
BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

GSA's Personal Property Repair And Rehabilitation Program: A Potential For Fraud?

The General Services Administration (GSA) does not have enough controls to ensure that repair services are provided in accordance with contract terms. The program lacks effective management, many contractor accounting systems are inadequate for accumulating and reporting costs, and agency compliance with repair schedule provisions is poor.

GSA should improve its management of the program or reduce it to a more manageable size. GSA also should be more responsible for administering the program and assisting customer agencies.

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To the President of the Senate and the
Speaker of the House of Representatives

This report discusses the General Services Administration's (GSA's) personal property repair and rehabilitation program and the need for GSA to strengthen its administration of repair contracts and to provide increased customer agency assistance.

Our review was made to evaluate GSA's management of the repair program and the extent of compliance with repair schedule provisions by contractors and Government agencies.

We did not follow our usual policy of obtaining official agency comments on this report. Instead, we obtained informal comments from the Assistant Commissioner of GSA's Federal Property Resources Service.

We are sending copies of this report to the Director, Office of Management and Budget; the Administrator, Office of Federal Procurement Policy; the Administrator, GSA; the House and Senate Committees on Appropriations; the Senate Committee on Governmental Affairs; and the House Committee on Government Operations.


Comptroller General
of the United States

NCJRS

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ACQUISITIONS

D I G E S T

The General Services Administration's (GSA's) personal property repair and rehabilitation program is not functioning properly and should be greatly improved or reduced to a manageable size. The program was established to eliminate duplication of contracting efforts by Government agencies and to obtain lower prices through volume contracting and competitive bidding. However, GAO's review revealed the following problem areas:

- A potential for fraud.
- Unsupported contractor invoices and overcharges.
- A lack of management controls.
- A lack of adherence to contract provisions.

GSA, through the Federal Property Resources Service and its 11 regional offices, awards indefinite quantity term contracts primarily to small businesses. In fiscal year 1978 the program reported billings of about \$60 million. GAO's review of 27 contractors with estimated fiscal year 1978 billings of \$7.7 million identified questionable charges in almost every case. GSA's management of the program is weak, and the program lacks

- trained contract administrators,
- adequate preaward contractor reviews,
- sufficient internal audit coverage, and
- contract monitoring. (See ch. 2.)

Contractors and customer agencies are unsure of their respective responsibilities under the program. GAO found that:

--Contractor accounting and recordkeeping systems were inadequate for accumulating and reporting contract costs. (See pp. 12 to 16.)

--Sixteen contractors had indications of potential fraud or violations of Federal law and were referred to the GAO Fraud Task Force for further investigation. One of these contractors has already been referred to the Department of Justice. (See p. 22.)

--Most contractors were not paying the wage rates required by the Service Contract Act of 1965. (See pp. 16 and 17.)

--Reports concerning the amount of work performed under the program were often incomplete and inaccurate. (See p. 17.)

--Several agencies were frustrated when using the program and believed it is more of a hindrance than a help. (See pp. 6 and 7.)

--Agencies were not always knowledgeable of contract provisions and interpreted some provisions incorrectly. (See pp. 20 and 21.)

--Agencies often had work performed by firms other than the GSA schedule contractor. (See pp. 21 and 22.)

GAO believes that these problems permeate the entire program. Prior audits, although of limited scope, have identified similar problems. (See pp. 2 to 4.)

RECOMMENDATIONS

The Administrator of GSA should:

--Accept responsibility for repair contract administration as required by the Federal Property Management Regulations.

--Assist customer agencies by providing instructions and guidance on problems associated with repair schedules and contractors.

- Obtain increased resources to monitor the program or reduce its size so that it can be effectively administered by existing staff.
- Increase internal audit coverage of repair contractors and require that contractor accounting systems be reviewed during preaward audits.
- Increase GSA's reviews of contractor billings to customer agencies.
- Obtain timely and accurate sales volume data from participating contractors.

AGENCY COMMENTS

GSA's Federal Property Resources Service officials informally commented that the report (1) should provide an assessment of the program's cost effectiveness and (2) is more an evaluation of contract administration than an assessment of the repair program. Although the officials said that they believe the program is cost effective, they were unable to provide data on its benefits. GAO did not attempt to assess cost effectiveness. GAO evaluated GSA management, contractor compliance, and agency usage of repair services.

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ABBREVIATIONS

DCAA	Defense Contract Audit Agency
DCAS	Defense Contract Administration Services
DOD	Department of Defense
FPMR	Federal Property Management Regulation
FPR	Federal Procurement Regulation
GAO	General Accounting Office
GSA	General Services Administration
OMB	Office of Management and Budget

CHAPTER 1

GSA'S REPAIR AND REHABILITATION PROGRAM

BACKGROUND

The Congress, through the Federal Property and Administrative Services Act of 1949, created the General Services Administration (GSA). The act provided, in part, that GSA should develop an economical and efficient system for procuring and supplying personal property and nonpersonal services for most Government agencies. In partial fulfillment of this responsibility, GSA, through the Federal Property Resources Service and its 11 regional offices, acts as the contracting agency for the maintenance, repair, and rehabilitation of Government personal property.

GSA identifies and advertises agency repair needs, awards indefinite quantity term contracts (primarily to small business firms), and publishes these mandatory use contract schedules. The schedules list prices, contractors, ordering procedures, and other pertinent details. These contracts and schedules are issued and administered by the GSA regional offices and are effective only within the geographical boundaries of the respective GSA regions. When an agency needs a contractor's services, it places orders and makes payments directly to the contractor.

