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Audit of a Hotline Complaint: PBS Greater Southwest Region's Operations and Maintenance Contracts

Report Number A190054/P/4/R22001
December 16, 2021

Executive Summary

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Why We Performed This Audit

We performed this audit after receiving a hotline complaint claiming that inconsistent contract administration practices for operations and maintenance (O&M) contracts in the GSA Public Buildings Service (PBS) Greater Southwest Region (Region 7) caused significant monetary losses to small businesses due to broad contract interpretations and varying practices by site. Our objectives were to determine whether PBS Region 7: (1) conducted price reasonableness, realism, and responsibility determinations for the award of the 2017 O&M contracts and the 2018 replacement O&M contracts in accordance with federal regulations and PBS national and regional policies; and (2) administered the O&M contracts in accordance with federal regulations, PBS national and regional policies, and contract terms and conditions.

What We Found

In response to a GSA nationwide performance goal to reduce building operating costs by \$30 million, PBS Region 7 arbitrarily established a goal in 2015 to reduce the cost of its O&M contracts between 25 and 35 percent.¹ To meet this goal, PBS Region 7 awarded three O&M service contracts in 2017 at prices that were unsustainably low. Eventually, the O&M contractor defaulted on each contract. As a result, PBS Region 7 noncompetitively awarded 1-year replacement contracts in 2018 with premium pricing that erased all cost savings.

A primary issue with the 2017 O&M contracts and the 2018 replacement O&M contracts was that PBS awarded these contracts with pricing based on flawed independent government estimates (IGEs) and faulty price reasonableness determinations. For the 2017 O&M contracts, the flawed IGEs and faulty price reasonableness determinations were used to support the reduced pricing for the O&M services. For the 2018 replacement O&M contracts, the flawed IGEs and faulty price reasonableness determinations were used to support premium pricing for the sole-source contracts.

PBS Region 7 also failed to properly administer the O&M contracts. We found that PBS Region 7 inconsistently applied the shared liability clause. Additionally, PBS Region 7 paid the O&M contractor for unallowable costs for additional services, failed to enforce staffing requirements, and did not verify that the O&M contractor performed required services.

¹ The U.S. General Services Administration Annual Performance Plan and Report Fiscal Year 2017.

What We Recommend

Based on our findings, we recommend that the PBS Commissioner review regional implementation of GSA's nationwide performance goals to reduce building operating costs to ensure that they do not result in arbitrary and unsustainable cost-cutting measures. We also recommend that the Greater Southwest PBS Regional Commissioner ensures that PBS Region 7's price reasonableness determinations are based on price analysis techniques recommended by federal regulations and that IGEs are prepared using detailed analysis of the required work. Additionally, we recommend that the Greater Southwest PBS Regional Commissioner strengthen contract administration practices to consistently apply the shared liability clause, prevent payment for unallowable costs, enforce staffing requirements, and provide appropriate oversight of contractor performance.

PBS agreed with our recommendations. PBS's written comments are included in their entirety in **Appendix C**.

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Introduction

We performed an audit of the GSA Public Buildings Service (PBS) Greater Southwest Region's (Region 7's) operations and maintenance (O&M) contracts.

Purpose

We performed this audit after receiving a hotline complaint claiming that inconsistent contract administration practices for O&M contracts in PBS Region 7 caused significant monetary losses to small businesses due to broad contract interpretations and varying practices by site.

Objectives

Our objectives were to determine whether PBS Region 7: (1) conducted price reasonableness, realism, and responsibility determinations for the award of the 2017 O&M contracts and the 2018 replacement O&M contracts in accordance with federal regulations and PBS national and regional policies; and (2) administered the O&M contracts in accordance with federal regulations, PBS national and regional policies, and contract terms and conditions.

See **Appendix A** – Scope and Methodology for additional details.

Background

PBS is the landlord for the civilian federal government. It owns or leases more than 8,800 buildings with 370 million square feet of workspace for 1.1 million federal employees. To maintain its inventory, PBS awards O&M contracts to contractors that perform the day-to-day activities necessary for the buildings and their systems to perform consistently, safely, and for their intended purposes. Systems may include electrical, heating, ventilation, air conditioning, elevators, escalators, fire safety, plumbing, and roofs.

PBS's Office of Facilities Management issues policy and guidance to regional offices in support of PBS's national O&M program. This program is implemented by multiple divisions in PBS Region 7. The PBS Region 7 Facilities Management Division oversees regional programs related to the management and operation of space under the jurisdiction, custody, or control of PBS. This includes its Building Operations Programs, which oversee O&M contracts within the region. The PBS Region 7 Facilities Management Division takes direction from PBS's Central Office program offices, and then provides guidance to service centers. The PBS Region 7 Service Centers Division is dedicated to the operations, maintenance, and technical support of the region's facilities.² The PBS Region 7 Acquisition Management Division provides acquisition policy guidance, oversight, and support to PBS organizations for service contracts such as O&M.

² Service centers are customer-facing property management offices comprised primarily of building managers and support staff.

