

DOCUMENT RESUME

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[Awarding of Requirement-Type Contracts for Repair of Electrical Equipment]. PSAD-77-136; B-187760. July 29, 1977. 6 pp.

Report to Sen. Harry F. Byrd, Jr.; Sen. William L. Scott; by Robert F. Keller, Acting Comptroller General.

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

Contact: Procurement and Systems Acquisition Div.

Budget Function: General Government: General Property and Records Management (804).

Organization Concerned: Alexandria Armature Works; General Services Administration.

Congressional Relevance: Sen. Harry F. Byrd, Jr.; Sen. William L. Scott.

At present, the lack of adequate controls provides an opportunity for contractors to win awards of requirement-type contracts for the repair of electrical equipment by bidding low labor rates and high parts discounts and to subsequently charge higher prices for the work performed. Findings/Conclusions: Deficiencies exist in the procedures and practices followed by the ordering offices in evaluating contractor repair estimates for individual purchase orders. The contractors' records are not being examined by the General Services Administration to verify the accuracy of billings. Purchase-order pricing guidance would be improved if contractors were required to quote labor and material prices separately to the ordering offices. The use of only the contracted labor-hour rates and contracted parts discount rates by the ordering offices in preparing their independent cost estimates would provide a more reliable method for evaluating contractors' proposed prices for individual orders. Recommendations: The Administrator of the General Services Administration should require that contractors quote and bill labor and material costs separately for each call order; instruct the ordering offices to use contracted labor-hour rates and parts discounts in preparing their estimates; and audit the contractor billings and take action to recover any overcharges that have been made. (SC)



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

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JUL 29 1977

The Honorable Harry F. Byrd, Jr.
The Honorable William L. Scott
United States Senate

This is in reference to your requests of March 18 and 21, 1977, asking for our findings and views on a letter you received from the Alexandria Armature Works, Alexandria, Virginia, regarding the awarding of requirement-type contracts for repair of electrical motors, generators, motor generator sets, transformers, and related electrical equipment by the General Services Administration's Region 3.

The Administration awarded the contracts, under advertised procedures, on the basis of the lowest evaluated labor-hour-rate bid for the repairs of each of such equipment in several categories and considered any discount offered from commercial-parts price lists. Individual purchase orders are placed against the requirements contracts when a need for service arises. For the period from June 1, 1976, through May 31, 1977, contracts were awarded to 10 contractors in Region 3 which collectively service Federal agencies in 27 service areas located in Delaware, Pennsylvania, Maryland, Virginia, and the District of Columbia. Over 100 Federal agency ordering offices are in Region 3.

The Alexandria Armature Works contends that some contractors are winning awards of these contracts by bidding labor-hour rates which are fictitiously low. The Company further contends that although the rates are supposed to compensate for employees' (1) wages and overhead; (2) use of tools, equipment, and storage facilities; and (3) include the contractors' profit, such rates are far under normal labor-hour rates for repair mechanics in the Washington, D.C., area. In addition, the company contends these contractors, after receipt of individual purchase orders placed against the contracts, are not billing ordering offices for the actual hours worked at the labor-hour rate contracted for, but are billing on the basis of hours worked times the normal industry labor-hour rate.

In general, we found that deficiencies exist in the procedures and practices followed by the ordering offices in evaluating contractor repair estimates for individual purchase orders. We also found that the contractors' records are not being examined by the Administration to verify the accuracy of billings. Under these conditions, it is possible for a contractor to bid low labor-hour costs to obtain a contract award and charge higher labor-hour costs on the individual purchase orders placed against the contracts. Because a GAO "access to records" clause is only included in negotiated contracts in excess of \$10,000, we did not attempt to examine the contractors' records of work performed to determine if contractors were actually charging higher labor-hour costs. The contracts involved were advertised, and the individual orders were less than \$10,000 each at the three ordering offices we reviewed.

PURPOSE OF REQUIREMENTS CONTRACTS

One purpose of indefinite-delivery, requirement-type, term contracts is to obtain better prices by offering prospective bidders a larger volume of sales than would be obtained through the use of individual purchase orders. The Administration enters into indefinite-delivery term contracts for many services, and the contractors and their services are listed on Federal Supply Schedules. These schedules are furnished to ordering offices which may issue purchase orders directly to the contractors.

PURCHASE ORDER PRICING GUIDANCE

Both the contracts and the Federal Supply Schedule (Price Schedule) for motors, generators, etc., place purchase-order pricing requirements on the contractors and the ordering offices. The requirements are (1) the ordering offices shall specify on each purchase order the maximum number of hours for which compensation will be paid as negotiated by the contractor and the ordering offices, (2) the contractor shall be compensated for actual hours of services if actual is less than the maximum, (3) the contractor will not be compensated for any work at overtime rates unless authorized by the ordering offices, and (4) the ordering offices shall receive the parts discount quoted by the contractor in obtaining the Administration's contract. Finally, both the contracts and the Price Schedule show the labor-hour rates that the contractors bid for work.

