

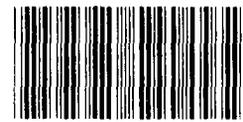
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BY THE U.S. GENERAL ACCOUNTING OFFICE  
**Report To The Secretary Of Commerce**

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**Need For And Plans To Strengthen  
Procurement And Property Management  
Controls At National Oceanic And  
Atmospheric Administration Laboratories**

GAO found that the National Oceanic and Atmospheric Administration has weaknesses in its local laboratory procurement operations. Procurement officials have agreed that corrective measures are needed and promised positive corrective action.



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UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

PROCUREMENT AND SYSTEMS  
ACQUISITION DIVISION

B-199648

The Honorable Philip M. Klutznick  
The Secretary of Commerce

Dear Mr. Secretary:

We reviewed the procedures and controls designed to prevent fraud, abuse, and waste in selected procurement and property management operations at the Department of Commerce's National Oceanic and Atmospheric Administration (NOAA) Procurement Office in Boulder, Colorado, and the National Severe Storms Laboratory (NSSL), Norman, Oklahoma. We found a serious lack of adherence to procedures and controls prescribed by Federal Procurement and Property Management Regulations.

At the Norman Laboratory, examples of deficiencies in procedures existed in

- approving purchase requests (see app. I, p. 2),
- ordering and receiving goods and services (see app. I, p. 2), and
- soliciting competitive prices (see app. I, p. 3).

We believe this lack of adherence to prescribed procedures could leave the small purchase system vulnerable to abuse and contributed to the laboratory's overspending its allocated funds.

At NOAA's Procurement Office in Boulder, examples of deficiencies in procedures existed in

- preparing contract solicitations (see app. I, p. 10),

- performing price or cost analyses (see app. I, p. 12),
- preparing memorandums of contract negotiations (see app. I, p. 14),
- requiring timely audits of contractor costs (see app. I, p. 14),
- controlling contractor-purchased Government property (see app. I, p. 15), and
- using contracts having illegal cost-plus-a-percentage-of-cost type features (see app. I, p. 16).

#### SCOPE OF REVIEW

We visited NOAA's Procurement and Property Management Headquarters, the Wave Propagation Laboratory, and the Norman Laboratory. In addition to talking with agency personnel, we examined selected purchase orders, contracts, and other pertinent procurement and property records and documents.

We tested a number of individual transactions to determine how prescribed procedures were actually implemented. Our fieldwork was performed in the period January to April 1980.

#### NOAA OFFICIALS' COMMENTS

We discussed our findings with responsible NOAA officials at the Norman Laboratory and the Boulder Procurement Office. They generally agreed with our findings and indicated that corrective actions would be taken. Furthermore, they said that they would review other NOAA laboratories for the same type problems and advised us of their plans for further strengthening procurement and property management operations. (See app. I, p. 8.)

The newly appointed Chief, Supply Services, at Boulder also gave us information on his plans to automate the supply service function. He believes that automating purchases would provide a more timely record of obligations, thus enabling all laboratories to keep a better record of fund balances. (See app. I, p. 10.) Because of the cooperative and positive responses of these NOAA officials, we are deferring our planned work at other laboratories pending the completion of the promised corrective actions.

On the issue of performing price or cost analyses, NOAA officials at Boulder said they would begin to document cost and price analyses within the next 6 months. Since this requirement should have been performed all along, we believe a 6-month delay is unreasonable and documentary price or cost analyses should start now.

Concerning our finding related to the cost-plus-a-percentage-of-cost type contractual arrangement, NOAA officials disagreed with our position. (See app. I, pp. 16 to 18.) However, we still believe the facts support our position that the contract method at issue is illegal.

#### RECOMMENDATIONS

We recommend that you support the efforts of NOAA officials to strengthen their controls over local procurement and supply management functions and direct NOAA to furnish us with periodic progress reports on the status of those implementation efforts. We also recommend that you see to it that NOAA does not delay another 6 months before documenting the required price or cost analyses on negotiated contracts. Finally, we recommend that you direct NOAA to stop using illegal cost-plus-a-percentage-of-cost type contractual arrangements and to recover all sums which were improperly paid under such arrangements. Since NOAA officials indicated that the type of contract arrangement was not unusual, the Inspector General should be directed to determine whether the case we discovered is only an isolated instance or whether there is widespread use of this illegal contract type in the Department of Commerce.

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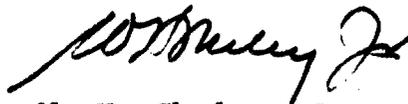
As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the House Committee on Government Operations and the Senate Committee on Governmental Affairs not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

Copies of this report are being sent to the chairmen, House Committee on Government Operations, Senate

B-199648

Committee on Governmental Affairs, and House and Senate  
Committees on Appropriations, and to the Director,  
Office of Management and Budget.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "W. H. Sheley, Jr.", written in dark ink.