In 2014, GSA issued a nationwide performance goal to reduce building operating costs, including costs for O&M services, by \$30 million. In 2015, PBS Region 7 developed a plan to achieve the nationwide cost savings goal by, among other things, modifying the scope of work for O&M contracts to reduce preventive maintenance tasks and daily building inspections. Through these reductions, PBS Region 7 planned to reduce its O&M costs by 25 to 35 percent.

PBS Region 7 told us there were reduced scopes of work in solicitations for O&M services in Brownsville and Los Indios, Texas (Brownsville); Fort Worth, Texas (Fort Worth); and Little Rock and Batesville, Arkansas (Little Rock). In 2017, PBS awarded O&M contracts for the three locations to SSG WW JV, LLC, a small business joint venture between Sarai Services Group, Inc. and WW Contractors, Inc. The O&M contracts for Brownsville and Fort Worth were awarded with pricing at or near PBS Region 7's cost reduction goal. The O&M contract for Little Rock was awarded with pricing nearly 12 percent higher than PBS Region 7's cost reduction goal.

In March 2018, Sarai Services Group, Inc. bought out the WW Contractors, Inc. share of the joint venture. Soon after, PBS started receiving complaints of nonpayment from subcontractors in all three locations. By October 2018, both Sarai Services Group, Inc. and WW Contractors, Inc. filed for bankruptcy and Sarai Services Group, Inc. informed PBS that it could no longer support the three contracts. PBS immediately awarded 1-year replacement O&M contracts without competition to three different businesses. The replacement contracts were awarded at significantly increased costs for each location.

In 2019, at the end of the 1-year replacement contracts, PBS awarded new O&M contracts at reduced prices. Details on the 2017 O&M contracts, the contracts preceding the 2017 O&M contracts, the 2018 replacement O&M contracts, and the 2019 O&M contracts are shown in **Appendix B**.

Hotline Complaint and Prior Audit Memorandum

In October 2018, our office received a hotline complaint claiming that inconsistent contract administration for O&M contracts in PBS Region 7 was negatively impacting small businesses. The complainant alleged significant monetary losses due to overly broad contract interpretations and varying contracting officer's representatives' (CORs') practices by location. The complaint further cited monetary losses specifically attributable to PBS awards of additional services to existing O&M contracts.

In February 2019, we initiated this audit of the 2017 O&M contracts and the 2018 replacement O&M contracts. During the audit, we found that a PBS Region 7 employee participated in the award of task orders to their former employer's active GSA contract without taking the appropriate steps to avoid an appearance of loss of impartiality in their official duties. Accordingly, we issued an interim audit memorandum, *A GSA Employee Has an Impartiality*

Impairment Regarding an Operations and Maintenance Contract for the Greater Southwest Region, on September 11, 2019.³

In response to our interim audit memorandum, PBS notified us that it removed the employee from assignments involving the former employer and reassigned work accordingly, reviewed the task orders with the employee's former employer to determine if any other issues or improprieties exist, and provided written guidance to all regional employees on preventing the loss of impartiality in the performance of official duties.

³ Interim Memorandum Number A190054-2.

Results

In response to a GSA nationwide performance goal to reduce building operating costs by \$30 million, PBS Region 7 arbitrarily established a goal in 2015 to reduce the cost of its O&M contracts between 25 and 35 percent. To meet this goal, PBS Region 7 awarded three O&M service contracts in 2017 at prices that were unsustainably low. Eventually, the O&M contractor defaulted on each contract. As a result, PBS Region 7 noncompetitively awarded 1-year replacement contracts in 2018 with premium pricing that erased all cost savings.

A primary issue with the 2017 O&M contracts and the 2018 replacement O&M contracts was that PBS awarded these contracts with pricing based on flawed independent government estimates (IGEs) and faulty price reasonableness determinations. For the 2017 O&M contracts, the flawed IGEs and faulty price reasonableness determinations were used to support the reduced pricing for the O&M services. For the 2018 replacement O&M contracts, the flawed IGEs and faulty price reasonableness determinations were used to support premium pricing for the sole-source contracts.

PBS Region 7 also failed to properly administer the O&M contracts. We found that PBS Region 7 inconsistently applied the shared liability clause. Additionally, PBS Region 7 paid the O&M contractor for unallowable costs for additional services, failed to enforce staffing requirements, and did not verify that the O&M contractor performed required services.

Finding 1 – PBS Region 7’s attempt to arbitrarily reduce O&M contract pricing led to lost savings and higher costs.

In 2014, GSA issued a nationwide performance goal to reduce building operating costs by \$30 million. In response, PBS Region 7 established its own goal to reduce O&M costs, which are a key component of overall building operating costs, by 25 to 35 percent. As part of its plan to meet this goal, PBS Region 7 reduced the scope of work for future O&M contracts by transferring some maintenance tasks, including preventative maintenance and daily building inspections, to PBS staff. PBS Region 7 told us they used the reduced scope of work when it awarded the 2017 O&M contracts for Brownsville, Fort Worth, and Little Rock.

In 2017, PBS Region 7 awarded these O&M contracts at pricing that was more than \$770,000 below 2016 levels. This represented a 20 percent cut from the prior contract pricing for O&M services. The difference in the contracts pricing is shown in *Figure 1* on the next page.

