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The General Services Administration's (GSA's) Public Buildings Service manages federally owned buildings and commercial space leased for Federal agency use. GSA contracts with private firms for some maintenance and repair services. As of May 1977, GSA had 295 contracts worth \$5.1 million for elevator maintenance services and, as of June 1977, had contracts worth \$49 million for cleaning services in about 500 buildings. Federal statutes provide that Government purchases of goods and services be made by formal advertising whenever feasible and practical. Findings/Conclusions: Nearly 75% of GSA's elevator maintenance contracts in effect during fiscal year 1977 were awarded noncompetitively to elevator equipment manufacturers. GSA justified its actions based on the determination that it was impractical to secure competition by advertising and necessary to purchase these services from the manufacturer in order to get replacement parts on a timely basis and avoid service interruption. Although GSA has made limited efforts to obtain competition, it is available for elevator maintenance services. Most of GSA's cleaning service contracts are advertised, fixed-price contracts. However, as of June 30, 1977, 13% of the Federal buildings were cleaned under negotiated, cost-plus-award-fee contracts. Cleaning costs for the 64 buildings under cost-plus-award-fee contracts were about \$5 million higher than the costs would have been under advertised contracts. Recommendations: The Administrator of General Services should direct the Commissioner of the Public Buildings Service to: require regions to obtain competition for elevator maintenance services; monitor future contract awards for elevator maintenance services to assure that maximum competition is obtained; revise and implement guidelines to encourage use of advertised, fixed-price contracts in large Federal office buildings in lieu of the cost-plus-award-fee contract; and implement guidelines and contract clauses to

insure that contractors awarded advertised, fixed-price contracts for large buildings provide the required cleaning services. The Congress should enact pending legislation authorizing multiyear contracting authority. (FRS)

BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

Increased Competition Can Reduce Elevator Maintenance And Cleaning Service Contract Costs

In keeping with its responsibility for maintaining Federal office buildings, the General Services Administration contracts for some elevator maintenance and cleaning services. It has used noncompetitive contracts for most elevator maintenance services for years. In addition, the General Services Administration uses a cost-plus-award-fee contract for some cleaning services. The use of these contracts for elevator maintenance and cleaning services has resulted in contract costs significantly higher than the costs attained under advertised contracts.

GAO believes that competition for these services is available and practical, and greater use of advertised contracts would result in millions of dollar savings annually. The General Services Administration has taken some steps recently to encourage greater use of advertised contracts for elevator maintenance and cleaning services.



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

B-135350

To the President of the Senate and the
Speaker of the House of Representatives

This report discusses the contracting methods used by the General Services Administration to obtain elevator maintenance and cleaning services for Federal buildings.

We found that the General Services Administration frequently uses noncompetitive contracts for elevator maintenance and negotiated, cost-plus-award-fee contracts for some cleaning services. These contracting methods have resulted in increased contract costs.

We made our review pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

We are sending copies of this report to the Director, Office of Management and Budget, and to the Administrator of General Services.


ACTING Comptroller General
of the United States

D I G E S T

In keeping with its responsibility for maintaining Federal office buildings, the General Services Administration contracts for elevator maintenance and cleaning services. It is not, however, maximizing competition for these services. GAO believes that significant dollar savings would result if maximum competition were secured.

Formal advertising is the statutory preference for Government contracting. General Services for years has awarded elevator maintenance services noncompetitively. In addition, some cleaning contracts have been awarded on a negotiated, cost-plus-award-fee basis. Both are costlier than formally advertised contracts.

ELEVATOR MAINTENANCE SERVICES

Nearly 73 percent of General Services' elevator maintenance service contracts (215 of 295) in effect during fiscal year 1977 were negotiated noncompetitively, usually with elevator equipment manufacturers. These contracts amounted to \$4.2 million of the \$5.1 million in elevator maintenance contracts. General Services justified noncompetitive contracts for these services on the basis that it was impractical to secure competition because only the manufacturers could provide the technicians, tooling, and parts necessary for assuring prompt and effective maintenance services. (See p. 4.)

GAO found that limited efforts were made to obtain competition for elevator maintenance services. However, some regions had awarded contracts as far back as 1964 and renewed them annually without any attempts made to see if competition was feasible and available. (See p. 5.)

GAO found evidence showing that competition was available for elevator maintenance services. In a related study, GAO found that most Veterans Administration hospitals awarded advertised contracts for these services. Also, one GSA region was successful recently in obtaining competition for elevator maintenance services previously not competed, and, by doing so, reduced contract costs by \$358,000, or 38 percent. GAO believes that this demonstrates significant savings potential. (See p. 6.)

CLEANING SERVICES

Most General Services' cleaning service contracts are advertised, fixed-price contracts. Since 1972, however, General Services has negotiated cost-plus-award-fee contracts for cleaning services in some large Federal office buildings where it felt that an acceptable level of services could not be obtained under an advertised contract. As of June 30, 1977, 64, or 13 percent, Federal office buildings were cleaned under negotiated, cost-plus-award-fee contracts. These contracts represented \$24.8 million of \$48.5 million in cleaning services contract costs and about 27 million square feet of 59.3 million square feet of office space cleaned by contract. (See pp. 8 and 9.)

General Services justified using negotiated, cost-plus-award-fee contracts on the basis that past problems were experienced in obtaining good cleaning services using advertised contracts for these buildings. In three of four regions reviewed, GAO found no evidence to support this justification. At three regions agency officials also stated that they had no problems using advertised, fixed-price contracts. (See pp. 9 and 10.)

