

092710



UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C 20548

CIVIL DIVISION

APR 17 1969

Dear Mr Muirhead

As part of our review of activities carried out under the Higher Education Facilities Act of 1963 (20 U.S.C. 701), we examined into the manner in which the Office of Education (OE), Department of Health, Education, and Welfare (HEW), was administering certain aspects of the academic facilities construction program.

We previously issued the following two reports to the Congress on our review of activities under the act

- 1 Need for strengthening controls for determining compliance with statutory restrictions on use of academic facilities constructed with Federal financial assistance, B-164031 (1), December 23, 1968.
- 2. Practices followed in adjusting Federal grants awarded for construction of academic facilities, B-164031 (1), March 4, 1969

In addition to the matters included in the above cited reports, we noted certain situations pertaining to the equipping of academic facilities constructed with Federal financial assistance which we believe should be considered by OE in its efforts to efficiently administer activities under the act. Our observations and views on these matters are set forth below

NEED TO STRENGTHEN GRANTEE'S' PROCUREMENT PRACTICES IN EQUIPPING ACADEMIC FACILITIES

In October 1966, OE issued revised regulations (45 CFR 170 4) to require that movable equipment for an approved construction project be procured by grantees in an economical manner consistent with sound business practice, in accordance with such instructions as the Commissioner of Education may prescribe. In February 1967, OE provided instructions which stated that compliance with this requirement could be met by using such methods as (1) public advertisement for bids, (2) solicitation of bids from three or more suppliers, (3) careful negotiation where there is only one source of supply and (4) other methods established pursuant to State or local law.

The instructions provided also that where, under special circumstances the grantee proposed to use some other method of procurement, a special justification should be submitted to OE at least 30 days in advance of the proposed procurement.

22 7/4891 092710

The OE instructions provided that the selection of necessary equipment, development of specifications, and award of equipment contracts were the responsibility of the grantee. The instructions made reference, however, to an Equipment Procurement Guide, which was available from OE upon request, that sets forth some generally accepted methods of equipment selection, specification development, and contract award.

The guide points out that the most important aspect of equipment procurement is the development of meaningful specifications. Meaningful specifications are described in the guide as those that clearly and concisely show the required quality of items desired. In this respect, the guide indicates that clear specifications are necessary so they will be readily understood by prospective suppliers and thereby help ensure the necessary quality and adequate range of competition.

Our review indicated, however, that grantees did not always follow the instructions contained in the OE procurement guide and did not always develop meaningful equipment specifications designed to ensure adequate competition.

For example, our review of the library construction project at Pfeiffer College, North Carolina (Project No 4-0152), showed that in requesting approval of equipment for the library the college president submitted to OE a form (OE Form 1136) indicating that most of the equipment was purchased by competitive bidding through solicitation of three or more suppliers.

We found, however, that specifications to indicate the quantity and quality of equipment desired were not prepared for use by the prospective suppliers. Instead, after examining floor plans for the building which showed the proposed use of each room, the firms submitted price quotations on the basis of providing equipment they considered necessary to adequately equip the facility. A college official advised us that he recognized that the prices submitted by the prospective suppliers included amounts for varying quantities and qualities of equipment. He stated, however, that on the basis of the quotations received, he selected what he considered to be the best buy for the equipment that he desired.

Our review of the construction project at Alderson-Broadus College, West Virginia (Project No 4-0072), showed that in requesting approval of equipment purchases the college's business manager submitted to OE Form 1136 indicating that scientific equipment costing about \$32,000 would be procured by competitive bidding through solicitation of three or more suppliers.

We were advised by a college official, however, that while the equipment was purchased from more than one supplier, bids were not requested

from more than one supplier for each item purchased. The equipment purchased included an electron microscope (\$8,950), a computer with teleprinter, reader, and punch (\$9,995), a vacuum evaporator (\$1,550), and other scientific apparatus.

We recognize that the selection of movable equipment by a grantee institution may involve values and considerations beyond the price factor. We believe, however, that the maximum benefits available from competitive procurement practices are not realized when a grantee institution does not provide prospective suppliers with equipment specifications that clearly show the quality and quantity of equipment desired or when only one supplier is solicited for each item of equipment.

Recommendation

We recommend, therefore, that OE reemphasize to grantees the importance of preparing meaningful equipment specifications and soliciting more than one supplier, whenever feasible, as an aid in achieving maximum economies in the use of Federal grant funds for equipping academic facilities.

NEED TO DISSEMINATE INFORMATION AS TO MAXIMUM ALLOWABLE PRICES FOR CERTAIN ITEMS OF EQUIPMENT

OE instructions provide that, in addition to meeting other conditions, in order to be eligible for Federal financial participation items of movable equipment must not be of elaborate or extravagant design or materials as determined by a review of the reasonableness of the cost of an item, its appropriateness for the intended level and type of use, and its utility. In addition, OE operating policies and procedures provide that certain items of furniture may be considered elaborate if the unit prices exceed certain maximum prices established by OE based on the prices paid by the General Services Administration (GSA) for Government procurement. If institutions procure furniture costing more than the maximum list prices established by OE, OE instructions require that the entire cost of such furniture be considered ineligible for Federal participation (College Facilities Operations Manual, part 4, section 4.3 (3)).

