



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

111593
12880

ENERGY AND MINERALS
DIVISION
B-196905

FEBRUARY 20, 1980

The Honorable Charles W. Duncan, Jr.
The Secretary of Energy

Dear Mr. Secretary:

Subject: [Potential for Savings and Improvements Needed
in DOE Contracting for Moving and Storage
Services] (PSAD-80-26)

We reviewed DOE's use of contracts for office moving and storage services in the Washington, D.C., area as part of a Government-wide review of contracting for these services to determine if pertinent regulations and procedures were being followed, reasonable prices were being paid, and adequate internal controls existed. Because of the large amounts DOE spent for these services and the serious weaknesses disclosed during our review, we are reporting to you separately.

We visited DOE headquarters and other locations in the Washington, D.C., area and the General Services Administration's (GSA's) National Capitol Region (formerly Region 3), examined pertinent documents, and talked to agency personnel. We also interviewed officials of several of the contractors providing these services for DOE.

The contracts reviewed were awarded on behalf of the DOE Office of Administrative Services by GSA and the DOE procurement office. The following table gives information on the contracts.



111593

(950549)

008703

<u>Contracting agency</u>	<u>Contractor</u>	<u>Contract placement</u>	<u>Services covered</u>	<u>How price is computed</u>
GSA	Edwards Trucking Company, Inc.	Advertised	Moving and related	Fixed labor hour rates (est. cost \$600,000)
GSA	Office Movers, Inc.	Advertised	Storage and transportation	Fixed storage and transportation rates (est. cost \$65,000)
DOE	Commercial Movers, Inc.	Negotiated (sole source)	Warehouse rental	Fixed price \$8,155 per mo.

Details of our findings are discussed in the enclosure.

In summary, we found that while the moving contract (Edwards Trucking Company, Inc.) was to be used for moves costing \$5,000 or less, DOE used it for moves costing more than \$28,000. In so doing, DOE may have paid twice the price GSA normally obtained when it awarded advertised, fixed-price contracts for large moves. Also, DOE improperly used moving contractor employees to work in DOE self-service supply stores and as office personnel and most likely thereby circumvented personnel ceilings. Finally, we believe that DOE had inadequate control over its contract actions and thus had little or no assurance that the moving services paid for were needed, effectively used, or obtained.

not from house

Further, one contractor, Kane Warehouse Company, Inc., had been used to store DOE office furniture since 1976 without a written contract. Procurement of this service without a written contract violated sound procurement practices and may adversely affect DOE's claim against the contractor for the value of furniture lost in a fire. DOE also agreed to periodic price increases; however, there was no evidence that DOE determined their reasonableness.

DOE may have paid excessive prices on two contracts awarded for storage and transportation services. On one contract with Office Movers, Inc., DOE chose not to use the contractor to transport furniture from the contractor's warehouse to DOE locations as the contract called for, but instead used an alternative contractor whose less favorable pricing arrangement lacked incentives to be efficient or control costs. On the other contract (Commercial Movers, Inc.), DOE used an unauthorized oral

agreement to initiate the services, awarded a noncompetitive contract 5 months after the storage services began, and entered into a rental agreement which only the GSA Public Buildings Service is permitted to do.

Also, DOE's inventory control over its large furniture inventory was lacking. DOE relied on the storage contractors to maintain inventory records.

We believe that corrective actions are needed to eliminate the serious weaknesses in controls, to prevent further payment of premium prices, and to restore integrity to the procurement of these services. Further, the DOE actions pertaining to the use of contracted moving and storage services did not adequately protect the Government's interests. While we acknowledge the turmoil created by consolidating several separate agencies into DOE, we do not believe this to be the basis for the problems we identified. Rather, it was a combination of poor management, poor planning, and a failure by DOE officials to consider costs or established procurement regulations and procedures. Because of the significance of these matters, we briefed DOE and GSA Inspector General representatives on our work so that they might immediately consider its impact on their responsibilities as members of the task force reviewing agency property management procedures.