Figure 1 – Reductions in Annual O&M Contract Costs

Location	2016 Preceding Contract Pricing* (a)	2017 Contract Pricing* (b)	Reduction (c) = (a - b)	Percentage Decrease from 2016 (c ÷ a)
Brownsville, TX	\$888,441	\$724,363	\$164,077**	18%
Fort Worth, TX	1,029,615	784,246	245,369	24%
Little Rock, AR	1,904,886	1,543,529	361,357	19%
	\$3,822,941**	\$3,052,138	\$770,802**	20%

* The 2016 Preceding Contract Pricing is the last exercised option year price and the 2017 Contract Pricing is the base year price, per location.

** Differences due to rounding.

Although PBS Region 7 realized the reductions in O&M costs shown above through these contracts, it did so using unsustainably low pricing. Eventually, the contractor defaulted on the contracts.

After the contractor defaulted on the reviewed 2017 O&M contracts, PBS awarded 1-year replacement contracts without competition to ensure continuity of O&M services. As shown in *Figure 2* below, these contracts were awarded at premium pricing that exceeded the 2016 spending levels by over \$800,000, thereby erasing the cost savings PBS initially realized through the reduced 2017 O&M contracts.

Figure 2 – Increases in Annual O&M Contract Costs

Location	2016 Preceding Contract Pricing* (a)	2017 Contract Pricing* (b)	Reduction (c) = (a - b)	2018 Replacement Contract Pricing (d)	Increase from 2016 (d - a)
Brownsville, TX	\$888,441	\$724,363	\$164,077**	\$1,223,486	\$335,045
Fort Worth, TX	1,029,615	784,246	245,369	1,404,001	374,386
Little Rock, AR	1,904,886	1,543,529	361,357	2,000,713	95,828**
			\$770,802**		\$805,260**

* The 2016 Preceding Contract Pricing is the last exercised option year price and the 2017 Contract Pricing is the base year price, per location.

** Differences due to rounding.

The premium pricing is readily apparent when pricing for the 2018 replacement O&M contracts is compared to the pricing for the 2019 O&M contracts that were competed. As shown in *Figure 3* below, the premium pricing for the 2018 replacement O&M contracts were on average 16 percent higher than the subsequent 2019 O&M contracts.

Figure 3 – Comparison of 2018 Replacement Contract Pricing to 2019 O&M Contract Pricing

Location	2018 Replacement Contract Pricing (a)	2019 Contract Pricing (b)	Reduction (c) = (a - b)	Percentage Decrease from 2018 (c ÷ a)
Brownsville, TX	\$1,223,486	\$1,092,964	\$130,522	11%
Fort Worth, TX	1,404,001	1,061,100	342,901	24%
Little Rock, AR	2,000,713	1,720,570	280,143	14%
	\$4,628,200	\$3,874,634	\$753,566	16%

In sum, PBS Region 7’s effort to reduce O&M contract costs in order to meet GSA’s nationwide performance goal to reduce building operating costs demonstrates the risk of establishing arbitrary cost-cutting goals. PBS Region 7 initially realized cost savings by awarding three contracts for O&M services at prices that were over \$770,000 below 2016 spending levels. However, the pricing for these O&M contracts was unsustainably low. After the O&M contractor defaulted on the contracts in 2018, PBS Region 7 was forced to award 1-year replacement contracts at premium pricing that erased the initial O&M cost savings.

To help prevent this from recurring in the future, the PBS Commissioner should review regional implementation of GSA’s nationwide performance goals to reduce building operating costs to ensure that they do not result in arbitrary and unsustainable cost-cutting measures.

Finding 2 – PBS Region 7 awarded the 2017 and 2018 O&M contracts at unreasonable prices based on flawed IGEs and faulty price reasonableness determinations.

A primary issue with the 2017 O&M contracts and the 2018 replacement O&M contracts was that the pricing for these contracts was awarded based on flawed IGEs and faulty price reasonableness determinations. For the 2017 O&M contracts, the flawed IGEs and faulty price reasonableness determinations were used to support the reduced pricing for the O&M services. For the 2018 replacement O&M contracts, the flawed IGEs and faulty price reasonableness determinations were used to support premium pricing for the sole-source contracts.

Faulty Price Reasonableness Determinations for the 2017 O&M Contracts

Typically, when contracting for recurring services, contracting officers compare pricing from proposals received in response to the solicitation. Federal Acquisition Regulation (FAR) 15.404-

1, *Proposal analysis techniques*, establishes two preferred techniques to determine if pricing is fair and reasonable: (1) comparison of proposed pricing received and (2) comparison of proposed prices to historical prices paid.

The PBS Region 7 contracting officers who awarded the 2017 O&M contracts compared the proposed pricing received in response to the solicitation and did not use the historical pricing. As described in *Finding 1* above, PBS Region 7 told us they used the reduced scope of work when they awarded the 2017 O&M contracts. Therefore, the contracting officers could not compare the 2017 O&M contract pricing to the 2016 O&M contract pricing because the 2017 contracts included the reduced scope of work. The use of historical pricing would not justify the low prices needed to meet national cost reduction goals.