In the fourth region, GAO examined contract files at four buildings being cleaned under a cost-plus-award-fee contract to determine if there was a history of cleaning problems

under prior advertised contracts. GAO found that one had some problems, while another had successful performance under a prior advertised contract. For the other two, current contract records did not show evidence of performance problems under prior advertised contracts. GAO also found that satisfactory cleaning services were obtained in this region on some advertised contracts for large office buildings. Agency officials, however, felt that the cost-plus-award-fee contract was necessary to assure good cleaning services in many large regional office buildings. This region accounted for 37 of the 64 buildings under cost-plus-award-fee contracts as of June 1977. (See pp. 10 and 11.)

GAO's analysis of cleaning contract costs showed that annual cleaning costs for the 64 buildings under cost-plus-award-fee contracts were about \$5 million higher than the costs would have been under advertised, fixed-price contracts. As with elevator maintenance contracts, GAO believes this figure represents a significant savings potential if advertised contracts can be secured. (See pp. 11 to 13.)

In June 1977 General Services developed revised guidelines and clauses for advertised cleaning service contracts in larger buildings. It will evaluate their effectiveness during the following year in five regions and, if satisfactory, will consider adopting them nationwide. GAO believes this to be a good first step, however, more positive action is needed. (See pp. 15 and 16.)

RECOMMENDATIONS

To realize the potential savings of millions of dollars annually in elevator maintenance and cleaning contract costs, GAO recommends that the Administrator of General Services direct the Commissioner, Public Buildings Service to:

--Require regions to obtain competition for elevator maintenance services.

- Monitor future contract awards for elevator maintenance services to assure that maximum competition is obtained. (See p. 7.)
- Revise and implement guidelines to encourage use of advertised, fixed-price contracts for cleaning services in large Federal office buildings to the maximum extent, in lieu of the cost-plus-award-fee contract.
- Implement guidelines and contract clauses to insure that contractors awarded advertised, fixed-price contracts for large buildings provide the required cleaning services. (See p. 17.)

MATTER FOR CONSIDERATION
BY THE CONGRESS

GAO believes that multiyear contracting for elevator maintenance and cleaning services would increase competition, lower bid prices, provide contractors with the security and other benefits of longer term contracts, and reduce agency problems associated with single year procurements. GAO recommends that the Congress enact pending legislation authorizing multiyear contracting authority.

AGENCY COMMENTS

General Services felt that stating that it incurred about \$5 million in higher annual cleaning costs as a result of using cost-plus-award-fee contracts failed to recognize the increased quality and tenant satisfaction that was obtained. GAO, however, was unable to determine if a higher quality of cleaning was provided under a cost-plus-award-fee contract. The GAO review showed, and some General Services officials stated that satisfactory cleaning services were provided under both cost-plus-award-fee and advertised contracts. General Services officials also stated that they have already taken, and will take, further action to encourage greater use of advertised contracts for elevator maintenance and cleaning services.

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ABBREVIATIONS

CPAF	cost-plus-award-fee
GAO	General Accounting Office
GSA	General Services Administration
VA	Veterans Administration

CHAPTER 1

INTRODUCTION

The General Services Administration's (GSA's) Public Buildings Service manages federally owned buildings and commercial space leased for Federal agency use. It operates and maintains about 10,000 buildings, plants, and warehouses having a total area of about 236 million square feet. The GSA fiscal year 1977 budget for operating and maintaining these buildings was about \$600 million.

GSA contracts with private firms for some maintenance and repair services. As of May 1977 GSA had 295 contracts worth \$5.1 million for elevator maintenance services. In addition, as of June 1977 GSA had contracts worth \$49 million for cleaning services in about 500 buildings.

Federal statutes provide that Government purchases of goods and services be made by formal advertising whenever feasible and practical. Fifteen exceptions to the use of formal advertising permit contracting officers to negotiate contracts. Before negotiating, agencies must prepare a determination and findings statement describing the circumstances justifying negotiation.

ELEVATOR MAINTENANCE CONTRACTS

Nearly 73 percent of GSA's elevator maintenance contracts in effect during fiscal year 1977 were awarded non-competitively to elevator equipment manufacturers. GSA justified its actions based on the determination that it was (1) impractical to secure competition by advertising and (2) necessary to purchase these services from the manufacturer to get replacement parts on a timely basis and avoid service interruptions. Recently, a contractor protested another agency's decision not to compete requirements for elevator maintenance and repair services. The decision was that only the manufacturer could supply the service and parts needed promptly. In response to this protest, the Comptroller General reaffirmed the statutory preference for competitive procurements with specific regard to elevator maintenance services and recommended that the agency compete these contracts. 1/

1/Comptroller General Decision B-187624, March 24, 1977.

CLEANING CONTRACTS

Most GSA contracts for cleaning services are awarded on an advertised, fixed-price basis. Since 1972, however, some GSA contracts for cleaning large Federal office buildings have been negotiated, cost-plus-award-fee (CPAF) contracts. These latter contracts were justified by GSA on the basis that (1) it was experiencing difficulties in obtaining adequate cleaning services for the larger Federal office buildings under advertised contracts and (2) the CPAF contract would provide the contractor an incentive to provide a high quality of cleaning services. In 1977 approximately half the \$48.5 million GSA cleaning contracts awarded were CPAF contracts.

In June 1975 the Comptroller General received a bid protest which, in part, questioned GSA's authority to use the negotiated, CPAF contract to obtain cleaning services. In response to the protest the Comptroller General concluded that GSA did not have authority to negotiate on the basis that it was impractical to obtain competition. 1/ GSA was able to get around this restriction by setting aside these contracts for small business and by waiving the regulation to obtain "small business restricted advertising" whenever possible. Then, it could legally negotiate a contract with a selected small business contractor. 2/

SCOPE OF REVIEW

We reviewed selected GSA contracts for elevator maintenance and cleaning services. We also reviewed policies and procedures, legislation, and regulations applicable to contracts for these services. Also, we interviewed GSA headquarters and regional officials. We wanted to know and evaluate the basis for awarding negotiated contracts for these services and whether elevator maintenance and cleaning services could be procured effectively and more economically using formally advertised contracts.

