

AUDIT OF THE
GREATER CHICAGOLAND SERVICE CENTER
PUBLIC BUILDINGS SERVICE
GREAT LAKES REGION
REPORT NUMBER A060125/P/5/R08004
JUNE 4, 2008

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U.S. GENERAL SERVICES ADMINISTRATION
Office of Inspector General

DATE: June 4, 2008

REPLY TO

ATTN. OF: Regional Inspector General for Audits
Great Lakes Field Audit Office (JA-5)

SUBJECT: Audit of the Greater Chicagoland Service Center
Public Buildings Service, Great Lakes Region
Report Number A060125/P/5/R08004

TO: James C. Handley
Regional Administrator, Great Lakes Region (5A)

This report presents the results of the Office of Inspector General's Audit of the Public Buildings Service Greater Chicagoland Service Center in Chicago, IL.

Our review showed a significant improvement in quality control plans, quality assurance surveillance plans, and security clearances relative to our prior audits of other PBS field activities in the Great Lakes Region. However, the Greater Chicagoland Service Center (GCSC) did not always effectively exercise prudence and sound business judgment and adhere to applicable laws, regulations and established policy and procedures when making procurements. The GCSC also did not effectively perform certain contract administration duties which resulted in additional costs to the Government. In some cases, effective internal management controls were absent or poorly implemented.

Your May 5, 2008 response to the draft report is included as Appendix H of this report.

Sincerely,

A handwritten signature in dark ink, appearing to read "John P. Langeland".

John P. Langeland
Audit Manager
Great Lakes Region



AUDIT OF THE
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INTRODUCTION

Background

GSA has the responsibility to provide fully serviced space to house Government agencies in federally owned and leased buildings. GSA's Public Buildings Service (PBS) service centers, located throughout the country, fulfill the needs and requests of Government agencies that occupy space in the buildings. In general, service center activities include procurement, asset management, and contract and lease administration. The service center also provides the technical resources necessary for building repairs and workspace alterations.

The Greater Chicagoland Service Center (GCSC) which is headquartered in Chicago, Illinois, managed 7,182,529 square feet of space in 22 Government-owned buildings and 3,326,954 square feet of space in 148 leased buildings located in the states of Illinois and Indiana.

The GCSC has a staff of 80 employees and is organized into eight teams. The teams are the Dirksen Courthouse Team, Kluczynski Team, Clark St. Team, Greater Chicagoland Leasing Office, Metcalfe Team, Northwest Indiana Team, Technical Team and Procurement Team. The procurement functions of the various teams are centralized with the Procurement Team. The GCSC's staff is located in Chicago, Illinois; Hammond, Indiana; and South Bend, Indiana.

Objectives, Scope and Methodology

The primary objectives of the audit were to determine the following:

- (1) Did the GCSC make procurements that were prudent and in accordance with laws, regulations, and established policy and controls?
- (2) Did the GCSC effectively perform contract administration duties and assure that the quality and quantity of goods and services received were what the Government ordered and paid for?

To accomplish the audit objectives, we:

1. Reviewed the applicable procurement laws and regulations and GSA guidance on the use of the GSA credit card.
2. Reviewed two studies for restroom modernization at the John C. Kluczynski Federal Building. The studies were the Teng and Associates study dated February 20, 2003 and the Daniel P. Coffey & Associates, LTD. study dated October 30, 2006.
3. Reviewed the Price Waterhouse Coopers Independent Auditors Report for fiscal years 2005 and 2006.
4. Reviewed six operation and maintenance service contracts for various federally owned buildings, two elevator maintenance service contracts, and six janitorial service contracts. We also reviewed the implementation of 14 quality control plans and 14 surveillance plans associated with these contracts.
5. Reviewed 35 delivery/purchase orders placed against operation and maintenance (O&M) contracts at four federal buildings valued at \$695,130. The review included discussions with contractor and subcontractor representatives as well as GCSC personnel.
6. Reviewed 28 repair and alteration procurements totaling \$ 1.3 million. The sample included 26 Reimbursable Work Authorizations (RWA's) and two Intrabudget Activity Authorizations (IBAA's).
7. Reviewed RWA summary registers and selected for review 12 RWA's valued at \$995,705 that did not show current activity.
8. Reviewed security clearance information for 224 contract employees employed under various janitorial, mechanical or elevator contracts.
9. Made onsite inspections of the janitorial work performed at three federal buildings, and the O&M work performed at three federal buildings.
10. Reviewed credit card transactions totaling \$174,745 for the period March 31, 2004 to March 17, 2006.
11. Discussed the solicitation of a janitorial contract with nine contractors who submitted bids in response to the solicitation.
12. Discussed contract procurement and contract administration polices with GCSC personnel.