In fiscal years 1977 and 1978, Federal agencies paid about \$56.2 and \$59.4 million, respectively, for repair services for over 30 categories of items, such as heavy equipment, carpeting, and furniture.

GSA awards over 2,500 contracts annually. Ninety-five percent are advertised, and three pricing methods are used as the basis for contractor billings, depending on the commodity to be serviced. These methods are time and materials, predetermined price, and flat rate.

Time and materials

Repair services for certain property, such as aircraft support equipment, material handling equipment, and heavy construction equipment are billed through the time and materials method. These contracts are awarded to bidders who offer the lowest labor-hour rate. Material charges must be billed at either the original manufacturer's commercial list price less the bidder's discount or at the bidder's net cost. Time and materials contracts make up about 85 percent, or about 2,100 annual contracts.

Federal Procurement Regulations (FPRs) specify that these contracts should be used only when the extent or duration of work cannot be initially estimated and when no other type of contract is suitable. FPRs also specify that a ceiling price (maximum amount payable) must be established for time and materials and effective cost control should be required through constant Government surveillance of the contractors' operations.

These limitations were established because such contracts contain an incentive for contractors to incur unnecessary costs since billings are based upon the number of direct labor hours used at a specified hourly rate. Since the rate includes provisions for overhead and profit as well as labor costs, each additional hour charged to the contract adds to the contractor's profit and recovery of overhead.

Predetermined price

The types of services provided under this method include painting furniture, drapery cleaning, and tire retreading and repairing. These contracts are awarded to offerors who bid the lowest overall price in the form of a percentage discount or premium to prices established by GSA. The price charged by the contractor must include all necessary labor, equipment, and materials. This segment of the repair program totals about 250 contracts.

Flat rate

Examples of services provided under this method include motor vehicle rustproofing, typing element reconditioning, watch and clock repair, and compressor rebuilding. Contracts are awarded to the firm who offers the lowest aggregate price for all applicable items to be repaired or rehabilitated within the service area. Because this portion of the repair program is relatively small, we did not review these contracts.

PRIOR REPORTS AND GSA'S RESPONSE

During the period 1976-77, we issued two reports containing recommendations for improving the property repair and rehabilitation program. We recommended that GSA:

- Establish adequate procedures to assure that the Government is not overcharged.

--Institute followup procedures to insure appropriate action is taken on GSA internal audit reports.

--Consider obtaining additional resources for program monitoring and, in the absence of resources, request assistance from the Defense Contract Administration Services (DCAS) or the Defense Contract Audit Agency (DCAA).

Although GSA concurred with our recommendations, GSA's actions have largely been ineffective.

Procedures to preclude overcharges

In response to our report issued in December 1976, 1/ GSA stated that it was requiring contractors to (1) maintain a written procurement system to insure that parts are purchased competitively, (2) reconcile labor hours with payroll records at least quarterly, (3) maintain timecards in ink, and (4) document the use of intercompany labor. Also, instructions on administering time and materials contracts were to be furnished to GSA regional offices.

Our report stated that three contractors had improperly charged the Government \$464,000. Although these overcharges are under appeal, to date GSA has collected \$21,000 and has withheld \$150,000 in payments. This represents the total amount of funds recovered since our report was issued.

Action taken on internal audit reports

Responding to our December 1976 report and a letter report issued in July 1977, 2/ GSA stated that its Office of Audits conducts preaward and postaward contractor audits upon request. Deficiencies in the contractors' accounting systems are reported to the contracting officers. According to GSA, the accounting systems are resurveyed in accordance with established followup procedures.

GSA officials noted that because of limited audit resources and minimal cost benefits, formal contract audits are done on a priority basis rather than automatically included in the annual audit plan. Although formal audits

1/"Administration of Repair Contracts Needs Improvement," (PSAD-76-179, Dec. 27, 1976).

2/B-187760, July 29, 1977.

may not always be conducted, reviews of contractors' records and billings are contract administration functions performed by the Federal Property Resources Service.

Since 1974 GSA's Office of Audits has issued 73 reports on repair contractors. The Federal Property Resources Service maintains that all internal audit recommendations were implemented. However, we found that the actions taken were ineffective. (See ch. 2.)

Additional resources for program monitoring

In our December 1976 report, we recommended that GSA consider obtaining additional resources to assist in contract monitoring and, if unable to do so, that it request assistance from DCAS or DCAA. GSA responded that it was considering improving its surveillance of contractor operations, including assistance from DCAS. Attempts were being made to determine if procedures could be adapted to convert from the time and materials method to other methods.

GSA planned to provide additional positions and funds on a gradual basis through fiscal year 1978 to assist in program monitoring. Also, GSA considered obtaining DCAS inspection support. DCAS, however, stated that it would have to assess a service charge. The Office of Management and Budget (OMB) in a letter dated April 20, 1977, to GSA noted that the Department of Defense (DOD) has a major vested interest in the GSA repair program and should work with GSA to resolve surveillance needs. OMB noted that DOD should be capable of providing such services quickly and satisfactorily. However, because of DOD insistence on reimbursement at high hourly rates, GSA has not used DCAS support.

GSA stated that it does use the services of DCAA when its internal audit capability is overtaxed. We noted, however, that DCAA has been used only once since 1976.

GSA did attempt to develop its own inspection and surveillance capability, but it has not been effective nor have its contract monitoring procedures improved substantially.

