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BY THE COMPTROLLER GENERAL

# Report To The Chairman, Permanent Subcommittee On Investigations, Senate Committee On Governmental Affairs

OF THE UNITED STATES

# Selected GSA Real Property Operations Contain Internal Control Weaknesses


The General Services Administration (GSA) spends $776 million annually to lease work space and to do nonrecurring reimbursable work for Federal agencies. Its investment in operating equipment to support these functions is estimated at $37.9 million.

Reviewing GSA operations, GAO found that in some cases internal controls did not exist, and in other cases they had not been properly implemented. As a result, about $4 million in actual and $12 million in potential overpayments, overcharges, waste, and improper accounting for funds were identified at a number of GSA locations. Since the review, GSA has initiated numerous efforts to improve its internal controls. However, many improvements still need to be implemented.

This report recommends that the Administrator of General Services and GSA's Inspector General take several steps to further strengthen controls and expand audit coverage over leasing, nonrecurring reimbursable work, and operating equipment.


UNITED STATES GENERAL ACCOUNTING OFFICE




GAO/AFMD-83-35

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B-209054

The Honorable William V. Roth, Jr.
Chairman, Permanent Subcommittee
on Investigations
Committee on Governmental Affairs
United States Senate

Dear Mr. Chairman:

This report responds to your May 14, 1982, request for our report on selected real property operations of the General Services Administration (GSA).

Since our review, the agency has taken steps to improve controls over leasing, nonrecurring reimbursable work, and operating equipment. However, the key factor in the success of these improvements is the extent to which they are effectively implemented.

Copies of this report are being sent to the Administrator of General Services and to the GSA field locations included in our review.

Sincerely yours,

Charles A. Bowsher

Comptroller General
of the United States

REPORT TO THE CHAIRMAN,
PERMANENT SUBCOMMITTEE
ON INVESTIGATIONS,
SENATE COMMITTEE ON
GOVERNMENTAL AFFAIRS

SELECTED GSA REAL PROPERTY
OPERATIONS CONTAIN
INTERNAL CONTROL WEAKNESSES

## D I G E S T

GAO found that the General Services Administration (GSA) lacked adequate control over its (1) leasing program for Federal office space for which it pays $656 million annually, (2) nonrecurring reimbursable work program which costs about $120 million annually, and (3) $37.9 million investment in operating equipment used to support real property operations. Altogether, GAO identified 43 control weaknesses. Most of them existed because GSA's personnel were not following established procedures and did not have compensating controls. As a result of these weaknesses, the Government could not be assured that its assets were safeguarded or that its funds were being expended efficiently and effectively.

GAO noted specific examples of Federal funds being wasted through overcharges, overpayments, or mismanagement, and cases in which funds were improperly accounted for. In all, about $4 million in actual and $12 million in potential overpayments, overcharges, waste, and improper accounting for funds were identified. (See app. VII.) Statistically valid projections cannot be made from these findings because relatively few field locations and a limited number of transactions were reviewed. However, the problems found have also been identified in other GAO and internal GSA reports, which implies they are general problems.

Since GAO completed its review, GSA has initiated numerous efforts to improve its internal controls.

GAO made this review of the leasing and nonrecurring reimbursable work programs and operating equipment because (1) these were identified as problem areas in the GSA Inspector General's 1979 vulnerability assessment of internal controls, (2) earlier GAO reports on the effectiveness of these programs identified some internal control

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problems, (3) GAO's comprehensive review of fraud and abuse in Government agencies and its Fraud Hotline cases indicated that GSA's inventory control and property management functions were vulnerable, and (4) the GSA Inspector General had not audited the nonrecurring reimbursable work program or the management of operating equipment, although it is now doing so.

## WEAK CONTROLS OVER LEASING

GAO found 19 internal control weaknesses in GSA's leasing program during its review of 42 leases, for which GSA pays over $27 million annually. Because adequate internal controls had not been effectively implemented, funds were wasted.

The weaknesses were grouped into the following categories:

--The absence of a GSA requirement for preaward audit or other methods to verify operating costs proposed by prospective lessors even though operating costs are the basis for automatic escalation of rental payments. (See pp. 6-9.)

--The need for (1) contracting officers to follow established lease clearance procedures and (2) administrative action to be taken when personnel do not comply with these procedures. (See pp. 9-13.)

--The need for contracting officers and realty specialists to follow lease award procedures. (See pp. 14-15.)

## WEAK CONTROLS OVER NONRECURRING REIMBURSABLE WORK

GAO found 15 weaknesses in internal controls over nonrecurring reimbursable work during its review of 169 transactions, valued at about $393,000, covering six GSA field offices. Specific weaknesses are grouped into the following functional categories: the allocation of labor and materials, small purchase procurement, time and attendance of GSA's labor force and inspection of completed jobs, the agency's automated reporting system, and cost estimating on projects. (See app. II.)

Because of these weaknesses, GSA and the agencies it serves lacked adequate assurance that the

$120 million spent yearly for nonrecurring reimbursable work was spent properly and that the amounts paid related correctly to actual costs. Further, the audit trails that should support reimbursable transactions were weak. GSA also lacked adequate safeguards over the materials and supplies used to perform reimbursable work because duties were not properly segregated among personnel responsible for the program. (See pp. 18-35.)

## WEAK CONTROLS OVER OPERATING EQUIPMENT

GAO identified nine weaknesses in controls over operating equipment valued at $25.1 million at eight GSA field locations. This equipment includes machine and woodworking tools, trucks, lawnmowers, and cleaning equipment and is used to maintain and support federally owned and/or operated buildings. Specifically, the agency did not:

--Take periodic physical inventories. (See p. 38.)

--Reconcile the automated information system with property records, and property records with the general ledger. (See p. 40.)

--Properly account for equipment purchases. (See p. 43.)

--Verify the accuracy of data entered into the automated system. (See p. 44.)

--Properly segregate duties associated with property management. (See p. 46.)

As a result of these problems, GSA could not ensure that its $37.9 million investment in operating equipment nationwide is adequately protected from loss or that its financial accounting records accurately reflect this investment.

## EFFORTS TO STRENGTHEN INTERNAL CONTROLS

Since completion of this review, GSA has advised GAO that it has taken or initiated a number of actions to strengthen its internal controls, such as: issuing a new lease acquisition handbook; rejecting delineated geographic areas if they are so narrowly defined that they restrict competition; establishing special task forces to eliminate holdover leases; requiring contract officers to request an advisory audit to determine actual operating costs whenever lessors' proposals are expected to exceed a certain amount; establishing a contract clearance function in each region; issuing a task force report on reimbursable work; revising its billing policy for reimbursable work so that tenant agency bills will be based upon actual rather than estimated costs; issuing policy and procedural directives regarding reimbursable work and the accountability for operating equipment; and other measures. (See pp. 15, 16, 34, 35, 47, and 48.)

RECOMMENDATIONS

Although GSA has made a concerted effort to correct some of the problems identified in this report, GAO believes that further actions are needed to fully address the problems and makes several recommendations. Among them are the following. GAO recommends that the Administrator of General Services

(on leasing)

--emphasize to managers at all levels the importance of complying with existing lease acquisition procedures and provide oversight to ensure adherence;

--enforce the provisions of the Penalty Guide when contracting officers and realty specialists willfully or negligently disregard lease acquisition procedures and contract clearance requirements;

(on nonrecurring reimbursable work)

--require field officials to properly allocate charges for labor and materials to reimbursable jobs so that the data entered into the financial management system are accurate;

--require field offices to keep source documents related to reimbursable work to ensure an adequate audit trail for completed and terminated jobs;

(on operating equipment)

--enforce the existing requirement for a wall-to-wall inventory of equipment at all field and regional offices;

--conduct the required reconciliation of property records, the Equipment Depreciation and Inventory Control System, and the general ledger; and

--require the Director of Finance to have his staff participate in inventories on a sample basis to ensure the integrity of the physical counts.

Additional recommendations appear on pp. 16, 17, 36, 37, 48, and 49.

AGENCY COMMENTS AND GAO'S EVALUATION

The General Services Administration generally concurred with the recommendations made in this report and cited numerous actions that have been taken or initiated, or are planned, to strengthen internal controls over leasing, nonrecurring reimbursable work, and the management of operating equipment. (See pp. 17, 37, 49, and 50.) The Office of the Inspector General concurred with the intent of the recommendations affecting that Office, and cited some actions being taken. Other comments regarding the factual contents of the report have been considered and changes have been made to the body of the report where necessary. The agency's comments are provided in appendix VI.

Contents

## ABBREVIATIONS

| | |
|---|---|
| CPI | Consumer Price Index |
| EDICS | Equipment Depreciation and Inventory Control System |
| GAO | General Accounting Office |
| GSA | General Services Administration |
| NEARS | National Electronic Accounting and Reporting System |
| OMB | Office of Management and Budget |
| PBS | Public Building Service |
| SLUC | Standard Level Users Charge |

## CHAPTER 1

## INTRODUCTION

The General Services Administration (GSA) provides a wide variety of management and related services for other Federal departments and agencies. One of these is real property operations. Real property operations include, among other things, construction, acquisition, leasing, management, maintenance, alteration, protection, and control of space. The fiscal 1981 obligational authority for real property activities, including the reimbursable program, was about $2 billion. This report presents the results of our assessment of GSA's system of internal controls over two of its major real property operations--leasing space and performing nonrecurring reimbursable work for Federal agencies--and the equipment used to support these operations.

### THE FEDERAL BUILDINGS FUND

The Federal Buildings Fund, established in June 1972 by Public Law 92-313 (the Public Building Amendments of 1972) and implemented in July 1974, is GSA's principal tool for meeting its Federal space responsibilities. It is a revolving fund in that outlays are to be recovered from Federal agencies through rental fees, referred to as Standard Level User Charges (SLUC), or other reimbursements.

SLUC income covers direct operations--those standard services GSA provides to maintain, protect, and repair space. Services not covered by the SLUC are referred to as reimbursable operations and fall into two major categories: (1) alterations and major repairs and (2) real property operations.

The Fund is managed and operated primarily by GSA's Public Building Service (PBS). PBS is responsible for the development of Government-wide policies and regulations to promote optimum utilization of real and personal property by executive agencies.

GSA's Office of Plans, Programs, and Financial Management provides general financial and administrative services to support the Federal Buildings Fund and other GSA programs. Within this Office, the office of finance plays a key role by setting policies to govern the provision and management of financial services and the establishment and execution of accounting systems, principles, and procedures.

GSA headquarters prescribes policies and procedures; operational activities are handled by 11 regional offices with numerous field offices. The field offices manage the day-to-day operations of federally owned and leased buildings.

### THE IMPORTANCE OF INTERNAL CONTROLS

The Budget and Accounting Act of 1950 required Federal agencies to maintain effective internal control systems. Several recent developments have strengthened internal controls in the Federal Government including the Office of Management and Budget's (OMB's) Circular A-123 and the Federal Managers' Financial Integrity Act of 1982 (Public Law 97-255). This legislation requires ongoing evaluations of the adequacy of internal accounting and administrative control systems of each executive agency. These evaluations, conducted under OMB guidelines, will determine whether the agencies' internal control systems comply with standards set by the Comptroller General.

A good system of internal control can discourage and minimize fraud, waste, and abuse. Several methods of control are available to managers that will ensure the integrity of operations. An adequate system includes the following characteristics: (1) a plan of organization that appropriately segregates functional responsibilities; (2) a system of authorization and recordkeeping procedures that provides reasonable accounting control over assets, liabilities, revenues, and expenses; (3) sound practices for performance of the duties and functions of each organizational department; (4) personnel with abilities and training commensurate with their responsibilities; and (5) a reliable system of internal review operating effectively to detect and correct errors.

The value of sound internal controls is best demonstrated by the following examples of lost or potentially lost Federal funds reported by GSA's Office of Inspector General over the past few years.

--Several cases in which paint and other supplies intended for reimbursable work were diverted to the private business of GSA employees or taken for personal use.

--An overpayment of $728,000 in the National Capital Region for renovation work to a firm that overstated quantities, duplicated work orders, and accepted payment for work not performed.

--Procurements that were split to circumvent the requirement that timely written purchase orders be issued for procurements over $500.

--A total lack of inventory controls at field offices in the San Francisco Region.

In a number of other reports, 1/ GAO identified deficiencies in some of GSA's major functions in acquiring leased space. Among

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1/"Acquisition of Public Buildings by Leasing Purchase Contracting" (LCD-76-304, Apr. 16, 1976); "General Services Administration's Practices in Awarding and Administering Leases Could Be Improved" (LCD-77-354, Jan. 24, 1978); "General Services Administration's Practices for Altering Leased Buildings Should be Improved" (LCD-78-338, Sept. 14, 1978).

other deficiencies, the reports discussed the limited competition obtained in acquiring leased space, the absence of independent estimates in alteration contract price negotiations, the performance of major alterations before lease expiration without attempting to renegotiate the lease period or rent, the lack of documentation in lease files showing whether negotiations had taken place with other than the lessor, and other deficiencies in documentation.

On several occasions, GAO has testified before the Congress on similar issues discussed in the earlier reports.

## OBJECTIVE, SCOPE, AND METHODOLOGY

Our objective was to assess the vulnerability to fraud, waste, and abuse of selected aspects of GSA's real property operations, namely, leasing, nonrecurring reimbursable work, and the supporting operating equipment. We wanted to determine whether internal control weaknesses existed that have or could result in a misuse of Federal funds and other assets, and to recommend ways to correct any weaknesses we found.

We chose these aspects to review because (1) they were identified as problem areas in the GSA Inspector General's 1979 vulnerability assessment of internal controls, (2) earlier GAO reports on the effectiveness of these programs identified some internal control problems (see app. V), (3) our comprehensive review of fraud and abuse in Government agencies 1/ and our Fraud Hotline cases indicated that GSA's inventory control and property management were vulnerable, and (4) at the time our review began, the GSA Inspector General had not provided comprehensive audit coverage of the reimbursable work program or the management of its operating equipment.

We reviewed cases of known or alleged fraud, the operations of the GSA Inspector General's Office, and the internal controls exercised by GSA over the selected program activities. Using structured interview questions specifically tailored to each program operation and its controls, we interviewed GSA headquarters officials in policymaking and program administration positions and regional and field office personnel who manage these areas. We also examined the agency's policies and procedures for managing real property and tested a limited number of transactions to see how well existing internal controls were working. Our methodology is discussed in more detail as we relate specific findings in each of the areas reviewed.

We also evaluated the work done by GSA's Inspector General in the prevention and detection of fraud, waste, and abuse, including

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1/"Fraud in Government Programs:--How Extensive Is It?--How Can It Be Controlled?" (Vol. III, AFMD-82-3, Nov. 6, 1981).

audit and investigative reports. We did not, however, examine the supporting working papers or ascertain whether the recommendations had been implemented.

Work was performed in accordance with generally accepted government audit standards and spanned the period October 1980 to August 1981. We worked at GSA headquarters in Washington, D.C. and at five GSA regional offices in Auburn, Washington; Denver; New York; San Francisco; and Washington, D. C. 1/ For the reimbursable work program and operating equipment areas, we also worked at selected field offices within these five regions.

Because of the extensive universe of lease and reimbursable work actions and the number of items of operating equipment, it was impractical to select a projectable random sample; so we used judgmental samples. Criteria were: (1) the location of leasing actions reviewed by GSA's contract clearance activities and the dollar value of leases; (2) the size of the reimbursable work program, and the concentration of projects in GSA regions; (3) the geographic dispersion of the locations to be reviewed; and (4) the proximity of these locations to our own regional offices providing staff for the audit.

Statistically valid projections cannot be made from our findings because we reviewed relatively few field locations and a limited number of transactions. However, some of the problems we found have also been identified in other GAO and internal GSA reports which implies that they are general problems. (See app. V.

Leasing

As of August 31, 1982, the General Services Administration had more than 5,300 outstanding leases totaling 86 million square feet of space with annual rents of $656 million. Our judgmental sample was chosen from 1,857 leases with an annual value of about $289 million and included 42 lease actions with a total annual value of about $27.7 million in three GSA regions. Thirty-four of these were chosen from 139 lease actions reviewed by the PBS office of contract clearance and by the Office of Acquisition Policy's contract clearance directorate during October 1979 to May 1981. The 34 were chosen because of their high dollar value (about 60 to 70 percent of the dollar value of all GSA leases) and because neither of the review groups had followed up to see whether the regional offices had corrected the identified deficiencies. The remaining 8 of the 42 lease actions reviewed had annual rent values ranging from $4,000 to $355,000, so were not required to be reviewed by the above-named groups.

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1/Our work in leasing was performed at three GSA regions (see app. I), and in reimbursable operations, at four regions (see app. II).

Reimbursable work

This judgmental sample was selected from a universe of about 32,000 authorizations having a cumulative value of about $432 million and included 169 nonrecurring reimbursable work authorizations valued at nearly $383,000 from six GSA field offices in four regions. (See app. II.) The files were selected on the basis of complexity of work, scope of work, and type of work to be done. We concentrated on the less complex jobs since they were easier to track through the system. Because of problems identified at one field office, we reviewed a larger number of transactions involving electrical work than any other type to see whether the same problems were occurring at the other locations.

Operating equipment

We examined about 6,700 items of operating equipment having an acquisition value of $1.2 million at eight GSA field offices in five regions. (See app. III.) At some locations we did a thorough inventory count; at others we randomly selected items to be tested. The total value of operating equipment in the five regions at the time of our review was about $25 million, according to GSA's financial accounting system.

Other

We did some preliminary work to determine whether duplicate payments to vendors was a problem as it had been in other vulnerability assessments we had done, and because GSA, for fiscal 1981, paid over $1 billion to the non-Federal sector for goods and services related to Federal Buildings Fund activities. Limited testing of transactions uncovered relatively few duplicate payments--these few can be attributed to human error.

## CHAPTER 2

## GSA'S LEASING PROGRAM

## NEEDS BETTER CONTROLS

We reviewed 42 leases awarded by 3 of GSA's 11 regional offices between October 1979 and May 1981 and identified 19 separate internal control weaknesses in the award process. In one case, an appropriate control did not exist; in the others, appropriate procedures had been prescribed but were not being followed. The 19 weaknesses can be grouped as follows:

--Preaward audits of lessor-proposed operating costs were not required (1 weakness).