The audit was performed in accordance with generally accepted Government auditing standards.

RESULTS OF AUDIT

Brief

Our review showed a significant improvement in quality control plans, quality assurance surveillance plans, and security clearances relative to our prior audits of other PBS field activities in the Great Lakes Region. However, the Greater Chicagoland Service Center (GCSC) did not always effectively exercise prudence and sound business judgment and adhere to applicable laws, regulations and established policy and procedures when making procurements. The GCSC also did not effectively perform certain contract administration duties which resulted in additional costs to the Government. In some cases, effective internal management controls were absent or poorly implemented.

Findings and Recommendations

Finding 1 – Additional Procurement Controls Needed

Our audit identified improper procurement practices that did not fully comply with procurement laws and regulations. We identified the misuse of contract vehicles, sole source procurements and brand name procurements with no justification, split procurement, inadequate use of Federal Supply Service contracts, diversion of contract employees, improper use of budget activity 61 funds, lack of bona fide need, and inadequate file documentation. This resulted in excessive and unnecessary expenditures. The procurements also violated various laws and regulations. The factors contributing to these problems were the incorrect interpretation of procurement regulations and ineffective management controls. Two procurements, in particular, illustrated the problems we identified.

Misuse of Contract Vehicle. On September 15, 2006, the GCSC placed two delivery orders for touch-less Toto brand faucets and toilet/urinal valves. Order GSP0506SI1138 provided \$94,860 for the purchase and installation of 250 Eco power closet flush valves and 175 urinal valves. Order GSP0506SI1139 provided \$94,737 for the purchase and installation of 255 Eco power faucets and cover plates. The GCSC awarded both orders to the existing O&M contractor for installation in the John C. Kluczynski Federal Building (JCK).

Under the terms of its contract, the O&M contractor is responsible for maintenance repairs which are defined as “unscheduled work required to prevent a breakdown of a piece of equipment or system or put it back in service after a breakdown or failure”. Section C7D(2) of the contract (Additional Services) provides for the purchase of materials and parts needed for repairs and replacements. However, the contract limits the scope of repairs that the contractor is required to perform and requires it to absorb the initial \$2,000 of repair costs.

The contract requires that “The contractor is to provide all necessary maintenance repairs where the cost of labor, material and parts is expected to be \$2,000 or less as part of the basic service provided under this contract”. The contract provides for a second tier of repair services ranging from \$2,000 to \$10,000 that are to be performed by the contractor. It states that “Building equipment repairs where the cost of labor, materials and parts is expected between \$2,000 and \$10,000 will be accomplished at the discretion of the COR. The contractor will be responsible for the first \$2,000 for each individual job in this category”. Repairs that exceed the \$10,000 threshold are defined as major repairs and do not fall within the scope of the O&M contract.

Order GSP0506SI1138 for \$94,860 and order GSP0506SI1139 for \$94,737 were outside the scope of the O&M contract and, therefore, an inappropriate procurement vehicle to use for the placement of the two orders.

GCSC representatives told us that it makes good business sense to go with the incumbent contractor because it has knowledge of the building and can do the job faster. They further explained that this work is interrelated with the O&M contractor’s every day work and their security clearances give them easier access to the building.

See Appendix C for additional orders for Toto equipment (GSP0507SF0027 and GSP0507SY0037) procured through another O&M contractor as well as other orders that misused the contract vehicle.