W. H. Sheley, Jr.  
Acting Director

NEED FOR AND PLANS TO STRENGTHEN PROCUREMENT  
AND PROPERTY CONTROLS AT NOAA LABORATORIES

BACKGROUND

NOAA was formed in the Department of Commerce in 1970 and brought together several Federal agencies to improve the understanding and use of the physical environment. NOAA's Environmental Research Laboratories (ERLs), with headquarters in Boulder, Colorado, are a group of laboratories performing research, technical development, and service programs. The group of ERLs are located in Boulder as well as eight other locations. These laboratories supplement nearly all aspects of NOAA's program either with in-house expertise or through contracts and grants.

Except for the small purchasing authorities at the eight laboratories which are not located at Boulder, all ERL procurement is centralized in Boulder. The laboratories located out of Boulder have procurement authorities limited to \$2,500 (four laboratories), \$5,000 (three laboratories), and \$10,000 (one laboratory).

The NOAA procurement in Boulder was more than \$28 million for the ERL in 1979. This included over \$21 million of advertised and negotiated contracts of which nearly \$20 million or 92 percent was negotiated noncompetitively. The \$28 million of procurement was nearly one-third of the ERL budget which totaled more than \$88 million in 1979.

In 1978 the Boulder Procurement Office was transferred from the National Bureau of Standards to NOAA, and it is operated under the Research Support Service, Supply Services Division. In 1979 this Procurement Office handled about \$1.5 million in procurement for the National Bureau of Standards and another \$1.4 million in procurement for the National Telecommunications and Information Administration of the Department of Commerce.

Also, the ERL has a central Property Office located in Boulder which is also operated under the Research Support Service, Supply Services Division. This Property Office handles the receiving function for the laboratories in Boulder, and it is responsible for the recording and annual inventory of all ERL property.

NSSL, located at Norman, Oklahoma, studies severe-storm circulation and dynamics and develops techniques to detect and predict tornadoes, thunderstorms, and squall lines.

BETTER CONTROLS CAN REDUCE  
THE POTENTIAL FOR ABUSE AT NSSL

NOAA prescribes procedures which can adequately control purchases. By not insisting that personnel adhere to them, NSSL management could unknowingly invite possible abuse. Deficiencies in controls could leave NSSL's small purchases system vulnerable to abuse by an unscrupulous or unethical person.

Approving purchase requests

The Deputy Director of Research Support Services and the Deputy Director or Director of ERL can initiate and approve purchase and contract requisitions of \$5,000 or more. The NSSL Director has the delegated authority to do likewise for amounts up to \$5,000. The NSSL Director also can officially redelegate that authority by providing the Deputy Director of Research Support Services with a list of individuals authorized to act as approving officers. At the time of our review, the NSSL Director had not provided this list. Although the NSSL purchasing officer assistant said project managers were to approve purchase requests, we found purchases were made without their approval. Purchases costing less than \$150 are to be made from imprest funds.

In fiscal year 1979 NSSL made 46 over-the-counter purchases ranging in value from \$4 to \$910 and totaling about \$6,800. Half of these purchases totaling about \$3,700 had no approved purchase request. Of the remaining 23 purchases, the purchase order/invoices for 21 purchases totaling about \$3,500 were dated after the purchase was made.

We noted that 32 of the 46 purchases cost less than \$150 and should have been made from imprest funds, thus saving the cost of processing a purchase order and check.

Ordering goods and services

Although required to do so, the Regional Procurement Office in Boulder did not maintain a list of employees authorized to make purchases under blanket purchase arrangements (BPAs), and the purchasing officer kept no log of these purchases. The NSSL Director had not limited and NSSL had not limited or controlled the number of employees making such repetitive purchases as building supplies, electronic supplies and equipment, equipment repairs, and so forth.

Under one BPA for building supplies, 60 purchases totaling about \$1,800 were made in fiscal year 1979 by 14 different persons, none of whom had been officially authorized

to make those purchases. About nine purchases were made by employees of the National Center for Atmospheric Research, Boulder, Colorado, who were on temporary duty at NSSL. Also, project managers approved 24 purchases--5 of which were approved after the fact.

Another BPA for miscellaneous equipment repairs was open (no named vendor). In fiscal year 1979, 50 purchases totaling about \$10,100 were made by 25 different persons from 36 different vendors. Project managers approved only three purchases. In our opinion, using a BPA with an unnamed vendor is not in accordance with the BPA's intended use.

#### Acknowledging receipt of goods or services

The person picking up the BPA purchases is to acknowledge receiving the items by signing the vendor's delivery ticket. The delivery ticket should list the name of the person making the purchase, the date, and the purchase number. A copy of the signed delivery ticket is returned to the vendor confirming the order.

For BPA purchases, some vendors' delivery tickets were signed by the person ordering and picking up the items. Other delivery tickets were rubberstamped and signed at a later date, some as much as several months later, by administrative personnel. In some cases, no delivery ticket could be found and the vendor's invoice was rubberstamped and signed by administrative personnel. None of the vendors' delivery tickets listed the purchase number, date, or name of person making the purchase.