--The contract clearance procedures were not adequately followed (6 weaknesses).

--Existing GSA lease procurement procedures were not being followed (12 weaknesses).

Because effective internal controls or compensating controls over the leasing process were not maintained, GSA does not have adequate assurance that Federal funds are being spent effectively or in an environment that is reasonably free from potential fraud, waste, and abuse. Our review disclosed one case of obvious overpayment and several others of potential overpayment. These are discussed in detail in the remaining sections of this chapter.

Until recently, GSA management did not hold contracting officers accountable for following prescribed controls. This created an attitude that contributed to the problem.

### PREAWARD AUDITS OF LESSOR-PROPOSED OPERATING COSTS WERE NOT REQUIRED

Of the 42 leases examined--involving $27.7 million annually--none were subject to an audit prior to award. For two leases, valued at over $13 million, we noted actual overpayments for operating costs of $255,000 (see p. 7) plus potential overpayments of an additional $229,000 (see pp. 7 and 8). The overpayments occurred because the operating costs proposed by the lessors and accepted by GSA's contracting officer greatly exceeded costs actually incurred. This discrepancy could have been readily determined by a preaward audit. GSA's Inspector General also made this point in a June 1981 report that showed GSA could have saved at least $3.3 million over 5 years if contracting officers had requested a preaward audit of lessor-proposed operating costs. Potential overpayments and problems with 31 other leases are discussed on pages 9 to 13 of this report.

Prospective lessors are required to submit a Lessor's Annual Cost Statement (GSA Form 1217) to GSA's contracting officers. The form states proposed service and utilities costs (operating costs) and rental fees. While the rental fee remains constant over the lease term, the operating costs escalate annually based on changes in the Consumer Price Index (CPI). Once the base is set, all future increases are automatic and beyond the control of the contracting officer. Therefore it is critical that contracting officers, before awarding a lease, ensure the correctness of the base used by the lessor in determining proposed operating costs. Ways to verify correctness of proposed amounts are to have this cost base audited before the contract is awarded or to obtain cost and pricing data supporting the GSA Form 1217.

We note that on other kinds of Government procurements, the Federal Procurement Regulations (FPR 1-3. 809) require the contracting officer to request an audit of initial prices or costs before negotiating any contract or modification exceeding $100,000. However, we found that contracting officers usually did not request such an audit in connection with the leasing of real property because leasing is not covered under the FPRs and preaward audits are not required under lease acquisition procedures.

GSA has drafted a proposed temporary regulation to be issued as a Federal Procurement Regulation, which specifies the policies and procedures for acquiring leased space. This would help ensure a disciplined process for all Federal agencies exercising delegated leasing authority. In May 1982 1/ we recommended that the Administrator of General Services issue the Government-wide regulation. At that time GSA told us it planned to issue the regulation by the end of March 1982. As of December 1982, it had not been issued.

Preaward audits of lessor-proposed operating costs are an important precaution. In awarding the $13 million lease for the World Weather Building in the National Capital Region, the contracting officer did not request a preaward audit of the lessor's proposed operating costs despite the concerns raised by the PBS Commissioner about the amount of these costs. Our review disclosed that GSA had overpaid the lessor $255,000 and, assuming a 10-percent increase in the CPI, may overpay an additional $218,000. These overpayments result mostly from inflated cost data submitted by the lessor for overtime in connection with cleaning, heating, and air conditioning. We determined these overpayment amounts by auditing the lessor's records of actual costs. If the contracting officer had requested an audit before awarding the contract, we believe these overpayments could have been avoided.

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1/"More Effective Leasing Procedures and Practices Could Help GSA Reduce Delays in Meeting Federal Space Needs" (PLRD-82-46, May 10, 1982, pp. 51-53).

The importance of preaward audits is further illustrated by three Auburn Regional Office leases which showed large differences between the GSA appraiser's estimates and the amounts submitted by the lessor, as shown below.

| Lease no. | Operating Cost Base: Negotiated amount | Operating Cost Base: Appraiser's estimate | Difference |
|---|---|---|---|
| 1 | $752,994.09 | $504,346.64 | $248,647.45 |
| 2 | 164,160.17 | 88,587.50 | 75,572.67 |
| 3 | 19,782.15 | 14,942.00 | 4,840.15 |
| Total | $936,936.41 | $607,876.14 | $329,060.27 |

Despite being aware of the differences for leases 1 and 2 in November 1980, the contracting officer did not request an audit of the lessor's proposed operating costs because it was not a GSA requirement. However, when he sent leases numbered 1 and 2 to the Office of Acquisition Policy's contract clearance directorate on January 7, 1981, the directorate recommended that the leases be audited or the cost bases negotiated downward to reduce the substantial differences. The contracting officer told us that neither recommendation was followed because of pressure to get the lease awarded and there was not time for a preaudit. The two leases were awarded on January 8, 1981. While we agree time was too short to allow an audit between January 7 and 8, 1981, we believe the contracting officer should have requested an audit in November 1980 when he first became aware of the significant differences between the GSA appraiser's estimate and the lessor's proposal for operating costs.

Our detailed audit of lease number 3, which was for an existing building, disclosed the potential for GSA to overpay about $11,000 over the term of the lease, assuming a 10-percent increase in the CPI. Again, the overpayment will result from an inflated operating cost base.

On January 4, 1982, after our review, the PBS Commissioner issued a memorandum requiring contract officers (1) to notify the inspector general of existing leases that contain negotiated operating cost escalation clauses and (2) to request an advisory audit of actual costs whenever lessors' proposals are expected to exceed $200,000 over the terms of the leases or $100,000 annually. This action has long been needed, and we believe using this primary internal control can save the Government millions of dollars annually. We further believe contracting officers should be encouraged to request an advisory audit even in cases below these thresholds whenever they see a significant variance between the GSA appraiser's estimates and the lessor's proposal for operating costs.

The following example shows where a preaward audit requested by a contracting officer resulted in potential savings. A 1980 inspector general's report examined an $8.3 million 5-year (1980-85) operating cost proposal for a St. Louis, Missouri, lessor. The audit was performed to determine if the projected costs were accurate. A large number of the costs were questioned, and the Government is paying the lessor $2 million less for operating costs for the five years than the $8.3 million proposed.

If a preaward audit is not feasible because of the lack of inspector general resources to perform the audit or pressure placed on the contracting officer to award the lease, then the contracting officer should ensure the reasonableness of the operating cost proposal by obtaining detailed cost and pricing data. The lease should include a provision for a postaward audit.

In December 1981, GSA's procedure relating to evaluation of the lessor's proposed operating costs was expanded to include consideration of cost escalation in determining the low offer. GSA stated in its comments to our draft report that for competitive lease actions, this revised policy will enable the Government to obtain space at the lowest overall cost. GSA also stated it will modify the solicitation for offers to ensure the reasonableness of the lessor's proposed operating costs in sole-source leases. We believe these measures will help improve the internal controls over leasing and ensure the reasonableness of operating cost proposals.

## CONTRACT CLEARANCE CAN BE A MORE EFFECTIVE CONTROL

GSA has established an internal control procedure (Order APD 2800.1A) requiring an independent review of lease actions over a certain dollar threshold before contracts are awarded. The threshold varies by GSA region. Contracts exceeding clearance thresholds must be approved prior to award, unless a waiver is granted by the clearance office. We believe this is a good control mechanism, but it has not been used as effectively as it could be. Of the 42 lease actions we reviewed, 34 met the criteria for contract clearance review. However, on 24 of these, contracting officers did not follow established clearance procedures. As a result, the Government may pay $2 million more than it should for space rental (see example 1 on p. 11). It has already paid $416,000 more than the appraiser's estimate for initial alterations on the leases we reviewed (see example 2 on p. 12).

Contracting officers and clearance officials told us that in some cases not following the review process was an oversight or, in other cases, was done to award leases promptly so as to reduce the Government's costs. We recognize this possibility, but we also believe another factor is responsible for many of the problems identified: top management did not enforce compliance with existing contract clearance requirements.

GSA believes that contract clearance saves money and contributes to the overall improvement of the contracting process by (1) providing an effective control over policy requirements, and (2) identifying and requiring correction of deficiencies. Contract clearance officials identified fiscal 1981 cost savings of $193 million over total lease terms; however, we did not verify the amount of savings.

Clearance procedures not followed

In 6 of 34 cases that met the criteria for clearance review, we noted that one contracting officer neither forwarded cases for clearance nor obtained a waiver of clearance before awarding the contracts as required by GSA Order APD 2800.1A. The contracting officer stated that this was an oversight. If willful or negligent mismanagement is involved when not complying with contract clearance then the GSA's Penalty Guide 1/ may be applicable.

PBS officials stated that if evidence existed of willful misconduct or neglect of duty the contracting officer would be subject to the penalties of the Guide. After an investigation, which was requested by contract clearance, Office of Acquisition Policy, the regional administrator concluded that the above contracting officer did not knowingly exceed his contract authority, and that his actions were in the best interest of the Government.

In 18 other cases reviewed, contracting officers did not always follow the contract clearance process. They (1) submitted incomplete documentation for the preaward review (12 cases), (2) obtained a waiver and then submitted incomplete documentation for a postaward review (3 cases), (3) split a 1-year lease into two separate 1-year leases to avoid the Economy Act limitation 2/ and preaward clearance review, and (4) requested oral or written waivers for preaward reviews of lessors' offers due to expire within 1 day (2 cases). (See app. I, pp. 51 and 52.)

Clearance problems not corrected

We also noted that in five cases contracting officers had not corrected problems identified during contract clearance. GSA's Order APD 2800.1A requires such problems to be corrected. At the time of our review, clearance officials had not followed up to ensure that corrective action was taken in 8 of 11 regions. From January 1979 to December 1981, followup reviews were made in only

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1/GSA Administrative Manual, ch. 3, "Penalty Guide," OAD P 5410.1 Change 45, Sept. 17, 1980, p. 193, which specifies procedures for disciplinary action.

2/The Economy Act limits the net rent (excluding the cost of any services, such as heat, light, and janitorial service) expenditures to the per annum rate of not more than 15 percent of the fair market value of the rented premises at the date of the lease.

two GSA regions--Atlanta in March 1981 and San Francisco in August 1981 (after our visit). Since April 1981, the Office of Acquisition Policy's contract clearance directorate has required contracting officers to submit supporting documentation when deficiencies noted must be corrected before the lease is awarded.

The following three examples show the effect of contracting officers' disregard of the Office of Acquisition Policy's recommendations and failure to correct problems noted during preaward reviews.

> Example 1 - No documentation exists to show that a contracting officer considered a lease option as recommended by contract clearance.

In February 1981, PBS contract clearance officials disapproved a proposed lease in the Auburn region because the file did not show whether, during negotiation of the rental rate, the contracting officer had considered an option that was in effect. Clearance officials pointed out that if the option were not incorporated, the resulting rental overpayment would exceed $2 million. The following chronology shows events that led to the award of a new lease in spite of the clearance officials' reluctance.

On March 12, 1981, PBS' space management division in Auburn sent a memorandum to the office of contracts stating that it had erred in saying the option had not been considered; and that the option's full weight and effect, if any, had been brought to bear in negotiating the overall rental rate. The memorandum stated that it was not possible or practical to consider the option separate from the overall negotiations for space.

On May 15, 1981, the Office of Acquisition Policy's contract clearance directorate sent a memorandum to PBS' office of contracts, contract clearance staff, confirming its verbal approval of the new leases. However, it stressed that the decision relied upon advice from the PBS Deputy Commissioner and the Assistant General Counsel. It stated:

> "Also, there is no indication in the PNM [price negotiation memorandum] that the Government attempted to preserve the existing and highly favorable lease rental terms for space under the two contracts to be superseded * * * this goal should have constituted a counteroffer position by the Government and possibly should have been the objective* * *"

The memorandum reiterated a longstanding position of the Comptroller General that a Government contracting officer is not authorized to execute a new lease or agree to pay higher rent when the United States is entitled to renew the lease or to continue occupancy at the same or a lower rent.

In commenting on our draft report, GSA stated that, regardless of questionable actions by the contracting office, clearance officials ultimately approved the award since all alternative housing arrangements would have involved significantly greater costs to the Government. While alternative housing arrangements may have involved greater costs, our primary concern is that the contracting officer may have exceeded his authority, as recognized in the Office of Acquisition Policy's May 15, 1981 memorandum.

<u>Example 2</u> - The contracting officer did not justify a difference of $416,000 between the lessor's proposed estimate and the GSA appraiser's independent estimate for initial alterations.

Contract clearance officials conducted a preaward review of a lease action in Portland in which the lessor proposed an $875,000 price for initial alterations and special requirements--$416,000 more than was estimated by GSA's own appraiser. A January 7, 1981, Office of Acquisition Policy memorandum to PBS's contract clearance office withheld approval of the lease because,

> "The price negotiation memo (PNM) gave no details as to what negotiations were conducted or the results to support the reasonableness of the higher value. This difference must be be eliminated or justified and the Government estimate revised if required. In this regard, it would also be a sound business practice to obtain cost or pricing data, with appropriate certifications, also for the alterations and special requirements."

PBS's reply on January 8 stated that regional officials had telephoned PBS on January 7 to say that the lessor would not extend its offer beyond January 8 and that any new proposal would result in a rental increase. PBS contract clearance officials' recommendation stated that the Government's best interest would be served by awarding the lease <u>notwithstanding the pricing concerns expressed in the January 7, 1981, memorandum from Acquisition Policy</u>. Acquisition Policy confirmed the award on January 9, 1981.

The realty specialist who conducted the negotiations told us that the lessor would not reduce the estimate. Yet, we found that the contracting officer neither requested an audit of the proposed costs, nor obtained the cost and pricing data and certification recommended in the contract clearance memorandum. The lease, including the lessor-proposed $875,000 for alterations and special requirements, was awarded anyway.

In commenting on our draft report, GSA officials agreed with our finding concerning the lack of adequate documentation and negotiation of the offeror's proposed price for alterations. However, they said that the lessor's actions to increase the rent and failure to extend the existing offer was a major consideration in approving the award. In our opinion, the contracting officer should have requested an audit or cost or pricing data, as recommended by contract clearance.

> Example 3 - The contracting officer did not take the corrective action recommended by contract clearance officials.

In April 1981, contract clearance officials conducted a preaward review of a proposed $382 million lease action in San Francisco. In May 1981, they disapproved the action because the award factors did not support the selection of the higher price offer and suggested the contracting official do one of three things: (1) award to the low offeror based upon price, (2) negotiate to reduce the high operating cost escalation rate, or (3) terminate the procurement and resolicit the requirement.

The regional contracting officer did not exercise any of these alternatives and resubmitted the lease action for approval on May 22, 1981, providing justifications for making the award. Contract clearance then conditionally approved the action and forwarded it to the Office of Acquisition Policy's contract clearance directorate, which disapproved it on July 1, 1981.

On June 30, 1981, the inspector general reported that the proposed lease appeared not to be in the Government's best interest and that regional actions appeared to thwart competition and indicate preselection. A September 22, 1981, inspector general's memorandum recommended readvertisement/resolicitation of offers.

On August 6, 1981, the PBS Commissioner stated he would comply with Acquisition Policy and inspector general recommendations although he had previously advised the Administrator of PBS' total disagreement with them. In a September 25, 1981, memorandum, the Commissioner identified the probable consequences of award disapproval--a lengthy delay required for resoliciting the requirement and significant additional costs to the Government.

Although PBS ultimately complied with recommendations to resolicit the offers, the contract clearance process did not, in itself, preclude the award--as evidenced by the 3 months that elapsed after the inspector general's report and Acquisition Policy's disapproval of the award.

Contract clearance is an excellent control mechanism which was established to provide an independent review of contracting officers' actions. However, as these examples demonstrate, it has not been as effective as it could be since contracting officers were not complying with clearance officials' recommendations. To make the contract clearance function the effective control mechanism it could and should be, we believe the Office of Acquisition Policy's contract clearance directorate should refer to the Deputy Administrator of GSA (1) the names of any contract administrators who do not comply with clearance officials' mandatory preaward requirements, for appropriate administrative action in accordance with the terms of the GSA Penalty Guide, and (2) those proposed lease actions on which the contracting office and the Office of Acquisition Policy disagree.

## SOME CONTROL WEAKNESSES INVOLVED DISREGARD FOR EXISTING LEASING PROCEDURES

Our review of 42 lease awards disclosed 33 cases in which problems arose because contracti g officers and realty specialists disregarded GSA lease acquisition procedures. Twenty-five of these had multiple problems. Most problems arose because personnel did not follow established controls over the acquisition of space. A complete list of internal control weaknesses we found showing their frequency and location is in appendix I. Some examples of these weaknesses include:

--Specifically defining space to meet the needs of a particular agency in a way that restricts competition for that space (four cases).

--Creating the appearance that a prospective lessor was given preferential treatment through discussions and correspondence with GSA before prospectus approval or advertisement for the space (one case).

--Authorizing lease alterations during the holdover period--the time in which the Government continues to occupy space without a succeeding lease (one case). (This adversely affected succeeding lease negotiations and resulted in added costs to the Government of $998,000 during the lease extension period.)

--Allowing capital improvement charges, such as roof repairs, to be included in initial alterations even though this was expressly forbidden by the lease (one case).

--Preparing the Government's estimate after the receipt of the contractor's estimates for initial alterations, resulting in potential undue influence (one case).

--Delaying a succeeding lease action for more than a year after the initial lease expired (four cases).

--Accepting oral "best and final" offers when regulations require offers to be in writing (four cases).

--Preparing documents after the leases have been awarded (four cases).

--Disclosing to offeror the relative standing of other offerors during negotiations (one case).

--Revising lease documents without approval (one case).

--Failing to obtain the required legal sufficiency concurrence (three cases).

Lease acquisition procedures have been established to protect the interests of the Federal Government. Allowing contracting officers and realty specialists to disregard them jeopardizes this objective. We believe contracting officers must be held accountable for not complying with these procedures.