Sole Source Procurement. FAR 6.101 and 13.104 require contracting officers to promote competition to the maximum extent practicable in soliciting and awarding contracts.

As a means of promoting competition FAR 5.101(a)(1) requires contracting officers to disseminate information on proposed contract actions expected to exceed \$25,000 by “synopsizing in the GPE” (Government-wide Point of Entry). The Toto orders exceeded the \$25,000 threshold, however, the GCSC did not publicize the contract actions at Fed BizOpps.gov as required.

See Appendix C for additional examples of orders that violated the competition requirements and utilized sole source procurement.

Brand Name not Justified. The GCSC purchase orders directed the O&M contractor to purchase the brand name “Toto” and also specified the model numbers of the Toto flush valves and faucets that were to be purchased. The GCSC selected the Toto products without consideration of other brand name products. The purchase of a specific brand name requires justification and approval. FAR 6.302-1(c) states that “an acquisition that uses a brand name description or other purchase description to specify a particular brand name, product, or feature of a product, peculiar to one manufacturer does not provide for full and open competition regardless of the number of sources solicited. It shall be justified and approved in accordance with FAR 6.303 and 6.304”. The GCSC did not prepare the required justification. The preference given to Toto products did not meet any of the

requirements of FAR 6.302 which establishes the circumstances that permit contracting without competition or FAR 13.104 (a) which states that “The contracting officer must not-

- (1) Solicit quotations based on personal preference; or
- (2) Restrict solicitation to suppliers of well-known and widely distributed makes or brands.”

The GCSC representatives stated that the Toto products have an internal battery that is recharged by water pressure and does not have to be replaced every one to three years. They further explained that the batteries will last 20 years and this is what makes them unique from other water saving equipment. We found no evidence that the GCSC could support its contention that only Toto products were the best value for the taxpayer or that the GCSC had any basis for their assessment of the Toto product capabilities. Specifications for the Toto products claim a battery life of up to 10 years; however, Toto’s warranty covers only three years on all component parts.

See Appendix C for additional orders for Toto equipment (GSP0507SF0027 and GSP0507SY0037) which were procured without brand name justification.

Split Procurement. The GCSC prepared two orders for the Toto equipment. One order provided for the purchase and installation of flush valves at a cost of \$94,860, and the other order was for the purchase and installation of faucets at a cost of \$94,737. The separation of the flush valves and faucets into two orders constitutes a split procurement for the following reasons:

- The orders were both awarded September 15, 2006 by the same contracting officer.
- Both orders were for Toto equipment and were purchased through the O&M contractor from a Toto distributor.
- Both orders were for one project involving the purchase and installation of Toto equipment in the washrooms of the JCK Building.
- The Toto distributor provided the GCSC and the O&M contractor with a single price quotation for the project.

By splitting the procurement, the value of each order was kept below the \$100,000 Simplified Acquisition Procedure limit. Splitting the procurement avoided the full and open competition requirements of FAR 6.1, the acquisition planning requirements of FAR 7.1 and resulted in the utilization of the less formal simplified acquisition procedures. The procurement files for the Toto orders showed that there was no statement of work, sole source justification, justification for splitting the work up, or price support (Government estimate) for the orders. All of which would have been required if the project was procured in its entirety.

Splitting a single known or reasonably anticipated agency need is generally prohibited unless there is a documented, specific, contemporaneous legal justification for doing so and is a violation of the Competition in Contracting Act, Public Law 98-369, which requires

that the Government offer full and open competition for its procurements other than those not exceeding the simplified acquisition threshold. GSA Directive CPO**9751.11 further reinforces the importance and seriousness of improper procurement actions.

GCSC representatives disagreed that the procurement was split and stated that they considered the two orders as completely separate procurements of two different items (valves and faucets). We found no evidence to support this contention. The faucets/valves were both installed in the restrooms in the JCK building as part of one project.