The maximum prices which will be approved for some items of furniture are listed in the operations manual prepared by OE, but we were advised that the manual was not made available to institutions which purchased equipment with Federal financial assistance under the act. As a result, such institutions may not be aware of the maximum price limitations established by OE and may unknowingly exceed such limitations.

For example, we found that the cost of certain equipment items included in a library construction project at Mary Baldwin College, Virginia (Project No. 4-0065), exceeded the maximum list prices established by OE as follows

<u>Item description</u>	<u>Quantity</u>	<u>Unit price</u> (note a)	<u>Maximum price</u> <u>established</u> <u>by OE</u>	<u>Location</u>
Conference table, 144" x 48", rope edge wood top	1	\$936.25	\$600.00	Memorial room
Desk, 60" x 32", rear dictation slide, box drawers	1	588.50	460 00	Librarian's office
Credenza, 61 5/8" wall unit with locks	1	430 14	225.00	Librarian's office

^aPrice included interior decorator's fee of 7 percent.

At the time of our review, the college had submitted its final equipment list to OE for approval, however, OE had not taken final action to close out the project. An OE official advised us that he would inquire into this matter after we told him that, based on OE instructions, the entire cost of the above listed items appeared to be ineligible for Federal financial participation. We believe that this type of situation could be avoided if OE were to notify institutions of the maximum prices which are considered eligible for Federal financial participation.

Similarly, we noted that a library construction project at Mankato State College, Minnesota (Project No 4-0054), was equipped with a large quantity of lounge furniture, including leather lounge chairs with a unit price of over \$300. The maximum eligible price listed by OE for leather covered chairs is \$200.

We noted, also, that the equipment list for a library project which was prepared by St. John's University, Minnesota (Project No 4-1078), and approved by OE, included 33 waste disposal baskets with a unit price of \$63.72 (total cost \$2,102.75). The maximum eligible price list prepared by OE did not indicate the maximum price for a waste disposal basket which would be considered eligible for Federal financial participation. We believe that OE should give consideration to expanding the list of items for which maximum eligible prices have been established to include additional types of equipment which, on the basis of OE experience, have been purchased in seemingly more elaborate form than required for the project purposes.

Recommendation

We recommend that OE expand the list of equipment items for which maximum eligible prices are established for Federal financial participation under the act and provide such list to institutions receiving Federal financial assistance in the construction of academic facilities under the act.

USE OF FEDERALLY FINANCED EQUIPMENT
OUTSIDE OF PROJECT FACILITIES

Section 108(b) of the act provides that Federal funds will be used solely for defraying the development cost of the project covered by an application. Regulations issued by OE (45 CFR 170.1 (h)(3)) defined initial movable equipment as all items necessary for the functioning of a particular academic facility for its specific purpose and which would be used "solely or primarily" in the rooms or areas covered by a project application. We are not aware of any criteria or instructions issued by OE concerning the factors to be considered and methods to be used in determining the location of "primary" use.

At Marshalltown Community College, Iowa (Project No. 3-0014), project equipment was provided in the amount of \$56,216 and part of that equipment--costing \$16,658--had been moved to nonproject facilities. We were advised by a college official that because enrollment had increased faster than had been projected, some classes and equipment originally in the project were moved off the college campus to rented space. An OE regional official told us that he believed institutions should be allowed to move project equipment when there is a legitimate reason but indicated that the regional office had not been advised of the move by the college.

At Jasper County Junior College, Missouri (Project No. 3-0019), our examination of bid documents applicable to equipment for the construction project for a library building revealed a notation that 12 swivel chairs were purchased for the Board Room in the administration-classroom building. In addition to the chairs, we were informed by the librarian that some lounge furniture had also been moved to the administrative offices. The librarian informed us that she did not know why the lounge furniture was moved but that the 12 swivel chairs had been purchased for the Board Room in the administration-classroom building but were included in the library equipment list at the request of the college president. The college president informed us he could not recall the details on the 12 swivel chairs but stated they might have been purchased for the Board Room.

The amount of equipment involved in the above move was

12 swivel chairs	\$ 918.00
1 lounge seat	125.00
1 end table	<u>59.50</u>
Total	\$1,102.50

We recognize that situations may arise which, in the interest of effective utilization, require equipment purchased with Federal financial assistance to be moved to nonproject facilities. The act provides, however, a limitation for 20 years as to the use to which institutions may put facilities constructed with Federal financial assistance. We believe,

therefore, that OE should require institutions to obtain permission from OE when equipment is not to be used for the purpose specified in the grant agreement so as to help ensure that the Federal grant funds are used for the purposes for which they were made available.

Recommendation

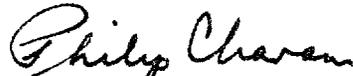
We recommend that OE require grantee institutions to obtain OE permission for use of federally financed equipment for purposes other than that specified in the grant agreements.

- - - -

We would appreciate receiving your comments on the matters discussed in this report and advice as to any actions taken to implement the recommendations.

We wish to acknowledge the cooperation given to our representatives during the review. Copies of this report are being sent to the Assistant Secretary, Comptroller, HEW, for his information

Sincerely yours,


Philip Charam
Associate Director

Mr. Peter P. Muirhead
Acting Commissioner of Education
Department of Health, Education,
and Welfare

5