In addition to comparing the proposed pricing received, PBS Region 7 contracting officers also compared proposed prices to IGEs to conduct their price analyses. In accordance with FAR 15.404-1(b)(3), *Price analysis for commercial and non-commercial items*, contracting officers may use IGEs for price analysis if the contracting officer determines that information on competitive proposed prices or previous contract prices is not available or is insufficient. However, we found that the contracting officers could not have performed a meaningful comparison of the proposed pricing to the IGEs because of flaws in the IGEs and the solicitations.

We found that the IGEs used by the contracting officers were flawed because they were based on understated costs. For example, the IGEs for the 2017 Brownsville and Fort Worth O&M contracts did not match staffing plans provided in the solicitations that recommended a total number of employees by facility or use the required collective bargaining agreement labor rates.⁴ Using the PBS-recommended and contractor-proposed staffing plans, along with collective bargaining agreement labor rates, we determined that labor costs alone in Brownsville exceeded the contractor's total proposed contract value by 22 percent. Additionally, the IGEs did not include subcontract costs (e.g., for fire alarm, water treatment, and other services) required by the statements of work.

Moreover, we found that the solicitation did not require offerors to break down proposed costs into major cost categories such as labor, equipment and material, and subcontractor costs. Therefore, the contracting officers only compared the total value of the IGEs with the total proposed prices and could not perform a complete price analysis as recommended by the FAR. To perform this analysis, the contracting officers should have required a breakdown by cost category, which would have enabled them to compare the proposals to the IGEs and reconcile any pricing gaps.

⁴ A collective bargaining agreement is a court-enforceable labor agreement between a union and employer. Conditions of employment included in the collective bargaining agreement generally cover wages, pension costs, vacation days, and health care costs.

The branch chief of the Acquisition Management Division Services Branch told us that they were pressured to award at prices that met the region’s goal to reduce building operating costs, and that the Facilities Management Division director would withhold funds if the awards did not meet the goal. The branch chief also told us that the reduction was “arbitrary” and PBS Central Office threatened to “cut off ALL” the region’s services for the remaining 3 months of the fiscal year if the reduction was not met.

Because PBS failed to develop reasonable IGEs and appropriately determine fair and reasonable pricing, PBS awarded contracts at prices that were unsustainable. Eventually, the contractor defaulted on the contracts, leaving all three locations without O&M services.

Faulty Price Reasonableness Determinations for the 2018 Replacement O&M Contracts

Due to the contractor’s default, PBS had to award replacement contracts in 2018 for the O&M services. PBS awarded these contracts at significantly increased costs based on flawed IGEs and faulty price reasonableness determinations.

To procure the O&M services quickly, PBS cited FAR 6.302-2, *Unusual and compelling urgency*, as the basis for awarding the replacement contracts without competition. To support the use of other than full and open competition, the FAR requires that agencies must develop an estimated cost for the services.

The contracting officer who awarded the Little Rock replacement O&M contract created the IGEs for all three locations. In creating these IGEs, the contracting officer simply added 20 percent to the 2018 option year pricing for each location’s 2017 contract. The contracting officer and the Facilities Management Division Building Operations Support Branch manager noted that “there was no time to develop an IGE using normal models,” and adding 20 percent was “realistic due to the bankruptcy of the [joint venture] contract.”

However, we noted that the 2018 contract award amounts for Brownsville, Fort Worth, and Little Rock exceeded the IGEs—by 37 percent, 41 percent, and 8 percent, respectively. Awarded contract pricing exceeded the 2017 O&M contract’s 2018 option year pricing by approximately 64 percent in Brownsville, 69 percent in Fort Worth, and 30 percent in Little Rock, as shown in *Figure 4* on the next page.

Figure 4 – Increases in Annual Contract Cost

Location	2017 Contract's Pricing 2018 Option Year Pricing (a)	2018 IGE (b)	2018 Replacement Contract Pricing (c)	Increase from IGE (c - b) ÷ b	Increase from 2018 Option Year Pricing (c - a) ÷ a
Brownsville, TX	\$746,094	\$895,313	\$1,223,486	37%	64%
Fort Worth, TX	828,536	994,244	1,404,001	41%	69%
Little Rock, AR	1,543,529	1,852,235	2,000,713	8%	30%
	\$3,118,160*	\$3,741,791*	\$4,628,200	24%	48%

* Differences due to rounding.

In a further effort to justify the awarded price, the contracting officer for Fort Worth compared proposed pricing to the average of the proposals received for the 2017 contract. However, this analysis was flawed because the contracting officer skewed the average by removing the lowest proposal that was 13 percent below the awarded price, but included a proposal that was 171 percent higher than the awarded price. Even after doing so, the average of the proposals was still 18 percent lower than the awarded price for Fort Worth. The contracting officer conceded that they “tried to back into” the justification for the increased costs.

In sum, the pricing for the 2017 O&M contracts and the 2018 replacement O&M contracts was based on flawed IGEs and faulty price reasonableness determinations. After the O&M contractor defaulted on the contracts in 2018, PBS Region 7 was forced to award short-term replacement contracts—again using flawed price reasonableness determinations—at premium pricing that erased the initial O&M savings.

PBS Region 7 should review current O&M contracts and develop and implement policies for current and future O&M contracts to ensure fair and reasonable pricing. To do this, PBS Region 7 should use FAR-recommended price analysis techniques and develop IGEs based on a detailed analysis of the required work.

