



UNITED STATES GENERAL ACCOUNTING OFFICE
 REGIONAL OFFICE
 8112 FEDERAL OFFICE BUILDING
 FIFTH AND MAIN STREETS
 CINCINNATI, OHIO 45202

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 GA 000320
 14,557

June 13, 1979

Colonel James H. Rigney
 Commander
 2750th Air Base Wing
 Wright-Patterson Air Force Base, Ohio 45433

AG-000629

Dear Colonel Rigney:

We have recently completed a review of the 2750th Air Base Wing's Contracting Division and Civil Engineering Squadron. During this review we identified weaknesses and deficiencies in the planning, estimating, buying, and contract administration activities which warrant immediate corrective action. We identified instances of overpayments to contractors; inadequate planning and inaccurate estimates of maintenance and repair work to be done; inadequate controls over Air Force property; poorly documented files; questionable negotiation practices; unclear and improperly written purchase orders; and informal agreements between Air Force inspectors and contractors.

Details of the weaknesses and deficiencies and our recommended corrective actions are presented in Appendix I. We provided a draft of this appendix to Contracting Division and Civil Engineering Squadron officials. Their comments are in Appendix II. Information from these appendices will be combined with information from other Department of Defense locations in an overall report to the Congress.

We are pleased with the prompt corrective actions taken or planned by the Contracting Division. We believe these actions will result in more economical procurements and more thorough contract administration. We are concerned, however, that Civil Engineering Squadron officials have apparently not recognized the significance of the deficiencies identified nor the necessity for corrective action.

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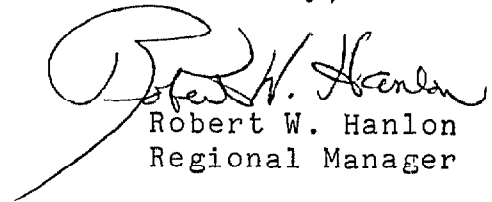
Group III
 Report

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We would be pleased to discuss any of these matters with you or members of your staff and would appreciate receiving your comments on any additional corrective actions planned or taken.

Sincerely,



Robert W. Hanlon
Regional Manager

Enclosures as stated

SUMMARY OF FINDINGS AT
WRIGHT-PATTERSON AIR FORCE BASE, OHIO

CODE 950503

OVERPAYMENTS TO CONTRACTORS

The overpayments to contractors that we identified were caused primarily by contract administration officials' failure to thoroughly review the contractors' invoices. Others resulted from procurement personnel's failure to properly prepare the purchase orders. Most overpayments were on contracts and purchase orders for the maintenance and repair of military housing units. Details of the overpayments are discussed below.

One contractor was awarded two contracts and at least 19 purchase orders for the maintenance and repair of military housing units. Generally, the contractor was paid a fixed price for labor and reimbursed for materials. Although we did not try to identify all overpayments to this contractor, the following are examples of the types of overpayments we identified.

1. The contractor was paid twice for the same material under the same contract. Total overpayment was \$143.57.
2. The contractor was paid for the same material under both contracts. Total overpayment was \$292.80.

3. The contractor was paid for the same material under a contract and under a purchase order. Total overpayment was \$1,047.03.
4. The contractor was paid twice for painting one housing unit. Total overpayment was \$363.00. The contractor has credited the Air Force for this duplicate payment as a result of our review.
5. The contractor was paid for items which were not reimbursable costs. Total overpayment was \$279.92.
6. The contractor was paid the full vendor invoice amount even though the vendor offered the contractor a fast payment discount. Overpayment in January and February 1979 was \$83.95.
7. The contractor proposed total costs of \$3,935, but the purchase order was written for \$4,040. Total overpayment of \$105.00 was not explained in the contract file.
8. The Air Force erred in computing the wage increase the contractor was entitled to under the Service Contract Act of 1965. By giving double credit for vacation time and making mathematical errors the overpayment for 11 months of fiscal year 1978 on these two contracts was \$494.12. The contractor, however, did not bill for one month of the pay increase to which he was entitled. This caused an underpayment on these two contracts of \$1,612.73.