## GSA HAS ATTEMPTED TO IMPROVE THE LEASING PROCESS

Recognizing it had problems with the leasing process, GSA established in September 1981 a Leasing Improvement Task Force to review leasing procedures and implement improvements. The task force found that PBS' central office was providing no leadership to its regional offices. Leasing methods, quality, and processing differed among the 11 regions. The task force initiated a variety of corrective actions, some of them still underway, including:

--The issuance of a draft lease acquisition handbook that will simplify lease processing.

--The rejection of delineated geographic areas if they are so narrowly defined that competition is restricted.

--The establishment of special task forces to eliminate holdover leases.

--The revision of GSA regulations to remove impediments to speedy lease award.

--The random review of leases in addition to dollar threshold reviews by the Office of Acquisition Policy's contract clearance directorate.

In a further effort to improve leasing, a March 1982 report by GSA's Inspector General identified major problems affecting the provision of space to executive agencies. The report makes recommendations that, the Inspector General believes, if properly implemented should eliminate many of the problems affecting the space management division's operations.

A December 14, 1981, memorandum from the Administrator of General Services to the Commissioner of PBS, and a January 4, 1982, memorandum from the office of space management, PBS, to all regional administrators addressed the following changes in PBS policy:

--The inclusion of the CPI escalation clause in lease contracts is no longer mandatory. Solicitations will be amended to allow offerors to submit proposals with or without the CPI provision.

--The evaluation factors for leases with CPI escalators will be modified to include the estimated cost of escalation in the total price evaluation of offers.

--All leases over $200,000 will be referred to the regional inspector general for review.

--An inspector general advisory audit will be conducted to determine actual operating costs for existing leases.

PBS's contract clearance office is revising its own follow-up procedures and will also use regional contract assurance groups to help monitor compliance with conditions of award. Additionally, in June 1982, GSA established a regional contract clearance function for leases involving areas of more than 5,000 square feet.

## CONCLUSIONS

Sound procurement practices, preaward contract clearance reviews, and preaward audits of lessor-proposed operating costs can serve as checks and balances over the leasing process. However, such controls are effective only to the degree they are implemented by management and adhered to by contracting and management officials.

Because these controls have not been adequately implemented, GSA's leasing program has been vulnerable to fraud, waste, and abuse. It is imperative that these controls be established and followed and that violators be reprimanded.

Also, based on our current work, the recommendation made in our May 1982 report (see p. 7) pertaining to the issuance of a Government-wide regulation for leasing is still valid, and action should be taken to implement that recommendation.

We are not making a recommendation on the need to ensure an accurate operating cost base because GAO recently addressed this issue in another report (GAO/PLRD-83-8).

Although GSA has recently initiated some corrective actions to tighten controls over the leasing program, we believe additional measures can and should be taken to strengthen these controls.

## RECOMMENDATIONS

We recommend that the Administrator of General Services:

--Emphasize to managers at all levels the importance of complying with existing lease acquisitions procedures and provide oversight to ensure adherence.

--Require the Office of Acquisition Policy's contract clearance directorate to refer to the Deputy Administrator, GSA,

(1) the names of those who do not comply with clearance officials' mandatory preaward requirements, for appropriate administrative action, and (2) those proposed lease actions on which the contracting office and the Office of Acquisition Policy disagree, for final review and decision.

--Enforce the provisions of the Penalty Guide when contracting officers and realty specialists willfully or negligently disregard lease acquisition procedures and contract clearance requirements.

--Direct contracting officers to correct problems identified during contract clearance and clearance officials to follow up and make sure that the regions take the recommended corrective actions.

## AGENCY COMMENTS AND OUR EVALUATION

GSA generally agreed with our findings, conclusions, and recommendations in this chapter. The agency reiterated numerous management initiatives, which had been recognized in our draft report, that have been taken to address the problems identified in our review (see pp. 15 and 16). Also, GSA stated that its regional management survey program will help ensure that internal control procedures are properly implemented. The agency is preparing instructions to regional administrators stressing their responsibility and accountability for adhering to established rules, regulations, and procedures governing the lease acquisition process. Six surveys of regional leasing operations are scheduled for 1983. In June 1982, regional contract clearance was established for leases involving areas of more than 5,000 square feet.

In a separate letter, the GSA Inspector General indicated general agreement with our recommendations and stated that the Office of Inspector General would continue to review the policies and procedures associated with GSA's leasing program--with two major follow-on leasing audits scheduled for fiscal 1983.

If GSA effectively implements the planned initiatives, we believe the intent of our recommendations will be satisfied and the internal controls over the leasing program will be strengthened.

## CHAPTER 3

## CONTROLS OVER NONRECURRING REIMBURSABLE WORK NEED STRENGTHENING

Our review of 169 nonrecurring reimbursable work authorizations identified 15 major control weaknesses at six GSA field offices. (See app. II, p. 54.) Four of these stemmed from not establishing controls and 11 from the ineffective implementation of existing or compensating controls. Because of these weaknesses, GSA and the agencies it serves do not have adequate assurance that the $120 million spent yearly for nonrecurring reimbursable work is spent properly and that the amounts paid relate correctly to actual costs. Further, the audit trails that should support reimbursable transactions are weak. Since each of the six field offices we audited does reimbursable work for several Federal agencies, these internal control problems might have resulted in one agency's paying for work done for another.

An earlier GAO report 1/ found that GSA was not effectively managing the reimbursable building services provided to tenant agencies and recommended several steps to correct the problems. During this review, we found that problems with the reimbursable program continued to exist.

Specific functional areas requiring better control are: the allocation of materials and labor (one weakness), procurement (six weaknesses), time and attendance of GSA's labor force and inspection of completed jobs (one weakness), the process for closing out completed jobs (one weakness), GSA's automated reporting (two weaknesses), and cost estimating (four weaknesses). Each area is discussed separately in this chapter. GSA offices where we found these weaknesses are listed in appendix II.

### MATERIALS AND LABOR WERE IMPROPERLY ALLOCATED

In at least 57 (one-third) of the 169 reimbursable work authorizations reviewed, we found little or no relationship between (1) the paperwork supporting the authorization and the work actually done or (2) the amounts charged Federal agencies and the costs allocated to the reimbursable jobs. Because field offices do not properly allocate costs to such transactions, it was impossible to determine what each job actually cost (see table, next page). The allocation of labor and, especially, materials did not match the scope of work requested by Federal agencies. The paperwork bore no resemblance to what actually occurred. Also, because of the fragmented recordkeeping for reimbursable work, we found it difficult to audit this area. The evaluation required extensive searches for information and analysis of numerous documents and physical evidence.

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1/"GSA's Management of Reimbursable Building Services Needs Improvement" (PLRD-81-46, July 8, 1981).

## Materials not properly allocated

Because of the lack of control over the allocation process, we found improper allocation of materials at five of the six field offices reviewed. The following illustrates one type of problem we noted.

We spoke to the electrical foreman assigned to the Labor field office, which services the Department of Labor, the International Trade Commission, the U.S. District Court for D.C. and the Tax Court. The foreman told us that on average it takes 50 feet of wire to install an outlet (two lines of single-strand wire times 25 feet from the box) and, at most, about 150 to 300 feet for a dedicated line (three or four lines times 50 to 75 feet). Records showed that 10,000 feet of copper wire was purchased for $451.70 and allocated to four reimbursable jobs. The table below compares the wire charged to each job (based on costs allocated) with the wire needed according to the shop foreman's criteria. About 11 times more wire was allocated than was needed and 3-1/2 times more than was used, according to the inspector general's staff, which examined each of the four jobs.

| Work authorization number | Scope of work | Cost allocated | Wire allocated | Wire needed | Wire used (per GSA IG inspection) |
|---|---|---|---|---|---|
| | | | ----------(in feet)---------- | | |
| (3279472) | 3 floor and 2 wall receptacles | $200.00 | 4,425 | 250 | 1,200 |
| (3279469) | 2 floor and 5 wall receptacles | 200.00 | 4,425 | 350 | 1,500 |
| (3280885) | Dedicated line | 50.00 | 1,106 | 300 | 150 |
| (3280364) | Remove floor outlet | 1.70 | 44 | - | (a) |
| Totals | | $451.70 | 10,000 | 900 | 2,850 |

a/Not determined

We found more than 50 other examples of improper allocation of materials at this and four other field offices we reviewed. When asked why the allocations did not often match the scope of work, GSA field office personnel admitted that one did not relate to the other. They explained that because they must buy materials in bulk--wire in bales, for instance, or outlet plates in box lots--they charge whatever work authorizations are being worked on at the time their stock runs out.

When materials are to be used for many different jobs, only that portion actually used on a specific job should be allocated to that job and charged to the agency. The rest should be returned to the stockroom as "cupboard stock," as required by GSA's real property operations manual, and used as the need arises. At the Seattle field office this required procedure was being followed. An accounting of the type and quantity of materials used was made part of each job's control sheet documentation.

At the Commerce field office, which serves the Department of Commerce, the Interstate Commerce Commission, and the U.S. Customs Service, we noted that materials frequently were charged to the jo order control sheet after all labor had been completed on the reimbursable jobs. One shop foreman told us that he had been instructed by his building managers to continue to accumulate charge for both labor and materials to jobs that had money left over even though all work was completed. Because the shops keep copies of the job order control sheets, which contain both the fixed price estimates and actual charges, the shop personnel know exactly how much money is still available when each job is completed. The sam individual told us that the production scheduling assistant is responsible for ensuring that reimbursable jobs are closed out promptly after the job is done, but that this rarely happens. Thu charges for other jobs continue to be applied against jobs that ar actually completed.

In three instances at the Labor field office, we noted that the charges on the work authorizations for materials did not match the items actually purchased. Also, the justifications for these items were inconsistent with the scope of work for the authorizations charged. For example, one job order was for painting an office to match the existing color. The materials purchased were 8 gallons of wood stain finishes, not paint. The justification on the requisition was "to replenish stock." In another case, this field office purchased $159 worth of varnish and charged it to three authorizations. Again, the justification on the requisition was "to replenish stock." And in a third case, $119 worth of linseed oil, cheesecloth, and tinting colors bought "to replenish stock" was charged to several reimbursable jobs.

Labor allocations excessive

In addition to improper allocation of materials, the allocation of labor hours on some job authorizations seemed excessive fc the scope of work. We noted at least 10 cases like this at three field offices: Labor, West Los Angeles, and Golden Gate. For example, one job was to replace a 14,000-BTU window air conditioning unit with a 24,000-BTU unit. The labor estimate was 86 hours ($1,230). A technically knowledgeable GSA official estimated it should have taken 31 hours ($443) to install a window unit and fie office personnel agreed. We also noted that the unit installed wa not the same as described in supporting documents--a GSA inspector eventually located that unit elsewhere in the same building.

We found similar problems at other field offices. For instance, a work authorization at the Golden Gate office ordered the installation of an office telephone outlet. Although the average time for installing one electrical or telephone outlet was 4 hours, GSA's estimate for installing this outlet was 32 labor hours ($599).

We asked inspectors from GSA's Inspector General staff to examine nine jobs and determine what they should have cost. The fixed price estimates of these jobs totaled $8,920. The inspectors found that the labor hour estimates for seven of the nine jobs were overstated by about 40 percent. According to the inspectors' calculations, when total costs were considered (both labor and materials), the agencies were overcharged by $2,543 (28 percent). The explanation for these overcharges was that the supervisory effort required to estimate the jobs, order materials, inspect the work, and travel to the site was included in the estimates. The Inspector General's office stated that it was incorrect to include supervisory effort in the estimates because supervisory time is already factored into the hourly labor rate. Field personnel gave other reasons for high estimates, including: (1) supervisory officials estimated work under the worst possible site conditions, and (2) estimators usually added a "cushion" as protection against underestimating. Also, Labor field officials told us that between April and October 1980 they charged reimbursable work authorizations when they did periodic maintenance (nonreimbursable) work because they had used all their periodic maintenance funds.

PBS officials told us that GSA's direct program funds do not cover costs related to its reimbursable program, so those costs must be passed on to agencies requesting reimbursable services. They said the hourly labor rate already includes the cost of first-line supervision, leave, training, and fringe benefits.

## FEDERAL PROCUREMENT REGULATIONS WERE NOT FOLLOWED

We found 36 cases in which certified invoice purchases of materials were split to keep them under $500 and thereby circumvent the general requirement for competitive bids. We noted violations of the Federal Procurement Regulations, including not equitably distributing purchases under $500 and buying items on the open market rather than through the Federal Supply Schedule. Other internal control problems identified were: the same individual obtaining the price quotation, ordering, and picking up the materials (duties should have been segregated); and tenant agencies paying for operating equipment through reimbursable work authorizations even though the equipment could be used for GSA's periodic maintenance (nonreimbursable) work. (See ch. 4, p. 45.)

### $500 limit circumvented on small purchases

Federal regulations for small purchases state that "purchases not in excess of $500 can be accomplished without securing competitive quotations if the prices are * * * reasonable." GSA requirements allow officials to certify on the invoice that goods and services have been received, when purchases do not exceed $500, thereby avoiding more formal documentation. These regulations state, however, that the aggregate amount involved in any one transaction must include all supplies and materials that would properly be grouped together. This purchasing method is not restricted to the reimbursable work program, but can be used for any of GSA's real property operations.

At three field offices, purchases of materials and supplies worth $30,000 were split to avoid the $500 limit. At two National Capital Region field offices, 1/ we found successive vendor invoice numbers and purchases made on the same date for similar or identical items. We found cases in which successive accounting control transaction numbers, the primary means by which GSA controls all disbursements, were for the same vendor. We also found 189 examples of purchases just under the $500 limit for one fiscal year. Altogether, we noted 36 examples of split purchases at these offices. For example:

--On February 13, 1980, Labor purchased $462.50 worth of telephone boxes from a vendor. On February 14, 1980, the office bought $462.00 worth of the same item from the same vendor.

--The same office bought some electrical items (conduflor inserts) from a supplier on the following dates: March 25, 1980 ($479.65); April 8, 1980 ($479.65); and April 16, 1980 ($457.50). On April 17, 1980, the office purchased another item from the same supplier for $499.

--Commerce issued five separate transaction numbers on July 22, 1981, for the purchase of more than $1,300 worth of paint supplies for the same job.

--Between December 1980 and March 1981, seven different purchases of electrical items totaling about $3,000 were made for the same job.

The Labor and Commerce field offices also appeared to make excessive use of the certified invoice method of procurement. In fiscal 1980, the Labor field office used this method about 83 percent of the time and bought $196,000 worth of materials (45 percent of its total procurement dollar volume). The Commerce field office used certified invoices nearly 90 percent of the time and bought about $168,000 worth of materials (40 percent of its total procurement dollar volume). The Labor field office had 115 fiscal 1980 certified invoice purchases in the $450 to $500 range--just below the maximum limit for this type of procurement. The Commerce field office had 74 certified purchases in this same dollar range.

In our opinion, GSA could have saved money if the field offices that split purchases for frequently purchased items, such as

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1/We performed a limited test of transactions at the Golden Gate field office and found similar problems.

electrical supplies and paper towels, had bought them in larger quantities and obtained discounts. In any event, the Labor, Commerce, and Golden Gate field office managers readily admitted that splitting purchases was a problem.

Purchases made on the open market rather than through Federal Supply Schedule

The Federal Property Management Regulations (sec. 101-26.401) require all executive agencies to procure needed items from the Federal Supply Schedule whenever possible and to determine an item's availability on the Schedule before procuring directly from commercial sources. Four field offices we reviewed routinely purchased paint, plumbing, electrical, and construction materials and supplies on the open market. Most of the paint GSA field offices buy is readily available from the Federal Supply Schedule--usually at a lower price than on the open market. A West Los Angeles field official told us the reason the field office did not purchase paint through the Schedule was that the Federal Supply Service is too slow in processing orders. On one West Los Angeles reimbursable project to paint ceilings in a Federal building, we compared specific paint purchases to Federal Supply Schedule costs. The following table shows the types of paint purchased and the amounts of overpayments.

| Type of paint | No. of gallons purchased | Commercial cost | FSS cost | Difference | Percent over FSS cost |
|---|---|---|---|---|---|
| White ceiling | 290 | $1,221 | $1,085 | $ 136 | 12.5 |
| Epoxy polyamide | 6 | 261 | 60 | 201 | 335.0 |
| Traffic | 20 | 152 | 97 | 55 | 56.7 |

Duties not properly segregated

The effectiveness of control over procurement depends on adequate segregation of duties. Duties were not properly segregated at four of the six field offices we reviewed:

--At Labor, we found that duties related to procurement and other functions were not properly segregated to ensure sound control over materials purchased even though about 24 persons worked in the craft shops. The electrical shop had about 11 employees, but in fiscal 1980, 12 purchases of copper wire were handled completely by the same individual. He obtained the price quotation, completed the paperwork, ordered the material, and picked it up from the vendor. In all, he bought and picked up $4,386 worth of wire.

--At Commerce, which employed about 50 persons in the craft shops, the electric shop foreman and his assistant ordered all shop materials and picked them up about 20-25 percent of the time.

--At Golden Gate, the same GSA employee obtained the price quotation, prepared the estimates for reimbursable work, and inspected the work once it was completed.

--At Seattle, we noted a similar situation. GSA does require all building managers to sign off on certified invoices; however, the building managers do not actually verify that goods or services are received.

Purchases under $500 not distributed equitably

The Federal Procurement Regulations (sec. 1-3.603.1) provides that (1) small purchases not exceeding $500 may be accomplished without securing competitive quotations if the prices quoted are considered reasonable and (2) purchases are to be distributed equitably among qualified suppliers. When practicable, a quotation should be obtained from other than the previous supplier before placing a repeat order. Several field offices (Labor, Commerce, and West Los Angeles) did not adhere to these requirements. One field office did not obtain quotations from other than the previous suppliers before placing repeat orders. At the other offices, the invoices either did not contain fair and reasonable price affirmations or there was no support for the affirmations on the bid forms, which often showed that only one quotation was obtained. Insufficient vendor rotation was also identified during annual GSA evaluations at two of these field offices.

Some of the items we noted the Labor field office usually purchased repeatedly from the same vendor, without obtaining quotations from other suppliers, were: plywood, paint, electrical items, tools, and locks and keys. In fiscal 1980, this office purchased $5,669 worth of copper wire from five qualified vendors (63% of these purchases were from one vendor); 5,400 square feet of plywood (mostly 3/4 in.) from one vendor; and almost $8,000 worth of keys and locks from one vendor. Very few, if any, of these items were bought from other vendors who offered the same items. For example, only $900 worth of keys and locks was purchased from one of the other vendors in the same geographic area, and only $487 worth of plywood was purchased from another vendor.

