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WASHINGTON, D.C. 20548

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title on form #115

B-193675

FEBRUARY 14, 1979

RELEASED

RESTRICTED — Not to be released outside the General Accounting Office except on the basis of specific approval by the Office of Congressional Relations.

- The Honorable Charles McC. Mathias, Jr., United States Senate
- The Honorable Paul S. Sarbanes, United States Senate
- The Honorable Clarence D. Long, House of Representatives
- The Honorable Barbara A. Mikulski, House of Representatives
- The Honorable Parren J. Mitchell, House of Representatives

In compliance with your request of May 9, 1978, we investigated allegations made by employee representatives that officials of the Baltimore area of the General Services Administration (GSA) had improperly contracted work to outside firms which could have been more inexpensively and expeditiously performed by GSA personnel. We also inquired into allegations of contractor malperformance at sites in the Baltimore area.

In a discussion with your offices, it was agreed that the specific questions included in your request could be restated:

- Before awarding a contract, did GSA consider using inhouse personnel to do the work, and make a comparison of the estimated costs of contractor and inhouse performance? If not, can GAO make cost comparisons on contracts previously awarded?
- How effective are GSA's purchasing and inspection procedures?
- Are the GSA employees' allegations about contractor malperformance in any part accurate?

Answers to these questions are summarized below.

- Cost comparisons were not performed or required, but GSA officials indicated compliance with their policy to use inhouse personnel to the extent available before awarding contracts. Preparation of cost comparisons by us on contracts previously awarded would be impractical.
- Controls over purchasing and inspection had been seriously deficient but have been strengthened.



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--Allegations of contractor malperformance could not be evaluated because of a lack of records.

The allegations primarily involved building maintenance work for the Chesapeake field office, which is one of four field offices in the Baltimore area, Region 3, of GSA's Public Buildings Service. We examined records and held discussions with officials at Chesapeake and the Baltimore area headquarters. We also held discussions with headquarters officials of the American Federation of Government Employees (AFGE) and with officials and members of an AFGE local in the Baltimore area. The details of our findings follow.

USE OF INHOUSE PERSONNEL APPARENTLY
CONSIDERED BUT COST COMPARISONS
NOT MADE OR REQUIRED

Although Chesapeake did not perform cost comparisons to justify contract awards, Government policy does not require that these contracts be awarded on the basis of lower estimated cost when compared with inhouse performance. GSA officials said that they complied with their policy to award contracts for building maintenance only when inhouse personnel were unavailable. However, these determinations were not documented. Reductions in personnel ceilings in recent years have resulted in fewer inhouse personnel being available for maintenance work.

It was impractical for us to prepare cost comparisons on contracts previously awarded, and they would have been of doubtful use because there were no records on whether inhouse personnel were available to do the work.

Government policy to rely
on the private sector

Office of Management and Budget Circular A-76 sets forth the policy of relying on the private enterprise system to supply the Government's needs, unless it is in the national interest for the Government to directly provide its own needed products and services. We recently reported to the Congress on the executive branch's policies and programs for obtaining commercial or industrial products and services for Government use ("Development of a National Make-or-Buy Strategy--Progress and Problems," PSAD-78-118, September 25, 1978). The report was based on a review of policies and programs at nine departments and agencies, including GSA.

The report made the following observations:

- Circular A-76 does not generally require cost comparisons to support contracting out decisions.
- Circular A-76 does not require cost comparisons on activities already contracted out to assure their continued cost effectiveness.
- Although Circular A-76 requires that contracting not be used to avoid established salary or personnel limitations, agency decisions to contract out or stay inhouse apparently continue to be influenced by the necessity of meeting yearend personnel ceilings.
- Personnel ceilings are an illusion of control over personnel resources and can force agencies to contract out when that may not be the most appropriate method of performance. GAO endorsed the President's Federal Personnel Management Project recommendation to use budget controls rather than personnel ceilings.

Our report recommended that the Congress, through legislation or otherwise, endorse a national policy of reliance on private enterprise for the Government's needed goods and services to the maximum extent feasible, insofar as doing so is consistent with the national interest, within the framework of procurement at reasonable prices.

Personnel ceilings at Chesapeake
and GSA's Baltimore area

A Chesapeake official said that in recent years it has become necessary to place greater reliance on contracting because personnel ceilings have been reduced.