On over-the-counter purchases, many either were made without a properly executed purchase order or the order was written after the purchase was made. In other instances, administrative personnel acknowledged receipt of the items on a copy of the order.

#### SOLICITATION OF COMPETITION NOT DOCUMENTED AT NSSL

NOAA small purchase instructions specify that competition is required when purchases exceed \$500 (\$250 for automatic data processing (ADP) equipment and services). Competition may be obtained by oral solicitations for purchases between \$500 and \$5,000. Documentation or justification for sole-source awards is required for purchases over \$500. If the cost of the item or service is \$500 to \$2,500, a memorandum is required stating why noncompetitive procurement is necessary. If the cost is more than \$2,500, a completed Form CD-302, Justification for Noncompetitive Procurement,

is required. This form requires approval by the division chief or higher official.

We found no documentation of competition solicited or justifications for sole source for the following noncompetitive procurements:

- Four over-the-counter purchases ranging in price from \$508 to \$910.
- Eight BPA purchases of equipment repairs (four for ADP services) ranging from \$268 to \$1,505.
- Janitorial services costing \$2,778.
- NSSL lease which included janitorial services not to exceed \$14,000 for 12 months.
- Contract for repair and other physical plant services not to exceed \$16,000.

In addition, several over-the-counter purchase orders were dated after the fact, and some over-the-counter and BPA purchase requests lacked appropriate approval.

According to the NSSL purchasing officer, who is also the administrative officer, project personnel making small over-the-counter purchases usually checked prices before buying the items.

In addition, he did not seek competition because physical plant and janitorial services had been arranged with the lessor before the officer came to NSSL 2 years ago.

#### PROPERTY MANAGEMENT AND CONTROL LACKING AT NSSL

In 1977 the NSSL Director assigned receiving and property accountability duties to one clerk but did not require others to adhere to procedures that would enable this clerk to perform the assigned duties. This resulted in numerous property items' being improperly received, not being recorded in property records, and not having their location noted. Also, we were unable to readily locate some items of property.

The property receiving clerk was required to receive and inspect all property, apply appropriate property numbers, and deliver items to the requester. He was also supposed to take an annual inventory of property and reconcile with the official computer list of property furnished by the central property control point located at Rockville,

Maryland. A previously furnished copy of the purchase order was to be used to acknowledge receipt of the property. This receiving report is to be sent to the Boulder property office, which, in turn, sends it to Rockville for input to the computer property records.

Instead of following these procedures, any employee who happened to be around when the items were delivered acknowledged receipt. The receiving clerk was unaware the items were delivered; therefore, no receiving report was prepared, no property tags affixed, no local locator cards prepared, and no items entered into Rockville property records. Quite simply, no record of the property existed.

For example, in 1978 and 1979, 54 cassette tape recorders were purchased at a cost of about \$40,000. Boulder procurement personnel acknowledged receipt of 40 of the 54 recorders ordered on 3 purchase orders, and an NSSL administrative employee received 10 recorders ordered on a 4th purchase order. When receiving reports were not sent by NSSL, the Boulder Finance Office sent form letters to NSSL requesting them. For two of these same four orders, an engineer employee and the administrative officer later signed these form letters to acknowledge receipt of the recorders. Three different administrative persons, including a part-time typist, acknowledged receipt of the four remaining recorders.

Although we were able to locate all 54 recorders, only 10 had been tagged, numbered, and recorded in Rockville property records. During our visit, the property clerk was in the process of completing the property records for the remaining 44 recorders.

The property clerk said that the location of the equipment was not shown on 90 percent of the cards and that the items were very difficult to find.

An inventory was not taken in 1979. In October 1978 the Boulder Property Office personnel and the property clerk performed a physical inventory and walk-through inspection at NSSL. In an October 20, 1978, report, the NOAA Property Management Office, Boulder, made the following comments.

"The physical inventory was highly time consuming, hectic, and chaotic for several reasons:

- "1. Property clerk's predecessor as well as property clerk's newness and lack of experience as a property manager."

- "2. Lack of cooperation and interference by several lab personnel.
- "3. Much of the equipment had property tags assigned by the Boulder Property Office, but had not been physically applied to the property itself.
- "4. Numerous pieces of accountable equipment was inaccessible to be inventoried. This was due to the fact that the property was at some of the lab employees' residences.
- "5. Often times, expected property received is picked up by employees without communication with the property manager."

The NSSL administrative officer, in response to this inventory, said that steps would be taken to comply with all property regulations.

In another test, we used the latest computer list of NSSL property dated August 1979 to select a number of property items for verification. The list contained 686 items valued at a little over \$3 million, and we selected 80 items. We located only 9 items using locator cards, and the property clerk correctly guessed the location of 9 other items--only 18 items out of 80 were located, leaving 62 which were not located.

