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Statement of

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before the

*CIT* Senate Subcommittee on Federal Spending  
*A + R* Practices and Open Government *S 6609*  
Committee on Governmental Affairs

Mr. Chairman and members of the subcommittee, I am pleased to appear at these hearings and will comment, as you requested, on our recently completed review of the [Department of Energy's (~~DOE's~~) use of contracts for moving and storage services.] Our work at DOE was part of an ongoing Government-wide review of contracting for these services and we are now drafting our report on our DOE findings.

At DOE we found a myriad of problems pertaining to the use of contractor-furnished moving and storage services involving a high degree of irresponsibility on the part of DOE officials. We found that DOE did not adhere to Federal regulations or sound procurement practices, and did not provide adequate contract management and controls to

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protect the Government's interests. As a result, some very questionable situations have developed.

First, Mr. Chairman, I would like to briefly provide some background and then discuss our findings concerning DOE's use of a moving service contract.

BACKGROUND ON MOVING SERVICE CONTRACT

Current Federal Property Management Regulations provide 2 that the General Services Administration (GSA) will award 17 term moving contracts for use by Government agencies when moves are estimated to cost \$5,000 or less. These term contracts provide a means for agencies to obtain moving services, as needed, for relatively small moves. After GSA awards these contracts, the agency is responsible for placing orders and verifying services received. If requested, GSA may also enter into a specific contract to meet an individual agency's requirements for large moves. Such contracts, once established, must be used by the requesting agency.

At DOE's request, GSA competitively awarded a term moving 3 contract on December 28, 1978, to Edwards Trucking Company, D. 3506 Incorporated to meet the agency's normal daily moving service requirements in the Washington, D.C., area. This contract was an indefinite quantity type contract for a period of one year and the actual labor hours used were to be paid at an agreed upon rate. At the time of award, the estimated costs to be incurred over the life of the contract were \$600,000. We were told that this figure was based on prior experience. It would seem to be an unusually large amount, however, to provide for small moves.

DOE's MISUSE OF MOVING SERVICE  
CONTRACT AND INADEQUATE CONTRACT  
MANAGEMENT

We found that through the first 7-1/2 months of the contract DOE spent more than \$1 million, and is expected to spend a total of \$1.9 million through the end of the contract. Misuse of this contract accounted for a large portion of the expenditures. I would like to briefly discuss some examples that we noted.

1. Improper use of the contract for moves costing more than \$5,000

We found that DOE used the term moving contract for large moves exceeding the \$5,000-limitation provision of the contract. Some of the costs resulted from the payment of premium overtime rates to accomplish moves after normal working hours and on week-ends. Through the first 7 months 2,459 persons were moved, and DOE paid almost \$300,000 in overtime costs. In contrast, when moves are expected to exceed \$5,000, if requested, GSA will award advertised, fixed-price contracts. On this basis, GSA advised us that prices had been obtained for other agencies that were about half as much as the premium prices DOE was paying. Further, if the 7-month trend of overtime expenditures continues over the remainder of the contract, we estimated that a total of \$510,000 will be spent or about \$255,000 more than it could cost under GSA advertised, fixed-price contracts.

2. Improper use of contractor personnel

DOE used contractor personnel for services unrelated to moving. For example, of the 80 contractor people used

daily under the contract, about 25 persons were being used in 6 DOE self-service supply stores. The work performed consisted of stocking and cleaning shelves, cleaning floors, and delivering paper supplies. Two DOE stores were totally manned by contractor employees. We also found contractor timesheets which indicated both men and women being used as office personnel. During our review, we found one contractor employee being used as a secretary. Such use of contractor personnel was not in accordance with the contract, and also could have been for the purpose of circumventing personnel ceilings. At the time, the authorized staffing for the responsible DOE supply office was 28 persons and 27 positions were filled.

### 3. Inadequate contract administration

Poor contract administration was particularly evident in DOE's lack of control over the amount of services billed by the contractor. DOE officials relied solely on contractor-maintained timesheets as support for services furnished. DOE had no independent record to verify hours worked and charges claimed by the contractor. Upon examination of some daily timesheets and invoices, we found overcharges, undercharges, and other questionable charges. In one day's set of timesheets, several people were recorded as working more than 24 hours for that day. Despite the errors we found, the timesheets and invoices had been certified by DOE as accurate and had been approved for payment.