Finding 3 – PBS Region 7 did not consistently administer the 2017 O&M contracts in accordance with contract terms and conditions.

PBS Region 7 did not consistently administer the 2017 O&M contracts in accordance with contract terms and conditions. In administering these contracts, PBS inconsistently applied the shared liability clause, paid for unallowable costs, failed to enforce staffing requirements, and did not always verify that the contractor performed required services. As a result, PBS overpaid the contractor for services and held the contractor responsible for expenses that PBS was responsible for paying.

PBS Region 7 Inconsistently Applied the Shared Liability Clause

PBS Region 7 inconsistently applied the shared liability clause for reimbursable repairs and replacements. In some cases, PBS paid a portion for repairs that should have been the responsibility of the O&M contractor. In other cases, PBS held the O&M contractor responsible for expenses that should have been paid for by PBS. We also found instances where PBS separated larger work orders into smaller ones so they would not exceed a non-reimbursable repair cost threshold, effectively shifting PBS's costs to the O&M contractor.

PBS's *National Operations and Maintenance Specification* is the standard for O&M services for all PBS facilities. It requires that repairs are handled on a shared liability basis. Under this clause, a repair is defined as the "act of restoring inoperable ... equipment, systems, or material to a fully functional, non-deteriorated state" and involve some combination of labor, parts, and material. The O&M contractor is responsible for all repairs under a contract-specific cost threshold.

As required by the *National Operations and Maintenance Specification*, PBS included this clause in the contracts in our sample. For the 2017 O&M contracts, this cost threshold was \$2,500 for Brownsville, Fort Worth, and Little Rock. The contracts stipulate that "repairs shall not be split or ordered by stages or components to get under the \$2,500 threshold."

For larger repairs, the government funds only the amount exceeding the respective cost threshold. These repairs must be approved in advance by the contracting officer or their designee. Replacement of equipment is not considered a "repair," and is not subject to the shared liability clause according to the terms and conditions of the 2017 O&M contracts. PBS is solely responsible for costs associated with equipment replacement.

We found that PBS staff inconsistently interpreted the contract definition of a "repair." We identified several instances where it appears that PBS incorrectly applied the shared liability clause to replace equipment. For example:

- At the Fritz G. Lanham Federal Building (Lanham Building) in Fort Worth, PBS inappropriately applied the shared liability clause to replace two variable frequency drives.⁵ By invoking this clause, PBS shifted \$2,500 of the \$8,425 replacement cost to the O&M contractor and awarded the task order to the contractor for \$5,925.

⁵ A variable frequency drive is a type of motor controller that drives an electric motor by varying the frequency and voltage of its power supply.

- Also at the Lanham Building, PBS again incorrectly applied the shared liability clause to replace a Java Application Control Engine controller.⁶ The total cost to replace this equipment was \$8,279. However, PBS applied the shared liability clause, shifting \$2,500 to the contractor and reducing PBS's cost to \$5,779.

Conversely, at the Little Rock Federal Building, PBS incorrectly paid for equipment repairs that should have been covered by the contractor as a shared liability. For example:

- PBS did not apply the shared liability clause to repair four different compressors. PBS paid the full cost of \$7,638, even though the work fell within the contract definition of a repair. The contractor should have covered \$2,500 of this as a shared liability, which would have reduced PBS's cost to \$5,138.
- PBS did not apply the shared liability clause for the repair of domestic water lines and a drain running to the snack station and break rooms. PBS paid the total cost of \$13,780 even though it was a repair to an existing building system. PBS should only have paid \$11,280 after the application of the contractor's \$2,500 shared liability.

PBS also separated larger work orders into smaller ones in order to not exceed the non-reimbursable repair cost threshold. For example:

- At the Lanham Building, parking gate arms had a history of failure and required constant daily maintenance. To repair the gate arm, we were told the Greater West Service Center manager and COR sought to split two motors on the single gate arm mechanism into two work orders. Since each repair was estimated to fall within the \$2,500 non-reimbursable repair cost threshold, the contractor would have been held responsible for the total repair cost.
- Also at the Lanham Building, the contracting officer and COR attempted to create two work orders to repair two failed compressors used to power a single elevator air conditioning unit. Doing so split the requirement and made the O&M contractor financially responsible for a shared liability cost of \$5,000 for two separate compressors instead of \$2,500 to repair the single air conditioning unit. After continued disagreement from the O&M contractor, the contracting officer and COR eventually abandoned their argument and appropriately held the O&M contractor responsible for the shared liability for a single repair. PBS paid a total cost of \$9,684 after the application of the O&M contractor's \$2,500 shared liability.

The Greater West Service Center manager told us that the service center must rely on the \$2,500 threshold solution to alleviate PBS's financial responsibilities when funding is not available.

⁶ The Java Application Control Engine controller is the mechanism that provides connectivity to building automation systems for heating, ventilation, and air conditioning equipment.

PBS should ensure consistent application of the shared liability clause and seek approval from contracting officers prior to requesting additional services work orders.