From the equipment repaired under the BPA (see p. 4), we selected 23 items consisting of cameras, radios, and small electronic equipment for verification. We were told that only 10 items were located at the laboratory. We examined only eight items because one radio was missing and one camera had been reported stolen. We did observe cameras and radios lying out on tables or in unlocked file cabinets. We were informed that there was unlimited access to the building, weekends included, since most employees had keys.

From fiscal year 1979 purchases, we selected 21 for verification. Although we located all items, only eight had locator cards and only four items had been tagged with property numbers. None of the items was on the August 1979 master property listing, even though all were purchased before that date.

We learned during discussions with project personnel who had custody of the property that they were unaware of

their custodial responsibility for controlling and supervising daily use, care, and safekeeping of assigned property as set out in NOAA directives. We found the NSSL Director had not formally designated property custodians.

While we were at NSSL, a memo was received from the Boulder Property Office which listed 42 property items valued at \$192,329 that were not recorded in NOAA property records. The receiving reports had not been received at Rockville, even though several items had been purchased as long ago as 3 to 5 years. At the time of our visit, the property clerk had located only 29 of the 42 items.

We also made a limited test of 50 purchases, mostly supplies, shipped on Government bills of lading. NSSL records did not indicate who had acknowledged receipt for 20 shipments--17 were acknowledged by persons other than the receiving clerk, and 13 were acknowledged by the receiving clerk.

In discussing these findings with agency officials, the NSSL Director agreed to conduct a wall-to-wall inventory of personal property, establish locator cards, tag all property, and adhere to proper receiving procedures.

UNCONTROLLED PURCHASES CONTRIBUTED  
TO OVERSPENDING OF ALLOCATED FUNDS AT NSSL

In fiscal year 1979 NSSL overspent its allocated funds by about \$250,000. The administrator said that funds in the previous several years were also overspent. In our opinion, uncontrolled purchases cited in this report have contributed to the overspending.

The NSSL Director has not required project managers to first clear the purchases with the administrative officer, who should certify that funds are available for the purchases. The assistant to the purchasing officer said that project managers were required to "confer with the Administrative Officer regarding amount and availability of funding and project to be charged." It appears that this instruction has been misused, since we found numerous unapproved and retroactively approved small purchases. Also, requests for purchases exceeding the NSSL authority and approved and processed in the Procurement Office in Boulder contained no statement or certification that funds were available.

Boulder Headquarters issues a project management information report (PMIR) within 1 week after the close of each 2-week pay period showing obligations and fund balances by

project. This report is to be used by project managers to control their funds. Three project managers at NSSL said they did not receive the PMIRs. According to the administrative officer, the PMIR is the only available record of fund balances.

The information in the PMIR will be at least 2 or 3 weeks old. One PMIR report which shows the fund balances is summary information; that is, each obligation is not shown and obligations are frequently combined in the total. Therefore, the totals need to be analyzed using another PMIR, which is a listing of individual obligations by object class, or local records, since unrecorded obligations may be in processing at any given time.

For example, the total overobligation of all projects, excluding cost reimbursement projects, was shown in the PMIR to be about \$200,000 at September 30, 1979. When asked why the report did not show \$250,000 overspent, the administrative officer replied that the difference must be obligations not yet recorded in the computer system.

More current records of obligations and fund balances are needed for proper control, and the administrative officer should certify requests before the purchase orders are issued.

In discussing our findings with NOAA officials, they disagreed that uncontrolled purchases were the major cause of overspending of allocated funds. They said NSSL officials overspent their funds because they had previously underestimated funds needed on a major research project in 1978-79. However, the NSSL Director said that he sometimes approved purchase requests and purchases were made by Boulder without knowing for sure that funds were available. He said the NSSL administrative officer is now keeping local records of fund balances and all requests are certified that funds are available before purchase orders are issued. We believe this action should correct this problem.

#### AGENCY PLANS TO IMPROVE PROCUREMENT AND PROPERTY MANAGEMENT AT NSSL AND OTHER LABORATORIES

According to a written statement from the Director, NOAA/ERL Headquarters, Boulder, Colorado, NSSL will correct the weaknesses we observed in its purchasing and property management. Also, other ERL offices will be asked to determine if the same weaknesses exist and report to the Director on efforts to correct any problems noted.

In an April 10, 1980, memorandum, the ERL Director instructed the NSSL Director to improve the control of procurement and property management and provided lists of applicable directives, circulars, and regulatory criteria regarding property accountability and small purchases. The NSSL Director was also asked to submit a milestone plan for improving the control and documentation of local small purchases, receiving, and property management. To help achieve this improvement, the ERL Director required that the following tasks be done.

- Take a wall-to-wall inventory of all capital and sensitive property as required by NOAA regulations.
- Designate accountable property officers in writing for each project with a copy of the letter forwarded to the Director, Research Support Services.
- Establish a receiving process consistent with NOAA regulations to effect an auditable trail.
- Develop procedures and controls that will insure that all capital property costing over \$300 is reported promptly for recording in property records and that all sensitive property costing less than \$300 is properly identified with the "NOAA Property" decal.
- Establish auditable files of documents supporting competitive solicitation or sole-source justification for all purchase orders including change orders, blanket purchase arrangements, and basic ordering documents used for all commercial items purchased locally.

