

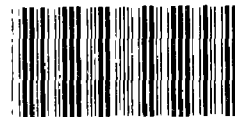
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Report to the Chairman, Subcommittee on
General Oversight and Investigations,
Committee on Banking, Finance and
Urban Affairs, House of Representatives

July 1987

PUBLIC HOUSING

Consolidated Supply Contracts for Commercial Trash Compactors



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**Resources, Community, and
Economic Development Division**

B-227589

July 23, 1987

The Honorable Carroll Hubbard
Chairman, Subcommittee on General
Oversight and Investigations
Committee on Banking, Finance and
Urban Affairs
House of Representatives

Dear Mr. Chairman:

Your letter of November 12, 1986, requested that we review the Department of Housing and Urban Development's (HUD) award of consolidated supply contracts (CSCs) for commercial trash compactors. You expressed concern that HUD may have allowed certain significant contract specifications to be waived without performing an adequate analysis to determine the effect of such actions. On March 6, 1987, we briefed the Chief Counsel of the Subcommittee on our work and, as subsequently requested, we are providing this document on the matters discussed.

In 1954 the Public Housing Administration, a predecessor agency of HUD, established procedures to help public housing agencies (PHAs) procure commonly used items in the operation of their low-income housing projects. Under these procedures, HUD solicits and evaluates bids from potential suppliers and then enters into CSCs with those suppliers offering the most favorable prices. PHAs then make their purchases under the CSCs by issuing a purchase order. HUD and PHAs are jointly responsible for ensuring that the items meet HUD-approved specifications.

In summary, our work showed that the manufacturers HUD selected under the CSCs furnished compactors that did not fully meet HUD-approved specifications. When allegations of a manufacturer's noncompliance with the specifications were brought to HUD's attention early in the CSC award process, HUD did little to investigate the merits or significance of the complaints. HUD assumed that the manufacturer would comply with its specifications. About one year elapsed before HUD inspected the compactors of both manufacturers to determine if they met its specifications. Although HUD found that neither supplier fully met its specifications, HUD concluded that, for the most part, the deviations were relatively minor and that only safety-related items had to be corrected.

Our work showed that HUD did not thoroughly examine the impact that deviations from its specifications had on matters such as unfair price

advantages between manufacturers and the serviceability of the compactors. We also found several inconsistencies and ambiguities in the specifications of HUD's contract. These subsequently contributed to a disagreement between HUD and one of the manufacturers as to whether certain compactor components were to be provided under the basic price for the compactor or would cost additional amounts. The manufacturer said that HUD's contract was ambiguous, maintaining that some of the items in question were part of the compactor installation work and outside the scope of HUD's contract which was only for the purpose of supplying compactors.

HUD officials said that they recently issued a handbook on the administration of CSCs which they believe, together with additional training, will help improve HUD's management of such contracts in the future. However, the CSCs for compactors expired in October 1986, and HUD officials pointed out that they have not decided whether they will issue a new CSC. If HUD does enter into a new CSC, the procurement specifications it publishes should be carefully reviewed and the contract requirements clearly presented to help avoid the inconsistencies and ambiguities that existed in the previously published specifications. These matters are discussed in detail in appendix I.

Our work was performed between December 1986 and April 1987. In performing our work, we interviewed HUD officials in Washington, D.C., and New York. We also interviewed officials of PHAS in various states that purchased compactors under the contracts and several trash compactor servicing contractors and manufacturers who did not participate in HUD's CSC. We reviewed HUD records regarding the award and administration of CSCs and appropriate handbooks, rules, and regulations governing the management and administration of the program.

We discussed the contents of this report with appropriate HUD officials, and their comments have been incorporated where appropriate. As arranged with your office, unless you publicly release its contents earlier, we plan no further distribution of this report until 30 days after the date of this letter. At that time, we will send copies to the Secretary of HUD, the two manufacturers that participated under the CSCs, selected

PHAS, and other interested parties. We will also make copies available to others upon request.

Major contributors to this report are listed in appendix II.

Sincerely yours,

A handwritten signature in cursive script that reads "John H. Luke".

