

DOCUMENT RESUME

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[Efforts Needed to Increase Competition for Elevator Maintenance Services in the Veterans Administration]. PSAD-78-41; B-135350. November 22, 1977. 9 pp.

Report to Max Cleland, Administrator, Veterans Administration; by Gregory J. Ahart, Director, Human Resources Div.

Issue Area: Federal Procurement of Goods and Services (1900);
Federal Procurement of Goods and Services: Reasonableness of
Prices Under Negotiated Contracts and Subcontracts (1904).

Contact: Human Resources Div.

Budget Function: Veterans Benefits and Services: Other Veterans
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Congressional Relevance: House Committee on Veterans' Affairs;
Senate Committee on Veterans' Affairs.

A review of the methods the Veterans' Administration (VA) hospitals used to contract for elevator maintenance services indicated that some hospitals are not seeking competition for elevator maintenance services. Findings/Conclusions: Two-thirds of the hospitals sampled solicited competition and awarded contracts for elevator maintenance services to the lowest bidder. The other hospitals awarded sole-source contracts to service representatives of the elevator manufacturers on the assumption that other sources could not provide adequate and timely service. The hospitals awarding noncompetitive contracts had not developed a factual basis to support the determination that it was impractical to secure competition. These hospitals also had no basis and had made little or no effort to evaluate the reasonableness of prices paid for maintenance services under noncompetitive contracts. There are opportunities for the VA to increase the number of competitive procurements, and significant savings should accrue through increased competition. (SW)



UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

HUMAN RESOURCES
DIVISION

04398

B-135350

November 22, 1977

The Honorable Max Cleland
Administrator of Veterans Affairs

Dear Mr. Cleland:

We reviewed the methods Veterans Administration (VA) hospitals used to contract for elevator maintenance services and found that some hospitals are not seeking competition for their elevator maintenance services. Two-thirds of the hospitals sampled solicited competition and awarded contracts for elevator maintenance services to the lowest bidder. The other hospitals awarded sole-source contracts to service representatives of the elevator manufacturers on the assumption that other sources could not provide adequate and timely service.

We believe that competition is available for these services, and on the basis of recent experience of another Federal procurement agency, 1/ that these hospitals could have reduced elevator maintenance costs by soliciting competition.

We are recommending that you follow up to assure that the VA Supply Service reassesses present procurement procedures for elevator maintenance services, directs hospitals to secure competition, and monitors these contracts to assure that maximum competition is obtained.

1/General Services Administration Region 5 recently changed its practice of awarding noncompetitive contracts for elevator maintenance to the equipment manufacturer's service representatives. In 1977 it awarded contracts to the lowest bidder for these services in seven buildings and saved \$296,000, or 38 percent of cost.

PSAD-78-41
(950400)

STATUTORY PREFERENCE FOR COMPETITIVE
PROCUREMENTS

Federal statutes and procurement regulations 1/ require agencies to advertise and award contracts for property and services to the lowest bidder. Agencies may negotiate and award noncompetitive contracts only when justified under the exceptions specified in the statutes and regulations.

VA procurement regulations provide that proposed elevator maintenance contracts more than \$2,000 and less than \$500,000 shall be considered individually for advertised small business set-asides. However, the regulations permit hospitals to negotiate and award contracts for elevator maintenance services when advertising and seeking competition is impractical. The contracting officer must support the decision with the engineering officer's statement of reasons why, in his professional opinion, a negotiated contract is in VA's best interest.

HOSPITAL PRACTICES VARY IN AWARDING ELEVATOR
MAINTENANCE CONTRACTS

The VA's Supply Service, located at Washington, D.C., headquarters, is responsible for developing procurement policy for VA hospitals. It does not, however, maintain a central source of information on elevator maintenance contracts. At our request, the Supply Service selected a sample of 90 of the 171 hospitals and obtained detailed data on elevator maintenance contracts awarded for fiscal years 1974-76.