PBS Region 7 Paid for Unallowable Costs Associated With Additional Services

PBS Region 7 failed to follow the contract terms and conditions and paid the O&M contractor for unallowable costs for “additional services.” The Fort Worth and Little Rock contracts define additional services as “services that the Contractor will provide at an additional cost to the Government, to include all labor, supervision, supplies and materials specifically identified as being outside the provisions of the basic services.” However, we found that PBS Region 7 paid the O&M contractor for the following costs that were prohibited under the contract:

- Overhead for subcontract labor – PBS Region 7 allowed the O&M contractor to add overhead costs to subcontractor labor for 18 task orders in Little Rock, resulting in a total overpayment of \$7,254.
- Personnel to escort subcontractors – PBS reimbursed the O&M contractor for labor charges to escort subcontractors on three task orders in Fort Worth, resulting in an overpayment of \$410.

PBS should follow contract terms and conditions for costs related to additional services performed, including the application of overhead on subcontract labor and reimbursement of contract labor for personnel to escort subcontractors.

PBS Region 7 Paid for Contract Labor It Did Not Receive

The 2017 O&M contracts specify that staffing levels proposed and accepted at the time of award cannot be reduced through the life of the contract without negotiation and resulting equitable adjustment. However, PBS Region 7’s Acquisition Management and Facilities Management divisions had differing interpretations of the contract language and did not enforce this requirement. As a result, the government paid for contract labor that it did not receive when staffing shortages occurred.

The 2017 O&M contracts require that “staffing levels proposed and accepted at the time of award shall not be reduced through the life of the contract.”⁷ When staffing shortages occur, the contracts require PBS to take deductions from the O&M contractor’s payment. The O&M contractor can request a reduction in staffing at the end of each contract year, which PBS will consider based on contractor performance. These changes must be contractually modified to adjust the contract price.

⁷ Section B.5. *Reduction of Staffing.*

PBS informed us of staffing shortages in the Fort Worth 2017 O&M contract for the first 10 months of the base year. PBS was aware of these shortages but did not modify the contract or enforce payment deductions. We noted that staffing shortages continued into the 2019 O&M contract, with PBS continuing to fail to take deductions. For example, during our January 2020 site visit, the current COR informed us that the contract had been understaffed by three employees for at least 3 months. We estimate that the government paid nearly \$59,000 for labor that it did not receive during this time frame.

PBS Region 7 did not hold the O&M contractor responsible for the short staffing because its divisions had differing interpretations of the contract language. PBS Region 7's Acquisition Management Division contracting officers stated that the contracts are performance-based and that payment is tied to the achievement of quality standards rather than specific requirements on how to perform the service.⁸ The Facilities Management Division director told us that the O&M contractor should maintain the staffing plan proposed at contract award during the first year. However, the contracting officers erroneously disregarded the contractor staffing plan.

While the contracts are performance-based, they also explicitly state that proposed staffing levels shall not be reduced unless agreed to by the O&M contractor and GSA based on contractor performance. The new Acquisition Management Division senior contracts program manager stated that the staffing plan is a contractual requirement and asserted that PBS Region 7 should have deducted payment if the O&M contractor failed to provide the required number of personnel. However, due to the Acquisition Management Division's failure to enforce this contract requirement, the O&M contractor was not being held accountable for contractual responsibilities and was being overpaid for services not provided. PBS should enforce staffing plans to ensure that it receives what it is paying for.

PBS Region 7 Paid for Work Orders Without Confirming They Were Completed

PBS Region 7's contract oversight was inadequate to verify that the O&M contractor performed required services. We found that PBS did not have effective quality assurance surveillance plans (QASPs) for these contracts, and did not have a consistent building inspection process. As a result, PBS paid the O&M contractor on time and in full for work orders without confirming they were completed.

Performance-based contracts emphasize contractor self-management to ensure quality. For these contracts, FAR 37.6, *Performance-Based Acquisition*, requires the use of a QASP to monitor performance. QASPs should define the roles and responsibilities of GSA officials, establish performance quality-level standards and objectives, and describe the methods of surveillance GSA will use to monitor quality. FAR 52.232-32, *Performance-Based Payments*, requires building inspections for every performance-based service contract. These inspections should be performed using procedures described in the QASP. PBS Region 7's *Being an Effective Contracting Officer's Representative (COR), The Handbook for Building Services Contracts FY18*

⁸ Section C.2.42 *Performance Based Service Contracting*.

adds that “ensuring the QASP is detailed, building-specific, and thorough is crucial to the service contract administration and certifying payment to our contractors.”

We reviewed PBS’s QASPs for the 2017 O&M contracts. We found PBS incorporated an identical QASP template in all three of the contracts rather than tailoring them to address differences in buildings and locations. As a result, the QASPs did not identify performance standards or acceptable quality levels, and did not specify building inspection procedures.

Additionally, because the QASPs did not specify building inspection procedures, we found that the frequency of inspections and number of work orders inspected varied—even within a particular service center. For example:

- At the PBS Border Service Center, inspections of the Brownsville work orders are often performed weekly. A property manager told us they randomly inspect up to 20 percent of monthly work orders.
- In Fort Worth, Greater West Service Center personnel conduct monthly inspections; however, they provided inconsistent descriptions of the methods used to conduct the inspections. The COR for the Lanham Building told us that they choose two floors of the building for their inspections. The Lanham Building has 15 floors. However, the Greater West Service Center manager, who is the COR’s supervisor, told us that service center personnel randomly select 10 percent of work orders to inspect.
- At the Eastern Service Center, approximately 10 percent of the Little Rock work orders are inspected each month. A property manager told us that the O&M contractor decides which work orders will be inspected.