CHAPTER 2

INADEQUATE GSA CONTRACT ADMINISTRATION

GSA has not provided adequate administration of its repair and rehabilitation program. Contrary to the Federal Property Management Regulations (FPMRs), GSA has delegated much of its contract administration responsibility to user agencies that lack the necessary personnel and expertise. As a consequence, neither GSA nor the user agencies know whether the contractors are fulfilling all contract requirements.

GSA maintains that once it awards a repair contract, the customer agency is responsible for monitoring the contractor's progress and determining the reasonableness of the contractor's billings for each purchase order. Considering the fact that most contracts GSA awards are under the time and materials pricing method, GSA expects customer agencies to assume practically all of the responsibilities for contract administration. As a result, the contracts have not been properly administered.

According to GSA's procurement regulations, contract administration is defined as the performance and coordination of all actions after the award of a contract that the Government must take to obtain compliance with all contract requirements including timely delivery of services, acceptance, payment, and closing of the contract. These actions include all technical, financial, audit, legal, administrative, and managerial services in support of the contracting officer. Each GSA property rehabilitation price schedule states that GSA shall be responsible for contract administration duties. None of the schedules, however, list these functions. FPMR 101-42.102-3 lists GSA's duties as (1) expediting orders, (2) evaluating the acceptability of contract workmanship, (3) ensuring contractor compliance with contract technical requirements, and (4) assisting in the resolution of issues that may arise between ordering agencies and contractors. Further, the regulation stipulates that GSA is accountable for contract administration responsibilities.

Regarding customer agencies, FPMRs require the price schedules to specify that agencies are responsible only for issuing purchase orders directly to contractors, receiving and inspecting shipments, and making payments directly to contractors.

GSA's inadequate contract administration can be summarized by a lack of

- acceptance of contract monitoring responsibility,
- contract administrators,
- preaward contractor reviews, and
- internal audits.

LACK OF ACCEPTANCE OF CONTRACT MONITORING RESPONSIBILITY

In March 1979, counter to the intent of FPMRs, GSA issued its first FPMR bulletin advising customer agencies of their contract administration responsibilities. Before this time, agency personnel thought that GSA was fully responsible for such monitoring. The bulletin stated:

"Ordering offices are responsible for ensuring that contractors provide the services for which they are paid. Prior to certification of invoices for payment, agencies are cautioned to ensure that the invoices are correct and prepared strictly in compliance with the terms of the contract. When charges for services provided appear to be questionable, agencies should request contractors to furnish job tickets, timecards, invoices, price lists, and other documents necessary to verify the charges."

To examine a contractor's supporting records requires, in addition to reviewing the actual contract, an understanding of the system used to accumulate costs, determining which costs are allowable, knowledge of contractor operating procedures, and discussions with contractor and GSA personnel. In effect, agencies would be required to perform contract audits. GSA officials said that this was not the purpose of the bulletin. We believe that agencies should not be expected to develop the same level of expertise as GSA concerning contractor monitoring.

Lack of GSA assistance to agencies

Most of the agencies we visited had designated certain personnel and established some procedures for monitoring GSA repair schedule contractors. However, these agencies generally believed that GSA could do more to assist them. Several agencies believe that the repair program is more of a hindrance than a help because they are obliged to perform GSA administrative duties. Also, they are required to constantly monitor the contractor, not only to ensure that the

work is performed properly, but also to verify billing accuracy. Agencies said they are often preoccupied with billing disputes and, at times, they do not receive proper and timely service.

Several agencies have become so frustrated with the inability of contractors to perform the work when requested that they use nonschedule firms. For example, GSA's Public Buildings Service, which is responsible for maintaining the White House and Executive Office Building areas, has received very poor service from GSA carpet cleaning and installation contractors. The Service's internal correspondence disclosed that GSA contractors frequently did not arrive when scheduled (if at all), arrived with no cleaning equipment or borrowed it from the Service, and did not possess necessary security clearances causing lengthy delays in gaining admittance. Even though GSA notified the contractors of their poor record, very little improvement resulted. As a result, the Service decided to use a nonschedule firm and paid \$27,249 for cleaning services, or \$22,000 more than would have been paid if the GSA schedule were used. Furthermore, the Service may train its own staff to clean carpeting.

LACK OF CONTRACT ADMINISTRATORS

Although GSA awards over 2,500 repair contracts annually, it has only 25 contract administrators supplemented by contracting personnel when required. These administrators are responsible for

- performing preaward inspections of contractor facilities,
- monitoring contractor compliance with technical and reporting requirements,
- periodically reviewing invoices to ensure that the firm is complying with contract terms, and
- resolving issues that may arise between the contractor and the ordering agency.

Because of the severe shortage of contract administrators, not all firms are visited during the contract period, even though the GSA repair program handbook requires it. When contractor visits are made, they are limited in scope and duration. Also, contract administrators do not have the requisite training to adequately fulfill their responsibilities.

We accompanied a GSA contract administrator on several inspections of heavy equipment under repair. However, he said that he did not possess the technical knowledge to do in-depth inspections. Also, he could check only whether the equipment was operable or not, and his inspections were largely superficial.

According to GSA officials, contractor visits include reviews of the contractor's billing procedures and examination of support for labor hours and materials charges. Yet, as presented below and discussed in chapter 3, we found

- poor or nonexistent contractor management of accounting records,
- improper contractor billing procedures, and
- incomplete or unsubmitted contractor reports of monthly orders received.