In an April 24, 1980, memorandum to all laboratory Directors, the ERL Director noted that our survey raised concerns and provided the Directors with preliminary information from the survey regarding property accountability and small purchase procedures. The Director asked each laboratory Director to review procedures pertaining to property accountability. They were also provided two lists of applicable directives, circulars, and regulations which apply to procurement and property management. The Director requested corrective action, where needed, in the following management areas:

1. Control and use of small purchase and documentation procedures thereof.
2. Receiving, shipping, and documentation of goods/items purchased or requisitioned.

### 3. Control and accountability of personal property.

In an April 10, 1980, memorandum to us, the Chief, Supply Services, NOAA/ERL said that plans were underway to effect a complete centralized and accessible data management system through automation of procurement, supply, and property management in Boulder. These plans, targeted for completion by January 1981, include developing a master file containing a record of each purchase request, purchase order or contract, and receiving report issued in the Boulder Procurement Office but excludes the small purchases by laboratories located outside Boulder. Small purchases by outlying laboratories will not be automated until February 1982. These records will be matched for each purchase and the obligation recorded before payment can be made. Terminals in the laboratories will enable them to query data recorded on the Boulder file.

The file will also include a record of equipment held for rental to laboratories, excess property, and a retail stores operation. Each purchase request will be checked against these files to determine if items are already on hand before issuing a purchase order.

All property items will be recorded on the file in Boulder, which will enable property records to be sent electronically to Rockville, Maryland, instead of the slower process of mailing the receiving report. In addition, a complete economic and systems analysis, targeted for completion by February 1982, will be made to determine the feasibility of installing in the laboratories micro/mini computer satellite terminals with telecommunications interface.

In our opinion, the interim instruction, if complied with, will improve the laboratories' performance and provide timely update for Rockville records. The long-range plans, if fully implemented, should strengthen control and management of procurement and property.

Since NOAA officials do plan improvements in laboratory procedures and controls, we are deferring audits at other laboratories pending completion of the promised corrective actions. Therefore, we recommend that the Secretary of Commerce support NOAA's plans, monitor its progress, and direct it to furnish us with periodic progress reports.

#### WRITTEN SOLICITATIONS NOT PREPARED FOR NONCOMPETITIVE CONTRACTS AT BOULDER

Before negotiations, an important control is to prepare a written solicitation to inform all parties of the

Government's procurement requirements. Solicitations can be requests for quotations or requests for proposals. These solicitations not only give the contractor notice of the specifications for preparing proposals, but also give the contracting offices a sound basis for selecting qualified sources, estimating the contract price levels, and, during negotiations, assuring that sound prices are obtained. Federal Procurement Regulations require written solicitations for negotiated procurements exceeding \$5,000.

NOAA's Boulder Procurement Office does not prepare solicitations on contracts to be negotiated noncompetitively. In fact, the contractor proposal, the requisition, and a justification for noncompetitive procurement were generally the only documents available to the contracting officer during the negotiations. Because about 90 percent of the procurements result from noncompetitive negotiations, the lack of written solicitations may be causing confusion among procurement and program officials.

Out of the 10 negotiated contracts we reviewed, NOAA awarded 9 without solicitation or competition. The contract files generally had no information showing the Government specifications, requirements, or selection of qualified sources. It was not evident how proper negotiation could be performed, unless the specifications and requirements are known to the negotiators. This information was apparently not used during the negotiations.

The confusion seems to be whether NOAA's proposals result from program requirements which should have been solicited or whether they are unsolicited proposals. Unsolicited proposals, submitted to the Government without a solicitation, are intended to obtain new ideas, not merely advance proposals for specific Government requirements. If unsolicited proposals are received, the agencies must properly acknowledge and evaluate them in terms of their merits and contributions to Government programs.

Although the Department of Commerce has specific regulations covering the receipt and evaluation of unsolicited proposals, NOAA did not follow these requirements. We did not find the prescribed forms for receipt or evaluation of unsolicited proposals in any of the contract files. We did notice that, on the justification for noncompetitive procurement forms, program officials indicated that three contracts resulted from unsolicited proposals.

According to the contracting officer, most of NOAA's contracts result from program requirements and, therefore, are not true unsolicited proposals. The Deputy Director

for Research Support Services, who is the control point for approving requisitions and for evaluating unsolicited proposals, indicated that many of the contracts may have resulted from unsolicited proposals. He said evaluations have not been prepared because the regulations are new and have not yet been implemented. He also said that new instructions will be issued to the laboratory Directors to clarify the preparation of written solicitations for noncompetitive contracts and ERL's Procurement Office will be brought into the contracting processes during early technical preliminary discussions between program officials and the contractor.

