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

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c/ Dear Senator Proxmire:

Your letter of July 9, 1971, referred for our attention an accompanying letter regarding claimed irregularities in the procurement and use of materials by the Service Technology Corporation (STC), a contractor at the Manned Spacecraft Center (MSC) of the National Aeronautics and Space Administration (NASA) at Houston, Texas. The results of our review are discussed below. P, 1768
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STC's work at MSC included maintenance of all buildings, grounds, and utility systems; engineering, design, and construction of hardware; alterations to buildings; technical writing and editing; and publications distribution services. In addition, STC maintained a warehouse of stocked materials and purchased these and other materials, unless they were provided by MSC, as required for supporting its work at MSC. STC has performed such services for MSC since December 1967 at an average annual cost of \$12 million.

Our review was made to examine into the claimed irregularities that (1) STC had purchased significant amounts of materials locally that were available from Federal supply sources at substantial savings, (2) STC had overestimated the material requirements for individual jobs and subsequently returned the excess materials to inventory for reissue without deducting the cost from the initial jobs, and (3) STC had tremendous material shortages and its material disbursement procedures allowed for covering up the shortages.

We held discussions with MSC and STC officials and examined pertinent documentation, primarily for procurement actions and work projects completed during the period December 1969 through March 1971.

During our review we were advised by the MSC Associate Director that, because of irregularities found in STC's operations by prior NASA-directed reviews, a special MSC management review team had been appointed to conduct an overall review of STC's operations. The MSC management team's review was completed in January 1972, and its findings are discussed in appropriate sections of this report.

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USE OF COMMERCIAL, RATHER THAN FEDERAL, SOURCES

Our review revealed, and STC officials confirmed, that generally STC had made no attempt to purchase materials from Federal sources. This practice was contrary to STC's procurement instructions which required that Federal sources be used to the maximum extent possible.

The STC supervisor responsible for deciding whether to use a commercial or Federal source told us that commercial sources were used to avoid delays, that past experiences with Federal sources had been unsatisfactory, and that Federal sources could not be relied on to meet STC's requirements on a timely basis.

The STC project manager stated that, although timeliness was an important factor when deciding where to obtain materials, all requirements should have been submitted to the cataloging section and should have been properly researched to identify Federal sources before a determination was made of where to obtain the materials.

Our review showed that, in those instances where the items had been available from Federal sources, there generally had been sufficient time to obtain them from Federal sources. An MSC supply official stated that rush orders could be received from Federal sources in about 5 days and routine orders in 8 to 20 days after placing the order.

With regard to possible savings, our review showed that, in some instances, the same items had been available from Federal sources at average savings of 10 percent. In other instances it appeared that substitutes had been available from Federal sources at a substantially higher percentage of savings. We were not certain, however, whether such items could have met STC's requirements. For some other items, we could not determine whether the same items or suitable substitute items had been available in the Federal supply system because of insufficient information about the items purchased or the intended uses for the items. Therefore we were not able to estimate the total savings to NASA if STC had made maximum use of Federal supply sources.

The MSC review team proposed, in its report to MSC management, that all STC purchase requests be screened to determine the items that would be available from Federal sources.

The review team proposed also that records be kept of repetitive buys to identify items which should be stocked by STC.

VARIANCES BETWEEN ESTIMATED AND
ACTUAL MATERIAL REQUIREMENTS

Individual work orders are issued for minor construction, renovation, and maintenance jobs to be performed by STC personnel. We reviewed 13 of these work orders; 10 for jobs that had been completed and three for jobs that had been canceled.

For seven of the 10 jobs that had been completed, we found that there were significant differences between the estimated and actual material requirements.

Our review of one work order showed that five doors had been charged to the work order, although an estimated 15 doors had been required. In addition, 100 electrical floor boxes had been charged to the work order, although the material estimate showed no such requirement. The actual material charges on this work order were about \$1,402, whereas the estimated costs for materials totaled only \$583.

Another work order showed that three circuit breakers had been charged to the work order; however, only one circuit breaker had been included in the estimated material requirements. The other completed work orders we reviewed showed similar differences.