## TIME AND ATTENDANCE WERE NOT MONITORED AND JOBS WERE NOT INDEPENDENTLY INSPECTED

Just as the paperwork supporting the allocation of materials and labor did not reflect what was actually used on specific work authorizations, the charges on the daily time reports did not coincide with the number of hours and/or dates on which the work was done. These reports are the source data for GSA's National Electronic Accounting and Reporting System (NEARS) financial information. 1/ We were able to test this at only one of the three field

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1/The system used to account for most agency funds including the Federal Buildings Fund.

offices because the records were not available at Commerce or Golden Gate.

At the Labor field office, we checked jobs for the entire month of May 1981 to determine which reimbursable work authorizations were charged and by whom. This involved 23 jobs. We identified the work location and scope and then physically inspected many of these jobs. At locations where the work was supposedly done, we asked agency officials to verify its accomplishment, the accuracy of the reported dates, how long it took GSA staff to do the work, and the number of people who did it. In six cases, the work completion dates on the daily time reports disagreed with the dates the agency officials gave us. In at least five cases, the number of workers charging time to a particular job was more or less than the number agency officials gave us.

In the same way, we reviewed 12 reimbursable jobs that were supposedly done on June 8, 9, and 10, 1981 (a few days before our inspection). In 8 of 12 cases, the work had been done, but rarely on the same day or even the same week that it was charged. For example:

--One work authorization called for the installation in the Labor building of an air conditioner that was already at the worksite. The timesheets showed the work was done in May 1981; yet the agency official told us the unit was definitely installed in February 1981.

--In another case, the timesheets showed keys made and an inner office door installed on May 22, 1981; yet the agency official told us it was done in March 1981.

--Another job, charged as done,on June 10, 1981, was completed on May 26, 1981, according to the agency's records.

In addition, we noted that the number of workers charging time to the work authorizations in May and June 1981 disagreed with what agency officials told us in 11 of the 35 cases. Clearly, more internal control is needed over the paperwork and the direct supervision of the labor force. Our independent inspection revealed that no one is really checking to see whether the workmen's charges accurately reflect work done.

GSA field officials are responsible for inspecting reimbursable work done both by GSA personnel and by the contractors. Rarely are inspections made by anyone else. At one field office, both the shop foreman and the production scheduling assistant told us they make periodic checks on the laborers as the work is being done, as well as at the end of the job. An agency liaison person told us, however, that the production scheduling assistant relies on the foreman to inspect the small jobs while the assistant takes care of the more complex ones. Our review of daily timesheets prepared by the workers, and our discussions with officials of the agencies that requested the work, convinced us that both inspection and time and attendance need more stringent control.

As pointed out previously, the requesting agency has no opportunity to verify that work was done, or when and how well it was done, since it does not sign the work authorization when the job is completed. If the requesting officials do not complain, the agency assumes work is done until it receives a copy of the signed job order from GSA showing that the job has been completed.

GSA officials stated that Federal Property Management Regulations, issued in September 1982, increased from $1,000 to $10,000 the delegation of authority that allows agencies to contract for alterations against GSA contracts. This also allows agencies to contract for their own alterations up to $10,000 if no GSA contract exists. GSA's March 1982 reimbursable work study showed that agencies made very little use of the previous $1,000 delegations, possibly because they were not familiar with contract procedures and/or the limited number of GSA contracts then in effect. Obviously, if agencies avail themselves of the delegation of authority they will have more control over alteration work. Control mechanisms, such as signoff by the requesting agency at completion and independent inspections, would still be necessary for reimbursable jobs that agencies rely upon GSA to do.

GSA has several mechanisms for controlling field offices' performance of reimbursable work: (1) audits and inspections by the Inspector General, which is independent of PBS; (2) annual contract assurance reviews by a team of headquarters officials; and (3) regional program reviews, such as those conducted in the National Capital and some other regions. However, none of these efforts kept many of the weaknesses we noted from occurring. The Inspector General has audited 122 of the 191 field offices since 1978, but had not visited most of the field offices included in our review. Inspectors told us they had only about 80 people nationwide to review 191 field offices and that the detailed inspection work required made it impossible for them to cover all the offices. Both headquarters and regional teams' annual reviews are usually limited to a week or less and cover much more than the reimbursable program. Thus, about all they can do is examine the paperwork, which--as we have pointed out--often bears no relationship to what actually occurred.

To ensure sound controls over the reimbursable work authorization process, annual reviews and audits of selected field offices must go beyond the fragmented paperwork to identify problems and inconsistencies. Thorough tracing of transactions is time-consuming, difficult, and requires knowledge of both financial and technical aspects of programs. Although the Inspector General stated that multidisciplined staffs were used and physical inspections were conducted, this was not the case at the field offices we reviewed. We believe greater use of auditors, with the aid of qualified technical officials, could provide a meaningful review of reimbursable operations at field offices and serve as an independent check to see that intended work is done.

PBS officials stated that regional survey reports indicate the deficiencies we identified were also noted by GSA's teams and that corrective actions had been taken as a result of these reviews. However, our analysis of documentation for a National Capital Region survey shows that only one problem--overestimation of work order costs by 12 to 14 percent--was identified. None of the other problems we found was mentioned.

## REIMBURSABLE JOBS WERE NOT PROMPTLY CLOSED OUT

At four of the six field offices reviewed we found that reimbursable jobs were not promptly closed out. In light of the other internal control problems noted in the reimbursable work program (see pp. 18, 21, and 24), we believe that any funds not spent could be used for unauthorized purposes--an invitation to misuse and abuse.

We reviewed the January 1981 Status of Work Authorizations (FR 70SA) Report and found that more than 400 projects shown as incomplete had start dates before fiscal 1980, that is, October 1, 1979. At four field offices, about $1.2 million remained available for charging--and therefore susceptible to misuse--as of January 1981. The following table shows the extent of this problem at the field offices.

| Field office | No. of authorizations with funds available | Amount available | No. of authorizations with no obligations | Amount available |
|---|---|---|---|---|
| Labor | 212 | $ 577,397 | 51 | $222,403 |
| Commerce | 166 | 421,429 | 47 | 119,747 |
| Golden Gate | 15 | 165,106 | 3 | 72,112 |
| West Los Angeles | 13 | 26,078 | - | - |
| Total | 406 | $1,190,009 | 101 | $414,262 (35%) |

The Auburn Regional Office also had 241 reimbursable projects that were started before fiscal 1980.

When asked about these old work authorizations, GSA officials gave several reasons why they were not promptly closed out. The production scheduling assistant at the Labor field office readily admitted there was a backlog of jobs needing to be closed out but said current work did not allow time to process the old ones. PBS regional officials in Auburn reviewed a list of 241 old authorizations and determined that many jobs were still in progress. The rest had been sent to regional finance but no action had been taken to close them out. National Capital Region officials told us the situation was improving at the Labor and Commerce field offices--665 authorizations had been closed out as of the January 1982

FR 70SA report, whereas only 222 projects had been closed out as of January 1981.

Although GSA initiated efforts in May 1980 to modify the funds status report, 1/ no action had been taken by the office of finance as of April 1982 because of hardware constraints. In their comments on our draft report, GSA stated that PBS reports are under development with a 6-month implementation schedule.

In its March 1982 study of reimbursable work, GSA also recognized that jobs were not being promptly closed out and recommended four actions to correct the problem: (1) adding to the regional administrators' performance plan a critical element related to the number of work authorizations accomplished according to a timetable for completion, (2) preparing a new handbook for reimbursable work that emphasizes timely closeout of authorizations, (3) entering the beginning date and the date of last obligation for each authorization on the monthly status report (FR 70SA), and (4) having each region develop exception reports on the status of reimbursable work.

In our opinion, the controls over closing out completed jobs must be tightened to prevent GSA employees from using available funds to purchase materials for personal use or for use in a private business. The Inspector General's Office has investigated several cases of employees using materials this way. Other problems identified in this chapter, such as improper allocation of materials and labor, inadequate segregation of duties, and split purchases, provide an added incentive for improving controls over job closeouts.

## REIMBURSABLE WORK REPORTS SHOWED INACCURACIES AND DISCREPANCIES

At three field offices, we noted several discrepancies among various computerized reports and also between the source documents and the computerized reports. These reports are prepared for use by GSA officials in accounting for moneys in the Federal Buildings Fund and in managing the reimbursable program. The fact that discrepancies exist within the system implies two possibilities:

--Management decisions are being based on inaccurate and/or inconsistent information.

--Money and time spent preparing reports are being wasted because potential users know the information may be inaccurate and they don't have time to resolve inconsistencies.

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1/National Electronic Accounting and Reporting System (NEARS) reports.

## Key source documents sometimes inaccurate

The manually prepared monthly time summary is a key source document for the automated fund status (NEARS) reports. This summary is sometimes incorrect. It is prepared from the labor hours shown on the job order control sheets (GSA forms 1814) which, in turn, come from the daily timesheets. As we have discussed in detail, beginning on page 24, these are often incorrect.

Central office PBS officials told us that some reporting inaccuracies must be expected and that we had exaggerated the extent of the problem. However, we found similar problems at five of the six field offices we reviewed. (See app. II.) PBS officials also stated that the job order control sheet represents an informal log maintained for the field office's convenience and was never intended to be part of the formal NEARS report. However, because field offices use the job order control sheet as the source document for the monthly time summaries it is, in practice, part of the formal system.

In our opinion, this control sheet could be an excellent formal or informal control mechanism if it were used to account for actual labor hours as well as to compare against labor and materials charges estimated for each job. But as presently prepared, the sheet is not even a good informal check because it does not agree with the other information used to account for moneys in the Federal Buildings Fund.

Since the NEARS reports are compiled from the sometimes erroneous monthly time summaries, the NEARS reports also contain errors. We chose six reimbursable work authorizations whose job order control data differed significantly from the NEARS Status of Work Authorizations (FR 70SA) data and traced the costs through the system. The results were as follows:

| Job order number | Job order cost sheet | NEARS/ FR 70SA |
|---|---|---|
| N 4040338 | $ 309 | $ 960 |
| N 3312601 | 224 | 787 |
| N 3312562 | 1,211 | 1,440 |
| N 3312533 | 689 | 1,504 |
| N 2722098 | 3,984 | 9,958 |
| N 2721510 | 1,260 | 5,811 |

Similar discrepancies were noted in four other field offices. (See app II.) For example, one work authorization at the Auburn regional office had a fixed price estimate of $90,800 and a negative balance of $69,729--meaning that nearly $160,000 had been charged to this job. Because the $69,729 represented a substantial loss for one job, we asked GSA officials about it and were told that "unofficial" records showed charges of only $91,003.48. The Auburn regional finance officials told us that the last entry for this authorization was a $69,442.22 keypunch error that was later corrected on the FR 70SA report.

National Capital Region officials told us that the FR 70SA report, which shows the cumulative dollar value of fixed price amounts and total obligations, could be overstated when more than one field office performs some of the work. They stated that in such cases the job would be reported for both field offices because the automated reporting system has no mechanism for eliminating such duplication. They gave an example of one work authorization--with a fixed price estimate of $490,000--which appeared on both the Labor and Commerce field offices' listing on the FR 70SA report.

Reports considered inaccurate and rarely used

Discrepancies among the automated reports were also found in a New York field office. The building manager had noted these discrepancies, but said that because he did not have the staff time to reconcile the reports he rarely used them. The director of the buildings management division, to whom all building managers report, told us that other building managers have the same problem with these reports and do not use them.

A key aspect of internal control is that authorization and recordkeeping procedures must provide proper, accurate, complete, and timely accounting records. At GSA, NEARS reports are supposed to serve this purpose for Federal Buildings Fund activities. In our opinion, based upon information discussed in the preceding sections, NEARS information is not always reliable; therefore, the annual financial statements prepared from the NEARS data may be inaccurate.

In its March 1982 reimbursable work study, GSA also recognized problems with the reporting system and recommended steps to correct them. Some of these actions will undoubtedly improve the information available to managers for the reimbursable program. However, our work showed that before GSA can correct errors on the automated reports it must ensure that the input data collected and recorded manually, such as that contained on the daily timesheets and job order control sheets, is accurate and that the charges to specific work authorizations are properly allocated. Otherwise, reports processed from the automated system are meaningless and will not be used.

## INACCURATE COST ESTIMATES AND ADVANCED BILLING HAVE RESULTED IN OVERCHARGES TO TENANT AGENCIES AND PROFIT TO GSA

At the time of our review, tenant agencies paid GSA in advance for reimbursable work, based on cost estimates prepared by GSA. We found overestimating of costs to be a particular problem at three of the six field offices. The combination of inaccurate cost estimates and the advanced billing policy resulted in tenant agencies being overcharged and in GSA making a profit of $462,000, of which $456,686 was for the Labor, Commerce, and Golden Gate field offices. The following sections show the significance of the advanced billing policy.

The fiscal 1980 Federal Buildings Fund financial statements show that GSA gained about $2.2 million from reimbursable operations. According to PBS, this represents an average variance of 1 percent between estimated and actual fiscal 1980 obligations. Until January 1982, GSA's practice was to estimate reimbursable jobs and then, if the agency accepted the estimate, to bill the agency, which would pay in advance for the work. The accuracy of GSA's estimates, therefore, was a major factor in controlling costs. Profits realized as a result of poor estimates accrued to GSA, which reasoned that profits on some projects would offset losses on others. In practice, however, this theory means that Federal agencies sometimes help pay for each others' reimbursable work. Each agency's funds are required to be spent only for its own operations (31 U.S.C. 1301).

The GSA Inspector General's Office recently reported a similar situation with the Construction Services Fund. An audit disclosed that profits earned on one project were used to fund cost overruns on another project, which was held to be a violation of four federal laws. The Inspector General also stated that the practice violated financial control procedures.

GSA officials told us that they could not verify the accuracy of the $2.2 million. This figure is taken directly from the fiscal 1980 Federal Buildings Fund financial statements and is the gain from nonrecurring reimbursable work.

Our review of 220 closed and terminated projects (those on which all work was done and the 60-day period for adding all charges had elapsed) at two field offices showed that GSA's tendency to overestimate projects netted a profit of $395,324 on these projects alone. This was nearly 100 percent above the costs actually charged to these jobs and 56 percent above the estimated amounts paid by the tenant agencies. Both field offices were in the National Capital Region, which has about 80 percent of the total amount of nonrecurring reimbursable work for the four GSA regions in which we conducted our review. Overestimating was also a problem at the Golden Gate field office, which made a net profit of over $60,000 on its 97 closed and terminated projects.

Some GSA field offices told us they use standard labor and materials charges for work such as installing and removing electrical and telephone outlets. For instance, one electrical shop foreman told us that, based upon experience, his shop charges 4 hours of labor and about $30 for materials for installing an electrical or telephone outlet; additional outlets are simply multiplied by these factors. Although we found this shop did generally adhere to this practice, we also noted that it sometimes charged for materials when none were needed and sometimes did not apply the standard charges. The following table illustrates these inconsistencies:

| Work authorization number | Work scope | Estimates | | | Actual charges |
|---|---|---|---|---|---|
| | | Hours | Labor | Materials | |
| N4067861 | Install 1 telephone and 1 electrical outlet | 14 | $200 | $90 | $290.34 |
| N4068190 | Same as above | 8 | 114 | 60 | 174.48 |
| N3279663 | Same as above | 3 | 43 | 10 | 52.93 |

At most locations we reviewed, inaccurate estimating was a problem. However, at the Labor field office, we noted another problem. In 70 of the 103 completed and terminated projects, the actual charges and estimated costs for labor and materials were the same (within $1). Considering the imprecise estimating process and the complexity of some jobs, we think it unlikely that this situation reflects what really occurred on these jobs. For example, one work request was for installing and painting a dutch door, providing a lock and two keys, and installing one telephone and one electrical outlet. Estimates were made by four different shops (paint, electrical, carpentry, and engineers). Each of the four estimates came to within $1 of the actual costs incurred; even the subparts of the individual estimates matched within $1. A GSA inspector told us that on small, simple jobs the matching of estimated costs and actual charges was not unusual but it was rare for the more complex jobs to cost precisely what they were estimated to cost.

The accuracy of these estimates is a result of the shop foremen keeping the job order control sheets in their possession until all estimated costs are used up. (See p. 20.) Because reimbursable jobs are not promptly closed out, unused funds are available as a cushion for underestimated jobs or to purchase materials for other reimbursable jobs. Once the funds spent match the estimated amount for the job, the work authorization is closed out. An office manager, two building managers, and a shop foreman told us this was done in their field offices.

At the time our audit was performed, GSA's policy of advanced billing based on estimated cost was a major factor in controlling costs. Inconsistent estimates for jobs having the same scope of work, as shown in the above table, and the questionable accuracy of estimates at the Labor field office cause us concern over the effectiveness of GSA's estimates as a cost control mechanism. The actual charges for many of the projects deviated by more than 10 percent from GSA's estimate. In our opinion, the Federal agencies for whom GSA performs the work cannot be assured that their funds were spent properly or that they paid the right amount for the work done.

## MANY PROJECTS DEVIATED FROM GSA'S ESTIMATE

Five of the six field offices reviewed had a large number of completed and terminated projects that deviated by more than 10 percent from GSA's fixed price estimate. A June 1981 National Capital Region survey report found similar problems. This indicates that GSA does not have adequate control over the costs of its reimbursable work projects.

GSA may perform reimbursable work with its own labor force or it may contract it out to private firms. GSA guidelines for contract work require that independent Government estimates be prepared to determine a fair and reasonable price for the work planned. These estimates are expected to be based on the same factors commercial firms use, and be within a "reasonable range" (± 10 percent) of any bids or offers received. Since GSA's own labor force does much of the repair and alteration work, accurate estimating and cost control should be easier than it would be for contract work. We believe the ± 10 percent range is useful for comparison purposes. Our opinion is supported by GSA's March 1982 reimbursable work study, which cites standards for estimating accuracy. The new standards, if implemented, will consider an estimate to be unsatisfactory if it is 5 percent over or 10 percent under actual cost.