Another contract involving overpayments was for painting the interior of military housing units. The contractor was paid for painting two units with a total of 16,160 square feet while the contract identified these units as having a total of only 11,700 square feet. Total overpayment was \$434.71.

Overpayments on other contracts were caused by the failure of Procurement's personnel to properly record fast payment discounts offered by bidders on the purchase or delivery orders. We identified overpayments of this kind totaling \$317.40.

Contract modifications also caused the contractors to be overpaid. Two of these modifications deleted items from the contracts. One deleted the requirement for the contractor to replace gutters and downspouts and reduced the contract price for this work. The requirement to paint existing gutters and downspouts was not deleted but they were not painted and the contract price was not reduced. Therefore, WPAFB paid for services not received. The other modification reduced the contract price for the contractor's direct costs but did not reduce the contract price for the contractor's overhead and profit for the work deleted.

A third contract modification was for painting the interior of a building. The contractor's proposed costs which were accepted as fair and reasonable by the Air Force included \$3,868.70 for a non-working supervisor. The contractor did not, however, have a non-working supervisor at the work site. No action was taken by the contract administrator to ensure the Air Force received the services paid for.

Conclusions and recommendations

We believe most of the overpayments discussed above could have been avoided if the procurement and contract administration officials had used more care preparing the purchase orders and reviewing the contractors' invoices.

To prevent and detect potential overpayments in the future we recommend you:

- emphasize the importance of preparing contractual documents properly to all procurement officials,
- train officials responsible for certifying contractors' invoices for payment on how to review them and what to check for,
- perform periodic internal reviews to ensure that (1) contract administration officials are aware of their responsibilities and are capable of meeting them and (2) documents are prepared properly, and
- identify all other overpayments and seek recoupment where appropriate.

INADEQUATE PLANNING AND
INACCURATE ESTIMATES

The 2750th Civil Engineering Squadron is responsible for managing, including maintaining Air Force real property.

Its responsibilities include planning the required work, preparing specifications and cost estimates, and inspecting the completed work. During our review we identified instances which indicate Civil Engineering should improve its planning and estimating functions and thereby possibly reduce procurement costs.

One contract for painting the exterior of five buildings was modified to add a sixth building. The building was added because it appeared unsightly after the building attached to it was painted under this contract. We believe adequate planning would have identified the need to paint both of these buildings at the same time and would not have necessitated the contract modification without competition.

Another contract for painting the exterior of 12 buildings was modified to delete the painting of trim on one of the buildings. According to the contract administrator another contractor was scheduled to replace the windows in the building so the painting requirement was deleted. Adequate planning would have avoided the need for the contract modification by not including the windows in the basic contract.

A contract for painting the interior of 19 buildings was modified to issue a stop-work order on one of the buildings. The stop-work order was issued because another contractor was scheduled to make roof repairs and replace the windows at the same time the painting was to be done. As a result of the stop-work order, the contractor was paid an additional \$6,466.51 for painting the building when he was allowed to resume work. We believe adequate planning would have avoided the need for the stop-work order and would not have necessitated the additional costs.

The 19 purchase orders for repair and maintenance of military housing also involve inadequate planning. - On 13 of these orders, the contractor had completed part or all of the work before the award was made. Also, 18 of them were sole source awards to the same contractor. These factors indicate the Contracting Division is not being given sufficient leadtime to solicit competitive bids and is being forced to negotiate with the contractor selected by Civil Engineering.

In addition to the above examples of inadequate planning, we also identified a need for Civil Engineering to improve

its estimating techniques. Civil Engineering relies primarily on drawings to estimate the square footage for painting and similar work. These estimates are then used as a basis for contractual payments. To test the accuracy of selected estimates we measured patios and the interior and exterior of military housing units. Civil Engineering estimates and our measurements are shown below.

Comparison of Air Force and GAO Estimates on Patios^{1/}

<u>Patio</u>	<u>Civil Engineering</u>	<u>GAO measurement</u>	<u>Difference</u>
#1	350	694	344
#2	350	752	402
#3	350	1,001	651

^{1/} All numbers represent square feet.