COST OR PRICE ANALYSIS NOT PERFORMED  
ON NEGOTIATED CONTRACT PROPOSALS AT BOULDER

During negotiations, an important control is for the negotiators to have some form of cost or price analysis of the contractor's proposal amounts. The method and degree of this analysis depends on the facts surrounding the particular procurement and pricing situation. A cost analysis is required by the Federal Procurement Regulations when contractors are required to submit cost or pricing data for noncompetitive procurements expected to exceed \$100,000. Cost analysis evaluates specific cost elements by (1) verifying cost data, (2) evaluating projections of cost data, (3) analyzing design features, manufacturing processes, organization and labor, and materials and estimating assumptions, and (4) evaluating all other cost factors that make up the total procurement cost.

Price analysis is used to supplement cost analysis and is required for all other negotiated contracting. It is the process of evaluating a prospective price without analyzing the separate cost elements and proposed profit that constitutes the proposed price. Common price analysis techniques include comparison with prior or published prices or with independently developed Government cost estimates.

The negotiated contracts we reviewed did not have evidence of price or cost analysis in the contract files. Of the 10 negotiated contracts reviewed, 6 were under \$100,000 and 4 were over \$100,000; only 1 of the latter contracts had a certificate of current cost and pricing data. The three contracts without certificates were:

--A cost-reimbursable contract at a proposed cost of \$173,000 awarded to Princeton University for architect and engineering services on a building.

--A cost-reimbursable contract awarded to the University of Hawaii for research at a 2-year proposed cost of \$98,425 for the first year and \$96,690 for the second year.

--A time and material contract awarded to URS Company for oil spill consultant services at a proposed cost of \$47,000, which was increased to \$125,000 by modifications.

The one with a certificate was also a cost-reimbursable contract awarded to Oregon State University for a ship rental at a proposed price of \$147,000. The proposal, based on the contractor's proposed daily rate of \$4,200, was the only cost or pricing data submitted. Since this was the only data available, it appears that a cost or price analysis should have been made to assist the negotiators in determining the reasonableness of the contract price.

In 1979 we reported on inadequate cost or price analysis in several Federal agencies including the Department of Commerce. The Department responded, in part, by stating that the following actions would be undertaken.

--A cost and price analysis refresher course will be conducted for our centralized procurement operation.

--All field procuring activities will be directed to obtain and use the Armed Services Pricing Manual No. 1 for detailed guidance in pricing noncompetitive contracts over \$100,000.

--All field procuring activities will be directed to develop comprehensive training plans for all procurement personnel.

--A directive will be issued clarifying responsibility for obtaining and using certified cost and pricing data, technical analyses, and audit support.

--We will be working with the FAR [Federal Acquisition Regulation] staff to develop detailed policy guidance on price negotiation concepts and procedures to be included in the Federal Acquisition Regulations.

--We are exploring the possibility of increasing our personnel so that an internal management review staff can be established to ensure compliance by procuring activities with Federal and Departmental procurement policies and procedures. \* \* \*

According to a NOAA procurement official, they had obtained and were using the Armed Services Pricing Manual No. 1. They had not, however, received any directives on refresher courses or training from the Department of Commerce. Also, all necessary training has not been provided to procurement personnel because of heavy workloads and a lack of training funds.

NOAA officials said they will begin, within 6 months, to document cost and price analysis in the future contract files. We believe this is an unreasonable time lapse and procurement officials should begin at once to document contract files as required.

RECORDS OF NEGOTIATION NOT PREPARED  
FOR NONCOMPETITIVE CONTRACTS AT BOULDER

After negotiations, an important control is to document all pertinent information which occurred during negotiations. This documentation, called a memorandum or record of negotiation, helps resolve future questions or disputes involving the principal elements, factors, and other factual events of the negotiation. Such a memorandum or record of negotiation is required at the conclusion of all negotiations of initial, revised, or final prices.

Contracting officials said they normally prepare a record of negotiation only for contracts with competition. The only negotiated contract in our review with competition solicited did not have a record of negotiation. Because there was no record of negotiation, we could find no basis to determine if NOAA's negotiated contracts were awarded at reasonable prices.

All 10 negotiated contracts reviewed appeared to have contract prices negotiated by program officials instead of contracting officials. For example, requisitions identifying the contractors, before being sent to contracting officials, stated that there were obligations of funds for the contractors' proposals. The proposed amounts, requisition estimates, and contract amounts were usually the same.

In discussing this finding with NOAA officials, they said that records of negotiation will be prepared for future noncompetitive contracts.

AUDITS OF COST CONTRACTS HAVE  
NOT BEEN TIMELY REQUESTED AT BOULDER

As a general rule, audits should be performed on contract proposals before negotiations and on cost-type

contracts after the award at least once a year. Contracting officers should request audits on price proposals or provide information to the contract auditors for the necessary audits.

In 1974 the Department of Commerce's Office of Audits established a procedure to audit all cost-reimbursable contracts exceeding \$25,000, all grants exceeding \$100,000, and other contracts and grants only if requested to by NOAA's contracting officer. The contracting officer was responsible only for forwarding copies of the contracts and grants to the Office of Audits personnel so they could initiate the audit.

