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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

PROCUREMENT, LOGISTICS,
AND READINESS DIVISION

January 25, 1982



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Mr. John H. Kelso
Acting Administrator, Health Services

Dear Mr. Kelso:

Subject: [Use of Contractor for Travel Services] (PLRD-82-35)

We have completed our review of the Health Services Administration's (HSA) use of a contractor for providing travel services to its corps of medical recruits and volunteers. Although the initial contractor's service was well received and the increasing administrative burden of making complex travel arrangements was alleviated, we found defects in the manner in which the contract was awarded and subsequently administered. However, the defects we noted and discussed with agency officials have, for the most part, been corrected and the cost of the services being provided under the succeeding contract is significantly less.

BACKGROUND

The HSA provides a corps of medical personnel to assist in the development of health service programs for medically underserved areas and population groups. This corps consists of medical personnel recruited through scholarships, tuition loans, and volunteers. The personnel are recruited nationwide (through 10 regional offices) for a 2-year period of service and the Administration attempts to place them in the medically underserved areas or among the medically underserved population groups.

To accomplish this the recruit is allowed \$600 of appropriated funds for travel and per diem expenses (up to 5 days) to visit the needy areas or groups. Once the recruit chooses a location, the Administration arranges and pays for relocating them to the chosen areas along with their dependents, and their household goods. The Health Services Administration also provides for their travel and per diem for attending orientation conferences, seminars, in-house training and continuing professional education while they are with the Administration. [Most, if not all of these persons, have no experience with Government travel regulations, procedures, forms, and they need extensive assistance in applying for travel orders and advances, preparing travel itineraries, obtaining optimum-fare tickets, and completing travel vouchers.]

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As the medical corps expanded, the burden of travel assistance work and the backlog of travel reimbursement vouchers grew to intolerable levels. A task group studying the problem in November 1978 stated:

"A very large portion of clerical staff time in the Regions is spent in preparing travel documents and arranging travel for applicants and providers, including matching site visits, orientation, conferences, change of station, and continuing professional education. The volume of this activity increased so the Regions are not adequately covering other clerical needs, have backlogs of travel documents, and are having difficulty retaining clerical staff."

The task group made a number of recommendations designed to correct the one problem. Among other things, it recommended that consideration be given to contracting out all travel services.

In response, HSA entered into a contract with DOT Systems, Inc., Burke, Virginia. The contract, which became effective in February 1980 and was scheduled to terminate February 3, 1981, provided that the contractor was to perform all travel services for the Administration's corps of medical personnel. These services included advising travelers of pertinent Government travel regulations, obtaining information necessary to schedule travel, making lodging reservations, providing tickets and travel advances to travelers, preparing requests for the shipment of household goods, and obtaining sufficient information from the travelers after the trips are completed to prepare travel vouchers. The cost for the first year was \$780,967.

Prior to letting the contract, travel services were performed as additional duties by personnel in the 10 regional offices of Health Services Administration. There were no employees assigned exclusively to the performance of travel services. Frequently, a GS-12 or GS-13 would perform these duties at the expense of other project work.

OBJECTIVES, SCOPE, AND METHODOLOGY

While investigating an allegation of the misuse of Government funds for relocation expenses, we were informed of the HSA/DOT Systems contract. Since this was the first contract of its kind to come to our attention, we wanted to see whether the contract was advantageous to the Government and, if so, whether the contracting concept would be beneficial to other agencies.

We interviewed personnel and examined pertinent records of the HSA Headquarters in Rockville, Maryland, and HSA Region 3 in Philadelphia, Pennsylvania. We also interviewed personnel and observed the operation of DOT Systems Headquarters in Burke, Virginia, and at the DOT site at Region 3 in Philadelphia.

CONTRACTOR'S PERFORMANCE SATISFACTORY;
BUT CONTRACT HAD DEFECTS

In general, we found that the performance of the contractor-- DOT Systems, Inc.--was well received and that the increasing administrative burden of making complex travel arrangements and executing travel vouchers was alleviated. But, we also found problems in the awarding of the contract and the subsequent administration. For example:

- The contract was awarded without a cost comparison as required by Office of Management and Budget Circular A-76.
- When the cost comparison was eventually made, the cost of Government personnel used in the cost comparison was inflated.
- The contractor rented office space in separate non-government facilities even though the use of available space in Government buildings would have resulted in reduction in the contract price.
- Office furniture was obtained under a lease/buy arrangement, notwithstanding the fact that it was available from the General Services Administration.

CONTRACT AWARDED WITHOUT COST COMPARISON

The initial procurement action for this contract was as a small business set-aside. However, this action did not produce any bidders and the contract was then awarded on February 4, 1980, under the solicitation for bids procedure.

As a small business set-aside, the agency was not required to compare the cost of contracting versus the cost of using Government personnel. However, under the solicitation for bids procedure, the agency was compelled to make such a comparison. Office of Management and Budget Circular A-76 requires that contract versus in-house costs be compared when private performance is feasible and where there are no overriding factors which require in-house performance.

No cost comparison was made when the contract was awarded to DOT Systems in February 1980. In fact, it was not until some 6-months later and after articles critical of the Health Services Administration's actions appeared in the press that a cost comparison was made.