PROBLEMS WITH WAREHOUSE SERVICE CONTRACTS

Mr. Chairman, I would now like to briefly discuss DOE's use of three contractors for storing office furniture.

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6 The contractors are: Office Movers, Incorporated; Commercial Movers, Incorporated; and Kane Warehouse Company, Incorporated. *D. 3509*  
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We found that DOE warehoused a large inventory of new and uncrated, refurbished, and used office furniture, but was unsure of the exact size or value of this inventory. DOE officials estimated the value at somewhere between \$2.5 million and \$4 million. Based on inventory information available and GSA catalog costs, we estimated the inventory to be about \$1 million as of October 1979. (Because of the lack of independent DOE controls and records we cannot be sure of what was supposed to be on hand or if substantial quantities of furniture were missing.) This figure was based on an estimated 7,000 items of new and refurbished office furniture warehoused in the three contractor's locations at this time. It did not include some old or surplus furniture stored at the one contractor location. In fiscal year 1979, DOE provided funds of about \$200,000 for storage and storage related services.

Again, here, as with the moving contract, we found a lack of concern for the Government's interests. There was a lack of inventory control, failure to enforce contract provisions, violations of regulations and sound procurement practices, and payment of comparatively excessive storage rates. Also, DOE used one contractor without the benefit of

a formal written contract. At this location, more than \$180,000 in DOE furniture was destroyed in a fire.

I would like now to speak to some of the specifics.

1. Lack of DOE inventory control

As mentioned previously, DOE had little or no control over its furniture inventory. The only inventories in evidence at two of the contractors' facilities were contractor-maintained monthly inventories which were provided to DOE as a basis for claimed storage charges. The third contractor, we were told, only kept a partial inventory of the furniture at its location. At this latter location, DOE placed two Government employees in September 1979, to institute some inventory control procedures. We found no evidence, that prior to this DOE ever took physical inventories at two of the three contractors' warehouses.

Title 2, subsection 12.5, of the GAO Policy and Procedures Manual for Guidance of Federal Agencies provides for:

- . Accurate and reliable financial and quantitative information on property resources.
- . Appropriate records of physical quantities of Government-owned property and its location.
- . Adequate inventory controls and accountability for property under an agency's control.
- . Physical inventories to be taken at regular intervals of both expendable materials and supplies and fixed assets.

2. Problems with contracts awarded

Two of the contractors, Office Movers, Incorporated,

and Commercial Movers, Incorporated, used by DOE were subsidiaries of the same parent company, E. I. Kane, Incorporated.

7 On September 14, 1978, the GSA Region 3 Federal Supply Service's Transportation Services Division awarded a 1-year <sup>12-88</sup> advertised contract, GS-03T-1043, to Office Movers, Incorporated. The contract required the contractor to furnish services related to the storage and transportation of about 800,000 pounds of furniture at and from the contractor's warehouse to DOE locations in the Washington, D.C., area. The estimated contract amount was \$65,000, and actual billings were to be computed by applying the competitively bid storage and transportation rates, \$1.13 and \$2.26 per hundred weight, respectively, to the weight of furniture stored or moved.

We found that while the contract provided for competitively established transportation rates, DOE chose to use the moving contractor, Edwards Trucking Company, to transport furniture from the warehouse location. According to both DOE and Office Movers officials, problems encountered in clearing space for new furniture deliveries at DOE locations were the reason. In so doing, however, DOE paid for services using hourly rates of \$23 an hour for a helper, truck, and driver rather than the \$2.26 per hundred weight. The main problem we see with paying on an hourly rate basis is that there is little if any incentive to be efficient or to control costs.