Even though NOAA has these procedures, audits of proposals or contracts have not been promptly made for many of the Procurement Office's contracts. We noted that cost-reimbursement contracts, up to 8 years old, had neither audit requests nor audit reports and were being held in an open status. For example, a \$100,300 cost-reimbursement contract awarded in 1972 to the University of New Hampshire had a final payment in 1975 totaling \$125,800. The file contained only a 1979 letter informing the contractor it was closed but no audit request or audit report.

In 1979 NOAA's Procurement Office developed a new procedure to close contracts, which includes requesting final audits for cost-reimbursable contracts. However, audit requests for contracts completed in the past 8 years have been given low priority. Out of several hundred contracts in the open files, only one audit request was made in March 1980.

In discussing this finding with NOAA officials, they said they are now working more closely with the Inspector General and expect to reduce the backlog of unaudited contracts in addition to requesting and receiving more timely audits in the future.

PROPERTY ACQUIRED BY CONTRACT  
NOT INCLUDED ON PROPERTY RECORDS AT BOULDER

NOAA could improve its control over Government property by accounting for property acquired by contractors on NOAA's property records. The Property Office, which is part of the Supply Services Division, should establish a property file to ensure control, accountability, and proper disposition of all Government property acquired by contractors.

When property is acquired by contractors under cost-reimbursement contracts, controls are necessary to meet contractual and Department of Commerce procedures. The

contractual procedures are that each contract shall include adequate safeguards and assurances relating to use, maintenance, consumption, unauthorized use, and redelivery of Government property. The departmental procedures require the contracting officer to provide a list of items acquired by contract to the property officer so that records can be kept.

Property management specialists said that the contracting officer has not provided lists of property acquired by contract to the property officer until after the contract is completed. If the property is transferred to a subsequent contract, it is not reported to the Property Office until after the later contract is completed.

For example, the University of Hawaii acquired \$33,163 in equipment under a cost-reimbursement research contract completed in September 1978. This equipment was being used under another contract which continued the research until September 1980. The property lists had not been transferred to the new contract, nor had the equipment been recorded on the NOAA property records.

In its review of NOAA procurement, the Department of Commerce's Office of the Inspector General also identified property purchased through contracts which was not recorded on the NOAA property records. The Office of the Inspector General was planning to recommend corrective actions on the NOAA property controls in its report.

In discussing our findings with NOAA officials, they agreed to require the contracting officer to promptly report to the property officer all property, as acquired, and to promptly record all property.

#### IMPROPER CONTRACTING FOR TRAVEL AND OTHER DIRECT COSTS AT BOULDER

Although the cost-plus-a-percentage-of-cost system of contracting is prohibited by Title 41, Section 254(b), of the U.S. Code, the NOAA Procurement Office included cost-plus-10-percent provisions in a time and materials contract for consultant services. The consultant contract which was for oil spill study services originally included travel expenses at cost-plus-10-percent, but was later modified to include other direct costs at the cost-plus-10-percent provisions. The prohibition, which is also in the Federal Procurement Regulations, does not allow the cost-plus-a-percentage-of-cost system to be used because it is an incentive to increase costs. Moreover, the cost-plus-10-percent provision, awarded for travel expenses and other direct costs incurred by the

consultants, was in addition to daily labor rates for their services, which already included such expenses. Therefore, in addition to being illegal, the provisions allowed duplicate payments because the contract provides that the daily rates include wages, overhead, general and administrative expenses, and profit.

An example of an invoice billed by the contractor under the consultant contract follows.

	Number of <u>days</u>	Daily <u>rate</u>	<u>Total</u>	<u>Total</u>
<b>Labor:</b>				
Environmental consultant	16.500	\$326.15		\$5,381.48
Chemical oceanographer	.125	178.29		22.29
Oceanographer	2.000	127.62		255.24
Clerical workers	5.666	146.70		<u>831.20</u>
Total				6,490.21
<b>Expenses:</b>				
Air fares			\$ 473.37	
Lodging			471.03	
Meals			134.61	
Taxi and bus fares			56.00	
Parking			3.35	
Film			18.70	
Toll telephone calls			104.85	
Xerox prints			1.00	
Maps			82.50	
Research material			22.49	
Drafting supplies			17.50	
Mileage			<u>21.87</u>	
Total			1,407.27	
Plus 10%			<u>140.73</u>	
Total (Expenses plus 10%)				<u>1,548.00</u>
<b>Total</b>				<u><u>\$8,038.21</u></u>

The invoices show that, in addition to the daily rates, the contractor is collecting a fee based on costs. As of May 1980, 10 invoices were in the certifying officer's files totaling \$98,599.06, which included \$2,140.46 due to the 10-percent-of-cost provision in the contract.