RECOMMENDATIONS

We recommend that you require the appropriate DOE officials to:

- Establish controls to insure compliance with Federal regulations or established procurement practices and procedures.
- Eliminate costly misuse or abuse of the GSA term moving contract and assure that any future moving contracts be used as intended for moving and transportation services of a small scale, not to circumvent personnel ceilings.
- Require all moves of large numbers of DOE personnel to be contracted for on an advertised, fixed-price basis.
- Make special efforts to group any small moves into large moves to take advantage of the price savings offered by the advertised, fixed-price contracts.

- Establish adequate internal controls over the present and any future moving service contract by requiring, as a minimum,
 - (1) documented justification for services required, such as daily workload requirements with estimates of the number of people needed to satisfy the requirement;
 - (2) independent, DOE-controlled, sign-in and sign-out sheets for contractor employees; and
 - (3) separation of duties to ensure that different DOE officials are responsible for ordering, monitoring, and certifying services.
- Require discounts to be taken on the current and any future moving contracts offering discounts.
- Establish and maintain continuous inventory control and accountability for all warehoused office furniture.
- Reassess DOE's storage space needs, considering such factors as the realistic furniture inventory level needed and the costs of carrying such inventory.
- Actively pursue the reimbursement claim for the value of furniture lost in the Kane Warehouse Company fire.

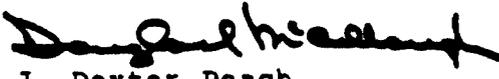
- - - - -

As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement of 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. We are sending copies of this report to the four committees mentioned above; the Director, Office of Management and Budget; and the Administrator of General Services.

B-196905

We would appreciate being advised of the actions taken or planned.

Sincerely yours,

for 
J. Dexter Peach
Director

Enclosure

BACKGROUND ON DOE'S USE OF
MOVING SERVICE CONTRACT

Current Federal property management regulations provide that the General Services Administration (GSA) will award term moving contracts for use by Government agencies for moves estimated to cost \$5,000 or less. The term moving contract permits agencies with less than definitive moving requirements to obtain services on an as needed basis. These contracts are to be used for relatively small moves only. The term moving contract is a type of time and materials contract in which costs are determined by applying labor rates bid to the number of labor hours furnished. After GSA awards these contracts, the agency is responsible for placing orders, verifying services received, and making payments to the contractor. If requested, GSA may also enter into a specific contract to meet an individual agency's requirements. Such contracts, once established, must be used by the requesting agency.

At DOE's request, GSA competitively awarded a term moving contract on December 28, 1978, to Edwards Trucking Company, Inc., to meet the agency's normal daily moving service requirements in the Washington, D.C., area. This contract was an indefinite quantity-type contract for a period of 1 year, and the actual labor hours used were to be paid at the rates specified in the contract. At the time of the award, the estimated costs to be incurred over the life of the contract were \$600,000. The contract was intended to cover small cost moves only, and the total value of any single order placed under this contract was not to exceed \$5,000. For each move estimated to exceed \$5,000, DOE would be required either to competitively award a contract to meet its specific need or to request GSA to award such a contract on its behalf.

DOE'S MISUSE OF MOVING SERVICE
CONTRACT AND INADEQUATE CONTRACT
MANAGEMENT

Through the first 7-1/2 months of the moving service contract, DOE spent more than \$1 million and is expected to spend a total of \$1.9 million through the end of the contract. As a result of using the contract for purposes other than it was intended, DOE paid excessive prices. Also, DOE improperly used contractor employees in various capacities other than for moving services and had inadequate control over contract actions.

DOE paid excessive costs by using
the contract for large moves

DOE used the term moving contract for large moves in excess of \$5,000 and thus may have paid excessive prices. One problem was that there was no definition of what constituted a single order. Consequently, DOE used the term moving contract to accomplish moves for large numbers of people under separate orders and paid premium overtime rates. According to DOE officials, most of these moves were accomplished after normal working hours and on weekends. Thus, they were subject to the overtime rates bid on the contract. Through the first 7 months of the contract, 2,459 persons were moved, and DOE paid almost \$300,000 at the premium overtime rates.

DOE may have paid more than twice as much as it would have if it had used advertised, fixed-price contracts for its moves. According to our estimates, DOE paid between \$75 and \$100 per person for some of its moves. The following table shows some DOE moves of more than 150 people and the payments made at overtime premium rates to the contractor.