LACK OF PREAWARD CONTRACTOR REVIEWS

GSA does not fully examine contractor records and recordkeeping practices before contract award. This results in poor record management practices and makes it difficult, if not impossible, to trace Government billings to supporting documentation.

When a firm is in line for an award, the contract administrator must prepare a plant facility report. Factors covered include

- the ability to respond to contract requirements;
- an analysis of production capacity, quality control, and purchasing and subcontracting procedures;
- the adequacy of space, personnel, and equipment;
- past performance;
- inspection of records; and
- other plant-related factors.

Such examinations should determine not only if the firm has the physical capability to perform contractual requirements, but also that it has installed an adequate accounting system to accumulate costs billed to the Government. Further, the

GSA Regional Finance Division must determine the firm's financial status. After these analyses have been performed and the firm found satisfactory, a contract may be awarded.

We reviewed reports on plant facilities and financial responsibility for 11 contractors and compared these evaluations with the results of (1) GSA internal audits and (2) our own reviews. We found that many contractor discrepancies were not discovered in GSA's preaward reviews.

LACK OF INTERNAL AUDITS

The GSA Office of Audits has made very few reviews of repair and rehabilitation contracts. Since 1974 the Office has issued only 73 reports on repair contractors.

From our discussions with GSA field audit directors, we learned that audits are generally not performed because of the contracts' low dollar value. Reviews are made either in response to requests by GSA contracting officers or if the contract exceeds \$100,000 in value. Most of the audits that have been made were requested by contracting officers.

Internal audit's response time to requests from contracting officers can be improved considerably. At times the interval is so long that the firm in question is no longer a GSA contractor or has been awarded a subsequent repair contract, even though major deficiencies remain uncorrected. For example, in December 1976 GSA region 3 contracting officers requested audits on eight contractors. As of September 1979, only one contractor has been reviewed, and it was completed 2 years after the request and 6 months after the firm was awarded another contract. Audit reports were issued on both contract periods, and major contract violations were found causing all costs billed to the Government to be questioned.

Currently, some field audit staffs are overloaded with work stemming from the recent GSA fraud investigations. Consequently, the central office internal audit staff must perform the contract audit work. The demand for work far exceeds the supply of auditors. As we pointed out in a report to the Congress this year, GSA audit staff only increased from 100 to 108 during fiscal years 1974 to 1978. 1/

1/"Federal Civilian Audit Organizations Have Often Been Unsuccessful In Obtaining Additional Staff," (FGMSD-79-43, July 27, 1979).

At the end of fiscal year 1979, the number of auditors had increased to 170, with 287 positions planned for fiscal year 1980.

Although internal audit has not performed all repair contractor reviews needed, the results of the few audits performed point to an inadequate initial and subsequent examination of contractor records by contract administrators. Since 1974 GSA's Office of Audits, for the three regions we examined, has questioned \$2.8 million, or 30 percent of the \$9.6 million in contractor billings reviewed. Findings include unsupported time and materials charges, timecard alterations, materials overcharges, unacceptable accounting systems, double billings, and a lack of controls over Government-furnished materials. Several of the internal audit reports noted that GSA does not have sufficient personnel to provide adequate contractor surveillance.

CONCLUSIONS AND RECOMMENDATIONS

Because of inadequate contract administration, GSA has not provided repair services in such a way that the Government's interests are protected. The problems we noted permeate the entire program, from contract preaward to GSA oversight of contractor performance. Unless GSA assumes a more aggressive attitude towards its responsibilities, the repair program will not provide an economical means for fulfilling the Government's repair needs.

We recommend that the Administrator of GSA take the following actions:

- Accept responsibility for repair contract administration as required by FPMRs. GSA should describe explicitly to its customer agencies those monitoring functions for which GSA has sole responsibility.
- Obtain increased personnel resources to monitor the repair program or reduce the program's size so that it can be effectively administered by existing staff.
- Increase contract preaward reviews and internal audit coverage. GSA should establish a definite timetable by which contractors will be reviewed.

AGENCY COMMENTS

In informal comments provided by the Assistant Commissioner of GSA's Federal Property Resources Service, he did not concur with our recommendation that GSA accept responsibility for repair contract administration. The Service suggested that our recommendation should require it to improve performance of contract administration.

We disagree with the Service's position. FPMRs describe GSA contract administration responsibilities and establish policies and procedures for the administration of GSA contracts. These directives indicate clearly that responsibility lies with GSA. Our report takes issue with GSA's bulletin to agencies which would, for all practical purposes, require agencies to perform contract audits. This function is reserved to GSA under its contract administration responsibility.

The Service states that it is dealing with small business firms and that the performance of services differ substantially from the procurement of an end item, in that the administration of service contracts can be a continuing and, at times, frustrating experience. We recognize this observation, but believe that implementing our recommendations would be a significant step towards fulfilling the Government's repair needs.

CHAPTER 3

CONTRACTOR NONCOMPLIANCE WITH CONTRACT BILLING,

WAGE RATE, AND REPORTING REQUIREMENTS

Most contractors reviewed do not maintain adequate accounting systems to support charges billed and have over-charged the agencies. Further, we found numerous violations of contract reporting requirements and the Service Contract Act of 1965 regarding minimum employee wages. These problems seriously compromise the repair program's objectives. Although GSA has been aware of these problems at least since 1974, little effort has been made to correct them. (See pp. 9 and 10.)