Absent an effective QASP, with specific and consistent building inspection procedures, PBS risks paying for work orders that have not been completed. For example, the Greater West Service Center COR expressed concern that contractors could falsify completion of work orders because their workload does not allow them to inspect 100 percent of work orders. A former contract employee told us that the contractor intentionally closed incomplete work orders. To ensure that PBS receives the services it pays for, PBS should prepare detailed QASPs for each location, and perform and document appropriate inspections.

In sum, PBS inconsistently administered the 2017 O&M contracts and did not always adhere to contract terms and conditions. As a result, PBS paid for services that were either already covered in the contracts or were never received, and held the contractor responsible for expenses that should have been paid for by PBS. Further, PBS did not always define quality standards or perform or track quality assurance and building inspections to ensure that the contractor complied with the contract. Accordingly, PBS Region 7 needs to ensure its employees are interpreting and administering contract clauses correctly and consistently.

Conclusion

In response to a GSA nationwide performance goal to reduce building operating costs by \$30 million, PBS Region 7 arbitrarily established a goal in 2015 to reduce the cost of its O&M contracts between 25 and 35 percent. To meet this goal, PBS Region 7 awarded three O&M service contracts in 2017 at prices that were unsustainably low. Eventually, the O&M contractor defaulted on each contract. As a result, PBS Region 7 noncompetitively awarded 1-year replacement contracts in 2018 with premium pricing that erased all cost savings.

A primary issue with the 2017 O&M contracts and the 2018 replacement O&M contracts was that PBS awarded these contracts with pricing based on flawed IGEs and faulty price reasonableness determinations. For the 2017 O&M contracts, the flawed IGEs and faulty price reasonableness determinations were used to support the reduced pricing for the O&M services. For the 2018 replacement O&M contracts, the flawed IGEs and faulty price reasonableness determinations were used to support premium pricing for the sole-source contracts.

PBS Region 7 also failed to properly administer the O&M contracts. We found that PBS Region 7 inconsistently applied the shared liability clause. Additionally, PBS Region 7 paid the O&M contractor for unallowable costs for additional services, failed to enforce staffing requirements, and did not verify that the O&M contractor performed required services.

Taken together, these findings demonstrate the need for PBS to ensure GSA's nationwide performance goals to reduce building operating costs do not result in the implementation of arbitrary and unsustainable cost-cutting measures. Additionally, PBS Region 7 needs to improve its practices for the award and administration of O&M contracts. Accordingly, PBS Region 7 should take appropriate action to award O&M contracts at fair and reasonable prices in accordance with applicable requirements. PBS Region 7 should also ensure that its contracting officers and project staff consistently administer and enforce O&M contracts in accordance with contract terms and conditions.

Recommendations

We recommend that the PBS Commissioner review regional implementation of GSA's nationwide performance goals to reduce building operating costs to ensure that they do not result in arbitrary and unsustainable cost-cutting measures.

We also recommend that the Greater Southwest PBS Regional Commissioner review current O&M contracts and develop and implement policies for current and future O&M contracts as follows:

1. When procuring O&M contracts, ensure price reasonableness by:
 - a. Using price analysis techniques recommended by the FAR, such as evaluating labor, equipment and material, and subcontractor cost categories of price proposals; and
 - b. Ensuring IGEs are prepared using detailed analysis of the required work, including appropriate staffing levels and labor rates, equipment and material costs, and subcontractor costs.

2. When administering O&M contracts:
 - a. Ensure consistent application of the shared liability clause and seek approval from contracting officers prior to requesting additional services work orders;
 - b. Follow contract terms and conditions for costs related to additional services performed, including the application of overhead on subcontract labor and reimbursement of contract labor for personnel to escort subcontractors;
 - c. Enforce staffing requirements in O&M contracts and ensure consistent interpretation of prescriptive- and performance-based contract language; and
 - d. Develop detailed QASPs and perform and track quality assurance and building inspections in accordance with PBS policy and contract terms and conditions.

GSA Comments

PBS agreed with our recommendations. PBS's written comments are included in their entirety in **Appendix C**.

Audit Team

This audit was managed out of the Southeast Sunbelt Region Audit Office and conducted by the individuals listed below:

Nicholas V. Painter	Regional Inspector General for Auditing
Valerie R. Smith	Audit Manager
Wesley C. Zehms	Auditor-In-Charge
Jeremy D. Boozikee	Management Analyst

Appendix A – Scope and Methodology

Our audit scope consisted of a sample of 12 PBS Region 7 O&M contracts. The audit sample consisted of O&M contracts for Brownsville, Texas; Fort Worth, Texas; and Little Rock, Arkansas. Initially, we identified three O&M contracts from the hotline complaint (awarded in 2017) and expanded the sample to include the three preceding contracts (awarded in 2011, 2012, and 2014), the three replacement O&M contracts (awarded in 2018), and the three contracts (awarded in 2019) primarily for price comparison purposes. At the beginning of 2021, these 12 contracts were valued at \$37,832,805.