FSS Contracts not Utilized. As previously discussed, the equipment was purchased by the O&M contractor from an independent supplier at the direction of the GCSC. The purchase was based on a price quotation of \$186,210 issued by the supplier to an employee of the GCSC. In order for the supplier to extend this quotation, it requested and received a price from Toto Inc. We reviewed the quotation provided to the supplier. The quote was for \$2 million worth of equipment. The name of the project per the job quotation sheet furnished by Toto Inc. was entitled "Dirksen Federal Building, Chicago, IL". The model numbers shown on the \$2 million quote included faucets and flush valves used in the JCK project, but the quantities shown on the quote were significantly larger. The Toto price quotation included additional items that were not procured such as porcelain toilets and urinals, an indication that more GCSC orders may be in the pipeline.

The O&M contractor marked up both of the orders by [REDACTED] percent for overhead and another [REDACTED] percent for profit increasing the cost of the orders by [REDACTED] and [REDACTED] respectively. The mark ups totaled [REDACTED].

Other distributors of touch-less faucets and valves had Federal Supply Service (FSS) contracts. They were not notified of the need and given the opportunity to submit price quotations. One firm told us that if they had been requested to bid on the \$ 2 million order, they too would have requested competitive pricing from Toto. The GCSC gave preferential treatment to the O&M contractor and the supplier rather than utilize the Federal Supply Schedule contractors that FAR 8.002 describes as priority Government supply sources.

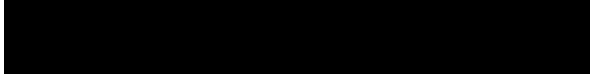
Additional orders (GSP0507SF0027¹ and GSP0507SY0037) were issued by the GCSC to O&M contractors to acquire Toto products. No other manufacturers and installers were considered other than the O&M contractors. These orders are shown in Appendix C. Additional orders for Toto equipment were in process and not completed at this writing. These orders are for the Dirksen, Metcalfe, Immigration and Post Office Buildings.

GCSC representatives stated that the prices of the Toto equipment were better prices than could have been obtained from FSS contracts. Since no other vendors were considered, this contention has no basis. GCSC personnel also stated that they were not purchasing \$2 million of Toto equipment, and further stated that the \$2 million quotation from Toto to their distributor was erroneous and not solicited by employees of

¹ An incomplete sole source justification was prepared for order GSP0507SF0027.

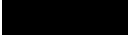
the GCSC. This contention may also be incorrect because orders were still ongoing. To date we have documented \$327,248 in orders. Representatives of Toto also contradicted the GCSC representatives by stating that their quote to their distributor was a legitimate quote for Federal Buildings in downtown Chicago.

Diversion of Contract Employees. The two orders required the purchase and installation of the Toto equipment by the O&M contractor. The contractor proposed labor and materials as one line item and overhead as a separate line item for each of the orders. Our review disclosed that the line item labor and material costs only included the costs of the materials and markup on each of the orders. For example, the contractor's proposal for order GSP0506SI1138 showed the following line items:

Labor Costs and Materials	\$79,050
	
Total Price	\$94,860

The contractor and GCSC personnel told us that the contractor was performing the installation work on a "time available basis". We received conflicting statements from both concerning the labor costs for installation. We were told:

- The Toto orders did not include installation costs.
- The O&M contractor was compensated for its installation costs through the markups shown on each order.
- The O&M contractor performed the installation of the Toto equipment for free.

Based on our review, the O&M contractor received  in overhead and profit for acting as the agent of the GCSC on the Toto orders, an amount that would easily cover the labor cost of installation. The purchase order obligated the contractor to install the Toto equipment. The O&M contractor installed the equipment during regular working hours.

The diversion of personnel from their O&M contract work may have had a negative impact on building maintenance based on our review of GSA inspection reports. We reviewed the inspection reports performed by the COR during the period of July 2006 to November 2006 and found that the O&M contractor was performing poorly during this period because it was not completing all of the work required by its contract.

The GCSC representatives stated that the O&M contractor made quality control changes in response to the inspection reports, and that building maintenance did not suffer by the diversion of personnel to the Toto project. What is clear is that the Toto products were installed by the O&M contractor during normal hours and received \$31,599 in markup above the cost of the Toto products it furnished and installed.