CONTRACTORS OVERSTATED OR COULD NOT SUPPORT BILLINGS

We found that GSA has little or no control over the way contractors charge the Government for repair services. The 27 contractors we reviewed had, at most, minimal record-keeping systems, with many having none at all. Consequently, no means existed to relate Government billings to supporting documentation. As discussed in chapter 2, GSA and the user agencies have made little effort to assure that contractors maintain the required accounting systems and adequately support contract charges.

Questionable labor and material charges

We found that contractors have continually billed Government agencies for unsupported charges. The audit of a rug and carpet firm which does about \$420,000 annually on Government work disclosed that its accounting system consisted of a checkbook, deposit receipts, bank statements, and a payroll register. However, this system did not permit us to reconcile invoices to supporting documentation. Another contractor who repaired adding machines and calculators threw away his records, including canceled checks, deposit receipts, purchase orders, and invoices because he was not aware of the contract requirement that all records generated from transactions relating to the repair contract must be retained for 3 years after final payment. Two contractors involved in repairing motor vehicles and household appliances kept parts invoices indiscriminately filed in paper bags.

The following is a summary of supporting documentation for 697 invoices showing the difference between contractors'

invoice amounts and our calculations. This schedule is limited in that we were unable to examine invoices for certain contractors because of the complete absence of any supporting records.

<u>Repair schedule item</u>	<u>Amount charged by contractors</u>	<u>Amount we found supported</u>	<u>Amount unsupported</u>	<u>Percentage of charges unsupported</u>
Carpet cleaning and installation	\$ 89,872	\$ 49,907	\$39,965	44.4
Electric motors and generators	18,711	11,347	7,364	39.3
Heavy construction equipment	48,817	43,471	5,346	11.0
Adding machines and calculators	12,529	9,235	3,294	26.3
Electric typewriters	6,769	5,157	1,612	23.8
Motor vehicles	6,332	5,646	686	10.8
Drapery cleaning	1,765	1,049	716	40.5
Tire retreading	<u>6,192</u>	<u>5,702</u>	<u>490</u>	7.9
Total	<u>\$190,987</u>	<u>\$131,514</u>	<u>\$59,473</u>	31.1

The following are examples of the irregularities found during our review.

Heavy construction and material handling equipment

We visited five contractors and found that four of them did not maintain adequate records to support labor hours or materials charges.

Although the contracts require billing for actual direct labor hours, two contractors charged for the estimated hours. These contractors maintained timecards for each employee and job, but did not use the recorded hours to support billings. One contractor charged the estimate of 1,119 hours for labor on 21 engine jobs, but had accumulated only 945 hours on timecards at the time of his billing. Further, the contractor continued to accumulate labor hours even though the work was completed to make estimated and actual hours agree. We informed the GSA field audit office of this, and it is under review by GSA's Offices of the Inspector General and General Counsel.

Office machines

In an audit of five contractors we found overcharges on invoices and no support for individual time charges and material prices.

Office machine contracts offer a choice of repairs at bid rates for labor hours, plus materials or annual maintenance and overhaul at a fixed amount. If the hourly rate is used, contractors must keep accurate time records and bill for parts at invoice cost, discounted retail price, or original manufacturer's commercial list price, depending on the parts to be installed. Annual maintenance rates are bid as discounts against prices predetermined by GSA. Overhaul rates are bid as fixed amounts and apply only to manual typewriters.

Three contractors who repaired electric and manual typewriters overcharged \$513 on 18 invoices we reviewed. The overcharges were made in labor (\$106), materials (\$30), annual maintenance (\$120), and overhaul (\$257).

In another instance, an employee of a contractor charged 24.5 hours in 1 day. Based on an examination of this contractor's work orders and invoices, we found that the firm had billed the Government for \$1,037 in labor, but could support only \$529.

Similarly, contractors often overcharged the Government for parts. For example, one contractor who has participated in the repair program for over 3 years overcharged repair parts by as much as 3,233 percent of list price. GSA office machine contracts provide that parts, other than platens and power rolls, replaced on electric and manual typewriters on the hourly rate basis must be billed at the original manufacturer's commercial list price. The following table shows the extent to which this contractor overcharged.

Comparison of Office Machine Repair
Contractor's Parts Charges with Manufacturer's
Commercial List Prices for IBM Selectric Typewriters

<u>Part description</u>	<u>List price</u>	<u>Contractor's price</u>	<u>Overcharge</u>	<u>Percent overcharge</u>
Heligen spring	\$ 0.15	\$ 5.00	\$ 4.85	3,233.3
Operation shaft	1.65	26.00	24.35	1,475.7
Escapement bracket	1.40	21.30	19.90	1,421.4
Carrier return pinion and spring	.45	5.50	5.05	1,122.2
Escapement wheel assembly	9.50	28.10	18.60	195.5
Escapement rack	5.15	12.75	7.60	147.5
Electric motor	62.25	120.00	57.75	92.7
Carrier and rocker as- sembly	\$110.00	\$149.00	\$39.00	35.4

We informed the responsible GSA contracting officer and internal audit group of these overcharges. Their review of this contractor's invoices submitted to Eglin Air Force Base, Florida, showed that the contractor overcharged \$42,211 for parts and \$19,589 for labor. GSA has stated that it will seek recovery of these overcharges, but the contractor has stated that he will not refund any costs questioned by the audit.

Adding machines and calculators

In our audit of two contractors we found that verifying labor and material charges was difficult, if not impossible.