1/Comptroller General Decision B-184186, February 3, 1976.

2/Comptroller General Decision B-187250, B-187354, B-187256, B-187257, April 25, 1977.

We made our review at the GSA Public Buildings Service in Washington, D.C., and GSA regional offices 3, 5, 8, and 10 in Washington, D.C., Chicago, Illinois, Denver, Colorado, and Auburn, Washington, respectively, during May through November 1977.

CHAPTER 2

OPPORTUNITIES TO REDUCE ELEVATOR

MAINTENANCE SERVICE CONTRACT COSTS

The majority of GSA elevator maintenance service contracts are awarded on a sole-source basis to elevator manufacturing companies. GSA determined that solicitation of competition was impractical based on its belief that other companies could not provide replacement parts, tools, and technical personnel to assure prompt and effective services.

We found that adequate competition for elevator maintenance services does exist. For example, a similar review of procurements for elevator maintenance services by the Veterans Administration (VA) showed that many VA hospitals have successfully solicited competition for these services and awarded contracts to the lowest bidders. Additionally, GSA region 5 recently demonstrated that it is feasible to solicit competition for elevator maintenance services. By soliciting competition region 5 saved \$358,000, or 38 percent of previous contract costs for the same work awarded on a noncompetitive basis. Although we could not project savings on a statistical sample basis, we believe that a significant savings potential exists in other GSA regions. If all GSA regional offices advertise their requirements presently under sole-source contracts and achieve a similar level of cost savings as region 5, contract prices would be reduced by \$1.3 million annually.

LIMITED EFFORTS TO SOLICIT COMPETITION

In August 1965 the GSA Public Buildings Service issued a prototype statement for regional office use to support the impracticality of securing competition and necessity to negotiate elevator inspection and maintenance contracts. The statement justified use of noncompetitive contracts primarily on the need to get replacement parts and timely service from the elevator manufacturers having special tools, specifications, and personnel. Thus, the regions would avoid service interruptions and maintain equipment integrity. In June 1977 GSA instructed the regions to use the prototype statement only as a guide for preparing statements to support the use of sole-source contracts.

As of May 1977, GSA had 295 elevator maintenance contracts, of which 215 (73 percent) were sole-source contracts. The balance was competitively awarded, as shown in the following table:

	<u>Number of contracts</u>	<u>Value of contracts</u> (millions)
Noncompetitive sole source	215	\$4.2
Competitive awards:		
Negotiated	15	0.2
Advertised	<u>65</u>	<u>0.7</u>
Total	<u>295</u>	<u>\$5.1</u>

GSA awarded the 215 sole-source contracts to 31 companies. About 80 percent, however, were awarded to the six companies shown below:

<u>Company</u>	<u>Number of sole- source contracts</u>
Otis	69
Montgomery	41
Dover	24
Haughton	19
U.S. Elevator	12
Westinghouse	<u>9</u>
Total	<u>174</u>

Prior to 1977 region 5 had not routinely solicited competition for elevator maintenance services--it had last solicited competitive bids in 1969. On that occasion region 5 solicited 40 sources but received only one bid. It awarded the contract in 1970 at the price proposed by the contractor on the basis of price analysis and the contractor's explanation that the price was consistent with catalog prices. Region 5 renewed the contract for the next 6 years. During this period, the price was increased annually on the basis of increases in labor and material costs.

Regions 8 and 10 also awarded sole-source contracts for elevator maintenance services. Regions 8 and 10 had 34 and 24 sole-source contracts, respectively. Some of these contracts had been awarded in 1964 and renewed annually thereafter without soliciting competition. Our review of selected contracts in these regions showed that decisions to negotiate were based on the prototype statement issued by headquarters. The regions had not tested the market with public announcements of requirements before awarding sole-source contracts to elevator manufacturers. Moreover, the files contained no evidence to support the determination that it was impractical

to secure competition or that replacement parts and services could be obtained only from the elevator manufacturers. Contract prices were the same as the contractors' proposed prices. As in region 5, these prices were increased annually on the basis of increases in labor and material costs.

AVAILABILITY OF COMPETITION

In 1976 region 5 reevaluated its policy and practice of awarding sole-source elevator maintenance contracts and in early 1977, advertised requirements for elevator maintenance services in 11 buildings in seven cities. Except for one city, Grand Rapids, Michigan (see app. 1), region 5 was able to obtain a number of competitive bids. The lowest bidder was usually the elevator manufacturing company that had previously provided maintenance services under a sole-source contract. The appendix also shows that by awarding contracts to the lowest bidder, region 5 reduced elevator maintenance costs by \$358,000, or 38 percent. The cost savings ranged from 54 percent to 8 percent. In two instances, the competitive contract price exceeded the amounts previously paid.

In a similar review we found that VA hospitals have been soliciting competition for some elevator maintenance services. We recently reported to the Administrator of Veterans Affairs, 1/ however, that about one-third of a sample of 90 hospitals throughout the Nation awarded sole-source contracts without supporting the determination that (1) it was impractical to secure competition or (2) only the elevator manufacturers could provide adequate and timely service. Two-thirds of the hospitals had sought competition for elevator maintenance services and awarded 63 contracts to the lowest bidders. The successful bidders were both large and small businesses. Our analyses showed that 11 contracts were awarded to the only bidder and the balance of the contracts were awarded to the lowest of from two to six bidders.

CONCLUSIONS AND RECOMMENDATIONS

GSA practices have resulted in widespread use of sole-source contracts for elevator maintenance services. These contracts were based on the predetermination that it was impractical to secure competition or that parts and services could only be obtained from the elevator manufacturer. In recent years, GSA has made limited efforts to obtain competition. The present environment suggests that competition for these services is available.