John H. Luke
Associate Director

Development and Administration of HUD Consolidated Supply Contracts for Commercial Trash Compactors

Background

In 1954 the Public Housing Administration, a predecessor agency of the Department of Housing and Urban Development (HUD), established procedures to assist public housing agencies (PHAs) in purchasing commonly used items—supplies and equipment—needed for the operation of their low-income housing projects. Under these procedures, HUD solicits and evaluates bids from potential suppliers and then enters into consolidated supply contracts (CSCs) with suppliers offering the most favorable prices. PHAs then purchase items under the CSCs by issuing a purchase order. The CSC process is intended to help reduce PHAs' procurement costs by taking advantage of price competition by soliciting bids from several suppliers while reducing the administrative burden and costs that would otherwise be incurred if PHAs individually prepared contract specifications and advertised for products they want to purchase.

According to a HUD official, as of April 1, 1987, there were 20 items available under CSCs. Although the use of CSCs by PHAs is voluntary, HUD requires that if a PHA purchases a CSC item at a price greater than that published, a written justification is required. HUD and the PHAs are jointly responsible for ensuring that CSC products meet HUD-approved specifications.

HUD Supply Contracts for Commercial Trash Compactors

In August 1982, HUD's New York Regional Office recommended to HUD headquarters officials that commercial trash compactors be added to HUD's list of CSC items. This recommendation was made because PHAs were expected to increase the number of compactors they would purchase since many were to remove their trash burning incinerators. In developing the specifications for its CSC for compactors, HUD modified the contract specifications originally developed by the New York City Housing Authority. There were, however, as discussed later, certain ambiguities and inconsistencies in the revised specifications that HUD used to solicit bids.

In August 1984, HUD issued an invitation to potential suppliers to bid on the contract to supply compactors. HUD selected three suppliers and, initially, CSCs were issued for 18 months. The CSCs were subsequently extended for 5 months to October 31, 1986. During the period that the CSCs were in effect—December 1, 1984, to October 31, 1986—11 PHAs in 6 states purchased 146 compactors. According to a HUD official, HUD has not decided whether another CSC will be issued to purchase compactors in the future.

HUD Could Have Done More in Reviewing Noncompliance With Its Specifications

From the outset of the CSC effort for commercial trash compactors, a compactor manufacturer alleged that another manufacturer's compactor did not and would not meet HUD's specifications. The complaints, to a large extent, centered around charges that the manufacturer's compactor was not as easily serviceable because certain components, such as the reduction chamber, were welded to the compactor body instead of bolted as was stipulated by HUD specifications. HUD received these complaints in October 1984—prior to the award of the contract.

Notwithstanding such complaints, HUD initially did little to investigate their merits or significance. According to HUD's records, its investigation of such complaints was limited essentially to a review of the manufacturer's bid sheet and the operations and maintenance manual for the compactors. Regarding one of the major items relative to noncompliance with HUD specifications, HUD said it was not clear from its review of the manuals as to how the compactor reduction chamber would be secured to the compactor body, but it assumed that the manufacturer would comply with the HUD specifications and bolt the reduction chamber to the compactor body. Compactors made by this manufacturer did not fully comply with HUD's specifications because, among other things, the reduction chamber was welded to the compactor body. According to several trash compactor service and maintenance contractors as well as manufacturers we spoke to, by welding the reduction chamber, it could be more difficult to service the compactor. Further, because welding the chamber was a less costly construction method in the manufacture of compactors, the manufacturer using this method would have a price advantage over other manufacturers who followed HUD's specifications.

About a year after first receiving such complaints, HUD inspected compactors of the two eligible manufacturers (the third manufacturer sold his business) to determine if they met HUD's specifications. HUD said it made these inspections because of the numerous and continued complaints that it had received from the one manufacturer charging the other manufacturer with noncompliance with the specifications. HUD found that neither supplier fully complied with the specifications. HUD, however, concluded that, for the most part, the deviations were relatively minor and did not seriously affect the reliability, durability, or performance of the compactors. HUD, generally, required that only items affecting the safety of the compactors be corrected. These included installing appropriate warning signs and modifying switching configurations to help ensure the safe operation of the compactors.

HUD officials said that they recently issued a handbook detailing HUD's policies and procedures on the administration of CSCs. Specifically, they pointed out the handbook requirements, when appropriate, for obtaining industry input in developing specifications and for obtaining third-party certification to help insure that CSC products meet HUD specifications. The officials also said that HUD has scheduled training for field office personnel to reinforce an understanding of their duties and responsibilities when PHAS purchase CSC items. Further, an expanded role for HUD field office representatives is anticipated by having them periodically visit PHAS to determine if CSC purchases meet HUD requirements.