Appendix C shows additional orders of Toto equipment (GSP0507SF0027 and GSP0507SY0037) which were installed at 536 Clark and 610 Canal.

Use of Funds. Both of the orders that were awarded on September 15, 2006 used budget activity (BA 61) funds that are used to fund building operations. CFP P 4240.1, Accounting Classification Handbook, provides that BA 54 funds are to be used to fund repair and alteration (R&A) projects that are not part of a line item. These R&A projects include initial space alterations, repairs, remodeling, improving, or making other related changes to public buildings. The Handbook further states that R&A non-line item projects have an estimated construction cost of between \$10,000 and the annual prospectus limitation. Minor repairs with estimated construction costs under \$10,000 are funded by BA 61, Real Property Operations.

The two orders exceeded the \$10,000 budget activity (BA) 61 threshold for repairs and alterations. The touch-less Toto faucets/valves can only be described as improvements since they replaced existing manually operated equipment. The BA 61 funds were misused in this procurement. The appropriate source of funds was BA 54 or, perhaps BA 55.

BA 55 funds energy conservation projects and requires the submission of an energy savings analysis to the Energy Center of Expertise. A study furnished to us by PBS showed a payback of 26.4 years for the touch less faucets and valves. We were told that a 10 year payback is typically expected for approval of BA 55 funding. The GCSC did not request BA 55 funding.

The GCSC personnel told us that the use of BA 61 funding was appropriate. They told us that these orders were only for the purchase of materials and therefore not subject to the BA 61 threshold of \$10,000 because the threshold only applies to the purchase of services and repairs. They stated that they purchased materials only but not labor. No explanation of the selection of an O&M contractor to act as the source of supply for plumbing components was provided. Also, the faucets and valves were not purchased for spot repairs. They were purchased to replace most of the faucets and flush valves in the JCK building. The orders clearly stated that the Toto equipment was to be purchased and installed by the O&M contractor for JCK. The replacement of the valves and faucets in the JCK building is a building improvement and clearly meets the requirement for using BA 54 or BA 55 funding.

Bona Fide Need. O&M contracts are funded by BA61. BA61 funds are issued for, and expire at the end of a fiscal year. BA54 is a no year budget activity and funds repair and alteration projects between \$10,000 and the annual prospectus limit. Since the work was not to be delivered until January of the following fiscal year, or about four months after the orders were placed, there was no bona fide need for the work during the year the BA 61 funds expired. Had BA 54 funds been used, bona fide need would not have been an issue.

Existing Prospectus Project. Our review of the Inventory Reporting Information System (IRIS) disclosed that the washrooms in the JCK Building were scheduled for design/renovation in 2008/2009 at a cost of \$12.4 million. Since the prospectus project will commence next year and involves the replacement of all toilets, urinals, and faucets, we

question the bona fide need for this equipment. As previously mentioned the O&M contract requires the contractor to perform the initial cost of each repair up to \$2,000 at no cost to the Government. Consequently, any leaky faucets and valves should have been repaired on a case- by -case basis without additional expense to the Government, thereby avoiding the costs incurred for faucet/valve replacement.

The GCSC told us that the prospectus project of \$12.4 million will not materialize in the year 2009 and they estimated that the funding would not be available for approximately eight years. No support for this contention was furnished to us nor does it explain why the project to replace the faucets and valves was undertaken.

See Appendix C for additional orders of Toto equipment (GSP0507SF0027 and GSP0507SY0037) which used BA 61 funds.

Recommendation

We recommend that the Regional Administrator:

- 1A. Develop and implement a system of internal controls to assure that GCSC employees perform their procurement responsibilities in such a manner as to assure that procurement laws and regulations are followed and proper funds used.

Management Response

The Regional Administrator agreed with the recommendation; however, he expressed concern about certain issues discussed in the finding and contested the basic premise of the audit finding (i.e., the purchase and installation of brand-name, touch-less faucets and toilet/urinal valves valued at over \$189,000 should have been competitively awarded rather than awarded on a sole-source basis to an O&M contractor). Please see page 15 of the audit report for a discussion of this issue. Please see Appendix H for a copy of the Regional Administrator's response to the draft audit report.