While we were able to confirm personnel ceiling reductions for craftsmen at Chesapeake during the past several years, a lack of readily available procurement data precluded the identification of a possible trend toward greater reliance on contracting.

The following table shows the personnel ceiling, by type of craftsman, for Chesapeake at various points during the past 7 years, together with the number onboard at March 23, 1978.

Craftsman	Personnel ceiling at				Onboard at Mar. 23, 1978
	Apr. 1, 1971	Feb. 7, 1972	May 13, 1976	Mar. 23, 1978	
Carpenter	14	15	5	5	5
Electrician	18	13	9	9	6
Elevator repairman	11	11	9	9	9
Operating engineer	34	31	20	21	20
Plumber	9	6	7	7	6
Painter	<u>8</u>	<u>8</u>	<u>-</u>	<u>-</u>	<u>6</u>
Total	<u>94</u>	<u>84</u>	<u>50</u>	<u>51</u>	<u>52</u>

The table shows the sharp reduction in ceilings during the period, including elimination of the ceiling for painters. The paint shop remains in operation, however, because GSA relies on attrition rather than reductions-in-force to bring the number of personnel onboard in line with reduced personnel ceilings.

Each field office periodically prepares a maintenance management package using guidance furnished by the regional office. The package is a projection, based on workload, of the number of craftsmen needed for operations and preventive maintenance, assuming that all work will be done inhouse. The package is submitted through the area office to the regional office and central office for evaluation and approval. The regional office assigns a personnel ceiling to each field office based on the approved maintenance management package.

An area manager may transfer personnel among field offices, regardless of their ceilings, but may not change the ceiling for a field office. Also, the manager may not hire personnel at any field office where personnel onboard equal or exceed the field office ceiling.

On January 10, 1978, the Baltimore area was under its personnel ceiling for craftsmen by 10 percent (349 ceiling versus 314 onboard). This situation occurred because the Fort Meade field office was considerably under its ceiling, due to difficulty in getting security clearances for prospective employees at the National Security Agency. As discussed previously, this situation does not permit the area manager to hire additional personnel at Chesapeake which is already over its ceiling.

Kinds and dollar volume of procurements at Chesapeake

Chesapeake procures goods and services by

--awarding contracts and purchase orders to vendors, and

--issuing orders to vendors covered by requirements contracts awarded by Region 3.

In addition, Chesapeake obtains certain goods and services by submitting requisitions to Region 3 for procurement by the latter. Included in this category are fuel oil, equipment, janitorial services, and other procurements which exceed the field office's contractual authority, as discussed below. Requirements contracts, also known as term contracts, are awarded by the region for work in the various crafts. Field offices may issue orders directly to the term contractors for items, and at prices, included in the term contracts.

The following table shows the number and dollar value of procurements at Chesapeake for fiscal years 1976, 1977, and 1978 (through August 31, 1978). Requisitions submitted to Region 3 are not included.

<u>Fiscal year</u>	<u>Contracts and term contract orders</u>		<u>Small purchases</u>		<u>Total</u>	
	<u>Number</u>	<u>Value</u>	<u>Number</u>	<u>Value</u>	<u>Number</u>	<u>Value</u>
1976						
(note a)	460	\$412,246	309	\$27,115	769	\$ 439,361
1977	439	354,337	203	16,961	642	371,298
1978						
(note b)	<u>242</u>	<u>211,674</u>	<u>216</u>	<u>23,463</u>	<u>458</u>	<u>235,137</u>
Total	<u>1,141</u>	<u>\$978,257</u>	<u>728</u>	<u>\$67,539</u>	<u>1,869</u>	<u>\$1,045,796</u>

a/Includes transitional quarter.

b/Through August 31, 1978.

PURCHASING AND INSPECTION
CONTROLS STRENGTHENED

Prior to November 1977, internal controls over purchasing and inspection at Chesapeake were ineffective. In November 1977, after charges of corruption involving GSA building managers (who are in charge of field offices) began to appear in the news media, GSA management took action to strengthen the controls.

Under previous purchasing and inspection procedures, it was possible for one person--a building manager or shop foreman--to create a requirement, cause a procurement, and inspect the work for quality and quantity, thus authorizing payment to the contractor. The revised procedures were undoubtedly intended to preclude this possibility.