As shown above all three of Civil Engineering's estimates significantly understated the actual square footage to be painted on the patios.

Comparison of Air Force and GAO Estimates on Interiors^{1/}

<u>Housing unit</u>	<u>Civil Engineering</u>	<u>GAO measurement</u>	<u>Difference</u> ^{2/}
BQ-1	6,600	6,066	534
BQ-2	8,200	7,269	931
BQ-3	6,600	5,207	1,393
WH-1	5,980	6,061	(81)
WH-2	6,210	6,591	(381)
PM-1	7,560	6,758	802
PM-2	9,410	8,304	1,106
PM-3	5,070	5,246	(176)
PM-4	6,220	6,231	(11)
PM-5	4,720	4,890	(170)
PM-6	<u>3,910</u>	<u>3,927</u>	<u>(17)</u>
Totals	<u>70,480</u>	<u>66,550</u>	<u>3,930</u>

1/ All numbers represent square feet.

2/ Parentheses indicate Civil Engineering understated area. All others were overstated.

The table above indicates Civil Engineering's estimates are not accurate. Of the 11 housing units we measured, Civil Engineering's estimates overstated the actual painted area on 5 units and understated it on 6 units. The net impact on these 11 units was an overstatement of about 6 percent.

Comparison of Air Force and GAO Estimates on Exteriors^{1/}

<u>Facilities</u>	<u>Civil Engineering</u>	<u>GAO measurement</u>	<u>Difference</u> ^{2/}
<u>Garages</u>			
Nontrim	134,292	98,567	35,725
Trim	11,347	42,822	(31,475)
<u>Service facilities</u>			
Nontrim	27,324	25,920	1,404
Trim	4,383	4,080	303
<u>Housing units</u>	149,544	147,470	2,074

1/ All numbers represent square feet.

2/ Parentheses indicate area was understated by Civil Engineering. All others were overstated.

As shown above the estimates by Civil Engineering are inaccurate--especially the estimated trim and nontrim areas on the garages. Part of this difference resulted from Civil Engineering's reliance on the drawings. The estimator assumed one square foot of trim for each linear foot of surface and also assumed the entire surface of all four sides of the garages would be painted. The front of the garages actually have five square feet of trim for each linear foot of surface and have metal doors which are not painted. We could not determine the reason for the total difference

because Civil Engineering could not provide documents to support their estimates.

Conclusions and recommendations

Civil Engineering's inadequate planning has caused contracts to be modified and put the Contracting Division in a position of negotiating with one contractor instead of obtaining competitive bids. In addition, the estimates for work to be done were inaccurate which caused either under-payments or overpayments to contractors.

To avoid unnecessary contract modifications and short leadtime procurements, the Commander, Civil Engineering Squadron, should:

- identify the required work more precisely before seeking a contract, and
- give the Contracting Division sufficient leadtime to solicit competitive bids.

We also recommend that Civil Engineering not rely only on drawings to determine the quantity of work to be done. To protect the interests of both the Government and the contractor and to ensure proper quantities are ordered and paid for, Civil Engineering should physically measure the work areas.

INADEQUATE CONTROLS OVER AIR FORCE
PROPERTY--A POTENTIAL FOR ABUSE

In March and June 1977, the 2750th Contracting Division awarded contracts for the repair and maintenance of two military housing areas. Both contracts were awarded to the same contractor and became effective on June 1, 1977, and July 1, 1977. They will be in effect until at least September 30, 1979, and could be extended for an additional year if the option is exercised.

Both of these contracts require the contractor to maintain an inventory of materials. They provide that the contractor will be reimbursed monthly for the materials which were added to the inventory. The contractor is responsible for maintaining control over these inventories and is liable for any shortages.

The contractor's written control procedures, approved for both contracts by the Contracting Division in January 1978, are adequate to ensure proper reimbursement for materials. Our review of the contractor's records, however, showed these procedures are not followed on one of the contracts.