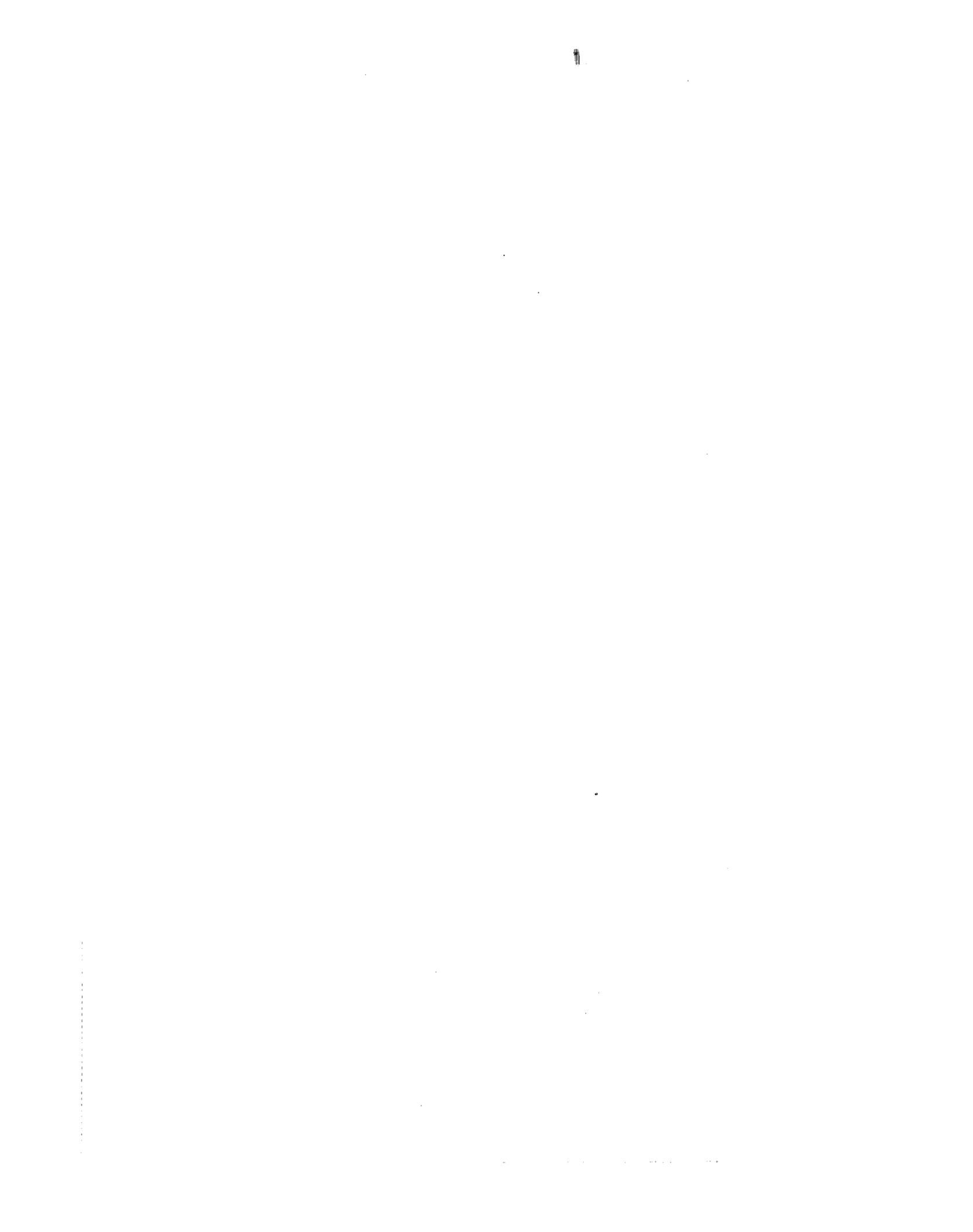
Since this 10-percent amount does not represent a reasonable value for services performed, because it was already included in the daily rate, we believe it should be recovered from the contractor. In addition, the consulting services should be reprocured under a contract which does not include a cost-plus-percentage-of-cost provision.

We also recommend that the Department of Commerce Inspector General's staff determine if the cost-plus-a-percentage-of-cost provisions have been used in other Department and NOAA contracts. If such practices are prevalent, the same action should be taken for each contract.

A contracting official disagrees that the type of contracting awarded for travel expenses and other direct costs in the consultant contract is cost-plus-a-percentage-of-cost. In his opinion, these provisions are handling fees allowed under time and materials contracting in the Federal Procurement Regulations. He also believes that the contractor gave verbal assurances that the 10-percent charge would not be duplicative, but the contract file was never documented to show this.

Material handling costs are allowable in time and materials contracting, but should be directly related to material costs and not percentage additions to cover travel and other direct costs. Material at cost, material handling costs, and specific fixed labor rates (which include direct and indirect labor, overhead, and profit) are the only types of charges used for time and materials contracting. The material handling costs are allowable only to the extent they are clearly excluded from any factor of the charge computed against direct labor.

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