1/PSAD-78-41, Nov. 22. 1977.

GSA region 5 and VA have demonstrated that competition for elevator maintenance is feasible and practical using formal advertising procedures. In region 5 awards to the lowest bidders reduced annual contract costs by \$358,000, or an average of 38 percent. Other GSA regions had 206 sole-source contracts in effect as of May 1977, which were valued at \$3.4 million. Assuming that these regions could also realize a 38-percent contract price reduction by soliciting competition for these sole-source contracts, GSA's annual contract costs would be reduced by \$1.3 million. We believe this demonstrates a significant savings potential.

We recommend that the Administrator of General Services direct the Commissioner, Public Buildings Service to:

- Require regions to obtain competition for elevator maintenance services. Regions should test the market with public announcements of requirements for elevator maintenance services to establish the availability of competition.
- Monitor future contract awards for elevator maintenance services to assure that maximum competition is obtained and that sole-source contracts are used only when attempts to solicit competition have failed.

CHAPTER 3

OPPORTUNITIES TO REDUCE CLEANING

SERVICE CONTRACT COSTS

GSA procures cleaning services using three types of contracts--advertised, fixed price; negotiated, fixed price; and negotiated, CPAF. Most cleaning service contracts are awarded on a fixed-price basis.

GSA started using the CPAF contract in 1972 to obtain cleaning services in some large buildings. GSA justified its action on the basis that larger buildings were having extensive cleaning problems because contractors held single-year, advertised, fixed-price contracts.

Our review of cleaning service contracts showed that some CPAF contracts were awarded where there was no history of cleaning problems in these buildings. We also found evidence that in many cases formal advertising was practical, and satisfactory cleaning services could be obtained under advertised, fixed-price contracts. Based on our analysis of contract costs, we estimate that annual CPAF contract costs have been about \$5 million higher than they would have been under advertised, fixed-price contracts. In addition, we found that GSA regional offices have been inconsistent in their CPAF contractor selections.

GSA has taken some action to make improvements in its CPAF contracting method in accordance with findings and recommendations of its internal auditors. In addition, GSA is conducting a test of revised advertised, fixed-price guidelines to determine whether they can provide GSA better assurance of getting good contractor performance in cleaning large office buildings. Multiyear contracting, if authorized, is another alternative that could provide incentives for better contractor performance under an advertised, fixed-price contract.

TYPES OF CLEANING SERVICE CONTRACTS

The table below shows that of 500 buildings cleaned by contractors, 436 (87 percent) were cleaned under fixed-price contracts and only 64 (13 percent) were cleaned under CPAF contracts. However, the 64 buildings accounted for about one-half of the costs and area cleaned by contractors.

June 30, 1977

<u>Contract type</u>	<u>Number of build-ings</u>	<u>Square feet under contract</u>	<u>Total contract value</u>	<u>Average cost per square foot</u>
CPAF	64	27,049,237	\$24,854,081	\$0.92
Fixed-price:				
Advertised	316	22,211,830	14,785,414	0.67
Other nego- tiated (note a)	<u>120</u>	<u>10,043,675</u>	<u>8,939,962</u>	<u>0.89</u>
Total	<u>500</u>	<u>59,304,742</u>	<u>\$48,579,457</u>	<u> </u>

a/Contracts negotiated with the Small Business Administration under the 8a program and with various workshops for the handicapped pursuant to the Wagner-O'Day Act.

Fixed-price contracts provide for firm prices not subject to adjustment by reason of the contractor's cost experience. GSA has used this type of contract--usually for 1 year--for cleaning services with a monitoring and deduction system for enforcing contractor performance.

CPAF contracts are cost-reimbursement type contracts used by GSA for cleaning services on the premise that such contracts are effective in emphasizing and ensuring quality performance. All allowable costs incurred in the performance of the contract are paid up to a maximum ceiling price. GSA determines the award fee based on periodic evaluations of the contractor's performance. CPAF contracts are awarded for a 1-year period, with an option to renew for two additional 1-year periods.

The level of cleaning that contractors are to provide is based on the commercial equivalent (comparable to the cleaning level provided to private industry).

USE OF CPAF CONTRACTS NOT JUSTIFIED

We reviewed selected CPAF contracts awarded by regions 3, 5, 8, and 10 during the period 1974-76. We found that CPAF contracts were used on buildings that did not have a history of cleaning service problems, and competitive sources were available and satisfactory cleaning services were obtainable using advertised, fixed-price contracts.

GSA issued guidelines to implement the CPAF contract into the cleaning program in June 1972. The CPAF contract was intended primarily for large office buildings (100,000 square feet or more) where there was a history of problems getting acceptable cleaning services under advertised, fixed-price contracts. The guidelines included a prototype statement of findings and determination that it was necessary to negotiate CPAF contracts to obtain the desired level of quality cleaning services.

Region 5 awarded CPAF cleaning contracts for eight buildings. Five buildings were newly constructed, and three had been previously cleaned by GSA employees. Region 5 officials stated that prior to implementing the CPAF contracting method, they had no history of performance problems on any advertised cleaning contracts.

Regions 8 and 10 each awarded two CPAF cleaning contracts. Officials in these regions said that contractor's performance under cleaning service contracts was satisfactory before, during, and after the CPAF contracting method was implemented. In 1976 these regions discontinued use of the CPAF contract after the Comptroller General determined that procurement statutes did not authorize the negotiation of cleaning service contracts to obtain a higher quality of services. Since that time, all cleaning services have been contracted using formal advertising or the Small Business Administration 8(a) program.