Analysis of fiscal year 1976 data showed that the 90 hospitals awarded a total of 96 contracts for elevator maintenance services. As indicated by the following table, the hospitals reported about two-thirds of the contract awards as competitive (58 percent to small businesses) and one-third as noncompetitive.

1/Comptroller General Decision B-187624, Mar. 24, 1977, reaffirms the statutory preference for competitive procurements with specific regard to elevator maintenance services.

	<u>Number of contracts</u>	<u>Amount</u> (millions)
Competitive awards:		
Small business	36	\$1.7
Large business	<u>27</u>	<u>.7</u>
Total	<u>63</u>	<u>2.4</u>
Noncompetitive awards	<u>33</u>	<u>1.1</u>
Total	<u>96</u>	<u>\$3.5</u>

Each hospital contracts independently for elevator maintenance services. Hospitals that sought competition for their requirements solicited a number of firms and awarded contracts to the lowest bidder. The successful bidders were both large and small businesses and were not, in most instances, service representatives of the respective elevator manufacturer. A few typical examples are shown in the following table.

<u>Hospital location</u>	<u>Maintenance contract</u>		<u>Elevator manufacturer</u>	<u>Number of</u>	
	<u>Contractor</u>	<u>Amount</u>		<u>Con-tractors solicited</u>	<u>Bids received</u>
Augusta, Ga.	Southeastern Elevator	\$25,056	Otis, Dover, Turnbull, Monarch	4	2
Big Spring, Tex.	Dover	20,925	Otis	6	2
Brooklyn, N.Y.	<u>a</u> /Herk Elevator	39,960	Westinghouse	5	3
Butler, Pa.	<u>a</u> /General Elevator	14,790	Marshall, Otis, Pittsburgh	7	3
Miami, Fla.	Montgomery	122,850	Otis	8	3
White River Junction, Vt.	<u>a</u> /F. S. Payne	14,400	Dover, Westinghouse	4	2

a/Classified as a small business by the hospital.

As shown in enclosure I, hospitals awarded noncompetitive contracts mostly to service representatives of the respective elevator manufacturers. However, the preceding table illustrates that it is possible to secure competition and that it is not necessary to restrict awards solely to the service representatives of the respective equipment manufacturer. Specifically, in Big Spring, Texas, Dover is servicing Otis elevators, and in Butler, Pennsylvania, General Elevator--a small business--is servicing Marshall, Otis, and Pittsburgh elevators.

NO FACTUAL BASIS FOR NONCOMPETITIVE AWARD
DETERMINATIONS

We visited or contacted seven hospitals to evaluate the basis and justification for award, the contractor's performance, and the potential for increased competition in future contracts for elevator maintenance services. As shown in the following table, the seven hospitals awarded eight contracts--five negotiated and three advertised.

<u>Hospital location</u>	<u>Elevator manufacturer</u>	<u>Contractor</u>	<u>Elevator maintenance contract</u>	
			<u>Basis for award</u>	<u>Fiscal year 1976 cost</u>
San Antonio, Tex.	Otis Elevator Co.	Otis Elevator Co.	Sole-source negotiation	\$65,450
New Orleans, La.	Otis Elevator Co.	Otis Elevator Co.	"	48,464
New Orleans, La.	Dover Elevator Co.	Contract Elevator Service, Inc.	"	2,565
Madison, Wis.	Westinghouse Co.	Westinghouse Co.	"	36,840
Chicago, Ill. (Lakeside)	(a)	Armor Elevator Co.	"	43,556
Chicago, Ill. (West Side)	(b)	Reliance Elevator Co.	Advertised	26,340
Houston, Tex.	(c)	<u>d</u> /Houston Elevator Service, Inc.	"	35,220
Wood, Wis.	Haughton Elevator Co.	Haughton Elevator Co.	"	74,925

a/The hospital has 17 elevators manufactured by four different companies: Montgomery, Atlas, Gilbert, Elevator Supply.

b/The hospital has 25 elevators manufactured by four different companies: Westinghouse, Montgomery, Colley, Elevator Supply.

c/The hospital has 21 elevators manufactured by four different companies: Otis, Westinghouse, Montgomery, Rotary Lift.

d/Classified as a small business by the hospital.