The following table shows that five of the six field offices we reviewed generally failed to comply with GSA's criterion for "reasonable" estimates.

| Field office | No. of completed/ terminated work orders | No. deviating more than 10% | Percentage deviating more than 10% |
|---|---|---|---|
| Labor | 103 | 13 | 13 |
| Commerce | 117 | 43 | 37 |
| Seattle | 18 | 6 | 33 |
| Golden Gate | 97 | 34 | 35 |
| West Los Angeles | 27 | 12 | 44 |
| Greater Manhattan | 52 | 27 | 52 |

A major factor in these deviations appears to be inaccurate estimates for direct labor hours, since GSA's estimated costs include as much as 50 to 90 percent direct labor costs. Four projects at the West Los Angeles field office illustrate this:

| | Estimated/Actual | | | | | |
|---|---|---|---|---|---|---|
| | Charges | | | Labor hours | | |
| Project | Estimated | Actual | Percentage of Est./Act. | Estimated | Actual | Percentage of Est./Act. |
| A | $36,890 | $14,152 | 261 | 760 | 498 | 153 |
| B | 1,790 | 2,002 | 89 | 90 | 92 | 87 |
| C | 950 | 1,558 | 61 | 56 | 112 | 50 |
| D | 7,753 | 8,210 | 94 | 260 | 301 | 86 |

GSA does not prepare a justification or rationale for its estimates. Instead, it relies on past experience and industry standards, such as the R.S. Means Manuals. 1/ Although estimating is now the responsibility of the production scheduling assistant or the field office planner/estimator, estimates are often made by shop foremen. The scheduling assistant then compiles these separate shop estimates into a single estimate and puts it on the work authorization form which is sent back to the agency for approval.

We were told that it is nearly impossible for the production scheduling assistant to do the estimating because of the diverse nature of the jobs. Some involve electrical wiring, others carpentry, still others painting of rooms and other types of craftwork. Hence, the field office often relies on the shop foremen who have experience only in their respective trades. However, this arrangement means the same shops prepare the estimates and perform the work; there is no separation of duties and no one who can really question the basis for the estimates. In addition, because some field offices allow the shops to keep copies of the job control sheets, the shop foremen can overestimate the jobs. Once the estimate is in the system, the "cushioned" amount can be used to buy materials or charge labor hours for other jobs. As a result one agency may be subsidizing another agency or simply be paying more for a service than is necessary. This problem is compounded because the requesting agencies do not make their own cost estimate of the work they want done; instead, they rely on GSA's estimate. They rarely question GSA's figures, although an agency liaison told us that on occasion he has questioned an estimate. When questioned, GSA has often lowered the estimate.

Because of the other problems cited in this chapter, such as improper allocation of materials and labor, inaccurate time and attendance reporting, not promptly closing out completed jobs and using available funds for other jobs, the lack of segregation of duties enhances the opportunity for misuse and abuse of Federal funds.

## GSA HAS MADE EFFORTS TO CORRECT PROBLEMS

In January 1982, GSA changed the billing policy so that agencies will be billed quarterly in an amount equal to actual obligations. The Federal Property Management Regulations were issued in September 1982 to reflect this change.

In March 1982, GSA issued a new task force report on reimbursable work. The report addresses numerous problems and makes recommendations which, if implemented, will correct some of the problems identified in our report. A similar GSA task force report on this subject was issued in September 1979.

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1/These manuals provide cost estimating standards for repairs and remodeling.

In commenting on our draft report, GSA advised us that additional efforts to strengthen internal controls included:

--Initiating a pilot project in Denver which combines job assignment and timesheets, which are entered daily into a computer. A monthly summary report enters hours actually worked into NEARS.

--Reviewing procedures for recording charges to direct and reimbursable operations from "cupboard stock" inventories, to develop better controls over inventory of supplies and materials and to ensure segregation of duties. Implementation is scheduled for fiscal 1983.

--Issuing field office inspection guidelines in August 1982 for evaluating performance related to reimbursable work.

--Planning to issue a memorandum directing closeout of all reimbursable jobs carried over from the Building Management Fund, make system revisions in fiscal 1983 to reject obligations entered 60 days after notification of job completion, and display the start date and date of last obligation on the FR 70SA report.

--Using regional and field office inspections, surveys, and evaluations to ensure compliance with the existing requirement for an inventory of materials and supplies.

--Providing initial training to estimators and planning to provide followup training on preparing justifications for estimates and supporting documentation.

--Revising procedures in September 1982 to require customer agencies to certify that work is completed before final payment.

--Planning to develop an automated report, listing multiple accounting control transaction numbers for single vendor purchases under $500 within the preceding 90 days to highlight possible circumvention of existing regulations and excessive use of certified invoices.

## CONCLUSIONS AND RECOMMENDATIONS

In our opinion, the control weaknesses we have discussed exist because GSA field offices have had almost total responsibility for the administration of reimbursable work and have set up no checks and balances to see that the process is properly controlled. No comprehensive procedural guidance existed to help GSA officials manage the program. The computerized work order management system has no time limit or cost checks to show how much time reimbursable jobs have taken or whether they have exceeded the estimated cost.

Finally, reimbursable transactions were extremely fragmented and were not supported by an adequate audit trail, making it difficult for auditors and inspectors to verify their accuracy.

The March 1982 GSA Task Force Report made recommendations concerning, among other things, cost estimating and closeout of completed jobs. However, it did not address some of the problems we identified, namely, the allocation of materials and labor, inspections, and procurement. Control policies and procedures are only as good as their implementation. The 1982 Task Force recommendations are not all new; in some cases they are similar to those made in another task force report on reimbursable work issued nearly 3 years ago. Therefore, the practical effects of the corrective actions cited in the preceding pages remain to be seen.

## Recommendations to the Administrator of General Services

In order to reduce GSA's vulnerability to fraud, waste, and abuse, and to correct the problems in nonrecurring reimbursable work, we recommend that the Administrator of General Services require and/or enforce existing requirements for

--field officials to properly allocate charges for labor and materials to reimbursable jobs so that the data entered into the financial management system are accurate;

--field offices to keep all source documents related to reimbursable work, such as cost estimates, reimbursable work authorizations (forms 2957), job order control sheets, daily timesheets, inspection reports, vendor invoices, contractual documents, and NEARS transmittal forms, to provide an adequate audit trail for completed and terminated jobs;

--shop personnel to promptly forward copies of the job order control sheets for completed jobs to the building manager's office so the jobs can be closed;

--the automated reporting system to identify any completed job that has had no actual charges against it for 3 months so that excess funds do not remain available for charging;

--field offices to keep an inventory of materials and supplies, such as copper wire, sheetrock, paint, and other items that have personal or commercial use, so that building managers and others can readily determine whether such items are being properly used;

--cost estimates prepared by GSA field offices to be fully justified and backed by supporting documentation;

--duties to be segregated so that (a) the person preparing the cost estimate is not the one who is responsible for doing the work and for inspecting the completed job, and

(b) the person obtaining bids is not the one placing orders or picking up materials;

--customer approval on all work within a specified time after completion and before final payment is made; and

--strict adherence to GSA's existing $500 limit on purchasing via certified invoice, so that purchases are not split to circumvent this requirement.

Recommendation to the Inspector General, GSA

We recommend that the Inspector General, GSA, using multidisciplined staffs of auditors and technical personnel, make comprehensive reviews of field offices' reimbursable work--both the paperwork and the actual work done--to determine whether records are reliable and the reimbursable program is auditable.

## AGENCY COMMENTS AND OUR EVALUATION

GSA generally agreed with our findings, conclusions, and recommendations. In response to seven of the nine recommendations, the agency indicated that it already had policies and procedures that require personnel to perform such functions as closing out reimbursable jobs promptly, keeping an inventory of materials and supplies, preparing cost estimates that are justified and supportable, and properly allocating charges for labor and materials to reimbursable work. GSA stated that it is taking additional steps to improve internal controls over nonrecurring reimbursable work. (See pp. 34 and 35.)

Our report recognizes the actions that have been taken. We agree that the corrective actions already taken, initiated, and planned are necessary to the improvement of controls over the nonrecurring reimbursable program. However, policy and procedural requirements do not ensure implementation. As pointed out throughout this chapter, GSA had requirements but often these were not followed. We have revised our recommendations to further clarify our position.

The GSA Inspector General cited numerous audits and management reviews performed in fiscal 1982 or planned for fiscal 1983 that have taken or will take into account the problems identified in this report. The Inspector General stated that the audit program for field offices requires physical inspection of work performed and that a multidisciplined staff of inspectors, investigators, and auditors work together on teams when conditions require a more comprehensive review of problems during an audit. He further stated that all field office reviews require onsite inspections and inventories as well as examination of paperwork. Our recommendation has been modified to emphasize the need for greater use of such joint staffs.

# CHAPTER 4

## CONTROLS OVER OPERATING

## EQUIPMENT NEED TO BE STRENGTHENED

At eight PBS locations, we found that $8.6 million in operating equipment 1/ was not properly accounted for. As a result of the nine control problems we identified (see app. III), PBS cannot be sure that its $37.9 million 2/ investment in operating equipment nationwide is adequately protected from loss or that its financial accounting records accurately reflect its investment in such equipment. The major specific control problems are as follows:

--Periodic physical inventories not taken (two weaknesses).

--Automated information system not reconciled with property records, and property records not reconciled with the general ledger (three weaknesses).

--Equipment purchases not properly accounted for (one weakness).

--Data put into the automated information system not reliable (two weaknesses).

--Duties not properly segregated (one weakness).

Each of these procedures is important for adequate control, but PBS managers have placed little emphasis on them and have not established compensating controls.

## PERIODIC PHYSICAL INVENTORIES WERE NOT TAKEN

Despite the fact that GSA's guidelines require "wall-to-wall" physical counts of agency property at least once a year, four of the five regions had not done this. Furthermore, the few inventories conducted were not done in accordance with GSA guidelines. Also, we noted that the guidelines were not explicit about how an inventory is to be taken or who is to do it. As a result, GSA's Equipment Depreciation and Inventory Control System (EDICS) and the financial reporting system (NEARS) did not have accurate, up-to-date data on operating equipment.

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1/ Operating equipment consists of items such as lift trucks, machine tools, woodworking tools, power lawnmowers, power cleaning equipment, air conditioners, and similar items not related to equipping an office.

2/ Acquisition value of equipment.

GSA's Office of Administration Handbook for operating equipment requires that GSA personal property be inventoried at least once a year. A 2-year cycle can be approved if requested by the responsible property management officer and if the finance division is satisfied that the property records are reasonably accurate and conditions warrant an exception. However, neither the office of finance nor the Inspector General's Office of Audits--who are independent of those accountable for the equipment--is required to observe the taking of inventories.

GSA has several manuals designed for controlling operating equipment, but they are often not clear or specific about how a job is to be done or who is to do it. For example, the guidelines require that a blind "wall to wall" count be observed, but do not explain the term. A wall-to-wall count would include all equipment meeting the capitalization criterion ($300 at the time of our review), 1/ whether or not it was listed on EDICS. The guidance also states that "Internal Audit Division" and "Finance Division" representatives may, at their discretion, observe the physical inventories. We found that inventories either were not done or were done incorrectly. Allowing such discretion, we believe, may have encouraged laxity and contributed to this problem. We also found that guidance concerning the value at which operating equipment was to be capitalized was inconsistent.

We found that GSA's New York region had not complied with the annual inventory requirement. The last regionwide inventory was taken in 1976. Regional PBS officials could not say when the last physical inventories were taken in the field offices. When we asked why inventory requirements were not being followed, officials said the regional PBS staff member responsible for overseeing operating equipment had retired several years before our visit. He had not been replaced, his duties had not been reassigned, and the records he had maintained could not be located. Further, the accountable officers had not conducted joint inventories with their predecessors at the time of changeover as required by GSA guidance.

We found similar problems at the other GSA regions we reviewed:

| Region | Last physical inventory | Regionwide inventory | No. of field offices not reporting |
|---|---|---|---|
| Auburn | 1979 | Yes | 2 |
| San Francisco | 1977 | Yes | 3 |
| National Capital | 1980 | Yes | (b) |
| Denver | a/1981 | Yes | 2 |

a/Started after our review.

b/Information not available.

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1/In Jan. 1982, the capitalization criterion was increased to $1,000.

In addition to the handbook's lack of specifics about inventorying, GSA's implementing instructions for EDICS, dated June 1976, let the reader decide what constitutes a sensitive item. 1/ Much of GSA's operating equipment consists of electric and hand tools and other items with a high personal use value. Specific criteria for identifying and controlling sensitive items have become even more important since the capitalization threshold was raised to $1,000. Many items, such as electric drills, saws, and other power tools, cost less than $1,000 and will not be capitalized. We feel that proper control must be established for these items because of their high personal use value. Furthermore, we believe that GSA should better define or publish a list of sensitive items so accountable managers can easily identify and account for this equipment.

We also believe that the office of finance should be required to observe the taking of inventories and that the Inspector General should include operating equipment in the audit cycle to ensure that inventories are conducted properly and promptly as required by GSA guidelines. These guidelines, in turn, should be made more specific and clear about how inventories are to be conducted and who should do it.

REQUIRED RECONCILIATIONS WERE NOT DONE

We found that even when inventories were done they were not properly reconciled to property and financial records. This means that GSA's financial reports are unreliable and give little protection against theft or misuse of Government property.

GSA's financial reporting system (NEARS) showed that the five regions included in our review had $25.1 million worth of operating equipment on hand as of December 31, 1980, whereas the EDICS reports showed equipment worth $16.5 million for these regions--a difference of $8.6 million. The table shows the differences by region.

| Region | NEARS | EDICS | Difference |
|---|---|---|---|
| 2 | $ 2,238,178 | $ 2,118,402 | $ 119,776 |
| 8 | 2,761,290 | 2,825,049 | ( 63,759) |
| 9 | 3,842,796 | 4,082,201 | (239,405) |
| 10 | 2,151,315 | 2,224,243 | ( 72,928) |
| 11 | 14,126,470 | 5,296,517 | 8,829,953 |
| Totals | $25,120,049 | $16,546,412 | $ 8,573,637 |

1/Sensitive items are those that require special accountability because their personal use value makes them unusually susceptible to theft and they may not be controlled on inventory records.

GSA should perform these reconciliations to maintain proper control over operating equipment. It must have reliable financial and property reports to prevent theft or misuse of Government property. The physical count must be reconciled with EDICS and EDICS must be reconciled with the general ledger. Neither PBS operating personnel nor regional finance officials had done these reconciliations at the locations we visited. Both the GAO Policies and Procedures Manual for Guidance to Federal Agencies, which GSA is required to follow, and GSA's own policies and procedures require that physical counts be reconciled with the general ledger.

In order for controls to be effective, they must be properly implemented. Formal training in property management can help ensure that employees responsible for property management functions know what is expected of them. We found that none of the building managers at the field offices we reviewed had received any formal training in managing operating equipment. GSA's training center has five courses that deal directly with personal property management. All PBS and finance officials who have property management responsibilities should, in our opinion, attend these courses so that they will understand what GSA requires of them in purchasing and inventorying equipment and reconciling differences.

EDICS not reconciled with equipment on hand

According to directives, EDICS listings and field office property physically on hand are to be reconciled quarterly by the accountable officers who are to notify the regional finance divisions of any changes. However, GSA was not making the required reconciliations at four of the eight field offices visited. In the New York region, for example, we found that the EDICS listings had not been distributed to the accountable officers at 12 of the 13 field offices because of organizational changes. PBS officials took corrective action after we advised them of this problem. One accountable officer in that region told us he had never seen a copy of the EDICS listings for his equipment until we gave him one.

The National Capital Region's quarterly reconciliations also are not being done. The quarterly EDICS printouts had not been sent to the Labor field office since the 1980 inventory. The buildings manager told us that the regional office sends the listing to the field office once a year. The regional official responsible for making the quarterly reconciliations told us he was making them; however, we found this was not so. Several months later he told us that he would start doing them. After our audit work was completed, he told us he had begun them. If equipment records are not reconciled with the EDICS printouts, the reconcilations between EDICS and the general ledger will be erroneous and the financial statements will be inaccurate.

EDICS not reconciled with general ledger

Once EDICS listings have been reconciled with physical counts of equipment, they are to be reconciled quarterly to the general ledger, according to GSA guidance. This requirement agrees with GAO's Policies and Procedures Manual, which states in part that

> "Differences between quantities determined by physical inspections and those shown in the accounting records shall be investigated to determine the cause of differences and identify necessary improvements in procedures to prevent errors, losses, or irregularities. Accounting records shall be brought into agreement with the results of physical inventories."

We found that these general ledger reconciliations were not being made in four of the five regions reviewed.

National Capital Region finance officials told us that the general ledger and EDICS have not balanced since at least March 1980. In January 1981, GSA's Region 3 was reorganized into two separate regions--Philadelphia and National Capital. National Capital Region officials told us that the only way to reconcile records would be to conduct inventories in both regions and compare the results to the financial records. They said this process had been completed in Philadelphia and was underway in the National Capital Region.

As of December 1980, San Francisco regional accounting records for 11 field offices were out of balance with the 1977 inventory count. Comments by regional officials in both the finance and buildings management divisions revealed that managers have not been sufficiently concerned with control of operating equipment. Regional officials are now aware of the problem and are taking steps to correct it.

During our Auburn review, a finance division official told us that a reconciliation between EDICS and the general ledger had not been performed since 1979. But at the end of our review, the director of finance told us that as of September 30, 1981, 10 of the 13 operating equipment accounts had been reconciled. He said actions to correct the several hundred discrepancies noted during the reconciliations were expected to be completed soon.

A Denver building management division official told us that before EDICS was introduced in 1976, inventory records were reconciled with the financial (NEARS) records. However, since EDICS, he has never been able to balance property records and financial records. A finance division official confirmed this statement, adding that only a regionwide inventory would balance the two systems. The same financial official later told us that EDICS and the financial records had been balanced as of August 31, 1981. However, a building management division official refuted the statement and said that two field offices had not completed their inventories as of the end of fiscal 1981. He stated that one field office had many material discrepancies. In our opinion, an inventory must be done before a reconciliation can be made. Therefore, we seriously question the reliability of the reconciliation made in August.