In region 3 we reviewed CPAF cleaning contracts for four buildings--New Executive Office Building, GSA, Department of Agriculture, and Parklawn. As of June 1977, region 3 had 37 buildings (of the 64) under CPAF contracts. Records showed that the New Executive Office Building had been previously cleaned under an advertised, fixed-price contract by a contractor which did an excellent job. Records for the Parklawn building, however, indicated that cleaning service problems occurred under a prior advertised, fixed-price contract. We reviewed current contract records available for GSA and Department of Agriculture buildings and found no indications of cleaning service problems under previous advertised, fixed-price contracts. Region 3 contracting officials and building managers were highly in favor of the CPAF contracting method, however. They felt this was the best way to get quality cleaning services in many large buildings in region 3.

FORMAL ADVERTISING PRACTICAL AND
SATISFACTORY CLEANING SERVICES
UNDER ADVERTISED CONTRACTS AVAILABLE

Our analysis showed that 5 of GSA's 10 regions procured cleaning services exclusively under fixed-price contracts. Contract records indicate that adequate sources are available for GSA to use formal advertising for most cleaning service requirements. For example, region 5 received 4 to 17 proposals when it solicited both small and large businesses for CPAF contracts. Region 5 also received 8 to 27 bids for advertised, fixed-price cleaning service contracts in South Bend, Indiana; Toledo, Ohio; Benton, Illinois; and Milwaukee, Wisconsin. Similarly, region 3 received 2 to 16 proposals from solicitations for award of 27 CPAF contracts.

As stated above, GSA officials in regions 5, 8, and 10 told us that satisfactory cleaning services have been obtained under advertised, fixed-price cleaning contracts. In addition, our review of selected advertised contracts in region 3 showed that satisfactory cleaning services were obtained under advertised, fixed-price cleaning contracts for the Federal Trade Commission and NASSIF buildings and a prior advertised contract for the New Executive Office Building. The building managers told us that close monitoring of contractors' performance is necessary to ensure satisfactory cleaning under fixed-price contracts. One building manager had to make some contract deductions for nonperformance at the outset of the contract, however, performance improved after the initial problems. These buildings were similar in size to some of those under CPAF contracts.

CLEANING SERVICES MORE COSTLY
UNDER CPAF CONTRACTS

We estimated that annual cleaning costs under the 64 CPAF contracts were about \$5 million higher than costs would have been under advertised, fixed-price contracts.

Using GSA nationwide statistics for June 30, 1977, we computed that CPAF contract costs were \$0.18 per square foot higher than advertised, fixed-price contract costs of \$0.728 per square foot, as shown by the table below. Applying the difference of \$0.18 to the 27,049,237 square feet of office space cleaned under CPAF contracts shows that GSA has incurred about \$5 million in higher annual cleaning costs under CPAF contracts.

	<u>Average cost per square foot</u>		
	<u>Advertised fixed- price con- tracts</u>	<u>CPAF con- tracts</u>	<u>CPAF higher (lower)</u>
National average cost (as of June 30, 1977)	\$0.670	\$0.920	\$0.250
Less adjustment for actual payments (note a)	<u>-</u>	<u>0.043</u>	<u>0.043</u>
	0.670	0.877	0.207
Administration and inspection costs (note b)	<u>0.058</u>	<u>0.031</u>	<u>-0.027</u>
Total	<u>\$0.728</u>	<u>\$0.908</u>	<u>\$0.180</u>

a/The national average CPAF cost of \$0.92 per square foot represents estimated contract ceiling prices. GSA estimated that actual payments total 4.7 percent less than ceiling price. (Our review of selected final CPAF contract prices in region 3 supported the reduction.)

b/GSA estimated administrative and inspection costs by analyzing two similar buildings in the Washington metropolitan area; one cleaned under an advertised contract and the other under CPAF. Inspection costs account for the main difference between the administrative and inspection costs under the two contract types. The GSA analysis showed that it costs twice as much for inspections under the advertised contract. (Our review of inspection procedures in several buildings confirmed that closer surveillance was necessary under the formally advertised contracts.)

GSA officials told us that the cost difference of \$0.18 per square foot should be reduced for the following estimated costs applicable to the advertised contracts.

Litigation costs	\$0.022
Nonperformance costs	<u>0.089</u>
Total	<u>\$0.111</u>

GSA officials explained that estimated litigation costs were developed from one actual case and that most of the estimate represented additional inspection and administrative costs. Nonperformance costs represent judgmental estimates of 10 to 15 percent of cleaning services that advertised, fixed-price contractors have not provided in cleaning large buildings.

In our opinion, these items are not valid costs and should not be considered in the cost comparison for the following reasons:

- Adding litigation costs to the average cost is based on the assumption that all advertised contracts will be terminated for default. A GSA study showed that only 29 of about 900 fixed-price contracts awarded over a 3-year period were terminated for default. Additionally, only 2 of the 29 terminations were for buildings over 100,000 square feet--the building size that GSA considered appropriate for CPAF contracting.
- Nonperformance costs should not be included unless GSA paid the contractor for these services and subsequently incurred additional costs to obtain them from other sources. GSA officials told us that this is not done. Also, under contract deduction procedures applicable to fixed-price contracts, GSA provides for reducing payments for services not performed.

INCONSISTENT SELECTION OF CONTRACTORS

Regional offices have been inconsistent in evaluating proposals for CPAF cleaning contracts. The regions selected some contractors on the basis of price, some on the basis of best anticipated performance, and others on a combination of the two. Some selections have been made at higher prices with only marginal differences in the quality of anticipated performance.

GSA guidelines included a point system for rating contractor proposals. The rating system, based on a maximum score of 100 points, gave more weight to the quality of anticipated performance over cost, as indicated by the following table.

