corporation
Defense and Space Center
Baltimore, Maryland (proposal not
directed to division requiring writers)

Mr. Weinstock stated that G. L. Messersmith, a senior technical editor, was employed by Westinghouse Electric Corporation in Baltimore, Maryland, from a competing subcontractor at a price from 7 percent to 10 percent higher than the billing rate offered by his firm. He said that on January 9, 1969, he submitted an unsolicited proposal to the buyer of the Aerospace Division, Westinghouse Defense and Space Center.

Weinstock's proposal, through a supplement dated January 14, 1969, was directed to the Aerospace Division's AN/AWG-10 radar program. Weinstock was advised by telegram on January 15, 1969, that technical writing services for this program were already under contract. A Westinghouse official advised us that G. L. Messersmith had later been employed through another subcontractor by the Underseas Division, Westinghouse Electric Corporation, during the period March 3 to April 3, 1969, presumably on the MK-48 torpedo program. We were also advised that the two Westinghouse divisions had separate

purchasing departments and that a proposal made to one would not be considered by the other.

We believe that it is not reasonable to hold the Westinghouse Underseas Division responsible for considering a proposal that Weinstock had made about 2 months previously to another division on another program.

Radiation, Inc., Melbourne, Florida
(writer not available and submission
of untimely proposal)

Mr. Weinstock contended that senior technical writers, Messrs. Lasch and Lubow, were hired by Radiation, Inc., from his competitors at prices higher than the billing rates offered for their services by his firm in an unsolicited proposal to Radiation, Inc., dated January 29, 1969, and a supplement to the proposal dated February 11, 1969.

We found that Mr. Lubow's services had been contracted through another subcontractor starting February 5, 1969, the same date that Radiation, Inc., had received Weinstock's initial unsolicited proposal.

Weinstock's offer of Mr. Lasch's services was directed toward Radiation's then-current requirements. Radiation officials informed us that Mr. Lasch had not been employed under the requests for quotations then outstanding but had been hired from another subcontractor approximately 2 months later under another request, dated March 24, 1969. Radiation, Inc., officials have told us that, when they issue a request for quotations and subcontractors respond through submission of proposals (which include resumes, cost factors, billing rates, travel, per diem, and availability), those proposals are considered only for that request and are not retained.

Radiation, Inc., was not obligated to hire Mr. Lubow through Weinstock since he was already employed by another firm. We believe that Radiation, Inc., was not obligated to hire Mr. Lasch through Weinstock because Weinstock's proposal for Mr. Lasch's services was subject to the same contracting procedures as were the proposals of the other firms--that is, applicable only to the current requirement.

Other prime contractors (higher rates
proposed, writers not available, or
security clearance problem)

According to information developed by the Defense Supply Agency, the following were the circumstances with respect to the other prime contractors. A Weinstock proposal to Bendix Corporation was not accepted, according to Bendix representatives, because either his bid

was higher than the successful subcontractor or the writers offered had already been hired from a competitor and therefore could not be supplied by Weinstock. A Weinstock proposal to Raytheon Company was rejected because the rates proposed were higher than the companywide 1-year rates which had been negotiated with a group of 12 firms to which subcontracts were awarded. A Weinstock proposal to American Electronics Laboratories, Inc., was rejected because Weinstock had not completed security clearance arrangements required of subcontractors providing technical writers.

Statement regarding payments of per diem to "local hires"

Mr. Weinstock stated that Technical Communications, Inc. (a subcontractor), had paid per diem to some of its writers who were residents of the Baltimore area while they were working at the Westinghouse plant in Baltimore. He stated that the subcontractor had included the per diem rate as part of the employees' regular hourly rates and suggested that the subcontractor had misappropriated overtime pay due the employees.

We found that the subcontractor in April 1967 had proposed a fixed hourly rate for each hour of regular time worked by its employees and another rate for overtime hours. In conformance with industry practice, the proposal for regular hourly rates included per diem at the rate of \$1.40 for each hour worked, with a maximum allowance of 40 hours per diem in each week and 8 hours in any one day. The proposed rate for overtime was based on the regular hourly rate exclusive of the \$1.40 an hour per diem allowance.

Westinghouse awarded Technical Communications, Inc., a contract under which it accepted the proposed rates. From the beginning of the contract, the subcontractor billed Westinghouse at the agreed regular rate for each hour of regular time worked (which included the \$1.40 an hour per diem) and at the agreed overtime rate for each hour of overtime worked. In turn, the subcontractor's policy was to pay its employees an agreed hourly rate plus \$1.40 an hour per diem for regular hours worked and time and a half at their agreed hourly rate, exclusive of the per diem, for overtime hours worked.