A GSA headquarters official told us that the finance division bases the Federal Buildings Fund financial statements on figures from the NEARS trial balance and relies on the regional finance centers to do the appropriate reconciliations so that the NEARS trial balance is accurate. Since these reconciliations have not been done, any financial reports based upon that trial balance must be considered inaccurate.

## EQUIPMENT PURCHASES WERE NOT PROPERLY ACCOUNTED FOR

We found improper accounting for equipment purchases to be a problem at four field offices. More than $20,186 worth of operating equipment had been purchased by building managers but not entered in EDICS because of improper coding. At the time of our review, GSA's Small Purchase Training Manual required the regional building management division to approve all purchases of operating equipment with a rated life of 3 years or more and costing over $300. However, because a building manager has authority to purchase goods up to $500 on signature alone, this approval requirement was being circumvented by improper coding of financial input documents. Because of the coding used, neither finance nor building management division officials were aware of these purchases.

At two field offices in the National Capital Region, we found documents for $4,700 worth of operating equipment improperly coded. At one field office, we identified nine pieces of equipment that together cost $3,634. Each piece cost under $500 but over $300 (the capitalization threshold for EDICS at the time of our audit) and was charged to supplies. The equipment was purchased in fiscal 1979, 1980, and 1981. During a very limited test at another field office, we saw two June 1981 invoices for vacuum cleaners costing $320 each. The purchase had been split to avoid the $500 limit on certified invoices. The building manager agreed that this had been done. We also noted a 1980 purchase of a grinder that cost $440. Similar irregularities occurred at three other GSA regions we reviewed.

We believe a material weakness exists in both the management and accounting system controls that allows building managers to purchase operating equipment, charge it to a supply account, and then fail to include the equipment in EDICS. Several adverse effects result when equipment is purchased this way. Supply accounts are overstated and equipment accounts are understated. Data used to make management decisions are unreliable. GSA could be losing equipment through theft or unknowingly buying equipment it doesn't need. For these reasons, PBS and Finance must enforce existing internal fiscal and managerial controls to prevent the improper accounting of equipment purchases. After our review, GSA recognized the necessity of such enforcement.

## EDICS INFORMATION IS NOT RELIABLE

EDICS information is not reliable because (1) descriptions of many pieces of equipment are inaccurate, (2) locations are listed incorrectly, (3) some equipment on hand is not listed, and (4) some items listed cannot be located.

### Inaccurate equipment descriptions

We identified inaccurate equipment descriptions at all eight field offices and believe that at least $18,914 was spent on unnecessary purchases because the inventory control system did not adequately describe or, in some cases, did not even list equipment on hand. For example, at one New York field office, a drill press, a pipe threading machine, and an air compressor were purchased even though similar items were already on hand at the field office and listed in EDICS. Such irregularities occurred at each field office we reviewed and PBS has known about them since a 1977 report on EDICS. 1/

To be useful to managers, EDICS information must be accurate. Our guidance to agencies on the reliability of property accounting data states that "The purpose of financial property accounting is to provide reliable and systematically maintained records of an agency's investment in property * * *." Although GSA's guidelines for controlling capital assets appear to be consistent with our guidance, PBS has followed neither. For example, at another New York field office, 11 of 35 pieces of operating equipment costing a total of more than $4,400 could not be positively identified from the information on the EDICS listing. At a National Capital Region field office, the EDICS listing showed as on hand four "gravely tractors" costing $512 each. We found that two of these tractors were really snowplow blade attachments for the tractors. Thus, the listing was incorrect, and the value of the snowplow blades was overstated. We found similar irregularities at field offices in the Auburn and San Francisco regions.

### Equipment location incorrectly listed on EDICS printouts

In a limited test at five field offices, we found many instances in which operating equipment was located at a place different from that shown on the quarterly EDICS report. This makes it difficult for the accountable officers to determine whether a particular piece of equipment is actually on hand. For example, at one field office three pieces of equipment costing $3,012 altogether were found at locations other than those stated on the EDICS printout.

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1/"Postimplementation Review of Property Inventory Control System (PICS) Equipment Depreciation Inventory Control System (EDICS)," Aug. 2, 1977.

At another field office, the EDICS printout showed two pieces of equipment totaling $1,153 that initially could not be located. We finally found them in craft shops other than the one listed. At the same office, one craft shop had little idea where most of its equipment was because it kept no record of equipment location. The EDICS report for this shop listed 36 items. After several attempts, we found 29 of the items. The other seven items, valued at $10,468, could not be located. Also, although five of these items had been reported as lost or stolen, three subsequent EDICS listings were not revised to reflect this.

Similar irregularities occurred at other field offices included in our review. The EDICS printout does not give specific locations for each item but does list the accountable craft shop where that equipment should be. Precise locations are not shown on any official document.

Equipment on hand but not on EDICS

At four of the eight locations reviewed, at least 548 pieces of operating equipment on hand in the craft shops were not listed on EDICS. The following table shows the results of our review.

| Region | Number of field offices | Number of items on hand but not on EDICS | Acquisition value |
|---|---|---|---|
| New York | 2 | 73 | $ 89,527 |
| | | 29 | (a) |
| National Capital | 1 | 10 | 13,300 |
| | | 67 | (a) |
| Auburn | 1 | 369 | (a) |
| Totals | 4 | 548 | $102,827 |

a/Not available.

In some instances we could not determine the equipment's value because documentation was lacking. One reason for this was that equipment had been purchased by another agency through a reimbursable work authorization. According to a building manager in the National Capital Region, the cost of equipment procured in this manner is included in the cost of the job charged to the agency. Neither GSA nor the agency that paid for the equipment keep inventory records on it, which increases its vulnerability to theft or misuse. In two field offices, items such as a core drilling machine, a keymaking machine, and small hand tools were purchased this way. An office manager told us she believed this practice was improper--an opinion with which we concur.

Other reasons for equipment not being listed on EDICS include: (1) equipment was purchased for government contractor use and given no PBS identification number, (2) equipment was purchased and charged as supplies by building managers, and (3) a GSA official responsible for entering information into EDICS did not always do so.

Because it has operating equipment that is not listed in EDICS, PBS does not know how much equipment is actually on hand. As a result, its equipment is susceptible to loss or theft, the Federal Buildings Fund financial statements are inaccurate, and PBS may be purchasing equipment it does not need.

## DUTIES WERE NOT PROPERLY SEGREGATED

At six field offices, we found that the duties of authorizing, purchasing, receiving, and inventorying operating equipment were not adequately segregated. Good property management requires that nonexpendable items of equipment and supplies be (1) recorded in inventory records and the general ledger system soon after being purchased, (2) marked with identification numbers, and (3) inventoried annually and reconciled with property records and the general ledger. These tasks should be performed by employees who are not associated with the purchasing or disbursing functions, and by several different people, if possible.

At two field offices in the National Capital Region, we found inadequate segregation of property management duties. Building managers or their assistants approved purchases, signed receiving certificates, and were responsible for inventories and signing documents for the disposal of excess equipment. In addition, foremen and their assistants could order and receive equipment and sign receiving certifications. They could also initiate excess equipment proceedings and take the inventories in their shops.

At one field office, equipment costing $8,426 was purchased under circumstances in which there was inadequate segregation of duties. A limited test at the other field office disclosed that one shop foreman ordered two vacuum cleaners costing $332 each, signed the receiving certifications, and inventoried the equipment. The building manager approved the purchase, signed the receiving certification, and was responsible for inventorying and declaring excess the equipment for which he authorized purchase and payment.

The following chart shows the multiple functions that building managers and shop foremen have authority to perform at the field offices.

| Function | Performed by: Building manager or assistant | Foreman |
|---|---|---|
| Prepare requisition for equipment or supplies | | X |
| Authorize purchase | X | |
| Order equipment | X | X |
| Sign purchase order | X | |
| Pick up equipment | | X |
| Sign receipt | X | X |
| Approve payment | X | |
| Conduct inventories | X | X |
| Initiate excess property reports | X | X |
| Approve excess property reports | X | |
| Reconcile equipment with property records | X | X |

PBS procedures require that (1) all operating equipment purchases be approved by an official in the regional building management division and (2) two officials certify that goods have been received. We found that several building managers have overlooked the first requirement (see p. 43); the second is a perfunctory and ineffective procedure because individuals do not have time to physically inspect the goods for which they must acknowledge receipt. It would be possible for one individual to order, pick up, receive, sign for, and conduct inventories of equipment and conceal it from management. Therefore, we believe that PBS is highly vulnerable to fraud, waste, and abuse in the area of property management.

PBS should enforce existing procedures and review the adequacy of its internal controls over operating equipment to ensure adequate segregation of duties. In no case should any one individual be able to perform tasks that would allow him or her to conceal from management any property transactions taking place in the field office.

## GSA IS TAKING ACTION TO STRENGTHEN CONTROLS

Recognizing the need to strengthen internal controls over operating equipment, GSA stated in comments on our draft report that it has taken or is taking the following steps to ensure compliance with existing requirements and/or put into place improved control mechanisms:

--Issued an April 30, 1982, memorandum to further clarify and emphasize the existing requirement for a wall-to-wall inventory.

--Will conduct field office inspections to determine whether the inventories are being done and have the office of finance observe and/or sample the inventories.

--Intends to notify regional finance offices of their responsibility for analyzing and reconciling differences between EDICS and the general ledger.

--Plans to redesign EDICS during fiscal 1983 to provide for (1) direct interface with NEARS and (2) automatic reconciliation to the general ledger accounts.

--Issued field office inspection guidelines in August 1982 to address problems with the segregation of duties and the improper coding of financial input documents.

--Is updating the accounting policy manual to outline segregation of duties and to address the accounting and control of equipment purchased through reimbursable jobs or by government contractors.

--Expects to publish a list of sensitive items in the accounting policy manual later this year. An April 1982 memorandum defined five categories of sensitive items that have a high personal use value and must be accounted for on EDICS.

--Is developing a comprehensive manual for property management within GSA and will identify formal training requirements in this area by January 30, 1983.

--Conducts reviews of current EDICS records to ascertain completeness and appropriateness of descriptions of equipment by the office of finance.

## CONCLUSIONS AND RECOMENDATIONS

The eight PBS locations audited lacked control over operating equipment, leading to $8.6 million of this equipment being improperly accounted for. As a result of the control weaknesses identified at these locations, PBS cannot ensure that its $37.9 million investment in operating equipment nationwide is adequately protected from loss or that its financial accounting records accurately reflect its investment in this equipment. GSA has recently initiated some corrective actions to tighten controls over operating equipment. We believe that implementation of new requirements and strict enforcement of existing controls will protect the equipment and provide assurance that financial records are accurate.

### Recommendations to the Administrator of General Services

We recommend that, with respect to operating equipment managed by PBS, the Administrator of General Services require and/or enforce existing requirements for:

--A wall-to-wall inventory of equipment at all field and regional offices.

--Reconciliation of property records, EDICS, and the general ledger.

--Proper segregation of the duties of inventory, property control, purchasing, and receiving.

--Defining and listing sensitive items that fall under the capitalization threshold to ensure accountability for equipment with a high personal use value.

--Attendance at GSA property management training programs of those responsible for Government property.

--Consolidation and updating of the various manuals by those responsible for property management so that one comprehensive publication is available for use GSA-wide.

--Guaranteeing that information put into the property management system for operating equipment (EDICS) is accurate and properly describes the individual items of equipment.

--Participation by staff of the Director of Finance in inventory taking, on a sample basis, to ensure the integrity of the physical counts.

Recommendation to the Inspector General

Because of the magnitude of the problems we found concerning operating equipment, we recommend that the Inspector General staff review operating equipment to ensure that sound controls over this equipment are implemented.

AGENCY COMMENTS AND OUR EVALUATION

GSA did not dispute our findings and generally agreed with our conclusions and recommendations. In response to two recommendations, GSA pointed out that existing guidance requires personnel to perform inventories and reconcile property records. Our report recognized these requirements but noted they were not being followed. The agency has additional efforts underway or planned to address these and the other five recommendations. (See pp. 47 and 48.)

We believe that the initiatives outlined by GSA to improve controls over operating equipment are responsive to our recommendations. However, as stated in chapter 3, policy and procedural requirements do not ensure implementation. In this chapter, we cite numerous instances of required actions that were not being followed. The key determining factor in measuring the agency's responsiveness to our recommendations will be the extent to which existing, reemphasized, and newly initiated policies and procedures are implemented.

In a separate letter, the GSA Inspector General agreed with our recommendation to include operating equipment in the audit cycle but suggested revised wording since this has been in the audit inventory, which called for a review of controls over operating equipment on a 5-year cycle. Although inventory was included in the audit plan, it was shown as a priority D item--the lowest category of all Inspector General audits. The Inspector General stated that this review has been scheduled for fiscal 1983.

CHECKLIST OF INTERNAL CONTROL WEAKNESSES FOUND DURING VULNERABILITY ASSESSMENT

OF THE GENERAL SERVICES ADMINISTRATION'S REAL PROPERTY OPERATIONS

(LEASING)

| Internal control weaknesses | Total | Auburn Regional Office | San Francisco Regional Office | National Capital Regional Office |
|---|---|---|---|---|
| REQUEST FOR SPACE: | | | | |
| Areas defined so as to restrict competition | 2 | | x | x |
| ACQUISITION OF SPACE: | | | | |
| Negotiations objective not established (note a) | 3 | x | x | x |
| Apparent preferential treatment given to prospective lessor | 2 | | x | x |
| Succeeding lease not finalized promptly (1-year delay) | 1 | | | x |
| Audits of lessor-proposed operating costs not required and audits not requested when information showed audits were justified | 2 | x | | x |

a/Includes three cases from San Francisco, six from the National Capital Region, and one from Auburn. San Francisco regional leasing officials stated that we oversimplified one case because a negotiation objective was not stated and the data clearly establish the leasing officials' intention to negotiate a fair and reasonable lease agreement within the market price range and the appraised value. However, according to a contract clearance memorandum, discussions must be preceded by adequate advance planning. A major part of this planning should be a detailed price analysis to use in determining supportable price. Contract clearance suggested setting a minimum and maximum price to give the Government enough flexibility for successful negotiation. In a second case, these same officials said the price negotiation memorandum did not give a specific objective because appraisal data were not available to the negotiator until late, and operating cost base rates were established after discussions with field officials and the appraiser. We noted that negotiations were conducted until Sept. 19, 1980, in the absence of appraisal data. As a result of the lack of planning, a lease extension was signed that exceeded the fair rental rate.



APPENDIX I

| Internal control weaknesses | Total | Auburn Regional Office | San Francisco Regional Office | National Capital Regional Office |
|---|---|---|---|---|
| ACQUISITION OF SPACE (cont.) | | | | |
| Lease document revisions not approved | 1 | x | | |
| Relative standing disclosed to one offeror during negotiations | 1 | | x | |
| Lease documents prepared after award | 1 | x | | |
| Requirement that best and final offers be in writing was not followed | 1 | x | | |
| Government estimate for initial alterations prepared after receipt of contractor's estimates | 1 | | | x |
| Required legal sufficiency concurrence not obtained | 1 | x | | |
| Lease alterations authorized during the holdover period on an existing lease | 1 | | | x |
| Unauthorized capital improvements made | 1 | x | | |



APPENDIX I

| Internal control weaknesses | Total | Auburn Regional Office | San Francisco Regional Office | National Capital Regional Office |
|---|---|---|---|---|
| CONTRACT CLEARANCE: | | | | |
| Contracting officers did not correct deficiencies noted by contract clearance | 2 | x | | x |
| Lease actions not submitted for preaward review | 1 | x | | |
| Preaward circumvented by: | | | | |
| (1) Submitting incomplete documents | 2 | | x | x |
| (2) Requesting and receiving a waiver, then submitting incomplete data for post-award review | 1 | | | x |
| (3) Splitting one lease into two separate 1-year leases to avoid review and Economy Act limitation | 1 | | | x |
| Waivers requested verbally or in writing within 1 day of offer expiration date | 1 | | | x |
| Totals | 26 | 9 | 5 | 12 |



APPENDIX I

## CHECKLIST OF INTERNAL CONTROL WEAKNESSES FOUND DURING VULNERABILITY ASSESSMENT OF THE GENERAL SERVICES ADMINISTRATION'S REAL PROPERTY OPERATIONS (REIMBURSABLE WORK)

| Internal control weaknesses | Total | Commerce | Golden Gate | Greater Manhattan | Labor | Seattle | West Los Angeles |
|---|---|---|---|---|---|---|---|
| ALLOCATION OF CHARGES: | | | | | | | |
| Labor and materials charges not properly allocated (note a) | 5 | x | x | | x | x | x |
| PROCUREMENT: | | | | | | | |
| Purchases split to avoid limit on certified invoice | 3 | x | x | | x | | |
| Source for materials not varied | 3 | x | | | x | | x |
| Materials not bought through Federal Supply Service | 4 | x | x | | x | | x |
| Duties not properly segregated | 4 | x | x | | x | x | |
| Procurement justification not consistent with work scope | 3 | x | x | | x | | |

a/Control procedure was lacking.

APPENDIX II

| Internal control weaknesses | Total | Commerce | Golden Gate | Greater Manhattan | Labor | Seattle | West Los Angeles |
|---|---|---|---|---|---|---|---|
| PROCUREMENT (cont.): | | | | | | | |
| Unauthorized individuals made purchases | 1 | | | | | | x |
| INSPECTIONS/ CLOSEOUT: | | | | | | | |
| Labor force not monitored; work not inspected or inspections inadequately documented | 3 | x | | | x | | x |
| Jobs not promptly closed out (note a) | 4 | x | | x | x | x | |
| AUTOMATED REPORTING: | | | | | | | |
| Costs not accurately reflected on job order control sheets/ certified invoices | 3 | | x | x | x | | |
| FR 70SA report did not reflect costs shown on job order control sheet | 5 | x | x | x | x | | x |

a/Control procedure was lacking.