We reviewed the contractor's records on both contracts and determined that his records on one contract permit items to be tracked from the time of purchase to the time of use. Records on the other contract, however, were not adequate to determine whether the material charges were appropriate nor whether material shortages existed. Contracting officials have not enforced the approved inventory control procedures on this contract and as of May 1979 had not conducted any reviews of the contractor's controls on this contract.

Conclusions and recommendations

These two contracts demonstrate a need for changes in contract administration practices. The contractor maintained records that would permit tracking of materials used on one contract but not on the other. Although both contracts contain accountability requirements, the requirement on one was never enforced. Consequently, this practice presents a potential for serious abuse. Without detailed records the official certifying the contractor's invoice for payment has no assurance that charges are appropriate and the inventory balances are accurate.

Accordingly, we recommend the Chief of the Contracting
Division:

- enforce the accountability requirements in the contracts,
and
- make periodic random checks of the inventory records
and balances on hand.

PRICE REASONABLENESS NOT DOCUMENTED

Our review of official contract and purchase order files revealed that many were poorly documented as to price reasonableness. For example, 12 of the 19 purchase orders exceeded \$500 and were awarded on a sole source basis. On such awards the Defense Acquisition Regulations require a statement in the file setting forth the basis of the determination of fair and reasonable price when only one bid or proposal is received. Six of these 12 files did not include the required determination.

In addition to the purchase order files, we identified one contract file which did not include (1) the contractor's proposal nor the Air Force's estimate that were used for negotiations, nor (2) the details on the prices negotiated.

Another instance involved a negotiated contract modification. The file included a statement that the price

proposed by the contractor was fair and reasonable but was not adequately documented to support such a determination.

Conclusions and recommendations

The contracting officers are apparently not reviewing the contract or purchase order files to ensure that the prices being paid are reasonable. We recommend that all files be reviewed more carefully to ensure that all required documentation is present to substantiate that reasonable prices are being paid.

QUESTIONABLE NEGOTIATION METHODS

We identified two instances in which questionable negotiation methods were used. These involved negotiating the size of an area to be painted and the price for lawn work.

A contract for exterior painting and replacing fascias, soffits, gutters, downspouts, and canopies on military housing units was negotiated pursuant to Section 8 (a) of the Small Business Act of 1953. The details of the negotiations were not fully documented but the records that were available indicate the contractor and the Air Force disagreed over the size of the area to be painted.

During negotiations, the Civil Engineer agreed the contractor's measurement methods "...seemed to have some logic..." so the difference was split to arrive at a baseline for negotiating prices.

The files were not documented to show the amount of square footage that was split, but do indicate the difference was significant. For example, the contractor estimated 2,071,156 square feet of nontrim surface would be painted while the Air Force estimate was 1,547,358--a difference of 523,798 square feet. The contractor also estimated there were 550,604 square feet of trim but the Air Force estimated only 157,775--a difference of 392,829 square feet.

We believe the Air Force should not have negotiated the size of the area to be painted. We also believe this method would not have resulted in fair and reasonable prices being paid.

A modification to one of the contracts for maintenance of military housing units also involved a questionable negotiation practice. The contractor, as part of his total proposal, bid \$100 per month for mowing common areas such as playgrounds. Additional mowing, trimming, and leaf removal work was added which the civil engineers estimated would cost \$928.46 per month. The contract administrator negotiated a price of \$1,600 per month for all lawn work instead of negotiating a price for only the additional work. As a result the amount paid monthly for 31 months for the additional work was \$1,500 which was \$571.54 higher than the Civil Engineer's estimated monthly cost. WPAFB should have negotiated a price for only the additional work instead of negotiating a price for work which was already being done for a firm-fixed price.

Conclusions and recommendations

The painting contract discussed above indicates the Air Force would not substantiate its estimates of the size of

the areas to be painted. As a result, the contractor forced the Air Force into negotiating items which should not be negotiable. If the Air Force could have substantiated its estimates, then the contractor would have been required to use them as a baseline for negotiating prices and would not have been able to consider the size of the buildings as a negotiable item.

We doubt the price paid on this contract for exterior painting was reasonable since the Air Force agreed to split the difference in the estimated size of the areas painted.