The hospitals we visited that awarded noncompetitive contracts had not developed a factual basis to support the determination that it was impractical to secure competition. The hospitals had not sought competition for their requirements for the previous 4 to 7 consecutive years. All noncompetitive awards, except Lakeside, 1/ were based on the Chief Engineer's opinion that only the respective contractors shown in the preceding table could provide the technical personnel, equipment, tooling, and repair parts necessary to assure prompt and effective maintenance services.

The hospital in San Antonio, for example, awarded the initial noncompetitive contract to Otis Elevator Company for maintenance services from January 1974 through September 1976. The hospital awarded a second contract noncompetitively to Otis in fiscal year 1977 which includes renewal options for fiscal years 1978 and 1979. Similarly, the hospitals in New Orleans and Madison awarded noncompetitive contracts to the same contractors for the last 6 or 7 years.

Hospital contract records and the yellow pages of local telephone directories showed that potential exists for seeking competition for elevator maintenance services. Branch offices of several major elevator manufacturing companies as well as some local elevator maintenance companies are located within each of the metropolitan areas we visited.

These hospitals also had no basis and made little or no effort to evaluate the reasonableness of prices paid for maintenance services under the noncompetitive contracts. The initial contract prices were those proposed by the contractor--stated as a flat, monthly rate. These prices were increased annually under contract renewal options on the basis of increases in the published price indexes for labor and materials. Moreover, none of the contractors gave the hospitals reports of the nature and extent of maintenance and repairs under the contract or the time spent on these activities. This kind of information might be useful in a postaward evaluation of contract prices.

1/Lakeside awarded the maintenance contract sole source to the same contractor that is replacing the elevators. A hospital official told us that maintenance service will be advertised for award after the replacement work is completed.

DISCUSSIONS WITH SUPPLY SERVICE OFFICIALS

We discussed our findings in September 1977 with Supply Service officials, who agreed that hospitals had not properly justified the use of sole-source, negotiated contracts for elevator maintenance services. They said they were taking actions to (1) direct the hospitals to reassess their sole-source determinations and (2) revise procedures that presently allow negotiation of contracts based solely on the engineer's opinion that a negotiated contract is in VA's best interest. They also said that the procurement of elevator maintenance services had not received enough attention.

CONCLUSIONS AND RECOMMENDATIONS

Hospital practices of awarding contracts for elevator maintenance services vary. Most hospitals solicited competition and awarded contracts to the lowest bidder, and most competitive awards were made to small businesses. Other hospitals awarded sole-source contracts but did not have a factual basis to support the determination that (1) it was impractical to secure competition or (2) only the manufacturer's representative could provide adequate and timely service.

We believe that there are opportunities for VA to increase the number of competitive procurements by hospitals for elevator maintenance services. In addition, we believe that significant savings will accrue through increased competition. Recent procurements of elevator maintenance services by another Federal agency showed 38-percent cost savings when competition was secured. Similar savings by the 33 non-competitive hospital procurements totaling \$1.1 million sampled would amount to about \$413,000. Since the sample of 90 hospitals represented 53 percent of the total hospitals, it is probable that the above figure would be higher had all hospitals been reviewed.

We recommend that you follow up to assure that the Supply Service:

- Reassesses and revises, if appropriate, the procedures for soliciting competition for elevator maintenance services.

--Directs hospitals to solicit maximum competition.

--Monitors future hospital procurements of these services so that maximum competition is obtained in accordance with procurement regulations.

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In accordance with section 236 of the Legislative Reorganization Act of 1970, the head of a Federal agency is required 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, the Budget, Government Operations, and Veterans' Affairs; the Senate Committees on the Budget, Governmental Affairs, Veterans' Affairs, and Appropriations, Subcommittee on HUD-Independent Agencies; and to the Acting Director, Office of Management and Budget.

We would appreciate being informed of any actions taken or planned on the matters discussed in this report.

Sincerely yours,


Gregory J. Ahart
Director

Enclosure