APPENDIX II

| Internal control weaknesses | Total | Commerce | Golden Gate | Greater Manhattan | Labor | Seattle | West Los Angeles |
|---|---|---|---|---|---|---|---|
| COST ESTIMATING: | | | | | | | |
| Estimate not properly justified and/or documented (note a) | 5 | x | | x | x | x | x |
| Standard charges not used in estimating work having same scope (note a) | 3 | x | x | | x | | |
| Estimate did not come within ± 10 percent of cost | 5 | x | x | x | | x | x |
| Training not provided for estimators | 4 | x | | x | x | x | |
| Total | 55 | 13 | 9 | 6 | 13 | 6 | 8 |

a/Control procedure was lacking.



APPENDIX II

## CHECKLIST OF INTERNAL CONTROL WEAKNESSES FOUND DURING VULNERABILITY ASSESSMENT OF THE GENERAL SERVICES ADMINISTRATION'S REAL PROPERTY OPERATIONS

(OPERATING EQUIPMENT)

| Internal control weaknesses | Total | Auburn | Commerce | Denver Federal Center | 26 Federal Plaza | Golden Gate | Greater Manhattan | Labor | West Los Angeles |
|---|---|---|---|---|---|---|---|---|---|
| Inventories not taken or not taken properly | 7 | x | | x | x | x | x | x | x |
| Property records not reconciled with EDICS | 4 | | | x | x | | x | x | |
| EDICS not reconciled to the general ledger | 7 | x | | x | x | x | x | x | x |
| Procedures for controlling property not adequate or consistent | 8 | x | x | x | x | x | x | x | x |
| Sufficient guidance not provided for control of sensitive items | 8 | x | x | x | x | x | x | x | x |
| Adequate training not provided to those responsible for property management | 8 | x | x | x | x | x | x | x | x |



APPENDIX III

| Internal control weaknesses | Total | Auburn | Commerce | Denver Federal Center | 26 Federal Plaza | Golden Gate | Greater Manhattan | Labor | West Los Angeles |
|---|---|---|---|---|---|---|---|---|---|
| Equipment purchases improperly charged to supplies | 4 | | x | x | | | x | x | |
| Operating equipment not adequately discribed | 8 | x | x | x | x | x | x | x | x |
| Duties not adequately segregated | 6 | | x | x | | x | x | x | x |
| Totals | 60 | 6 | 6 | 9 | 7 | 7 | 9 | 9 | 7 |



APPENDIX III

## SUMMARY

## INTERNAL CONTROL WEAKNESSES IDENTIFIED

### LEASING

Nineteen specific weaknesses were identified, primarily in the areas of "acquisition of space" and "contract clearance." Fifty-four occurrences were possible since work was done at three locations. Appendix I identifies the number and type of weaknesses we noted at each location. Column totals show the number of weaknesses at a specific location and row totals show the number of locations at which we found a particular weakness. The total number of occurrences was 26 out of a possible 57, or 46 percent. In the National Capital Region, we noted 12 of the 19 weaknesses. Comparable figures for Auburn and San Francisco were 9 and 5, respectively.

### REIMBURSABLE WORK

Fifteen weaknesses were identified, primarily in the areas of procurement and cost estimating. Ninety occurrences were possible since work was done at six locations. Appendix II identifies the number and type of weaknesses we noted at each location. The total number of occurrences was 55 out of a possible 90, or 61 percent. At the Labor field office, in the National Capital Region, we identified 13 of the 15 weaknesses. The Seattle field office in the Auburn Region had only 6 of the 15 weaknesses. Some of the weaknesses we noted at the greatest number of locations include improper allocation of charges for material and labor, and the lack of proper justification and/or documentation of cost estimates.

### OPERATING EQUIPMENT

Nine weaknesses were noted in this area. Seventy-two occurrences were possible since work was done at eight locations. The total number of occurrences was 60 out of a possible 72, or 83 percent. At the Denver, Greater Manhattan, and Labor field offices, we noted weaknesses in all areas. Some weaknesses we found at the greatest number of locations include the absence of adequate procedures for property control and of adequate training in property management.

### SUMMARY

From the results detailed in the above three sections, we determined that for leasing, reimbursable work, and operating equipment management, 43 weaknesses had been identified, with a potential for 219 occurrences. In all, we observed 141 occurrences out of a possible 219, or 64 percent, as shown by apps. I, II, and III.

## LIST OF GAO AND GSA REPORTS

## THAT DISCUSSED PROBLEMS

## IN THE AREAS COVERED BY THIS REPORT

"More Effective Leasing Procedures and Practices Could Help GSA Reduce Delays In Meeting Federal Space Needs," GAO/PLRD-82-46, May 10, 1982.

"Use Of Escalation Clauses For Operating Costs On All GSA Leases," GAO/LCD-78-340, Nov. 13, 1978.

"General Services Administration's Practices In Awarding And Administering Leases Could Be Improved," GAO/LCD-77-354, Jan. 24, 1978.

"General Services Administration's Practices For Altering Leased Buildings Should be Improved," GAO/LCD-78-338, Sept. 14, 1978.

"Acquisition of Public Buildings By Leasing And Purchase Contracting," GAO/LCD-76-304, Apr. 16, 1976.

"Lease Escalation Negotiated For $3.3 Million In Excess Of Independent Cost Projections," GSA Inspector General's Audit Report, Nassif Building, Washington, D.C., 4G-00455-11-11, June 29, 1981.

"GSA's Management of Reimbursable Building Services Needs Improvement," GAO/PLRD-81-46, July 8, 1981.

"The General Services Administration Should Improve the Management of its Alterations and Major Repairs Program," GAO/LCD-79-310, July 17, 1979.

"Report on Audit of Payments and Internal Controls of the FBF/AS," GSA Region 10, 54-8219-110, Dec. 18, 1978.

"Verification and Analysis of Accounts General Fund," GSA Region 9, 21-6014-AX9, Jan. 6, 1977.

"Special Review of Buildings Management Procurements," GSA Region 9, (Letter report), 91-8290-099, July 11, 1978.

"Fraud In Government Programs: How Extensive Is It? How Can It Be Controlled?, Vol I," GAO/AFMD-81-57, May 7, 1981.

"Fraud In Government Programs: How Extensive Is It? How Can It Be Controlled?, Vol II," GAO/AFMD-81-73, Sept. 30, 1981.

"Fraud In Government Programs: How Extensive Is It? How Can It Be Controlled?, Vol III," GAO/AFMD-82-3, Nov. 6, 1981.

Inspection Report Concerning Term Contracts, GSA, PBS-230-80, Aug. 29, 1980.

General
Services
Administration Washington, DC 20405

OCT 29 1982

Honorable Charles A. Bowsher
Comptroller General of the United States
U.S. General Accounting Office
Washington, DC 20548

Dear Mr. Bowsher:

This is in response to the General Accounting Office draft report code 911022/AFMD-82-53, dated September 30, 1982.

On April 5, 1982, GSA provided to Mr. Lawrence Sullivan of GAO detailed written comments on the statement of facts that preceded this report. In that response we highlighted the various management improvement initiatives that had been undertaken by GSA to address the types of problems identified by GAO in its review. Those initiatives included: the establishment of a Leasing Improvement Task Force in September 1981 and the ongoing implementation of its recommendations; revised policies and procedures regarding lease escalation; corrective actions taken and planned in response to an internal Inspector General report on GSA's leasing program; and, scheduled implementation of recommendations contained in a PBS task force report of the reimbursable program dated March 4, 1982. We are pleased that you have incorporated most of our comments into this draft report.

Since our correspondence to you on April 5, 1982, we have taken further initiatives to correct the problems identified in the report. For example, on August 9, 1982, we issued Field Office Inspection Guidelines for use in FY 1983. Implementation of these guidelines will enhance our ability to detect and remedy deficiencies in the operation of our field offices, particularly in the areas of reimbursable work and control of operating equipment. In addition, we will utilize our regional management survey program to ensure that internal control procedures are implemented properly by our regional offices. Other initiatives are identified in the enclosed comments on the report recommendations. We firmly believe that the initiatives taken and planned will provide us with adequate internal controls and the means to oversee the implementation of those controls.

I would like to take this opportunity to thank your staff for arranging meetings between GSA staff and GAO representatives as well as with Wilbur D. Campbell (Acting Director, Accounting and Financial Management Division). These meetings proved very productive and provided us with valuable insight into GAO concerns. Mr. Campbell and his staff were most cooperative in acknowledging our initiatives and addressing our concerns.

Our response to each recommendation of the report is enclosed under Tab A. Our comments on certain findings in the report are enclosed under Tab B. Supporting documentation for various initiatives that we have taken is enclosed under Tab C. The Inspector General's comments (which you received directly from that office) are enclosed under Tab D.

Sincerely,

Ray Kline
Deputy Administrator

Enclosure

GENERAL SERVICES ADMINISTRATION
Comments on Draft General Accounting Office
Report AFMD-82-53

Title of Draft Report: Inadequate Internal Controls Make Selected GSA Real Property Operations Vulnerable to Fraud, Waste, and Abuse

GAO Recommendation: Emphasize to managers at all levels the importance of controlling tasks and functions for which managers are responsible and accountable and provide management overview to ensure adherence to prescribed lease acquisition procedures.

GSA Comment: We are preparing instructions to all Regional Administrators stressing their responsibility and accountability relative to adherence to established rules, regulations, and procedures governing the lease acquisition process. We will provide guidance and increase our management overview function to ensure adherence. We are scheduling at least 6 surveys of regional leasing operations during the next year to monitor program performance.

GAO Recommendation: Require the Office of Acquisition Policy's contract clearance directorate to refer to the Deputy Administrator, GSA, (1) the names of those who do not comply with clearance officials' recommendations, for investigation, and (2) those proposed lease actions on which the contracting office failed to comply with the conditions prior to award.

GSA Comment: (1) We agree with the recommended action where there is evidence that award has been made without required corrective action and resubmittal for review, or, in cases where conditional award has been authorized and the contracting office failed to comply with the conditions prior to award. It is suggested that GAO substitute "mandatory pre-award requirements" for "recommendations." Clearance review reports often contain recommendations which do not affect the award action, such as a file documentation requirement, suggestions related to future contracting activity, or actions to be taken at the discretion of the contracting officer. Where clearance review reports define recommendations not to be conditions of award, failure to comply should not be a cause for investigation.

(2) Pre-award contract clearance reviews result in either approval, conditional approval, or rejection of proposed contract actions. Where proposed contracts are rejected and returned to the contracting offices, it is the practice of the clearance office to advise higher-level officials when the rejection action involves a sensitive case or is likely to arouse controversy.

GAO Recommendation: Enforce the Penalty Guide when contracting officers and realty specialists willfully or negligently disregard lease acquisition procedures and contract clearance requirements.

GSA Comment: Enforcement of the penalty guide is within the operational responsibilities of the Regional Administrators. If evidence exists of willful misconduct, the contracting officer would be subject to appropriate action. In this regard, the Regional Administrators were reminded by memorandum of July 29, 1981 (see Attachment), from the Acting Commissioner, PBS that failure to comply with contract clearance procedures is a serious offense and if done willfully or negligently would be a violation under the Penalty Guide.

Mistakes or errors which may reflect less than sound procurement practices, but which are not proven to be cases of clear negligence, are being handled through other corrective actions such as training and increased levels of review. A memorandum dated June 11, 1982 (see Attachment), from the Acting Assistant Administrator for Acquisition Policy established regional contract clearance for leases exceeding 5,000 square feet. The purpose of the new lower thresholds was to conduct reviews of the majority of our lease contracts to assure that proposed actions conform to all applicable laws and regulations. Additionally, we recently issued to the regions for comment a simplified guide to the lease acquisition process. When this guide is issued in final form, it will be used as the basis for training realty specialists nationwide.

GAO Recommendation: Require: 1) that contracting officers correct problems identified during contract clearance; and 2) that clearance officials follow up to see that the regions take the recommended corrective actions.

GSA Comment: In accordance with GSA Order APD 2800.1A which established the clearance function, contracts exceeding clearance thresholds must be approved prior to award, unless a waiver is granted by the clearance office. This is established agency policy and contracting offices have been reminded of the requirement and the applicability of the Penalty Guide to violations (see Attachment).

Since April 1981, all conditional clearance approvals have required submission of documentation verifying compliance with award conditions. This policy will continue. The Office of Acquisition Policy will make staff visits to regional contracting offices annually. Contracts which have received conditional clearance will be reviewed to insure that award conditions have been satisfied. Since the date of the GAO review, the PBS contract clearance function has been replaced by a regional contract clearance function which is being performed in each region within the regional Offices of Project Control and Oversight. The regional clearance groups will be charged with responsibility for insuring compliance with award conditions specified in clearance actions issued by the regions and the Office of Acquisition Policy.

GAO Recommendation: Require field officials to properly allocate charges for labor and materials to reimbursable jobs so that the data entered into the financial management system are accurate.

GSA Comment: Current procedures call for PBS to record labor hours daily and manually summarize them at monthend. PBS then sends this summary to the Office of Finance where it is entered into the National Electronic Accounting and Reporting (NEAR) Systems.

The Finance Division in Denver is currently monitoring a pilot project which utilizes a newly developed combination job assignment and time sheet. These forms are input daily to a local computer where cumulative monthly totals are maintained. At monthend an automated summary report is generated and used to input these hours actually worked into the NEAR System. These time sheets are signed by the employee and his supervisor. We feel this type of system will add additional internal controls to reimbursable time recording. If successful, this system may be implemented nationwide.

The Office of Finance, in conjunction with PBS, will review procedures currently utilized to record charges to both direct and reimbursable operations from "cupboard stock" inventories. Better methods and procedures will be developed to assure internal controls, division of duties and maintenance of reconcilable inventory levels so as to give reasonable assurance that materials and supplies are properly accounted for and correctly allocated to jobs and projects. Implementation is scheduled during FY 1983.

Implementation of recommendation A1 of the PBS Task Force Study to Improve Management of the Reimbursable Program will eliminate the ability to timecard against completed projects. Implementation is scheduled for November 1983.

GAO Recommendation: Require field offices to keep all source documents related to reimbursable work such as cost estimates, reimbursable work authorizations (forms 2957), job order control sheets, daily timesheets, inspection reports, vendor invoices, contractual documents, and NEARS transmittal forms to ensure an adequate audit trail for completed and terminated jobs.

GSA Comment: Source documents are required to be maintained by NEAR System, HB, PFM P 4261.1, September 28, 1979; Operation and Maintenance of Real Property, PBS P 5800.18A, December 1963 (revision expected by January 1983); Report of PBS Task Force Study to Improve Management of the Reimbursable Program, March 1982; A&U Handbook, PBS P 7000.2A, December 6, 1976, with changes; HB, PBS P 5850.1B, October 8, 1981; PFM P 4240.1, July 2, 1982; PBS 2809.4, June 1981; All Regions Memorandums, Procedures for Estimating Reimbursable Overtime Utility Services, July 20, 1982; Improve Management of the Reimbursable Program, August 5, 1982; and Field Office Inspection Guidelines, August 16, 1982 (to be incorporated into HB, Operation and Maintenance of Real Property, PBS P 5800.18A). Field Office Inspections (conducted a minimum of once every two years) and Regional Surveys (also conducted a minimum of once every two years) evaluate performance related to reimbursable work.

GAO Recommendation: Require shop personnel to promptly forward copies of the job order control sheets for completed jobs to the building manager's office so the jobs can be closed.

GSA Comment: This is required by HB, Buildings Maintenance Management, PBS P 5850.1B, October 8, 1981; HB, Operation and Maintenance of Real Property, PBS P 5800.18A, December 1963; All Regions Memorandums, and; the Field Office Inspection Guidelines, August 16, 1982.

GAO Recommendation: Require the automated reporting system to identify any completed job that has had no actual charges against it for 3 months so that excess funds do not remain available for charging.

GSA Comment: The Commissioner, PBS will issue a memorandum to all Regional Administrators directing a closeout of all RWA's carried over from the Buildings Management Fund. System revision to establish an inactive status for RWA's in the NEAR system which will reject any obligations entered 60 days after notification of completion and to display start date and date of last obligation on the FR70SA report will be completed during FY 1983. The user of the FR70SA report will be instructed to keep in mind that one purpose of the report is to track total costs against each work authorization.

GAO Recommendation: Require field offices to keep an inventory of materials and supplies, such as copper wire, sheetrock, paint, and other items that have personal or commercial use so that building managers and others can readily determine whether such items are being properly used.

GSA Comment: The inventory, which is currently required by HB, Operation and Maintenance of Real Property, PBS P 1800.18A, chap. 6-103, dated May 23, 1977, will receive special emphasis in all future regional and field office inspections, surveys, and evaluations.

GAO Recommendation: Require cost estimates prepared by GSA field offices to be fully justified and backed by supporting documentation.

GSA Comment: This is required by GSA Manual, Small Purchases, PBS TM 2.3A, dated June 1981. Initial training has been provided estimators and follow-up training will be provided as necessary.

GAO Recommendation: Require duties to be segregated so that (a) the person preparing the cost estimate is not the one who is responsible for doing the work and for inspecting the completed job, and (b) the person obtaining bids is not the one placing orders or picking up materials.

GSA Comment: Segregation is required by HB, National Electronic Accounting and Reporting (NEAR) System, PFM P 4261.1, dated September 28, 1979, and the General Services Administration Procurement Regulations (GSPR), chapters 5, 5A and 5b of 41 CFR.

GAO Recommendation: Require customer approval on all work within a specified time after completion and before final payment is made.

GSA Comment: Recently revised procedures change billing to actual cost basis and customer agency certified work is completed prior to final payment (FPMR, Subpart 101-21.6, published in Federal Register, September 20, 1982). These were transmitted to the Regional Administrators on February 10, 1982, and effective January 1, 1982, cover the billing of Non-Recurring Reimbursable Work Authorizations (RWA's) for all agencies.

GAO Recommendation: Require strict adherence to GSA's existing $500 limit on purchasing via certified invoice, so that purchases are not split to circumvent this requirement.

GSA Comment: This is required by HB, National Electronic Accounting and Reporting (NEAR) System, PFM P 4261.1, dated September 28, 1979. Also, the Office of Finance will develop a monthly automated reporting system to list multiple ACT numbers used for a single vendor for purchases under $500 within the preceding 90 days. This report will highlight possible circumvention of existing regulations and reflect any trends for excessive use of "certified invoices." This report will be distributed to the proper levels of PBS management for review.