For one contractor, we reviewed a random sample of invoices and questioned \$863 of \$1,716 billed during April and October 1978. There were instances in which labor hours were not shown on the invoices, making verification of labor charges difficult. Although the contractor maintained some inventory parts cards showing costs, they were not updated periodically. Thus, we could not verify material charges in most cases. The contractor stated that parts prices constantly change and many parts must be specially ordered. However, annual maintenance agreements were accurate and complied with GSA price schedule terms.

For the other contractor, we were unable to verify the accuracy of a representative sample of billings because the contractor destroyed all invoices after they were paid. He

was not aware of the contract requirement that all records generated from transactions relating to the repair contract must be retained for 3 years after final payment. The contractor did not have a formal inventory system whereby material costs could be verified; therefore, no conclusion could be drawn as to the accuracy or reasonableness of material charges. Parts were billed to the Government based on the contractor's experience. We reviewed a sample of unpaid invoices from September 1978 through January 1979 to determine the accuracy of labor charges. Generally, labor rates were charged as specified in the GSA price schedule.

VIOLATIONS OF THE SERVICE CONTRACT ACT

All property rehabilitation contracts, unless covered by the Walsh-Healey Public Contracts Act, are subject to the Service Contract Act of 1965 (41 U.S.C. 351-56). The act requires contractors and subcontractors to pay specific minimum wages and fringe benefits, as determined by the Secretary of Labor.

Of the 27 contractors reviewed, 25 were subject to the Service Contract Act, and 20 firms violated the payment provisions. Prescribed wage rates and fringe benefits are contained on a wage determination register, which is included in each contract. Furthermore, the contractor must post the required rates at the employees' work station. Any class of service employee required in the performance of the contract but not listed on the wage determination register must reach a suitable wage agreement with the contractor and the contracting agency. Although these provisions are included in the contract, most contractors said they were unaware of the act's requirements. Several contractors refused to pay the required rates because they felt that they were too high as compared with the wages normally paid their employees. Others did not post the rates as required. Only one contractor stated that his firm was prepared to pay any amounts due employees because of noncompliance.

The following schedule provides examples of the extent to which GSA repair schedule contractors underpaid their employees.

<u>Schedule item</u>	<u>Employee classification</u>	<u>Hourly rate</u>		
		<u>Service Contract Act</u>	<u>Paid by contractor</u>	<u>Amount of underpayment</u>
Heavy construction equipment	Mechanic	\$7.22	\$5.00 to \$6.75	\$.47 to \$2.22
	Helper	4.98	4.00	.98
Electrostatic furniture painting	Painter	5.27	5.00	.27
	Laborer	4.31	3.75	.56
Drapery cleaning	Presser-machine dry	3.71	3.13	.58
	Presser-dry cleaner	4.32	3.75	.57
	Repairer	5.40	2.85 to 5.26	.14 to 2.55
Office machines				

We advised GSA of these violations for referral to the Department of Labor. Although Labor is responsible for investigating Service Contract Act violations, Labor officials said that GSA could provide much needed assistance through its contract administration. However, GSA maintains that it is solely Labor's responsibility to uncover and investigate non-compliance with the act.

NONCOMPLIANCE WITH CONTRACT REPORTING REQUIREMENTS

It is difficult to determine the volume of work done under the repair and rehabilitation program because contractors do not always furnish GSA with required monthly reports showing the dollar value of Government orders and number of units serviced. This information is essential for providing potential bidders with expected sales volume under future contracts and determining which repair schedules need expansion or cancellation.

Eleven of 19 contractors we reviewed did not submit timely or accurate reports. One contractor had not submitted any reports since his contract became effective 7 months earlier. Another submitted one report for a 4-month period only after verbal and written requests from the GSA contracting officer. Another firm submitted one report for the first 5 months of the contract. Further analysis showed the dollar value in this report was understated by about 29 percent. This occurred because the contractor said that he reported only the estimated amount of work done. One firm

which installed rugs and carpets reported billings of \$11,517, although we found that the contractor had reportable Government sales of \$44,320.

CONCLUSIONS AND RECOMMENDATIONS

About 31 percent of the GSA repair schedule contractor billings we reviewed were overstated or unsupported. Accounting and billing systems ranged from minimal to none. Since GSA did not adequately perform preaward reviews nor always review billings during the term of the contracts, frequently contractors were not constrained to support time and materials charges.

Because contractors did not comply with the Service Contract Act, their employees were underpaid on Government repair and rehabilitation work. Only one firm was prepared to pay any amounts due employees.

GSA does not know the dollar value or size of its repair program because it has not aggressively pursued the submission of sales volume reports from its contractors. Such data is essential if GSA is to manage the program in its broadest sense and also provide bidders with potential sales volume.

We recommend that the Administrator of GSA take the following actions:

- Increase GSA's reviews of contractor billings to schedule customer agencies. GSA should also determine the adequacy of contractors' accounting systems before awarding repair contracts.
- Develop a simplified accounting and reporting format to assist contractors in presenting their labor and material costs for attachment to the billing invoice.
- Review wages paid to schedule contractor employees to determine compliance with the Service Contract Act. We believe the GSA contract administrators can do this as a part of their contract surveillance. Any violations should then be reported to the Department of Labor for further investigation.
- Reemphasize to contractors that timely submission of complete and accurate monthly sales volume data is an important contract requirement. GSA contract administrators should ensure that these reports are submitted.

AGENCY COMMENTS

The Assistant Commissioner of GSA's Federal Property Resources Service did not address our recommendations, but made certain minor points for our consideration in the report.