<u>1979 dates of moves</u>	<u>No. of people moved</u>	<u>Overtime premium rate payments made</u>	<u>Average cost per person moved</u>
Jan. 12, 13, 14	220	\$16,871.25	\$ 76.69
Jan. 26, 27, 28	281	28,210.50	100.39
Feb. 23, 24, 25	190	14,985.00	78.87

In comparison, GSA contracts on an advertised fixed-price basis for large agency moves average between \$40 and \$50 per person moved.

According to DOE officials, their situation necessitated last minute scheduling of moves which did not provide sufficient time to award individual contracts for large moves. The variables concerning space availability, telephone installation, and construction completion schedules were all cited as reasons for the flexibility afforded by the term contract. However, DOE actually had a master plan for moving its employees from 21 locations in the Washington, D.C., area into 6 locations, and weekly meetings were held to discuss completed as well as upcoming moves. We believe, therefore, that DOE does have a planning mechanism available to it and, with some modification, could take advantage of significant dollar savings from advertised, fixed-price contracts.

Improper use of contractor personnel

Many of the people the contractor furnished to DOE were being used for purposes other than moving and transportation services covered by the contract. For example, of the 80 contractor people used daily under the contract, about 25 were being used in 6 DOE self-service supply stores. The work performed consisted of stocking and cleaning shelves, cleaning floors, and delivering paper supplies. Two DOE stores were totally staffed by contractor employees. The authorized staffing for the responsible DOE supply office was 28 persons, and 27 positions were filled at the time of our review. According to a contractor timesheet, contractor employees were being used as office personnel. Use of contractor personnel in these capacities was not in accordance with the contract and most likely thereby circumvented personnel ceilings.

Inadequate control over contract actions

DOE had little or no assurance that the quantities of services paid for were needed, effectively used, or obtained. DOE did not prepare estimates of services needed to support work orders, knowingly ordered personnel in excess of immediate needs, and had inadequate controls to assure the accuracy of the contractor's billings.

The Supply and Property Management Branch in the Office of Administrative Services was responsible for placing orders, monitoring contract expenditures, and administering the contract. As a type of time and materials contract, the moving service contract did not encourage effective cost control and, therefore, required almost constant Government surveillance to give reasonable assurance that inefficient or wasteful methods were not used. However, the Supply and Property Management Branch did not provide adequate controls over the quantities of moving services needed or the validation of services received.

As mentioned previously, DOE was using about 80 people a day at the time of our review. According to DOE officials, the number of moving contractor people ordered was justified based on past experience. However, no documentation was available to support the number of people required. DOE compiled no daily workload indicating the extent of services to be performed. Although work orders were prepared by contractor personnel after DOE requested the services, they were only used to show work completed and were not used to support the number of contractor people required on any given day.

DOE officials also told us that the contractor's employees were stationed at various DOE headquarters locations and acted in a "react mode" in which immediate services could be rendered upon request. For example, at one location six laborers were used to perform only one minor work order. According to contractor personnel, however, orders for additional services could be received at any time. In our opinion, such urgency as to require the purchasing of standby services was highly questionable, especially since the contract required the contractor to handle agency requests for services within 24 hours.

Although the cost incurred under this type of contract is based on the hours of services provided, DOE did not establish adequate procedures or controls for monitoring or verifying the hours worked and billed by the contractor. DOE officials relied on contractor-maintained timesheets as support for services furnished. One DOE official certified all daily contractor-furnished timesheets and invoices for hours worked at six DOE locations. This official, however, was stationed at one location and maintained no independent daily record of laborers' hours with sign-in sheets or other documents. Consequently, when invoices were received, only contractor-supplied documentation was available to support the hours worked and charges submitted. Further, the same DOE person responsible for ordering the services also certified that services were received and charges on the invoices were true and correct. In our opinion, these procedures did not provide adequate internal control.

About 5 months into the contract, DOE attempted to establish tighter control by requiring DOE officials onsite to maintain sign-in sheets. However, there was little evidence that sign-in sheets were maintained and used. Files were incomplete and documentation was lacking. Also, in a comparison of the DOE-maintained sign-in sheets with the contractor's sign-in sheets submitted with its invoices for the period July 23 to 27, 1979, the costs of the contractor-claimed hours exceeded the DOE supporting data by more than \$5,000. Therefore, we question the use of this data for verification purposes. DOE discontinued the use of these sign-in sheets after a few months.