Purchasing controls

Prior to November 1977, building managers had this purchasing authority:

- They could award contracts and purchase orders up to \$2,000 for supplies and labor and up to \$2,500 for either supplies or labor. Competitive bids were required, except in cases of emergency.
- They could issue orders under term contracts for up to \$50,000 each. (Area managers could issue orders up to \$100,000.)
- They could submit requisitions to the regional office for purchases exceeding the \$2,000/\$2,500 criteria for up to \$10,000. Contracts covering such requisitions were awarded by the regional office.

Subsequent to November 1977, these changes were made in the purchasing authority of building managers:

- All contracts and requisitions initiated required signatures of two field office officials.
- Approvals by the area manager and the regional commissioner were required for all purchases.

- Orders issued under term contracts were limited to \$15,000, except for painting which was limited to \$5,000, and later reduced to \$500.

Inspection controls

The changes in building managers' purchasing authority were also accompanied by changes in inspection procedures for contracts and term contract orders at the field office level. Prior to November 1977, these procedures were in effect:

- Building managers were responsible for inspection of contracts up to \$10,000 in value, as well as term contract orders. The inspections were usually performed by shop foremen or other shop personnel, and inspection reports were signed by building managers or shop foremen.
- Regional office personnel inspected contracts exceeding \$10,000.

These changes in inspection procedures were made subsequent to November 1977:

- Building managers were responsible for inspection of all work up to \$10,000; however, two field office personnel (rather than one) were required to sign inspection reports.
- Regional office personnel were responsible for inspection of all work exceeding \$10,000. Inspections were required at the start of the work, during the progress of the work, and at its completion.

ALLEGATIONS OF CONTRACTOR MALPERFORMANCE COULD NOT BE EVALUATED

We could not evaluate the validity of the allegations of contractor malperformance, because necessary records could not be identified or were not available. Where contract files were available, no problems with contractor performance were disclosed, and the inspection reports showed that Chesapeake accepted the work as satisfactory.

The AFGE allegations and GSA rebuttal furnished to us contained limited information regarding contractor identity, contract number, and nature of the deficiency. Accordingly,

we requested AFGE and GSA officials to give us whatever documentation they used to draft the allegations and rebuttal. AFGE and Region 3 headquarters officials had nothing additional to offer. Chesapeake officials supplied only a few contract files. Officials of the AFGE local in Baltimore identified a few contractors, and also gave us the names of AFGE members who were involved in correcting the alleged deficiencies.

We interviewed these AFGE members and asked for any information they had on the allegations. These discussions disclosed that 5 allegations did not involve malperformance, but rather a question of whether the work should have been performed inhouse or by contract, and that 4 were invalid and should have been withdrawn. The AFGE members believed that the remaining 13 allegations involved some contractor malperformance.

In connection with the 13, the estimated cost to the Government to correct the deficiencies on 12, according to the AFGE members, was about \$26,000. However, about \$22,000 of this amount pertained to 4 allegations that involved contracts awarded by Region 3 for work in the Baltimore area for which Chesapeake had no procurement or inspection responsibility.

The AFGE members believed that improper inspection by GSA led to the alleged deficiencies, although inadequate contract specifications and plans may have also contributed.

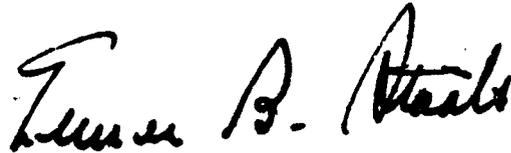
We discussed the statements made by the AFGE members with Chesapeake and Baltimore area officials. Although they disputed some of the statements and made counterstatements, these officials did not furnish any additional documentation.

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As instructed by your offices, we did not request comments on this report from GSA. We did, however, informally discuss the results of our work with GSA and AFGE personnel in the Baltimore area, and considered their comments in preparing this report.

As arranged with your offices, unless you publicly announce its contents earlier, we plan no further distribution of this report until 15 days from its issue date. At that time, we will send copies to interested congressional committees and subcommittees; the Administrator of General Services;

the Director, Office of Management and Budget; and the Administrator for Federal Procurement Policy, Office of Management and Budget. Copies will be furnished to other interested parties upon request.

A handwritten signature in black ink, appearing to read "Thomas B. Starks". The signature is written in a cursive style with a large initial 'T'.

Comptroller General
of the United States