Finding 2 – Contract Administration Problems

We identified several contract administration problems. Subcontractor labor rates exceeded the rates specified in the contract. The provisions of the Davis Bacon Act were not followed. The contractor was paid for the time value of capital without justification or explanation. These factors resulted in additional costs to the Government. Ineffective management controls were the cause of the problems.

Subcontractor Labor Rates Exceed the Specified Contract Rates. The O&M contract for the buildings at 536 S. Clark, 450 S. Federal, 610 Canal and 701 Clinton requires the contractor to perform all maintenance repairs that are not expected to exceed \$10,000. The contract also states "The Contractor shall compute the labor costs using the offer unit

hourly rates for maintenance repair and architectural and structural maintenance and repair services specified in the offer sheet.” The contract rate was \$46.75 per hour.

The contract further states “The Contractor’s expenses for overhead, G&A, and profit are already included in this labor rate. This rate is to be utilized in determining costs for all repair work. Thus, no separate allowances for travel time, parking, overhead, G&A, or profit can be applied to individual repairs/replacements”. In Appendix D we show several orders whereby the GCSC granted rates as high as \$112 per hour, as well as overhead. The labor rates awarded were outside the scope of the contract and most of the orders shown in Appendix D exceed \$2,500. However, the GCSC did not solicit quotes from at least three sources in accordance with FAR 13.104. One of the orders exceeded \$25,000 and was not synopsisized in accordance with FAR 13.105. This order is also discussed in Appendix C to this report.

Davis Bacon Act. The Davis Bacon Act applies to construction contracts costing in excess of \$2,000 and requires the contractor to pay minimum wages and fringe benefits as determined by the Secretary of Labor to be prevailing in the area where the work is to be performed. In accordance with the Davis Bacon Act, FAR 52.222-8 requires the contractor to submit a copy of weekly payrolls to the contracting officer for each week of contract performance in order to assure conformance to the prevailing wage rate. The FAR also requires each payroll must be accompanied by a “Statement of Compliance” signed by the contractor and certifying that the contractor complied with the payroll provisions of the Davis Bacon Act. We selected the following orders for a review in order to best determine if the provisions of the Davis Bacon Act were enforced. We requested GCSC representatives to furnish the Davis Bacon payroll documentation on these orders however, they were unable to do so.

Order	Date	Order Amount
GS-P-05-06-SI-1085	6/20/06	\$24,965
GS-P-05-06-SI-1137	9/15/06	19,028
GS-P-05-06-SI-1130	9/11/06	18,500
GS-P-05-06-SI-1090	6/30/06	99,675

The two orders for Toto equipment, discussed earlier provided for repair and alteration work, should have utilized BA 54 funds and were subject to the Davis Bacon Act. Certified payrolls were not provided. The O&M contract mechanics were paid an hourly wage rate of \$30.20 in accordance with the union agreement for operating engineers. The hourly rate was below the prevailing wage rate of \$37.10 per hour for plumbers.

Time Value of Capital. As shown in Appendix C, we reviewed three orders that paid the contractor for the time value of capital. The total value of the orders was \$180,499 and the overpayment amounted to \$6,076. No logical explanation for allowing such payments to be made was offered by the GCSC personnel. The contract does not allow for such payments.

Recommendation

We recommend that the Great Lakes Region PBS:

- 2A. Establish and implement a system of internal controls to assure that GCSC employees perform their contract administration/management responsibilities in accordance with contract specifications and laws/regulations and recover any improper payments to contractors.

Management Response

The Regional Administrator agreed with the recommendation. Please see Appendix H for a copy of the Regional Administrator's response to the draft audit report.