In August, another attempt was made to implement controls with a new DOE order form--labor services request/verification form. At the close of our review in November, this form had not been used because it was considered to be too complicated by some DOE and contractor officials.

Finally, DOE had not taken the 5-percent prompt (20 days) payment discount provided by the contract. The finance office personnel claimed no knowledge of the discount or the potential savings to DOE. With expenditures on the contract estimated at about \$1.9 million, the discount could have totaled as much as \$95,000.

BACKGROUND ON DOE'S USE OF STORAGE SERVICES

Federal regulations designate the GSA Public Buildings Service as the agent for leasing all space for the Federal Government, with certain exceptions not pertinent here. Included in this responsibility is leasing storage space for use by civil agencies. On January 30, 1978, DOE requested the GSA Public Buildings Service to obtain 40,000 square feet of storage space for DOE's use. In March 1978, GSA offered DOE about 15,000 square feet of Government-owned storage space on the condition that DOE pay for certain needed improvements costing almost \$100,000. DOE did not accept these conditions or the space.

Prior to its request to GSA, DOE used a contractor without the benefit of a written contract to store office furniture. DOE has continuously used this contractor up to the close of our review. Additionally, in fiscal year 1979, DOE used two other contractors for storing furniture. In this fiscal year, DOE provided funds totaling more than \$200,000 for storage services provided by the three contractors. We found several problems related to DOE's use of these storage contractors.

DOE procured storage services without written contract

DOE has procured storage services from Kane Warehouse Company, Inc., without a written contract since 1976, a practice that violates sound procurement principles. Further, it could adversely affect DOE's claim against this contractor for the value of the DOE furniture lost in a 1979 fire at the contractor's warehouse. DOE also paid charges established by the contractor without determining the reasonableness of those charges.

DOE, GSA, and contractor officials acknowledged the absence of any written contract. The officials indicated that the continued use of this contractor grew out of a February 26, 1976, GSA contract awarded on behalf of the Energy Research and Development Administration. The services to be furnished under this contract, however, were limited to moving

approximately 1,611 pieces of furniture to various floor locations at a fixed price of \$9,288. The contract did not provide for storage services, nor were there any amendments or modifications to this contract to expand the scope to include storage. DOE has continued to use this firm through November 1979 for storage of office furniture.

On March 25, 1979, DOE estimated it lost over \$180,000 in new office furniture due to a fire at this contractor's warehouse. Although DOE filed a claim, at the close of our review no offer of settlement had been made or other action taken. We believe that DOE should continue to pursue the claim.

While DOE has continued to use this contractor for storage, we found no documentation to indicate that DOE ever questioned the reasonableness of prices charged. Invoices indicated that the contractor charged for storage on a per-piece, per-day basis and also charged for handling. Prices increased from the initial 1976 price of 3 cents per piece per day for storage to 6 cents per piece per day in 1979. We found no documentation which explained any agreed upon terms and conditions or justified subsequent price changes. The contractor estimated that the storage services it furnished to DOE from 1976 to 1979 may have have cost as much as \$200,000.

We found that the contractor's bills were paid through GSA. DOE transferred funds to GSA, which, in turn, prepared purchase orders after it received contractor invoices from DOE. After initially questioning the propriety of these payments and being assured by DOE that the problem would be remedied, GSA made further payments without question and without DOE's remedying the problem.

Problems with storage contracts awarded

DOE may have paid excessive prices on two storage contracts by using a less favorable pricing arrangement for the transportation of furniture from storage to office space on one contract and by violating procurement regulations and good procurement practices in awarding and administering the other.

GSA and DOE awarded separate contracts to provide for additional storage of DOE office furniture. DOE did not take advantage of the transportation contract provision in the GSA contract. DOE also violated sound procurement practices and

regulations and incurred comparatively excessive storage costs on the DOE-awarded contract.

Less favorable pricing arrangement used

On September 14, 1978, GSA awarded a 1-year advertised contract to Office Movers, Inc., for services related to the storage and transportation of about 800,000 pounds of DOE furniture at and from the contractor's warehouse to DOE locations in the Washington, D.C., area. Charges under this contract were to be computed by applying the competitively bid storage and transportation rates, \$1.13 and \$2.26 per hundred weight, respectively, to the weight of the furniture. Transportation, as defined by the contract, included loading the vehicle, transporting the furniture, unloading at the DOE location, placing the furniture in the designated areas, and removing any debris.