For future negotiated contracts the Air Force should document its estimates more fully and require the contractor to prove the Air Force estimate is in error before agreeing to change it. The size of the areas to be painted should not be a negotiable item but should be used as a baseline to negotiate prices.

Also, items which are being bought for a firm-fixed price should not be renegotiated in total when a modification is made. Only the price for the additional work should be negotiated.

AMBIGUOUS PURCHASE ORDERS

During our review we identified purchase orders which did not clearly indicate what was included in the purchase order price or what the contractor was required to do. These purchase orders were for various repairs to military housing units and were awarded to the contractor who has the contract for routine repairs and maintenance on these units as discussed above.

Of the 19 purchase orders we reviewed, two specifically provided that the price was for labor only. One of these was for overtime worked and the other stated that material costs were to be reimbursed under the contract. Three others stated the price was for labor only but did not state whether the materials were reimbursable on the purchase order or the contract. Two of the orders stated the prices included both labor and material. The remaining 12 purchase orders did not specify whether the purchase price included materials or whether they were reimbursable under the contract.

In addition to the ambiguity regarding the reimbursable status of the materials, 18 of the 19 purchase orders did

not include detailed specifications for the work to be done. For example, several required the contractor to replace a floor but did not specify the type of flooring to be used or whether underlayment was required. Other orders were for replacing wall covering, kitchen countertops, and wall tile but did not specify the type to be used nor the required surface preparation.

Conclusions and recommendations

The inconsistent and ambiguous style in which these purchase orders were written could lead to overpayments either by paying for the material twice or by paying for work that was not done. Since there is not a consistent method for reimbursing the contractor for materials and some orders were not clear on how reimbursement would be made, the official certifying the contractor's invoices could approve payment for materials under both the contract and a purchase order (see p. 1). In addition, without detailed specifications the Air Force and the contractor could disagree on what constitutes satisfactory performance which could lead to paying unreasonable prices for the work actually done.

To prevent potential overpayments and contract disputes future purchase orders should specify in detail what work is to be done and what constitutes satisfactory performance. Also, all future orders should be written on a fixed-price basis and include material costs.

INFORMAL AGREEMENTS WITH CONTRACTORS

During our review we identified four instances involving informal agreements with contractors. In each instance a representative of the 2750th Civil Engineering Squadron exceeded his authority by agreeing to changes in the scope of work in the contract without consulting the Contracting Division.

On one contract the inspector agreed to delete the requirement for the contractor to paint the back of a building in exchange for another coat of paint on the front of the building. This agreement was made without the knowledge or consent of the contract administrator.

The inspector on another contract agreed to delete the requirement for the contractor to paint identification

markings on fuel storage tanks and associated pipes in exchange for painting items not within the scope of the contract. The inspector did not consult the contract administrator about this change.

The inspector for interior painting of military housing units agreed to pay the contractor for a second coat of paint at a rate of 75 percent of the cost of the first coat. The contractor has been billing in accordance with this agreement since February 1978 but, as of May 1979, the contract had not been modified to allow for these charges.

The fourth instance of informal agreements involved a purchase order for repair work on a military housing unit. The contractor was awarded a purchase order on September 29, 1978, to replace wallboard, wall tile, and a kitchen floor as well as to paint the basement and patio in a housing unit. The completion date was established as October 10, 1978. On October 28-29, 1978, the contractor worked overtime to complete this work. A purchase order authorizing the overtime was issued on December 18, 1978, for \$963.52. The

original purchase order, however, was never amended to extend the required completion date. A Civil Engineer official said the original required completion date was unrealistic so the contractor was given more time to finish the work and authorized to work overtime.

Conclusions and recommendations

The inspectors in Civil Engineering have exceeded their authority in making informal agreements with contractors. However, if the contract administrators had inspected the work, they would have been aware of these informal agreements. Continued practices of this nature could lead to claims against the Air Force for the work done at the inspector's request. Also, the inspector may agree to changes at unreasonable prices.

