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COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON, D.C. 20548

2.25.18  
12-22-10  
DEC 22 1971

B-174701



Dear Mr. Kunzig:

Our review of the General Services Administration (GSA) operation of heating plants in the Washington, D.C., area showed that the rate charged for steam sold did not include factors for depreciation and repair and improvement costs for the heating plants. The unrecovered costs for fiscal year 1970 totaled about \$259,000--\$136,000 for sales to quasi-official agencies and other organizations and \$123,000 for sales to certain Federal agencies.

The GSA Special Services Branch operates the Central, West, and Virginia heating plants in the Washington metropolitan area. GSA is authorized to furnish steam from these plants to Federal buildings and to other specified buildings, such as those of the American Red Cross, the Corcoran Gallery of Art, the Federal Reserve System, and the Smithsonian Institution.

The cost of steam operations, exclusive of administrative expenses, depreciation, and repair and improvement costs of the steam plants, was \$6.1 million for fiscal year 1970.

The three heating plants distributed 4,189,666 thousand pounds (M-lbs) of steam in fiscal year 1970 to GSA-managed Federal buildings, to non-GSA-managed Federal buildings, and to buildings occupied by quasi-official agencies and other organizations.

SALES TO QUASI-OFFICIAL AGENCIES  
AND OTHER ORGANIZATIONS

GSA sold 501,278 M-lbs to quasi-official agencies and other organizations. The billing rate was \$1.55 for each M-lbs, and the total sales were about \$780,000. The billing rate included the cost of labor, materials, supplies, and a surcharge to cover administrative expenses. The rate did not include an amount for depreciation and repair and improvement costs.

The Office of Management and Budget Circular A-25 states that a reasonable charge (user charge) should be made to each recipient for a Government service received above and beyond that accruing to the public at large. Agencies are required to report annually on services provided.

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Reports concerning steam sales to quasi-official agencies and other organizations on user charges for fiscal years 1968, 1969, and 1970, submitted by GSA to the Office of Management and Budget in accordance with Circular A-25, state that:

"Steam furnished various non-Governmental activities at actual cost to the Government, exclusive of depreciation, major repairs and interest, plus administrative expense."

According to GSA accounting records, the acquisition cost of the plant and equipment at the three heating plants as of June 30, 1969, was as follows:

Central heating plant	\$ 4,320,633
West heating plant	7,530,447
Virginia heating plant	<u>10,815,000</u>
Total	<u>\$22,666,080</u>

According to the latest Federal Power Commission report on depreciation rates used by electric utility companies, steam plant buildings and equipment are depreciated at an average annual rate of 2.63 percent. By using a rate of 2.5 percent, we computed, on the basis of the June 30, 1969, cost of the GSA plants in service, the depreciation cost for fiscal year 1970 to be \$566,652, or 13.5 cents for each M-lbs of steam.

The repair and improvement costs at the three heating plants for fiscal year 1970 were as follows:

Central heating plant	\$207,879
West heating plant	56,300
Virginia heating plant	<u>308,631</u>
Total	<u>\$572,810</u>

We computed the repair and improvement costs for fiscal year 1970 to be 13.7 cents for each M-lbs.

Section 22c of Title 40, United States Code, states that rates to be paid for steam furnished to the Corcoran Gallery of Art, the Pan American Union, the American Red Cross buildings, and such other non-Federal public buildings "as are or hereafter may be authorized to receive steam" shall be determined by the Administrator of General Services. Sections 22, 22a, and 22b provide that rates for steam furnished to the

Corcoran Gallery of Art, the Federal Reserve System, the Pan American Union, and the American Red Cross shall be at rates not less than cost.

Section 483a of 31 U.S.C. states that any work or utility performed or furnished by any Federal agency to or for any person (including groups, associations, organizations, partnerships, or businesses) except those engaged in the transaction of official business of the Government, shall be self-sustaining and the fee charged shall be fair and equitable taking into consideration direct and indirect cost to the Government.

The billing rate for steam sold during fiscal year 1970 should, according to our computations, have included an additional 13.5 cents and 13.7 cents for each M-lbs to recover depreciation and repair and improvement costs, respectively. Therefore an increase of 27.2 cents in the reimbursable rate for each M-lbs of steam would have been necessary and would have resulted in additional revenue of about \$136,000 on the sale of steam to quasi-official agencies and other organizations.

Recommendation to the Administrator  
of General Services

We recommend that GSA's billing rates for steam sales to quasi-official agencies and other organizations be revised to include an amount for depreciation and repair and improvement costs.

SALES TO FEDERAL AGENCIES

GSA also sold 453,356 M-lbs of steam to Federal agencies responsible for operating and maintaining the buildings which they occupy, such as the Department of the Treasury which operates the Treasury Building, the Bureau of Engraving and Printing Building, and other related buildings. Revenues from these sales amounted to about \$703,000 in fiscal year 1970.

For reimbursable services furnished by GSA to agencies for the operation of buildings and related activities, the law (40 U.S.C. 490) provides that the reimbursements be:

"at rates to be determined by the Administrator on the basis of estimated or actual costs (including accrued leave, and maintenance, repair, and, where applicable, depreciation of equipment)."

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GSA used the billing rate of \$1.55 for each M-lbs in fiscal year 1970 for steam sold to the Federal agencies. We estimated that GSA would have received additional revenue of about \$123,000 in fiscal year 1970 on the sale of 453,356 M-lbs of steam to these Federal agencies if the billing rate had been increased by 27.2 cents for each M-lbs to cover depreciation and repair and improvement costs.

Recommendation to the Administrator  
of General Services

We recommend that GSA include in the billing rate an amount for depreciation and repair and improvement costs for steam sold to Federal agencies responsible for operating and maintaining the buildings they occupy.

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Copies of this report are being sent to the House and Senate Committees on Government Operations and House and Senate Committees on Appropriations; the Subcommittee on Treasury, Postal Service, and General Government, Senate Committee on Appropriations; and the Director, Office of Management and Budget.

Sincerely yours,

*AT Samuelson*

Director, Civil Division

The Honorable Robert L. Kunzig  
Administrator, General Services  
Administration