Instead of obtaining transportation services under this contract, DOE used the already existing GSA term moving contractor, Edwards Trucking Company, Inc., to transport furniture from the warehouse locations. According to both DOE and contractor officials, they used this firm to deliver and place the new furniture because of delays upon delivery due to problems in clearing space for the new furniture. They also used this firm to remove any old or excess furniture at the locations involved. In so doing, however, DOE paid for services using hourly rates of \$23 an hour for a helper, truck, and driver rather than the \$2.26 per hundred weight. This less favorable payment arrangement significantly reduces the contractor's incentive to be efficient or to control costs and requires close and constant Government control, something which, as discussed previously, was not present on the term moving contract. We believe that better planning and coordination of moves could have prevented the delays upon delivery and allowed DOE to take advantage of the more favorable per-hundred-weight rate.

Procurement regulations and practices violated

On January 15, 1979, DOE began using a third contractor's warehouse facilities, Commercial Movers, Inc., apparently because of an overflow of furniture in Office Movers, Inc., storage facilities. Some problems and questionable actions of this arrangement include:

- An oral agreement by an unauthorized DOE person initiated the use of the contractor's facilities.

- A written contract was not executed until June 26, 1979, almost 5 months after the oral agreement was initiated. DOE cited a lack of adequate funding as the primary reason for the delay in contract formalization.
- The contract was awarded on a noncompetitive basis even though the GSA contract for similar services was awarded competitively. DOE justified the noncompetitive award on the basis of the proximity of the contractor's facility to the other storage contractor's location, the urgency of the requirement, and the lack of definitive specifications.
- Federal property management regulations were violated because the DOE contract rented the contractor's storage facility. Under these regulations, GSA's Public Buildings Service is responsible for leasing needed storage space from private firms. Although GSA can delegate this authority to the agencies, DOE neither requested nor obtained such authority in this case.
- DOE paid rates for storage space at almost double the rates normally obtained by the GSA Public Buildings Service for similar space. The annual rate for the DOE-procured warehouse was \$4.20 per square foot compared to a GSA estimate of \$2.25 and \$2.75 per square foot for a warehouse of comparable size, age, and location based on recently awarded contracts.

Control over large inventory of furniture questionable

DOE did not maintain a complete and independent inventory of furniture placed in the commercial warehouse facilities. Rather, it depended on records maintained by the contractors. This lack of control provides opportunities for abuse and makes recovery for any furniture losses difficult, if not impossible.

At the time of our review, DOE officials estimated the value of DOE's office furniture stored in commercial warehouse space at somewhere between \$2.5 million and \$4 million. However, based on the information available and GSA catalog costs, we estimated the inventory to be only about \$1 million.

This figure included an estimated 7,000 items of new and refurbished office furniture warehoused in the 3 contractors' locations. Some old or surplus furniture stored at one contractor location was not included in our estimate.

According to DOE officials, the contractors were relied on for maintaining inventory records. The only inventories in evidence at two of the contractors' facilities were contractor-maintained monthly inventories which were provided to DOE as a basis for claimed monthly storage charges. The third contractor only kept a partial inventory of the furniture. In September 1979, after our review at DOE had begun, DOE placed two Government employees at the third contractor's warehouse to inventory the office furniture and oversee warehouse operations. There was no evidence that prior to this DOE ever took physical inventories at two of the three contractors' warehouses.

In addition, Office Movers, Inc., and Commercial Movers, Inc., were subsidiaries of E. I. Kane, Inc. An apparent conflict-of-interest situation existed because much of the new furniture delivered to the two contractors' warehouses was transported by the parent contractor from GSA's furniture depot facilities under a GSA Region 3 transportation contract. Thus, in effect, the same firm was responsible for both delivery and acceptance of furniture for the Government. Such a situation violates good procurement practices and requires close surveillance which was not evident at the start of our review. The lack of adequate agency controls provides opportunities for abuse and poses problems in determining the amount of any furniture shortages or losses that could occur.