DEFECTS IN COST COMPARISON

We looked into the cost comparison and, in addition to being done after the contract had been awarded, the comparison had other defects. For example, the estimate of in-house personnel

costs appeared to be inflated. In computing personnel costs, the Administration used the part-time cost of a GS-12, Step 5, as a supervisor to support staff in grades GS-5 and GS-6 in each region. A total of 4.75 staff years was estimated for supervision at a cost of \$145,074. Since the total cost for personnel was estimated at \$417,237, this means that about 35 percent of the estimated personnel cost would go for supervision. In our opinion, this degree of supervision was disproportionate.

Additionally, we analyzed the job description for travel office personnel in several agencies (including GAO). We found that the supervisory level in travel offices was grade GS-7 and the support staff was grades GS-4 and GS-5. Accordingly, we believe the estimate for in-house personnel costs was excessive and unrealistic in view of grades approved for staffing actual travel offices in other agencies. Adjusting the in-house cost estimate for this element would make contracting out appear even less attractive from a cost standpoint.

POTENTIAL FOR REDUCING CONTRACT COSTS

The contract required that the contractor lease office space adjacent to or near the Health Services' offices in each of the ten regions. This was done in the mistaken belief that if the contractor was located in-house an employer-employee relationship would soon develop between HSA personnel and the contractor's employees. Such employer-employee relationships are prohibited in Government contracting.

The contractor had originally suggested that the use of Government office space would reduce the cost of the contract. But, in the mistaken belief that an employer-employee relationship would develop, the Health Services Administration decided against the use of Government facilities. We do not believe the likelihood of an employer-employee relationship developing in this connection is any greater than in the many other contracts in effect throughout the country which have come to our attention. The contract cost could have been reduced by an additional \$50,000 if the contractor had been located in-house.

Another area that offered the potential for reducing the contract cost was in the acquisition of office furniture. Office furniture for the contractor's facilities was obtained under a lease/buy arrangement whereby the furniture would be purchased by the Administration at the expiration of the contract. One reason given for this arrangement was that there was not sufficient time to procure the furniture from the General Services Administration between the time the contract was awarded and the date of implementation. Another reason given was that the furniture available from GSA was classed as "executive" and was not suitable for contractor facilities. However, announcements of intent to contract, made over 6-months prior to contract implementation, stated that work would be required in all 10 regions. Exact requirements may not have been known, but close estimates

could have been made and the procurement process initiated with GSA. In other words, timely planning prior to award of the contract would have given General Services ample time to provide the desired furniture at a far lesser cost than procuring the relatively small amount commercially.

COST OF NEW CONTRACT SIGNIFICANTLY LOWER

At the expiration of the contract with DOT Systems, Inc., in April 1981, a new contract was awarded to the Davis Agency, Incorporated, Arlington, Virginia. The estimated cost of the contract with the Davis Agency is \$619,370 for a one-year period. This is about \$160,000 less than the initial contract. Most of the difference is attributable to lower overhead costs by Davis.

We examined the cost comparison prepared incident to the Davis contract award and found that it conforms to the requirements for justifying contracting-out as stated in the Office of Management and Budget Circular No. A-76, Cost Comparison Handbook. Recommendations we made during our review of the DOT contract were apparently noted and used as a basis in evaluating subsequent offers.

MOST OTHER AGENCIES DO NOT USE CONTRACTORS FOR TRAVEL SERVICES

We contacted 10 other federal agencies in the Washington, D.C., metropolitan area which were identified as heavy users of travel and transportation services. These agencies were the Departments of Commerce, Interior, Justice, Labor, State, Treasury, Education, Energy, Transportation, and Housing and Urban Development. Only one of these agencies had a contractor performing travel services. The others used their own personnel to handle these chores.

The one user, the Department of Labor, has contracted out its travel services at selected locations at no cost. The contractor uses Government furnished space and equipment and provides Government personnel traveling on official business their tickets and hotel reservations. The contractor attempts to recover its costs and make a profit on commissions on sales of tickets and hotel accommodations for the private travel of Labor's employees.

It should be noted, however, that none of these agencies have a corps of, what are essentially, [quasi-Government personnel who must live, work, and travel in the Federal environment for the relatively short periods of their professional careers.]

CONCLUSIONS

The concept of contracting out for travel services has merit. If the prescribed cost comparisons are properly made and the contractor's performance monitored, economics and

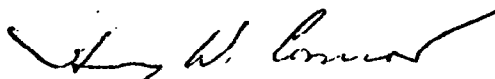
benefits in the form of improved service to the employees can result. The concept is particularly attractive to an agency such as the Health Services Administration, where the travelers are totally unfamiliar with regulations.

To ensure the maximum benefits of the contracting out concept, we suggest that the internal audit staff of Health Services Administration be directed to periodically review the awarding and administration of contracts for travel services. Some of the things to be evaluated are:

- the validity and timeliness of cost comparisons,
- compliance with the provisions of the Office of Management and Budget Circular A-76,
- opportunities to reduce the contractor's overhead and subsequently the Government's costs (such as relocating the contractor in-house), and
- contractor performance, including the quality of services rendered.

We would appreciate receiving your comments on the issues discussed in this report and being kept informed of any corrective actions taken.

Sincerely yours,



Henry W. Connor
Senior Associate Director