CHAPTER 4

AGENCY INVOLVEMENT WITH GSA REPAIR CONTRACTS

Agencies lack effective controls over repair schedule use and monitoring contractor billings. Although agencies are responsible for purchasing, receiving, and paying for repairs under the contracts, they do not insure that billings meet GSA schedule provisions.

Agencies believe that contracts are frequently awarded to firms that are incapable of meeting contract requirements, but the agencies do not provide GSA with needed assistance. GSA bases its schedule contract requirements, in part, on agency requirements surveys which are sent out before contract award. Agency responses to these surveys are sporadic at best, making the accuracy of contract requirements questionable. Thus, firms sometimes receive contracts for services which are beyond their capability. Also, customer agencies, although required to use the repair schedules, sometimes have their work done by non-GSA contract firms and often pay higher rates. In essence, we found that agency procurement personnel did not adhere to schedule provisions, requirements were not updated, and purchase orders included inaccurate information.

LACK OF ADHERENCE TO SCHEDULE PROVISIONS AND RESPONSIBILITIES

Each agency using the GSA price schedules places orders for needed services and makes payments directly to the contractors. Therefore, the agencies must prepare accurate purchase orders and see that contractors provide quality and timely services in accordance with contract terms. Some agencies did not adhere to schedule provisions or made erroneous interpretations.

One agency paid \$1,960 for electric motor and generator repairs without any evidence that the amount was proper. We found that the contractor had no supporting documentation for labor or materials used. Neither the agency purchase order nor the contractor's invoice had been prepared as specified in the GSA repair schedule. Accordingly, we issued a "Notice of Exception" to the agency's certifying payment officer in which we stated that credit for \$1,960 would be withheld unless a satisfactory explanation was given or the officer reimbursed the funds. To date, the certifying officer has not responded satisfactorily to our notice.

We found also that agencies

- did not have copies of price schedules, but signed contractor billings certifying that repairs were performed in accordance with schedule provisions,
- allowed household appliance repair contractors to bill separately for small parts, although the schedule provides that such costs must be included in the labor rate, and
- made more expensive off-schedule purchases for re-treading tires because of an erroneous conclusion that sizes involved were not covered by the schedule.

Use of noncontractor firms
results in higher repair prices

Each repair schedule contains a notice that it is mandatory for use by executive departments and agencies. Furthermore, each GSA region issuing a schedule may subdivide the schedule into certain geographical areas and award only one contract per area. An agency located within that area must use the corresponding contractor. We noted that often agencies will completely disregard these provisions, either by using nonschedule firms or using GSA schedule contractors who were not awarded a contract for a particular area. Consequently, agencies generally paid higher prices.

For example, two carpet cleaning and installation contractors used were located outside the geographical limits established in the schedule. These contractors charged the agencies their commercial rates rather than the lower schedule prices.

Our review of 58 carpet installation requisitions issued by one agency for fiscal years 1977 and 1978 disclosed that the agency regularly used nonschedule contractors. The agency did not always state its reasons for doing so or obtain waivers from GSA to use such firms.

In reviewing a sample of carpet installation invoices submitted by nonschedule contractors for fiscal years 1977 and 1978, we questioned 59 percent, or \$6,970 of the \$11,767 billed, because of inadequate or nonexistent documentation. Personnel responsible for completing the purchase orders did not have copies of the current GSA price schedules. Thus, they could not verify contractor price quotes. Many of the purchase orders and invoices did not contain enough detail for us to compute the amounts due. Further, because of this

lack of information the agency did not verify the invoice amount before payment. We also found cases where the contractor received payment without giving an appropriate discount.

Conflict of interest

In examining contractor files, we found that the chief supply officer at one agency was the husband of the owner of a firm doing business under contract with GSA. This supply officer issued purchase orders to the firm, even though it did not have a GSA contract for the service area in which the agency was located. The contractor used her former husband's name for business purposes. Between 1975 and 1978 the contractor had paid from her business, directly or indirectly, approximately \$155,000 to her husband.

This matter has been referred to the Department of Justice through our Fraud Task Force for further investigation. Furthermore, we supplied the task force with a listing of 15 other GSA repair schedule contractors we reviewed which could involve apparent fraud or violations of Federal law.

REQUIREMENTS NOT UPDATED

A military installation reported requirements to GSA that were primarily for annual maintenance of IBM typewriters, with some repairs to be made under an hourly basis. After GSA awarded an annual maintenance schedule contract, the installation decided to obtain repairs on an hourly basis because the installation officials stated that the hourly basis was more efficient for securing repairs. If this change had been reported to GSA before award, a different contractor might have offered a lower hourly rate.

In April 1978 the installation stated repair requirements for hourly and annual maintenance rates on 110 and 570 typewriters, respectively. GSA awarded the contract on the basis of this response. A contractor who bid the third highest hourly rate (\$9.45) and the lowest annual maintenance discount (56 percent) won the contract, based on the combined requirements.

In October 1978 this same installation issued a \$13,000 blanket purchase order to repair or overhaul all IBM typewriters during fiscal year 1979. No mention was made of annual maintenance, and the installation paid the contractor's \$9.45 hourly rate to repair all IBM electric typewriters.

However, the lowest hourly rate bid was \$6.80 and if the installation had properly indicated its requirements before award, substantive savings could have been achieved.

INACCURATE PURCHASE ORDERS

Agencies request services on purchase orders which describe the type of needed repairs, any special contract provisions, and the estimated price. Some of the agencies visited used a blanket purchase order for schedule services for a specific time period. The contractors made repairs against these purchase orders after receiving oral requests from authorized agency personnel.