<u>Category of evaluation</u>	<u>Maximum points</u>
Management and operations plans	40
Experience and past performance	25
Cost	<u>35</u>
Total	<u>100</u>

The guidelines require staff evaluation of each proposal and a recommendation to a source selection board that either (1) a contract be awarded without further negotiation or (2) negotiations be conducted with the proposals determined to be within the competitive range.

Regional practices for evaluating proposals and awarding contracts varied. Region 5 had not established criteria for determining which proposals were to be included in the competitive range. Instead, the proposals were rated, and the competitive range was set from the scoring results. In region 3 the competitive range included the highest scored proposal, proposals within 2 to 3 points, and proposals with prices within 5 to 10 percent of the lowest proposed price.

As shown in the following table, of 30 CPAF contracts awarded in regions 3 and 5 during the period 1974-76, 10 awards were made to the contractor with the highest evaluated score and the lowest price, 18 were made to the contractors with the highest evaluated score, and 2 awards were based primarily on the lowest price.

Basis for Award

	<u>Best score and lowest price</u>	<u>Best score</u>	<u>Lowest price</u>	<u>Total awards</u>
Region 3	9	13	-	22
Region 5	<u>1</u>	<u>5</u>	<u>2</u>	<u>8</u>
Total	<u>10</u>	<u>18</u>	<u>2</u>	<u>30</u>

Region 5's three awards that were based on the lowest prices were supported by evaluations that indicated the contractor also had the best or nearly best performance potential. In these cases, region 5 concluded that the award should be made to the contractor proposing the lowest price. By contrast, the five best score awards were not supported by evidence that the contractor had clearly demonstrated better performance potential. For example, region 5 selected the contractor for the Kluczynski building in Chicago on the basis of the best score which totaled 90 points. The selected contractor's price of \$1,144,597 was \$259,410 higher than a competitor's price which scored 88 points. Hence, GSA paid an additional \$259,410 for a difference of 2 points and in anticipation of better contractor performance.

Regional offices routinely renewed each CPAF contract for two additional 1-year periods as long as the contractor provided acceptable cleaning services. For those CPAF renewal contracts reviewed, we found that GSA approved new cost ceilings proposed by the contractors without seeking competitive bids or determining the efficiency and economy of the contractor's cleaning methods and services. Under this practice the contractors had no incentive to control or reduce cleaning services costs for a 3-year period.

INTERNAL AUDIT EVALUATIONS OF CPAF CONTRACTS AND ACTION TAKEN

The GSA Office of Audits evaluated the CPAF contracting programs in regions 3, 4, 5, and 7 in 1975. In addition to procedural weaknesses, the auditors reported that CPAF contract cleaning costs were higher than costs under advertised, fixed-price contracts and that savings were possible with more emphasis on the costs proposed by the contractors within the competitive range. The auditors recommended that improvements be made in the procedures and practices for awarding and administering CPAF contracts.

In addition to the CPAF program evaluations, GSA auditors are required to review and verify actual costs incurred under CPAF contracts and determine if contract costs are reimbursable. In this regard, the Director of Audits in March 1977 expressed concern that audits of reimbursable costs could not be scheduled and completed in a timely manner because of the heavy workload. As a result CPAF contract audits having less sensitivity and significance were delayed. The Office of Audits' experience showed that the cost of auditing CPAF contracts was often greater than savings. These audits consequently had less priority. The Director of Audits suggested that the CPAF contract was not advantageous for cleaning services and that alternatively GSA needs may be better served by advertised, or negotiated, fixed-price contracts.

In June 1977 GSA issued revised advertised, fixed-price guidelines for cleaning services contracts in larger buildings. The effectiveness of the guidelines will be evaluated during the following year at selected locations in five regions. If the guidelines prove to be satisfactory, GSA will consider adopting them nationwide.

GSA's tentative guidelines include techniques and clauses to obtain further assurance of control under advertised, fixed-price contracts of contractor's performance.

These include:

- Holding pre-bid conferences where all bidders gain a better understanding of the terms and conditions of the contract and the quality of services required.
- Requiring bid bonds to assist in determining the financial responsibility of the prospective contractors.
- Requiring performance bonds to secure fulfillment of all the requirements under the contract.
- Prescribing minimum man-hours to be spent in providing and/or supervising cleaning services.
- Imposing contract deductions to discourage nonperformance or unsatisfactory performance which adequately reflect the costs to be incurred should the contractor fail to fulfill contract requirements.

GSA's evaluation of these guidelines had not been completed at the close of our review. GSA officials stated, however, that even after these guidelines have been evaluated, they still expect to use CPAF contracts probably for many buildings over 400,000 square feet.

In August 1977 GSA issued revised procedures for evaluating CPAF proposals and selecting contractors for award. The procedures provided better criteria for establishing the proposals within the competitive range. This also indicates that GSA expects to use CPAF contracts in the future.

CONCLUSIONS AND RECOMMENDATIONS

GSA has obtained satisfactory cleaning services under both CPAF and advertised contracts. GSA used the more costly CPAF contracts in many office buildings without an adequate determination that use of this type of contract was necessary to obtain satisfactory cleaning services. Evidence suggests that formal advertising is practical in many cases. We estimate that use of CPAF, instead of advertised, fixed-price contracts, to clean 64 office buildings increased annual costs by about \$5 million. We believe maximum competition could result in significant savings from these higher costs.

GSA's recent actions to test revised guidelines and techniques in its advertised cleaning contracts for larger office buildings is a good first step. We are concerned, however, that GSA is not committed to use advertising in

contracting for cleaning service requirements in many more larger Federal office buildings where it is practical.