Pricing Disputes

HUD and one of the compactor manufacturers engaged in a pricing dispute because of their disagreement over whether certain compactor components were to be provided as part of the basic compactor price or were additional cost items. As discussed below, HUD's failure to thoroughly review its specifications prior to publication, in our view, contributed to this dispute.

As stated earlier, HUD used specifications that were originally developed by the New York City Housing Authority as the primary source of information for the specifications it published. The New York City Housing Authority's specifications, however, needed to be revised because they called for not only the procurement of compactors but for installation as well. HUD, on the other hand, intended that its specifications would cover only the purchase of the compactor, with PHAS arranging for installation.

In April 1986 HUD notified one of the manufacturers that, based on its review of the procurement records, one PHA had been overcharged about \$2,500. According to HUD, the manufacturer charged for certain items, such as a roller conveyor and a fire control system, that were to be provided as part of the basic compactor. Similar overcharges were noted at other PHAS. According to the manufacturer, however, the additional charges were warranted because HUD's specifications were unclear and ambiguous. According to the manufacturer, some of the items in question were to be furnished as part of the installation of the compactors and would not normally be furnished by the manufacturer as part of the compactor. As of June 17, 1987, HUD and the manufacturer had not reached agreement on this matter. The charges in question total about \$49,000 and involve four PHAS.

HUD's failure to more closely review the New York City Housing Authority's specifications contributed to this pricing dispute. HUD headquarters officials and its New York Regional Office disagreed on whether additional charges were appropriate for certain components. For example, the New York Regional Office said that HUD's specifications were not clear with respect to roller conveyors and did not question the contractor's additional charges for this item. HUD headquarters officials, on the other hand, disagreed, stating that the contractor's charge was not authorized. The officials pointed out that HUD's contract stated that 20 feet of roller conveyer should be provided as part of the basic price of the compactor. The manufacturer, in turn, stated that HUD's price sheet for the contract indicated that the compactor would discharge into a 2-yard container. Accordingly, the manufacturer concluded that the use of a container precluded the need for a roller conveyor and need not be supplied as part of the compactor. Typically, a trash compactor installation requires that either a trash container be used as the receptacle to collect the compacted trash or a roller conveyor be used in conjunction with large plastic bags, but never both.

The manufacturer said that he had tried to clarify the ambiguities in HUD's specifications, specifically pointing out those components that were to be provided by the manufacturer of the compactor as contrasted to items to be supplied by the installing contractor. He added, however, that he was unable to sufficiently resolve these matters before HUD issued the bid documents. It should be noted, however, that the other manufacturer did not have similar problems regarding which items were to be supplied by him and which were to be provided during installation.

Observations

Generally speaking, several factors contributed to the disputes and complaints that arose between HUD and the manufacturers HUD approved to supply commercial trash compactors.

HUD used the contract specifications originally developed by the New York City Housing Authority as the primary source for developing its contract specifications. HUD's failure to adequately revise and modify the housing authority's specifications contributed to pricing disputes between HUD and one of the two manufacturers.

Further, although HUD was alerted early in the CSC award process to the fact that one manufacturer's compactors would not meet HUD's specifications, HUD did little to investigate the merits of the complaints or to fully assess what impact such deviations may have on such things as

**Appendix I
Development and Administration of HUD
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the serviceability and ultimate cost of the compactors. HUD assumed, in this instance, that the manufacturer would meet the specifications. About one year after HUD received the initial complaint, it inspected the two manufacturers' compactors to determine if they had complied with HUD's contract specifications. HUD found that neither manufacturer complied. However, HUD concluded, for the most part, that the deviations were relatively minor and did not seriously affect the reliability, durability, or performance of the compactors. HUD, generally, required that only items affecting the safety of the compactors be corrected.

The CSCs expired in October 1986, and HUD has not yet decided whether it will issue new contracts. Notwithstanding its final decision, HUD said that it has established new requirements governing the use and administration of CSCs. These include requirements, when appropriate, to obtain industry input in the development of product specifications and independent third-party certification to help insure that CSC products meet HUD specifications. Finally, HUD said that it has scheduled additional training for field office personnel to reinforce an understanding of their duties and responsibilities when PHAs purchase CSC items.

If HUD does decide to enter into new CSCs, the procurement specifications it publishes should be carefully reviewed and the contract requirements clearly presented to help avoid the inconsistencies and ambiguities that existed in the previously published specifications.

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