If a contractor's estimate for labor and parts is deemed excessive, the contract provisions reserve to the Government the right to reject a contractor's bid on an order. With respect to contractors' estimates, the contracts state that the contractor shall be required to submit written estimates upon request of the ordering office. The estimates are required to be in accordance with the contract labor prices and parts discount. Also, the contracts state that if a contractor's estimated cost appears unreasonable in view of prior cost experience and the cost estimates of the ordering office, the Government reserves the right to obtain the services in the open market.

Labor-hour rates and parts discount

We found that ordering offices were not obtaining or properly preparing estimates reflecting the labor-hour rates and parts discounts set forth in the Price Schedule. We visited three ordering offices of the Administration's Public Building Service located in Washington, D.C. and found that contractors' written estimates for repair were not being requested. Telephone quotes of the total estimated cost, without a breakdown for labor and parts, were being accepted. In evaluating them the ordering office used estimated man-hours and labor-rates which were based on the cost of wages plus fringe benefits of comparable Federal blue-collar technicians working at that location. These rates were more than twice the labor-hour rates in the requirements contract of the one contractor receiving purchase orders. In addition, the ordering offices' estimates of parts costs did not consider the discount for parts offered by the contractor.

At one ordering office (the only one of the three we visited which had recorded its cost estimates) we recomputed the ordering office's estimated cost of the purchase orders in accordance with the pricing terms of the contract. Our computations indicated that all of the contractor's quotes of estimated total cost were excessive and should have been rejected. For example, the contractor's estimate of \$812 was \$342 over an estimate of \$470 computed on the basis of the contract prices.

The three ordering offices stated that since the equipment requiring repair involved such items as elevators, air conditioners, heating machinery, and other items affecting the working environment of building occupants, telephone bids were requested as the quickest procedure. We found no contractor-written estimates in the purchase order files that we examined.

Man-hour estimates

We found that maximum man-hours were not specified in the purchase orders, as required, and the practice was to accept contractor estimates of total dollar cost for a given order so long as the ordering offices' estimates did not indicate that the contractor's estimate was unreasonable. Ordering offices did not have reliable historical data on prior repair costs to assist them in making current estimates of repair costs.

Better historical data could be obtained for estimating purposes if contract billing instructions were revised to require the listing of labor and materials costs separately and an identification of parts used.

EXAMINATION OF CONTRACTORS' RECORDS

Although the current contracts contain a clause providing for the Administration's examination of contractor labor records, we were informed by the Administration's internal audit group that audits of these time and material contractors are performed infrequently and that none have been performed in the past 12 months. Audits of time and material contractors' records supporting amounts billed are an important control feature when such contracts are used. The contracts involved in the area you are concerned with were relatively small and would not require a great deal of audit effort.

CONTRACT ADMINISTRATION

Officials in the Property Rehabilitation Branch, Personal Property Division, Region 3, General Services Administration who are responsible for awarding the requirements contracts and administering them stated that, due to budgetary limitations, the Branch did not have the capability to perform adequate contract administration. The contracting officer agreed that it would have been desirable to visit contractors' plants to determine whether some contractors, who had bid low labor-hour rates, were charging actual time worked at these rates.

CONCLUSION

At present, the lack of adequate controls provides an opportunity for contractors to win awards of requirements contracts by bidding low labor-rates and high parts discounts and subsequently charge higher prices for work performed.

In our view, the purchase-order pricing guidance would be improved if contractors were required to quote labor and material prices separately to the ordering offices. Also, the guidance should be clarified to instruct the ordering offices to use only the contracted labor-hour rates and consider the contracted parts discount rates in preparing their independent cost estimates. This would provide a more reliable means for evaluating contractors' proposed prices for individual orders.

By having contractors provide a breakdown of labor and material costs in quoting prices for specific orders, the ordering offices could more adequately evaluate the contractor quotes. We also believe that it would be helpful for ordering offices to have data on the actual costs of labor and materials for completed orders. This data would be useful in preparing their independent estimates for evaluation of contractor-proposed costs.

RECOMMENDATIONS

We recommend that the Administrator, General Services Administration,

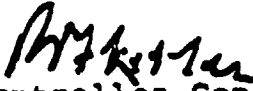
1. Require that contractors quote and bill labor and material costs separately for each call order.
2. Instruct the ordering offices to use contracted labor-hour rates and parts discounts in preparing their estimates.
3. Audit the contractor billings and take action to recover any overcharges that have been made.

We reviewed our findings with the Administration's officials; they advised us that they will take action to correct the situation.

As arranged with your offices, we are sending copies of this report to the House Committee on Government Operations and the Senate Committee on Governmental Affairs and to the House and Senate Committees on Appropriations

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and the Administrator, General Services Administration.
Copies will also be available to other interested parties
who request them.


ACTING Comptroller General
of the United States