Accordingly, we recommend that the Administrator of General Services direct the Commissioner, Public Buildings Service to:

- Revise and implement guidelines to encourage use of advertised, fixed-price contracts to the maximum extent, in lieu of the CPAF contract, for cleaning services in large Federal office buildings.
- Implement guidelines and contract clauses to insure that contractors awarded advertised, fixed-price contracts provide the required cleaning services. Consideration should be given to use of those techniques presently being tested that prove effective, and any others that might provide better control of the services to be provided.

MATTER FOR CONSIDERATION BY THE CONGRESS

The CPAF contract was introduced by GSA to provide incentives to contractors which provide high quality cleaning services. One of the incentives is the knowledge by the contractor that he is almost assured of having a contract for 3 years if he provides good cleaning services. Under GSA advertised, fixed-price contracts, this incentive does not exist. In addition, GSA officials claim that the 1-year, advertised contract does not allow sufficient time to develop and pursue a "termination for default" case against a nonperforming contractor.

The Federal Property and Administrative Services Act of 1949, as amended, limits GSA to 1-year contracting authority. GSA has sought legislative authority to award service contracts for periods up to 4 years. In 1977 bill S. 1491 was introduced in the Congress which would provide for multiyear contracting authority for cleaning, protection, trash removal, and other similar services. No action has been taken on this bill.

In our recent report (PSAD-78-54, Jan. 10, 1978), we reassessed the issue of multiyear procurements and found that benefits continue to accrue where the authority for such contracting exists. We concluded that the advantages of the multiyear procurement techniques outweighed the disadvantages, and recommended that the Congress enact pending legislation providing for this authority.

We believe that the advertised, multiyear contract for cleaning services would provide contractors with the security and other benefits of longer term contracts, thus, providing more incentive to perform at the quality level desired. We also believe that contract costs would be significantly lower, and GSA would benefit from a continuity of service. Accordingly, we recommend that the Congress favorably consider enacting pending legislation which would provide for multiyear contracting authority.

CHAPTER 4

AGENCY COMMENTS AND OUR EVALUATION

The agency comments are contained in appendix II. The following is a discussion of GSA's major comments on our proposed report and our evaluation of these comments.

ELEVATOR MAINTENANCE SERVICES CONTRACTS

GSA commented that it had taken steps to increase competition for elevator maintenance contracts since our audit work had been completed. GSA has instructed its regional offices "to seek competition for this service unless circumstances in an individual building justify sole source procurement." In such cases, a findings and determination is to be prepared and approved by the GSA Regional Counsel before proceeding with the procurement.

We commend GSA for this prompt corrective action and believe that these instructions, if properly followed, should result in an increase in competitively awarded contracts for these services.

CLEANING SERVICES CONTRACTS

GSA did not dispute our findings, conclusions, and recommendations with regards to cleaning services contracts. However, GSA officials commented that they were concerned that our statement that GSA incurred about \$5 million in higher annual cleaning costs under CPAF contracts failed to recognize the increased quality and tenant satisfaction that resulted. GSA also commented that had it not used the CPAF contracts, it would have incurred substantial additional administrative and contract enforcement costs which would offset much of the cost differential.

As stated previously, some GSA officials stated that satisfactory cleaning services were obtained under both the CPAF and advertised, fixed-price contracts. We were unable to determine if a higher quality of cleaning services resulted in buildings where CPAF contracts were used. GSA inspection and contract administration procedures differ under CPAF and advertised contracts, and, therefore, make it difficult to have a common base for comparison purposes. For example, many inspections by GSA personnel are required under the advertised, fixed-price contract, whereas only a few are accomplished under the CPAF contract because more reliance is placed on self-policing by the contractor. We believe, however, that adequate cleaning services can be provided under advertised contracts and would result in a significant

reduction in the higher cleaning contract costs incurred under CPAF contracts.

We believe that the \$5 million figure is a reasonable estimate and takes into account increases in administrative and contract enforcement costs under the advertised contracts. The table on page 12 shows that the administration and inspection costs under advertised, fixed-price contracts were almost twice that of those under the CPAF contracts. These figures were used in the computations which led to the \$5 million in higher costs estimate. We believe, therefore, that any cost differential attributable to contract administration and inspections has been sufficiently dealt with.

GSA officials commented that they intend to use CPAF cleaning contracts in the future only in buildings over 400,000 square feet, and only when fully justified on a case-by-case basis. GSA feels that a history of award, contract administration, and contract performance problems in a given geographical area are valid considerations to use a CPAF contract.

We agree that these actions, if accomplished by GSA, will limit the number of CPAF contracts. We also agree that CPAF awards should be justified on a case-by-case basis. We do not believe problems with advertised contracts in a given area which occurred several years ago should be used by GSA as justification for a CPAF contract. Past problems may not be indicative of the present contracting environment. We believe, therefore, that current problems with contract award, administration, or enforcement should be closely scrutinized to determine if a CPAF contract is justified.

The GSA comments did not mention efforts being made to establish better controls over advertised, fixed-price contracts through contract clauses and other techniques. GSA also did not discuss multiyear contracting for cleaning services, which it has advocated for several years and which we believe would put GSA in a better position for using an advertised, fixed-price contract in lieu of the negotiated, CPAF contract. We believe that, although GSA's proposed actions may limit the use of CPAF contracts, GSA should continue to look for ways to increase the use of advertised, fixed-price contracts. We believe that the ultimate objective should be for GSA to completely eliminate using CPAF contracts and take advantage of the contract savings available under the advertised, fixed-price contracts.