Finding 3 – Reimbursable Work Authorization Controls

The audit sample included 12 RWA's that were obligated in fiscal years 2001 through 2005. The funds were not spent and the balances were not returned to the customer agencies. RWA files were not current or closed out in a timely manner. This matter was previously listed as a material weakness in the Price Waterhouse Coopers (PWC) Independent Auditors Report for fiscal year 2005 and remains an ongoing problem. The problem occurred as a result of weak and /or indifferent management controls.

RWA's With No Costs Incurred. The sample included RWA's that showed very little activity, i.e. RWA's that had start dates in fiscal years 2001 through 2005. Appendix E lists RWA's that had start dates ranging from September 12, 2002 to September 21, 2005, and had authorized funds ranging from \$3,778 to \$271,310. As of November 15, 2006 (the date of our audit test), we determined that funds had not been obligated against these RWA's. The GCSC did not close the RWAs and return the funds to the customer agencies making the bona fide need for these projects questionable. As shown in Appendix E, we requested the GCSC to provide five of the files to us for our review. They were never provided.

RWA's With Costs Incurred. Appendix F shows additional RWA's that were started in fiscal years 2002 through 2004. As of November 15, 2006, they were not closed out and had outstanding balances ranging from \$8,536 to \$43,617. The RWA's represent delivered work where the GCSC did not return the unused funds to the customer agency. We requested the GCSC to provide the four files shown in Appendix F for our review, but they were never provided.

As shown in Appendix G, RWA's and some IBAA's were not closed out in a timely manner. We reviewed 26 RWA's and two IBAA's as shown in Appendix G. We selected

projects that had completion dates between January 13, 2005 and April 11, 2006. Our review disclosed that 11 of the 28 files were missing and could not be located. The review also disclosed that 23 of the 28 files were closed out one to five years after their final billing.

The PWC Independent Auditors Report for FY 2005 addressed the issues and classified similar transactions as material weaknesses. The report stated that “The types of underlying transaction-level errors observed by PwC during our interim control tests included instances of both overstatements and understatements of undelivered orders, delivered orders, and unfilled customer orders”. The report further stated that “GSA’s failure to return spending authority to customer agencies for expired obligations and where bona fide needs for unfilled customer orders ceased to exist due to management’s insufficient monitoring controls over budgetary accounting”. Based on our audit tests, the problem has not been corrected.

Recommendation

We recommend that the Regional Administrator:

- 3A. Develop and implement an effective system of internal controls for managing RWA’s and IBAA’s in order to assure that they are properly recorded, filed, and closed out in a timely manner.

Management Response

The Regional Administrator agreed with the recommendation. Please see Appendix H for a copy of the Regional Administrator’s response to the draft audit report.

Finding 4 – Inadequate Disclosure Provided in Contract Solicitation

We reviewed a solicitation for janitorial services that provided incomplete disclosures to the prospective bidders. The incumbent contractor for the building was able to take advantage of the incomplete disclosures and submit a bid that was 25 percent below its current contract price. As a result, the incumbent contractor was the low bidder for the new contract and was awarded the contract. After the award of the new contract, the contractor was then granted a 36 percent contract price increase of \$337,853 per year through a contract amendment. The amendment resulted in a price that approximated the price of the contractor’s expiring contract. The inadequate disclosures in the solicitation and poor internal controls affected the fairness and integrity of the procurement.

Contract Amendment After Award. The janitorial contractor had a \$1,247,993 annual contract price for the Metcalfe Building that was expiring on July 31, 2004. Due to the pending expiration of this contract, PBS solicited for janitorial services on February 6, 2004 for a five year period commencing August 1, 2004. Fifteen contractors responded

to the solicitation and the incumbent was the low bidder. PBS awarded the contract to the incumbent contractor, on June 7, 2004 at a base year price of \$928,054. The new contract price was \$319,939 below the expiring contract price of \$1,247,993.

On July 27, 2004, five days before the start of the new contract, the contractor entered into a collective bargaining agreement (CBA) with the Laborers' International Union of North America. On July 28, 2004, it requested that PBS include the newly negotiated CBA rates in the new contract. On August 17, 2004, the contracting officer signed change order PO01 increasing the contract price by \$337,853 annually raising the contract cost from \$928,054 to \$1,265,907. The contract increase was retroactive to the contract start date, August 1, 2004. The \$337,853 annual increase resulted in additional costs to GSA of \$1.6 million over the original bid for the five year contract period.

