

112945

GAO

United States General Accounting Office
Washington, DC 20548

Logistics and
Communications
Division

B-199760

AUGUST 5, 1980

The Honorable R. G. Freeman III
Administrator of General Services *AGC 00019*



112945

Dear Mr. Freeman:

Subject: GSA is Overcharging Some Federal Agencies for
Protective Services (LCD-80-93)

During our review of GSA's management of reimbursable services to Federal agencies in the National Capital Region and GSA's region 5 (Chicago, Illinois), we noted that GSA had been overcharging some Federal agencies for protective services. GSA adds a protective service surcharge to rental rates established by independent appraisers. Overcharging occurs because appraisers often include charges for protective services in their rental rate estimates.

BACKGROUND

Public Law 92-313, dated June 16, 1972, directs GSA to charge agencies rent for the space GSA provides. The rental payments are officially called standard level user charges (SLUC). The law states that charges to agencies "shall approximate commercial charges for comparable space and services." The law does not contain criteria or guidance for computing comparable commercial charges.

In implementing the law, GSA contracts with appraisers to estimate comparable commercial charges. In developing such charges for fiscal year 1978, each Government owned and leased building was appraised and a rate, referred to as a fair annual rental rate, was established. Each year since fiscal year 1978, about one-third of the buildings have been reappraised and new fair annual rental rates established. This practice will continue so that new rates will be established for about one-third of the buildings every year. These rates, once established, remain fixed for 3 years.

After receiving the independent appraisers' estimated fair annual rental rates, GSA adds anticipated inflation to the beginning of the first fiscal year in which the rates are to be charged to agencies. GSA also adds an additional



611550
DLG 05035

(945371)

DLG 04163
DLG 01718

charge for guard and security (protective) services. The total of the appraisers' fair annual rental rates, GSA's estimated inflation, and guard and security surcharges represents the rates that GSA charges agencies for space it provides.

PROTECTIVE SERVICE COSTS
INCLUDED IN APPRAISERS' RATES

GSA gives independent appraisers little guidance on how to estimate fair annual rental rates. The appraisers are told that the rates should reflect the standard level of services, including cleaning, temperature control, illumination and other utilities, safety provisions, maintenance, and initial alterations. However, what the standard level should be is left to their judgment. In particular, they are not told whether, or at what level, protective services are to be included in estimating the rates. However, the form GSA gives appraisers for recording their assessments provides a space for including estimated protection costs.

For 40 percent of the assessments made in fiscal years 1978 and 1979 in region 5, appraisers included protection costs in computing fair annual rental rates. The protection costs for fiscal year 1978 totaled over \$500,000--from 3 cents to 75 cents a square foot. The protection costs for three highrise buildings in Chicago in fiscal year 1979 totaled about \$236,000.

Protection costs included by appraisers in selected fiscal year 1978 appraisals in the National Capital Region ranged from 20 cents to 68 cents a square foot. For three selected facilities, these costs were about \$456,000 in fiscal year 1978. Also, 30 of the 73 National Capital Region appraisals we looked at for fiscal year 1979 included nearly \$139,000 in protection costs.

PROTECTION SURCHARGE ADDED

As previously mentioned, GSA, in establishing SLUC, adds a surcharge for protective services to the independent appraisers' estimated fair annual rental rates. This results in duplicative charges when the appraisers' fair annual rental rates already include charges for protection.

Since fiscal year 1975, GSA has added a charge per square foot for guard and protective services for office and other space. The surcharge is calculated by dividing the Federal Protective Service's budget by the total space it patrols.

Charges per square foot added to the fair annual rental rate for protection costs have been as follows:

	<u>Fiscal year</u>			
	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
Protection surcharge:				
Office, general storage, and special space	\$0.28	\$0.28	\$0.30	\$0.31
Warehouse space	.09	.07	.08	.09

GSA maintains that the surcharge is needed because:

--GSA must be prepared to provide every tenant agency with a standard level of protection, whether it is actually used or not.

--It would be administratively impractical to charge for protection according to actual use.

GSA's reasons for adding a protective services surcharge do not, however, justify including both GSA's surcharge and the appraiser's security estimate in arriving at the rent an agency is to pay.

CONCLUSION

Because GSA failed to instruct appraisers to omit security costs when computing the fair annual rental rates, certain tenant agencies are being charged more than they should for protective services. Many tenants in the National Capital Region and region 5 facilities appraised in fiscal year 1978 are paying rental rates which include duplicative charges for protective services. Unless GSA takes corrective action, more tenants may be paying duplicate charges when fiscal year 1979 appraisals take effect in October 1980. This problem may well exist in the remaining nine GSA regions.

DISCUSSION WITH PUBLIC BUILDINGS SERVICE REPRESENTATIVES

We discussed the problem of duplicative charges with officials in GSA's Public Buildings Service in June 1980. We proposed that appraisers be instructed to eliminate security costs in computing the fair annual rental rate. We also suggested that GSA determine the amounts appraisers

included in such rates for fiscal years 1980 and 1981 and reduce future billings by the amount of the overcharges.

Public Buildings Service representatives agreed that a double charge for protective services did appear to be included in the SLUC rate and that independent appraisers should be given specific instructions on how to deal with security costs in the appraisal process. We were told that instructions covering this matter will be sent to appraisers this fall. New instructions will be for rates to be charged in fiscal year 1983.

The Public Buildings Service representatives did not agree that future billings should be reduced by the amount of the overcharges because, in their opinion, GSA had been undercharging tenants over the years due to lower than actual inflation factors included in SLUC. We do not agree with their reasoning for not reducing billings for fiscal year 1981 and beyond. Charging tenants twice for protection is not equitable. Further, we believe GSA's failure to adequately provide for inflation in past billings to agencies is no justification for overcharging agencies for protection in future billings.

RECOMMENDATIONS

We recommend that you direct the Commissioner, Public Buildings Service, to:

- Issue guidance to appraisers which clearly eliminates consideration of protection costs when computing fair annual rental rates, since such costs are included in GSA's protection surcharge.
- Determine the amounts included by appraisers for protection costs in existing rental rates for all Federal agencies and reduce future billings by the amount of the overcharges.

As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the House Committee on Government Operations and the Senate Committee on Governmental Affairs not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to the Chairmen, House Committees on Appropriations, on Government Operations, and on Public Works and Transportation; Senate Committees on Appropriations, on Governmental Affairs, and on Environment and Public Works; and the Director, Office of Management and Budget.

Sincerely yours,

A handwritten signature in black ink, appearing to read "R. W. Gutmann". The signature is written in a cursive style with a horizontal line underlining the name.

R. W. Gutmann
Director