To accomplish our objectives, we:

- Reviewed the PBS Procurement Instructional Bulletin 18-02, *PBS Contract File Content and Organization*;
- Reviewed the PBS *National Operations and Maintenance Specification*;
- Reviewed PBS Region 7's O&M policies and guidance;
- Obtained and reviewed contracts from PBS's Electronic Acquisition System Integration program;
- Researched the FAR and the General Services Acquisition Manual related to contracting with small businesses, contracting by other than full and open competition, service contracting, and contracting by negotiation;
- Interviewed PBS contracting officers, property managers, CORs, and other PBS officials;
- Interviewed employees from the O&M contractors for Brownsville, Fort Worth, and Little Rock;
- Performed site visits to discuss contractor performance and gain an understanding of O&M scopes of work; and
- Reviewed the U.S. Government Accountability Office's *Standards for Internal Control in the Federal Government* for guidance on operating an effective internal control system.

We conducted the audit between February 2019 and June 2020 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Internal Controls

Our assessment of internal controls was limited to those necessary to address the objectives of the audit.

Appendix B – Contracts Reviewed

Brownsville	Fort Worth	Little Rock *
Preceding contract Option 2 8/1/2016 – 7/31/2017 GS07P13JUC0021 Quality Services International, LLC \$888,441	Preceding contract Option 3 1/1/2016 – 12/31/2016 GS07P13JUD0007 Delta Building Services, Inc. \$1,029,615	Preceding contract Option 4 10/1/2015 – 9/30/2016 GS07P11JUA0122 WW Contractors, Inc. \$1,904,886
2017 O&M contract 10/1/2017 – 9/30/2018 47PH0217D0001 SSG WW JV, LLC \$724,363	2017 O&M contract 3/1/2017 – 2/28/2018 GS07P17JUD0008 SSG WW JV, LLC \$784,246	2017 O&M contract 2/1/2017 – 1/31/2018 GS07P17JUD0010 SSG WW JV, LLC \$1,543,529
2018 Replacement contract 11/7/2018 – 10/31/2019 47PH0219D0005 Commercial Facilities Management, Inc. \$1,223,486	2018 Replacement contract 11/5/2018 – 10/31/2019 47PH0219D0003 Northern Management Services, Inc. \$1,404,001	2018 Replacement contract 11/5/2018 – 11/4/2019 47PH0219D0004 C&W Government Services Inc. \$2,000,713
2019 contract 11/1/2019 – 10/31/2020 47PH0219D0015 Electronic Metrology Laboratory, LLC \$1,092,964	2019 contract 11/1/2019 – 10/31/2020 47PH0219D0017 Northern Management Services, Inc. \$1,061,100	2019 contract ** 11/1/2019 – 10/31/2020 47PH0219D0018 Crystal Clear Maintenance, Inc. \$1,720,570

* Little Rock figures include custodial and grounds maintenance service costs.

** In 2021, PBS re-procured the 2019 contract in Little Rock. However, this contract was outside the scope of our audit.

Appendix C – GSA Comments


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Public Buildings Service

October 22, 2021

MEMORANDUM FOR: NICHOLAS V. PAINTER
REGIONAL INSPECTOR GENERAL FOR AUDITING
SOUTHWEST SUNBELT REGION (JA-4)

THROUGH: NINA M. ALBERT
COMMISSIONER 
PUBLIC BUILDINGS SERVICE (P)

FROM: GIANCARLO BRIZZI 
REGIONAL COMMISSIONER
PUBLIC BUILDINGS SERVICE
GREATER SOUTHWEST REGION (7P)

SUBJECT: Response to the Office of Inspector General's Draft Audit Report,
*Audit of a Hotline Complaint: PBS Great Southwest Region's
Operation and Maintenance Contracts* (Report Number A190054)

The Public Buildings Service (PBS) thanks the Office of the Inspector General (OIG) for the opportunity to review and comment on the subject audit report. PBS agrees with the OIG's recommendations and offers the following responses.

As related to Recommendation 1a; PBS will ensure existing price analysis techniques and strategies are consistent with the proposal submission requirements for commercially available services and meet existing Federal Acquisition Regulation (FAR) requirements.

As related to Recommendation 2d; PBS has implemented plans and strategies that address this recommendation and will ensure all future contracts include Quality Assurance Surveillance Plans (QASPs) and the applicable measures to ensure sound and effective quality assurance by the government.

Thank you again for the opportunity to review and comment on the draft report. Please contact Giancarlo Brizzi, Greater Southwest Region, PBS Regional Commissioner, at (817) 235-6240 should you have any questions.

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Appendix D – Report Distribution

GSA Administrator (A)

GSA Deputy Administrator (AD)

Commissioner (P)

Deputy Commissioner (PD)

Chief of Staff (PB)

Deputy Chief of Staff (PB)

Assistant Commissioner for Strategy and Engagement (PS)

Regional Commissioner (7P)

Chief Financial Officer (B)

Office of Audit Management and Accountability (BA)

Assistant Inspector General for Auditing (JA)

Director, Audit Planning, Policy, and Operations Staff (JAO)