On January 15, 1979, DOE began using the Commercial Movers, Incorporated's warehouse facilities apparently because

of an overflow of furniture in the other contractor's storage facilities. Some of the problems with regard to DOE's use of Commercial Movers were:

- An oral agreement initiated the use of this contractor. Our review indicated the possibility of an unauthorized person, other than the contracting officer, entering into this agreement.
- It was not until June 26, 1979, almost 5 months after use of the contractor had begun, that a written contract was executed. DOE cited a lack of adequate funding as the primary reason for the delay in contract formalization.
- The contract was awarded on a noncompetitive basis. DOE cited the proximity of the contractor's facility to the Office Movers location and the urgency of the requirement as the reasons for this contractor being the only practical source. The negotiation justification stated that it was impracticable to secure competition because the requirements could not be put in definitive specifications.
- DOE, in effect, rented the Commercial Movers warehouse in violation of Federal Property Management Regulations. Under these regulations, GSA's Public Building Service is designated as

the agent for leasing all privately owned space for the Federal Government, with certain exceptions. Included in this responsibility is the leasing of storage space. When authority has been requested and granted by GSA, agencies can lease privately owned space. DOE neither requested nor obtained any such authority.

--DOE paid rates for storage space at almost double the rates normally obtained by the GSA Public Building Service for similar space. The annual rate for the DOE-procured warehouse was \$4.20 per square foot as compared to GSA's estimate of \$2.25 to \$2.75 per square foot for a warehouse of comparable size, age, and location. Possible reasons for the difference are that DOE obtained its facility from a lessor, whereas, GSA's Public Building Service normally deals with owners or their agents, and GSA normally enters into long-term lease agreements, whereas, DOE's was on a short-term basis.

(We also estimated that the square foot equivalent cost paid under the Office Movers contract could have been anywhere from \$4.80 to \$5.40 per square foot per year.)

One final point should be made with regard to DOE's use of these two contractors. An apparent conflict of interest situation existed because much of the new furniture delivered to these warehouses was delivered by the parent

contractor, E. I. Kane, Incorporated. Under a GSA Region 3 transportation contract, E. I. Kane was responsible for deliveries out of GSA's furniture depot facilities at Middle River, Maryland to Government agencies in the Washington, D.C., area. In this instance, deliveries were made to E. I. Kane's subsidiaries which accepted deliveries on behalf of DOE. Such a situation requires adequate and close surveillance. As mentioned previously, it was not until sometime after our review began that DOE took steps to provide such surveillance and establish some inventory controls. Without such controls DOE had no basis to detect any inventory shortages that may have occurred. 3 0.3512

3. DOE's use of a contractor without a formal contract

Finally, we found that DOE used the services of Kane Warehouse Company (not the same as E. I. Kane, Incorporated) without benefit of a written agreement that spelled out the terms and conditions. The company accepted items for storage and DOE, through GSA, paid invoices submitted by the company. The company maintained an inventory upon which the storage charges were determined. This DOE/GSA and Kane Warehouse Company arrangement began with the Energy Research and Development Administration in 1976 and has been continued by DOE. DOE was still using this warehouse as of last week to store a small amount of furniture. 9 66

In March 1979, during the time period in which the Kane Warehouse Company provided storage services to DOE, a warehouse fire occurred in which more than \$180,000 in office

furniture was destroyed. DOE has filed a claim against the contractor but it has not been settled. Kane Warehouse Company filed a claim with its insurer that was denied in September 1979, and DOE as of November 30 had not taken any further action since receiving this information. DOE and the contractor have raised the following issues which could affect resolution of the claim.

(1). No formal contract existed between DOE and the contractor.

(2). The adequacy of security and protection provided by the contractor for public property in his custody is in question. (Two 8 year olds allegedly entered the warehouse and started the fire.)

(3). The contractor disputes the types and quantities of furniture DOE claimed were destroyed in the fire.

The contractor, however, was expected to and should have provided reasonable care of Government property stored in his warehouse. We feel that DOE should continue to pursue the claim for reimbursement from the contractor.

We discussed these problems related to DOE's use of the three storage contractors with DOE and GSA Inspector General representatives for their consideration during their work on the Task Force reviewing agency property management procedures.

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Mr. Chairman, this concludes my remarks concerning the DOE's procurement-related problems. We would be

pleased to respond to any questions that you may have  
at this time.