During our review, we noted several instances of inaccurate purchase orders. For example:

- Agencies using a tire retreading schedule frequently included incorrect unit prices and made other errors. The mistakes noted resulted in both underpayments and overpayments to the contractors.
- Agencies using an office machine schedule placed orders against expired blanket purchase agreements.

Several agencies mentioned that purchase order estimates were in error because GSA issued its price schedules about 2 months after the effective contract dates. However, each agency said they contacted GSA for the contract rates before issuing the purchase orders. In any event, one Air Force installation made unsupported estimates on its orders for manual typewriter repairs, while other military and civilian installations overestimated their orders.

CONCLUSIONS AND RECOMMENDATIONS

Agencies who use the GSA repair schedules do not have effective procedures for ensuring that billings conform with schedule provisions. Many of the problems could have been alleviated if the agencies adhered to schedule terms and closely reviewed contractor invoices.

Also, agencies did not assist GSA in obtaining quality contractors by responding to or updating GSA requirements surveys. These surveys allow GSA to plan and forecast repair schedule needs. Although agencies have some procedures for monitoring contractor performance, these steps have not been effective. GSA could greatly assist agencies by advising them of the problems associated with certain repair schedules and instructing them on specific ways to minimize their repair procurement expenditures.

We recommend that the Administrator of GSA take the following actions:

- Followup on agency requirement surveys to obtain more accurate forecasting of repair needs.
- Assist customer agencies by providing instructions and guidance on the problems associated with repair schedules and contractors.

AGENCY COMMENTS

The Assistant Commissioner of GSA's Federal Property Resources Service did not specifically disagree with our recommendations, but suggested alternate recommendations which should be directed to the heads of Federal agencies through the Administrator of GSA. This suggestion would require agencies to develop procedures for ensuring that contractor billings conform with schedule provisions, advise GSA of problems encountered while using repair schedules, and respond promptly to GSA requirements surveys.

For the most part, the recommendations the Assistant Commissioner suggests are already contained in the repair schedule provisions. We believe that in the first instance, GSA is responsible for ensuring effective repair schedule usage. GSA should take the initiative in assisting agencies to maximize their benefits from participating in the repair schedule program.

CHAPTER 5

SCOPE OF REVIEW

The review was conducted from October 1978 to May 1979 and was performed at GSA Federal Property Resources Service headquarters, Arlington, Virginia; and GSA regional offices in Washington, D.C.; Atlanta, Georgia; and Denver, Colorado. Our review included discussions with officials and examinations of procurement files, management studies, GSA internal audit reports, and other documents.

We visited 27 schedule contractors and reviewed their operating procedures, billing systems, and supporting documentation which affect contract costs and related invoices for payment. The estimated value of the contracts we reviewed is \$7.7 million. The following table identifies the repair and rehabilitation items, pricing method, number of contractors, and estimated value of the contracts we examined.

<u>Item</u>	<u>Pricing method</u>	<u>Number of contractors examined</u>	<u>Estimated value of contracts</u>
Heavy construction and material handling equipment repair	Time and materials	5	\$4,803,712
Refinishing metal furniture, electrostatic process	Predetermined price	1	832,000
Drapery cleaning	Predetermined price	1	490,000
Tire retreading and repairing	Predetermined price	2	320,000
Furniture rehabilitation	Predetermined price	1	284,123
Repair and maintenance of electric typewriters	Time and materials	5	248,359
Repair and maintenance of motor vehicles	Time and materials	5	205,002
Carpet cleaning, repair, and related services	Predetermined price	2	204,320
Repair and maintenance of adding machines and calculators	Time and materials	2	130,464
Household appliance maintenance and repair	Time and materials	2	111,640
Electric motor, generator, and related electrical equipment, repair, and maintenance	Time and materials	<u>1</u>	<u>92,100</u>
Total		<u>27</u>	<u>\$7,721,720</u>

We also visited 20 agencies or installations which are required to use GSA schedule contractors for repair and rehabilitation services. During these visits, we (1) reviewed agency procedures for monitoring contractor work, (2) reviewed invoices and supporting documentation for compliance with repair schedule terms, and (3) discussed the quality of service received from schedule contractors and various aspects of contract administration.

These agencies visited were:

1. Air Force Academy
Colorado Springs, Colorado
2. Department of Agriculture
Food and Nutrition Service
Washington, D.C.
3. Department of Agriculture
Forest Service
Montgomery, Alabama
4. Department of Agriculture
Veterinary Services
Montgomery, Alabama
5. Eglin Air Force Base
Ft. Walton Beach, Florida
6. Federal Aviation Administration
Colorado Springs, Colorado
7. Federal Communications Commission
Washington, D.C.
8. Fort Carson
Colorado Springs, Colorado
9. GSA--Region 3--Management Services Division
Washington, D.C.
10. GSA--Region 3--Public Buildings Service
White House Area
Washington, D.C.
11. GSA Motor Pool
Denver, Colorado
12. GSA Motor Pool
Mobile, Alabama

13. GSA Motor Pool
Salt Lake City, Utah
14. Maxwell Air Force Base
Montgomery, Alabama
15. Naval Air Station
Norfolk, Virginia
16. Naval Air Station
Pensacola, Florida
17. Peterson Air Force Base
Colorado Springs, Colorado
18. Philadelphia Naval Shipyard
Public Works Department
Philadelphia, Pennsylvania
19. U.S. Property and Fiscal Office
Atlanta, Georgia
20. Veterans Administration Center
Dublin, Georgia

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