GSA REGION 5

COST SAVINGS REALIZED BY AWARDING COMPETITIVE CONTRACTS

FOR ELEVATOR MAINTENANCE SERVICES

DURING CALENDAR YEAR 1977

Building location	Annual contract price		Annual savings Amount	Percent	Elevator equipment manufacturer		Number of bidders		Maintenance service	
	1976 Contracts	1977 Competitive contracts			Large business	Small business	Previous sole-source contractor	Current competitive contractor		
Chicago, Ill. (Dirksen)	\$228,058	\$128,100	\$ 99,958	44	Otis	3	6	Otis	Commercial	
Chicago, Ill. (Kluczynski)	235,474	143,400	92,074	39	Haughton	1	1	Haughton	Haughton	
Detroit, Mich. (McNamara)	150,949	75,000	75,949	50	Otis	2	1	Otis	Otis	
Cleveland, Ohio	204,428	131,076	73,352	36	Haughton	2	2	Haughton	Haughton	
St. Paul, Minn.	40,350	18,636	21,714	54	Haughton	2	3	Haughton	Haughton	
Dayton, Ohio	15,722	8,286	7,442	47	Armor	3	1	Armor	Haughton	
Indianapolis, Ind.	28,529	26,244	2,285	8	Haughton	1	1	Haughton	Haughton	
Grand Rapids, Mich.	16,661	17,460	-799	-5	Montgomery	1	1	Montgomery	Montgomery	
Detroit, Mich. (note a)	21,681	35,372	-13,691	-63	(b)	2	2	Lederman	Montgomery	
Total	\$941,852	\$583,568	\$358,284	38					(note c)	

a/Contract provides for maintenance services in three buildings.

b/Equipment manufactured by Otis and Detroit Elevator.

c/Small business.

UNITED STATES OF AMERICA
GENERAL SERVICES ADMINISTRATION
WASHINGTON, DC 20405



MAY 4 1978

Honorable Elmer B. Staats
Comptroller General of
the United States
General Accounting Office
441 G Street
Washington, DC 20548

Dear Mr. Staats:

Thank you for the opportunity to review and comment on the General Accounting Office (GAO) Draft Report entitled, "Increased Competition Can Reduce Elevator Maintenance and Cleaning Service Contract Costs."

We are pleased to report that we have already taken steps to increase competition for elevator maintenance contracts. A memorandum of January 23, 1978, instructed our regional offices to seek competition for this service unless circumstances in an individual building justified sole source procurement. As a result of this memorandum, we expect that most of our future elevator maintenance contracts will be competitively awarded.

In regard to our Incentive Type Contracts (ITC), we feel that the past problems related to the reported inconsistencies in selection of contractors have already been eliminated. Procedures implemented in August 1977 provide that awards be made to the contractor in the competitive range that offers the lowest price. Had this change been in effect earlier, the cost differences between ITC and fixed-price contracts cited in your report would have been somewhat less.

GAO, in the report, has stated that the General Services Administration (GSA) has incurred about \$5 million in higher annual cleaning costs as the result of using ITC contracts. We are concerned that such a statement fails to recognize the increased quality which indisputably has been obtained under this procedure. Such statements also fail to recognize the intangible benefits resulting from increased tenant satisfaction. The increased service and the resultant reduction of tenant complaints provides the Buildings Manager with additional time to devote to satisfying other management and client needs. All of these intangible benefits should be considered when comparing the cost of these contracting alternatives. Further, we feel that, had we not used the ITC contracts during the period in question, we would have incurred substantial additional administrative and contract enforcement costs which would have clearly offset much of the cited cost differential. For instance, we recently had a fixed-price solicitation in which the

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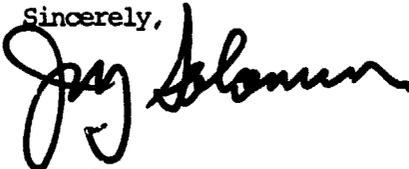
six lowest bidders were eventually rejected from consideration. The administrative costs of handling such situations, as well as the additional burden of somehow providing service while the rejection procedure runs its due course, is a real cost in the provision of service that should be recognized.

[See GAO note.]

We continue to believe that the use of ITC contracts has been a significant factor in upgrading the quality of GSA's cleaning service. We propose to continue their use when we feel the circumstances warrant. In those areas where ITC contracts are used in the future, they will be fully justified on a case-by-case basis. In this regard, we feel that a history of award, contract administration, and contract performance problems in a given area are valid considerations for an ITC contract.

As indicated in your report, we only intend to use ITC contracts in buildings over 400,000 square feet when appropriately justified. This will significantly limit the use of ITC contracts and, we feel, accomplish the GAO objective of encouraging the use of advertised fixed-price contracts to the maximum extent.

Sincerely,



Jay Solomon
Administrator

GAO note: The deleted comment pertains to a matter discussed in the draft report but omitted from the final report.

PRINCIPAL GSA OFFICIALS RESPONSIBLE FOR
THE ACTIVITIES DISCUSSED IN THIS REPORT

	Tenure of office	
	From	To
ADMINISTRATOR, GENERAL SERVICES		
ADMINISTRATION:		
Joel W. Solomon	May 1977	Present
Robert T. Griffin (acting)	Feb. 1977	May 1977
Jack M. Eckerd	Nov. 1975	Feb. 1977
Dwight A. Ink (acting)	Oct. 1975	Nov. 1975
Arthur F. Sampson	June 1972	Oct. 1975
Rod Kreger (acting)	Jan. 1972	June 1972
Robert L. Kunzig	Mar. 1969	Jan. 1972
 COMMISSIONER, PUBLIC BUILDINGS		
SERVICE:		
James Shea	June 1977	Present
Tom L. Peyton (acting)	May 1977	June 1977
Nicholas A. Panuzio	Sept. 1975	Apr. 1977
Walter Meisen (acting)	Oct. 1974	Sept. 1975
Larry F. Roush	Aug. 1973	Oct. 1974
Larry F. Roush (acting)	Jan. 1973	Aug. 1973
John F. Galuardi (acting)	July 1972	Jan. 1973
Arthur F. Sampson	Mar. 1970	June 1972