GAO Recommendations: (1) Require a wall-to-wall inventory of equipment at all field and regional offices. (2) Require the Director of Finance to have his staff participate in inventory taking on a sample basis to ensure the integrity of the physical counts.

GSA Comment: An annual wall-to-wall periodic inventory of operating equipment is required by GSA handbook "Management of GSA Internal Personal Property, OAD P 7800.3," and by handbook, "Operation and Maintenance of Real Property, PBS P 5800.18A."

PBS further clarified and emphasized this requirement in its April 30, 1982, memorandum to all regional offices on "Equipment Accountability." The accomplishment of the annual inventory will be reviewed by PBS in its field office inspections.

Also, the Centralized Accounting System Manual (OFA P 1200.1) Chapter 23, states: (1) that all personal property be inventoried at least once a year; and (2) that a representative of the Director of Regional Data and Financial Management (of which finance was part) observe or spot check the inventory taking.

In line with current policy, the Office of Finance will work with PBS to schedule appropriate inventories. Based on a review of past history, the Office of Finance will observe and/or sample the inventories in compliance with generally accepted practice.

GAO Recommendation: Require reconciliation of property records, EDICS, and the general ledger.

GSA Comment: GSA handbook, "Operation and Maintenance of Real Property, PBS P 5800.18A," requires a quarterly reconciliation of operating equipment on hand and verification in the annual wall-to-wall inventory with the equipment listing reports produced by the EDICS system. This requirement was further clarified and emphasized in the April 30, 1982, memorandum to all regional offices on "Equipment Accountability." The importance of this quarterly EDICS reconciliation is also addressed in our field office inspection guidelines published August 16, 1982.

Instructions requiring these reconciliations are also contained in OFA P 1200.1, Chapter 21, and in the GSA Internal Personal Property Manual (OAD P 7800.3), Chapter 5. Central Office Finance will reemphasize to the Regional Finance offices their responsibility to provide EDICS listings as required. They will also be notified of their responsibility to analyze and reconcile all differences between EDICS and the general ledger. Additionally, Finance will instruct PBS to notify Finance of all items to be entered into EDICS.

The EDICS system will be redesigned during Fiscal Year 1983. The system will include provision for direct interface with NEAR (the official acounting system) and automatic reconciliation to the appropriate general ledger accounts.

GAO Recommendation: Require proper segregation of the duties of inventory, property control, purchasing, and receiving.

GSA Comment: We agree with the recomendation. In those situations where limited staffing prevents the segregating of duties prescribed by procurement regulations, GSA's handbook, "Operation and Maintenance of Real Property, PBS P 5800.18A," requires that purchases of operating equipment shall be made through the Regional Office. Proper coding of financial input documents and segregations of duties are addressed in the field office inspection guidelines issued August 16, 1982. Also, the Accounting Policy Manual, presently being updated, will outline the segregation of duties and functions necessary for good internal control. The Manual will also address the accounting and control of equipment purchased via a reimbursable work authorization or by a government contractor for use on a project.

GAO Recommendation: Require defining and listing sensitive items that fall under the capitalization threshold to ensure accountability for equipment with a high personal use value.

GSA Comment: The Office of Finance sent a letter dated April 26, 1982, to the Heads of Services and Staff Offices requesting items to be included as sensitive items in the Accounting Policy Manual. Finance will include such a list in its manual at publication later this year. Also, PBS issued a memorandum, dated April 30, 1982, which instructed the field offices to inventory all items valued at $300 or more and defined five categories of sensitive items with high personal use which must be accounted for on EDICS.

GAO Recommendation: Require attendance at GSA property management training programs of those responsible for Govenment property.

GSA Comment: On-the-job training is the primary form of training for managers responsible for operating equipment. They are required to implement GSA policy and follow GSA procedure described above. Their performance is reviewed by PBS in its regional inspections of field offices. Formal training requirements shall be identified by January 30, 1983. Furthermore, the Office of Finance intends to review the material covered by courses to determine if adequate coverage is given in relationship to GSA's accounting and reporting requirements.

GAO Recommendation: Require those responsible for property management to consolidate and update the various manuals into one comprehensive publication for GSA-wide use.

GSA Comment: Current guidance is combined in GSA handbook, Management of GSA Internal Personal Property, OAD P 7800.3. PBS restates this policy in GSA handbook, Operation and Maintenance of Real Property, 5800.18A, and requires that property valued at $300 or more be controlled on the automated EDICS System and property valued under $300 be controlled maually by the accountable officer. PBS shall continue guidance of field offices through GSA handbook, PBS P 5800.18A.

A comprehensive manual for property management within GSA is also being developed.

<u>GAO Recommendation</u>: Require that information put into the property management system for operating equipment (EDICS) is accurate and properly describes the individual items of equipment.

<u>GSA Comment</u>: Equipment is listed on EDICS by accountable officer and location. Each line item contains a description of the item and, if appropriate, its serial number. Accuracy of EDICS information is required to be checked as part of the annual wall-to-wall inventory of equipment and the quarterly reconciliation of equipment on hand with the EDICS listing. Special attention will be given these procedures as the result of new field office inspection guidelines issued by PBS August 16, 1982. Also, the Office of Finance will initiate a review of current EDICS records to ascertain the completeness and appropriateness of descriptions on the file.

<u>Note</u>: The response to the two recommendations to the Inspector General, GSA (on pages 36 and 48 of the draft report), is contained in a separate letter from the Inspector General to the Comptroller General (also see enclosure under Tab D of this package).

Comments on pages 26, 28, and 31

Page 26 - The FPMR issued September 20, 1982, has put into effect the delegation of authority that allows agencies to contract for their own alterations up to $10,000, but not up to $25,000 as stated in the GAO report.

Page 28 - The Office of Finance could not respond to the March 1980 request for fund status report modifications because of hardware constraints at the time. New PBS reports are currently under development with a six-month implementation schedule.

Page 31 - We wish to clarify statements by PBS officials to the effect that actual cost data cannot be separately identified in the NEAR System. All costs, direct and reimbursable, are recorded to their respective areas and are properly reported (as entered) to determine profit and loss. Recurring reimbursable services (heat, light, water, etc.) are based on estimations agreed to by the user. Costs are transferred from direct to equal the amount of reimbursements. This offset results in proper profit or loss for direct operations. The GAO has approved these provisions within the system.

General Services Administration
Office of Inspector General
Washington, DC 20405

LRG Sandy

Mr. Donald J. Horan
Director, Procurement, Logistics
and Readiness Division
U. S. General Accounting Office
Washington, DC 20458

Dear Mr. Horan:

Attached are our comments on the draft GAO report entitled "Inadequate Internal Controls Make Selected GSA Real Property Operations Vulnerable to Fraud, Waste, and Abuse." We agree that the prevention of fraud, waste, and abuse through effective systems of internal control should be a top priority. The Office of Inspector General plans to continue pursuit of this objective through its audit,inspection and investigative efforts in the General Services Administration.

We appreciate the opportunity to comment on the draft report.

Sincerely,

Joseph A. Sickon

JOSEPH A. SICKON
Inspector General

Enclosure

ATTACHMENT

Inspector General's
Comments on GAO Draft Audit Report

"Inadequate Internal Controls Make Selected
GSA Real Property Operations Vulnerable to Fraud, Waste, and Abuse"

We have reviewed the GAO draft report "Inadequate Internal Controls Make Selected GSA Real Property Operations Vulnerable to Fraud, Waste, and Abuse (AFMD-82-53)." The report makes some accurate and favorable comments on the efforts of this office. Most of the problems reported by the GAO have been reported in prior reports issued by this office. In general, we support the conclusions and recommendations made in the report. However, we do have comments for GAO's consideration that we believe will strengthen the recommendations and clarify some sections of the report.

The report focuses on three major programs in real property operations; leasing, the nonrecurring reimbursable work program, and controls over PBS operating equipment. Following are our comments on each of the real property programs addressed in the GAO draft report.

Leasing Program

The GAO recognized in its report that GSA has made significant changes in its leasing program which have strengthened internal controls. GAO has also recognized our report entitled "An Approach to Improving GSA's Leasing Program," which we believe identifies the major management problems in the leasing program.

The Office of Inspector General will continue to review the policies and procedures associated with GSA's leasing program. Two major follow-on leasing audits are scheduled for FY 1983 in the lease award and administration area.

We are in general agreement with the GAO's recommendations that a federal regulation regarding delegated leasing authorities is needed and that additional measures can be taken to strengthen and enforce internal controls already in place.

With respect to the need for contracting officers to assure a reasonable operating cost base for lease escalations, this matter was previously reported by us in our report on "Lease Escalation Negotiated for $3.3 million in Excess of Independent Cost Projections." In that report we recommended that:

(a) a certificate of current cost or pricing data be furnished with each lease escalation;

(b) actual historical operating costs be included as part of the proposal; and

(c) actual costs be used in establishing the basis for escalation.

A similar recommendation was made in a recent GAO draft report on the use of escalation clauses for GSA leases.

The Public Buildings Service has advised us that they are in agreement with the intent of these recommendations and have initiated actions to establish appropriate policy and procedural requirements. We have agreed to assist the Public Buildings Service in establishing appropriate procedures.

Nonrecurring Reimbursable Work Program

At the time the GAO review began, this office had planned a Review of Nonrecurring Reimbursable Work Authorizations. That review has been completed and final audit reports have been issued in Regions 2, 4, 6, 7, and 9. A consolidated draft audit report which will include the results of audit in these regions and the National Capital Region will be issued in October 1982. Many of the deficiencies reported in the GAO report have been identified in this review, as explained below.

GAO identified areas where controls over nonrecurring reimbursable work needed strengthening at the time their work began. These weaknesses are:

(1) Materials and labor are improperly allocated.

(2) Federal Procurement Regulations were not followed.

(3) Time and attendance not monitored and jobs not independently inspected.

(4) Reimbursable jobs were not promptly closed out.

(5) Reimbursable work reports showed inaccuracies and discrepancies.

(6) Inaccurate cost estimates and advanced billing have resulted in overcharges to tenant agencies and profit to GSA.

(7) Many projects deviated from GSA's estimate.

Items 4, 5, 6, and 7 above were covered in great detail in the following audits/management reviews which began in January 1981. Internal controls over these areas are in place.

The findings summarized above have been or will be reviewed in various audit and management reviews already performed in Fiscal Year 1982 or planned for Fiscal Year 1983, as described below.

Consolidated Report on Improving the Pricing of Nonrecurring Reimbursable Work Authorizations (4D-10451-XX-11), draft to be issued in October 1982

Deficiencies Associated With the Pricing of Reimbursable Work Authorizations, Region 2 (4D-10834-02-02), dated June 7, 1982

Review of Region 4's Nonrecurring Reimbursable Work Authorization Program (4D-10835-04-04), dated February 18, 1982

Criteria For Evaluating Proposed Prices on Reimbursable Repair and Alteration Projects, Region 9 (4D-10768-09-09), dated March 9, 1982

Review of the Pricing of Reimbursable Work Authorizations, Region 7 (4D-10767-07-07), dated December 30, 1981.

Current Policy and Procedures Do Not Preclude the Use of Reimbursable Work Authorizations to Accomplish Unauthorized Projects (5D-00469-06-06), dated March 8, 1982

Office of Oversight Report on PBS Field Offices, dated February 10, 1982

PBS NEAR Task Force, Office of Program Support - Report on PBS Reimbursable Program, dated July 1981

GAO Report: GSA's Management of Reimbursable Building Services Needs Improvement (PLRD-81-46), dated July 8, 1982

Item 2 was covered extensively in audits of Building Management Field Offices which were performed in each region in FY 1982 and are planned in all regions in FY 1983.

We believe that there is still a need for improving the internal controls over items 1 and 3. These areas will be addressed in our review of the GSA Group Force Repair Program which was started in the last quarter of FY 1982.

Recent changes have been made by the Public Buildings service in the Reimbursable Program. We have scheduled another comprehensive review of the Reimbursable Work Authorizations Program to start in the third quarter of Fiscal Year 1983 to determine how well the newly installed controls are working.

The following comments are offered to clarify the discussion on page 26 of the GAO report concerning our audits and inspections of buildings manager field offices.

GAO's description of the Inspector General audit program for buildings manager field offices indicates a misunderstanding of the audit program. The audit program requires physical inspections of work performed. The Inspector General has a multidisciplined staff of Inspectors, Investigators, and Auditors, who work together on joint teams when conditions require a more comprehensive review of problems during an audit. Also, it should be made clear that the audit work involves more than a review of paper work. All buildings manager field office reviews require on-site inspections and inventories.

The GAO concludes that the GSA Task Force report issued in March 1982 made several recommendations which, if properly implemented, will correct some of the problems identified in its report. GAO goes on to mention that the problems of allocation of materials and labor, inspections, and procurement were not addressed in the GSA report and makes recommendations to correct these problems. We agree that there is a need to improve internal controls over the allocation of materials and labor, the monitoring and control of time and attendance for in-house work, and the inspection of in-house work by Field Office personnel. As previously mentioned the Office of Inspector General has initiated an audit of GSA's in-house repair program which will include these problem areas.

The specific recommendation and our comments pertaining to actions taken or planned in response thereto follow.

Recommendation

GAO recommended that the Inspector General of GSA have a multi-disciplined staff including auditors and technical staff to make comprehensive reviews of field offices' reimbursable work -- both the paper work and the actual work done -- to determine whether records are reliable and the reimbursable program is auditable.

Comments

We believe this recommendation should be corrected. Our audits of buildings managers field offices have been and will continue to require multi-disciplined audits and inspections of field office reimbursable work. Also, the Office of Inspector General has recently completed an audit of reimbursable work authorizations which addresses many of the issues discussed in the GAO report. An additional audit of the reimbursable program has been planned for the 3rd quarter, Fiscal Year 1983. This audit will include a review of the adequacy of the audit trail and the effectiveness of recent changes made in this program by the Public Buildings Service.

We believe these actions meet the intent of the GAO recommendation.

Controls Over Operating Equipment

The Office of Inspector General had scheduled a survey and audit of this program at the same time GAO began their audit. At that time, because of the GAO effort and to avoid duplication of audit work, we canceled our audit in this area.

We have, however, since the GAO started their review, completed a review of controls over operating equipment in the Federal Protective Service. This audit, which was performed in all 11 regional offices, generally disclosed the same conditions as discussed in the GAO report concerning controls over PBS operating equipment. Our review indicated that the Equipment Depreciation Inventory Control System (EDICS) is ineffective, not relied on, and generally not used to control property.

We are in agreement with the GAO that, based on the magnitude of the problems found, the area needs increased management and audit attention.

Recommendation

GAO recommended that the Inspector general include operating equipment in the audit cycle to ensure that sound controls over this equipment are implemented.

Comments

We agree with this recommendation, but it should be changed to state the Inspector General should continue to include this review in our audit cycle. This review has been in our audit inventory which called for a review of controls over operating equipment on a 5-year cycle.

We have continued to include this review in our audit inventory which was recently revised as part of the Inspector General's Information System (IGIS). In addition, a review of controls over PBS operating equipment has been schedled in our annual audit plan for Fiscal Year 1983.

We appreciate the opportunity to comment on this report.

# SCHEDULE OF ACTUAL AND POTENTIAL OVERPAYMENTS, OVERCHARGES, WASTE, AND IMPROPER ACCOUNTING FOR FUNDS

| Area/problem | Identified by | Actual amount | Potential amount |
|---|---|---|---|
| LEASING: | | | |
| Lease escalation excessive because lessor-proposed operating costs not audited. | GSA | $3,300,000 | |
| Operating costs overpaid because audit was not made. | GAO | 255,000 | $ 218,000 |
| Option not considered during negotiations. | GSA | | 2,084,891 |
| Operating cost base inflated. | GAO | | 11,000 |
| Lease alteration payment exceeded Government appraiser's estimate. | GSA | | 416,000 |
| Subtotal | | 3,555,000 | 2,729,891 |
| NONRECURRING REIMBURSABLE WORK: | | | |
| Renovation work overpaid due to overstated quantities, duplicate work orders, and payment for work not done. | GSA | 728,437 | |
| Tenant agencies overcharged for work on nine test cases at one field office. | GAO | 2,543 | |
| Small purchase funds spent by circumventing Federal Procurement Regulations. | GAO and GSA | 30,116<br>873 | |
| Funds at risk due to untimely closeout of completed jobs. | GAO | | 1,238,175 |
| Subtotal | | 761,969 | 1,238,175 |
| OPERATING EQUIPMENT: | | | |
| Discrepancy in account balances between EDICS and NEARS | GAO | | 8,573,637 |
| Subtotal | | | 8,573,637 |
| TOTALS | | $4,316,969 | $12,541,703 |

**United States Senate**

COMMITTEE ON
GOVERNMENTAL AFFAIRS
SENATE PERMANENT SUBCOMMITTEE
ON INVESTIGATIONS
WASHINGTON, D.C. 20510



May 14, 1982

The Honorable Charles Bowsher
Comptroller General
General Accounting Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Mr. Bowsher:

As Chairman of the Senate Permanent Subcommittee on Investigations, I am very concerned, as expressed previously, about fraud, waste, and abuse in Federal government programs. My staff has kept me informed of your office's efforts to combat these problems, including the Fraud Prevention Group's vulnerability assessment of the General Services Administration's real property operations. I understand that the work has been completed and that a report has been prepared on the results of the work in leasing, non-recurring reimbursable work, and the management of operation equipment at selected GSA locations.

I also understand that on two occasions, members of the Fraud Prevention Group have briefed several of my staff, including Cass Weiland, Mike Eberhardt, and Howard Shapiro and that they have expressed continuing interest in getting a copy of this report. I would like to reiterate the Subcommittee's desire for this report, and, if at all possible, would like to have it by July 30, 1982.

If there are any questions concerning this request, please contact Mike Eberhardt, Deputy Chief Counsel at 224-3721.

Sincerely,

Bill Roth

William V. Roth, Jr.
Chairman

MCE:mh

GAO Note: In subsequent discussions with the Committee staff, GAO agreed to supply a copy of the draft report when it went to the agency for comment, with a final report to follow at a later date. The draft report was sent to the Committee on September 30, 1982.

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