To avoid the potential misunderstanding between the Air Force and the contractor and to ensure the best possible prices we recommend you:

--remind the inspectors of their authority and limitations in dealing with contractors,

- require the inspectors to obtain Procurement's written approval before agreeing to any change in the scope of work or required completion dates, and
- require the contract administrators to periodically verify the inspectors' reports to ensure that all contractual requirements have been met and that inspectors have not exceeded their authority.

2750ABW/PM Comments to GAO APPENDIX I:

1. Overpayments to Contractors

The importance of avoiding certification of invoices duplicating billings has been emphasized to the personnel (TRCOs/Inspectors) responsible for certifying invoices.

We will demand refund of all proven duplicate billings and as those noted under items 1 and 2, page 1, Appendix I, totaling \$436.37. Further information is required to verify duplicate payments of \$791.00 and \$74.60 included in the amount of \$1,047, listed in item 3.

Item 5, some labor charges and taxes were overlooked when invoices were reviewed. Special attention will be given this area in the future. Some labor charges are allowable; for example, rewinding an electrical motor in a supplies plant is considered a justifiable material expense.

Item 6, some of the percentage discounts have been overlooked. This has been brought to the attention of the contractor and corrections were made as of February 1979.

Item 7, the quote for the requirements under this purchase order covered two similar items. In preparing the purchase order the wrong price was used. This problem will be brought to the attention of the contractor, but the amount probably won't be legally recoverable.

Page 4, painting the interior of a building which included in the price \$3,868.70 for a non-working supervisor.

Building in question is an AF hangar and inside painting required was approximately eight stories off the ground. It was determined that a non-working supervisor was required and was negotiated as part of the contract. During the contract administrator's review of inspector reports and other documentation he did not recognize any problems in this area during the life of the contract.

As a result of this GAO report the following action has been taken:

a. Contract Administrators have been cautioned that continuous review of contractor's performance must include assurance that skills and trades required by the terms of the contract are complied with.

b. On contract F33601-76-98029 the contractor was contacted during the week of 21 May 1979 and asked if he provided a non-working supervisor as required by the contract. The contractor will review his records and advise. As of 31 May the contractor has not advised the Contracting Officer the results of his review. We will contact the contractor on 1 June for his comments.

If the contractor cannot prove to the Government's satisfaction that a non-working supervisor was present during performance of this contract he will be requested to refund that amount (\$3,868.70) which was paid for services not received.

GAO report of overpayment on the following contracts will be reviewed and an attempt to recoup overpayments will be made.

F33601-78-C-0005
F33601-77-90259

F33601-78-C-0090

2. Inadequate Controls Over Air Force Property (page 11)

The contractor was notified to correct his records for the contract for which they were inadequate. The corrective action should be accomplished by 30 June 1979.

The Technical Representative of the Contracting Officer (TRCO) checklists have been amended to require at least monthly random checks of the inventory by the TRCO's. In addition, contract administrators will check the work of the TRCO's by independently checking the inventories.

Potential problems should be reduced in the future under new contracts by requiring contractors to furnish all parts under \$50.00 in value as part of the fixed contract price.

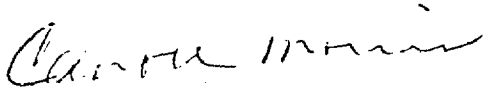
3. Price Reasonableness Not Documented (page 13)

The Defense Acquisition Regulation does not require competition for purchases under \$500. Six of the 18 sole source orders mentioned were under \$500 and so did not require competition or a statement of price reasonableness. (Competition or a determination as to price reasonableness is required for actions under \$500 only when the contracting officer suspects the price to be unreasonable.)

A Small Purchase Pricing Review Program was implemented in this division (reference PM letter dated 21 March 1979) to place increased emphasis on small purchase procedures. This program should eliminate the type of discrepancy mentioned in the report.

4. Informal Agreements with Contractor (page 19)

Inspectors are made aware of their authority in pre-performance conferences, and formal training sessions. Contract administrators will be instructed to increase their emphasis on instructing inspectors on the limits of their authority.


CARROLL MORRIS
Deputy Chief, Procurement Division

01 JUN 1979