The subcontractor became aware that certain Government agencies would not consider per diem payments to local employees who were paid on an hourly basis to be per diem but would consider those payments as part of the hourly rate paid to these employees. Accordingly, in September 1968 Technical Communications, Inc., revised its per diem policy in two ways. Per diem was to be paid on a daily basis and it was to be paid only to employees who were eligible to receive subsistence.

BEST DOCUMENT AVAILABLE

The subcontractor, in order to retain the services of local employees who lost this per diem, made an adjustment of 93 cents an hour to their base labor rate. This resulted in a proportionate increase to their overtime rate. We were informed that this offer had been made so that the policy change would not have the effect of a reduction in pay for those employees.

In September 1969 a number of subcontractor employees who had worked at Westinghouse petitioned the Department of Labor to the effect that, since they were local employees not eligible for per diem after September 1968 and since their regular rates were increased by 93 cents with a proportionate increase to their overtime rate, they should have received a proportionate increase to their overtime rate prior to September 1968 because they had been local employees from the beginning of the contract. The Department of Labor ruled in favor of 18 employees and required the subcontractor to pay the additional overtime wage for the period of January 1968 through September 1968. Back wages were not required for any period prior to January 1968 under the prevailing statute of limitations. The subcontractor complied with the Department of Labor ruling and paid each of the 18 employees.

The subcontractor informed us that he had not billed Westinghouse for the additional amount of overtime payments that the Department of Labor required his firm to make to these employees.

The subcontractor paid per diem to its technical writers who worked at the prime contractor's plant in Baltimore without distinction as to residency until it discontinued this previous industry practice in September 1968. We found that the subcontractor was not in a position to misappropriate overtime pay based on the per diem since it did not bill Westinghouse for such pay.

Statement that substantial overcharges
were made by prime contractors

Mr. Weinstock stated that prime contractors were substantially overcharging the Government for employees' services. In reaching this conclusion, Mr. Weinstock stated that prime contractors often marked up labor costs charged to the Government by 50 percent, which was substantially in excess of the additional closely related indirect costs that were incurred because of the employment of technical writers.

BEST DOCUMENT AVAILABLE

In our opinion, Mr. Weinstock's position on this matter is not well founded. In his comments, he is considering only the overhead costs his firm incurs for the technical writers it employs and he is not considering the additional overhead costs which prime contractors incur on the writers hired from firms such as Weinstock.

For Government contractors, generally, it is a common accounting practice to distribute overhead costs among various contracts or products on the basis of the labor costs incurred on these projects. Thus, when charging the Government for work done, the prime contractors add a percentage for overhead to the wage rate paid to their workers. This percentage provides not only for those overhead costs that are closely associated to the employee, such as payroll taxes, but also provides for such costs as repairs and maintenance, taxes, utilities, supervision, and supplies. These are legitimate costs. If they were not allocated among contracts or products as a percentage of labor costs, they would be allocated in some other manner; there is no reason to believe that the overall costs to the Government would be reduced.

The reasonableness of prime contractors' methods of allocating overhead costs is one of the matters considered by the Defense Contract Audit Agency in its reviews of contractors' records.

SCOPE OF REVIEW

We spoke to Mr. Weinstock concerning his statements. We reviewed documents and discussed the matter with responsible officials at the Office of the Assistant Secretary of Defense (Installations and Logistics). We examined other documents and interviewed cognizant contractor personnel at

- the Westinghouse Defense and Space Center, Baltimore, Maryland;
- Radiation, Inc., Melbourne, Florida;
- RCA Defense Electronic Products, Missile and Surface Radar Division, Moorestown, New Jersey; and
- Technical Communications, Inc., New York, N.Y.

In addition, we met with cognizant representatives of the Department of the Navy and the Defense Contract Audit Agency at the Westinghouse Defense and Space Center in Baltimore and representatives of the Defense Supply Agency at Cameron Station, Virginia, and at the RCA Missile and Surface Radar Division in Moorestown, New Jersey.

Our statements regarding other prime contractors--American Electronics Laboratories, Inc., the Bendix Corporation, and the Raytheon Company--are based on information obtained by the Defense Supply Agency during its review of the Weinstock statements.