Although it is not unusual for material used to vary from estimated material requirements because of unforeseen circumstances, STC was unable to provide us with justification for the differences. We found also that control over materials issued to the jobs was weak, as evidenced by the fact that STC craftsmen were permitted to obtain additional materials, not provided for in the initial estimate, from the warehouse stock and to charge them to the job without evidence of authorization.

The MSC review team proposed in its report that all material issued from the STC warehouse or toolroom be issued on a form approved by a foreman or supervisor. In our opinion this should increase the control over material withdrawn from inventories.

Our review of the work-order cost records for the three canceled jobs showed that each had been charged with the cost of materials but that no adjustments had been made for the

materials not used. At our request STC officials reviewed their records and located material turn-in documents for the material not used on two of the jobs but could find no such documents for the third job.

To determine the extent of work orders not credited for unused material, we reviewed material turn-in documents for a 16-month period ended March 1971. We found that, between October 1970 and March 1971, large amounts of materials had been returned to inventory without the costs' being deducted from the jobs charged. For the months of February and March 1971, about \$30,000 worth of materials had been returned to inventory without adjustments being made to the work-order cost records. STC officials could not explain why this had been done.

The MSC review team's report showed that an audit had been made of selected work orders handled by STC's engineering and construction department and its maintenance and operations department. The MSC review team found that in October 1971 STC initiated a new procedure whereby the foreman or another management official must complete a material certification form. This form required the foreman to certify that material (1) was not required, (2) was used on the job, or (3) was excess and returned to inventory. The team's review of completed work orders showed, however, that the form had not always been properly completed. It recommended that periodically a random sampling of completed work orders be made to ensure that the certification form is used properly.

MATERIAL SHORTAGES

Property administration over Government-owned material held by STC has been delegated by MSC to the Department of Defense's Defense Contract Administration Services (DCAS) Office at Houston. DCAS makes surveys to ensure that STC is managing the material effectively and in accordance with a plan approved by DCAS and the MSC contracting officer. Upon completion of its annual inventory of such material, STC reports the results to DCAS.

We inquired into the results of STC's annual inventory taken in December 1970 and found that, of 6,208 items counted having a total dollar value of about \$597,000, the physical count of 1,736 items did not agree with inventory records. The dollar value of overages amounted to about \$20,000, and the dollar value of shortages amounted to about \$27,000.

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DCAS advised NASA that STC's error rate of about 28 percent was in excess of an acceptable error rate of 0.2 percent. DCAS stated that STC's inventory control was so lax that serious consideration had been given to withdrawing approval of STC's property control system. DCAS advised MSC that STC had been requested to improve its inventory control to meet acceptable standards and to report its progress to DCAS by March 31, 1971. In addition, DCAS requested that MSC require STC to conduct another inventory upon the completion of its contract in March 1971.

The results of STC's inventory taken in March 1971 showed that, of 5,655 items counted having a total dollar value of about \$511,000, the physical count of 114 items did not agree with inventory records. The dollar value of overages amounted to about \$700, and the dollar value of shortages amounted to about \$500.

The MSC review team's report showed that in November 1971 DCAS found that deficiencies previously noted in the area of inventories had been corrected by STC. The review team, however, included in its proposed recommendations for strengthening surveillance over STC's inventory operations a suggestion that MSC and DCAS develop a plan to secure additional property administration support for the contract, such as increased frequency of review and more emphasis on specific problem areas.

OTHER RECOMMENDATIONS AND COMMENTS
BY MSC REVIEW TEAM

The review team reviewed MSC's contract procedures and recommended that monitoring of the STC operations be strengthened and that the MSC contracting officer devote more attention to STC's contract in such areas as expenditures, management controls, and labor relations. The review team concluded its report by stating that, with proper STC management and MSC attention, the deficiencies in the contract performance could be corrected within a time period acceptable to the Government.

In February 1972 we met with MSC officials, including the chairman of the review team. The MSC Deputy Director, Administration and Program Support, advised us that the review team's report was being reviewed by MSC management and that appropriate corrective action would be taken.

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We have not obtained either NASA's or STC's written comments on this report.

Please let us know if we can be of further assistance.

Sincerely yours,



[Deputy] Comptroller General
of the United States

The Honorable William Proxmire
United States Senate