Collective Bargaining Agreement. The contractor, under its expiring contract at the Metcalfe Building, had a CBA agreement. On March 30, 2003, approximately one year before PBS solicited for a new contract, the contractor did not renew its CBA. Although the CBA had expired, PBS continued to pay the CBA rate of \$14.78 per hour. Since a valid CBA agreement was not in place at the time of the solicitation, PBS solicited using a lower DOL wage determination.

PBS personnel told us that they approved the higher CBA wage rates and fringe benefits after the award of the new contract because union rates were being paid under the expiring janitorial contract. Their decision was based on FAR 22.1002-3, Wage determination based on collective bargaining agreements, paragraph (a) which states that successor contractors performing on contracts in excess of \$2,500 for substantially the same services performed in the same locality must pay wages and fringe benefits at least equal to those contained in any bona fide CBA entered into under the predecessor contract. They concluded that the CBA wage rates take precedence over the DOL wage determination.

We agree with the position that the CBA rates have precedence. However, based on FAR 22.1002-3, PBS should have included the CBA rates in the solicitation rather than the DOL wage determination for the following reasons:

1. The CBA rate of \$14.78 per hour plus fringe benefits was in effect for the contract at the Metcalfe Building even though the CBA agreement had expired prior to the solicitation.
2. The use of the CBA rate in the solicitation would have resulted in bids that more accurately reflected the final contract price thereby making it unnecessary for the awardee to request a contract modification.
3. Unsuccessful bidders told us they were unaware of the CBA rates in effect at the Metcalfe Building, and, therefore, unaware that they could offer the wage determination rate of \$10.82 per hour in their proposal and then change the rate

to the adjusted CBA rate of \$15.23 per hour prior to the contract start date. Consequently, the bidders expected to perform the contract services at the proposed rate of \$10.82 per hour.

4. The successful bid was 50 percent below the Government cost estimate since the estimate was based on the CBA rates of the expiring contract rather than the wage determination rates used in the solicitation. The rates caused further confusion when a PBS reviewing official questioned the contract award at \$928,054. In regard to the price negotiation memorandum the official stated that "There seems to be no discussion regarding the GCE. While you received competitive pricing, the total evaluated price of the GCE is almost double the amount of the proposed awardee. Did you verify the GCE, and if yes, are you confident that the proposed awardee has taken all the requirements into consideration. Again, although competitive pricing was received the discrepancy with the GCE should set off alarm bells". The contracting officer responded that the cost estimate was exorbitant and that the contractor was successfully operating under the current contract and was aware of all contract requirements. No amendment to the solicitation was issued informing all bidders of the CBA.

Recommendation

We recommend that the Great Lakes Region PBS:

- 4A. Develop and implement an effective system of internal review to assure adequate disclosures are made in contract solicitations in order to assure the integrity of the procurement process.

Management Response

The Regional Administrator agreed with the recommendation. Please see Appendix H for a copy of the Regional Administrator's response to the draft audit report.

Discussion of Management Response and Audit Analysis Regarding Finding 1

Although the Regional Administrator agreed with Recommendation No. 1, he expressed concern about the issues discussed in Finding 1, and requested certain points be revised or deleted from the report. Specifically, PBS disagreed with the basic premise of Finding 1 – namely, that the purchase and installation of brand-name, touch-less faucets and toilet/urinal valves valued at over \$189,000 should have been competitively awarded rather than awarded on a sole-source basis to an O&M contractor. PBS took the position that the O&M contract was not misused when plumbing faucets and flush valves were procured from, and installed by the O&M contractor and funded by BA61.

PBS contends that plumbing systems is part of the O&M contract and we agree. However, the contract is a maintenance contract not a contract for furnishing and

installing automatic faucets and valves which were improvements over the conventional manually operated faucets and valves that they replaced. Therefore, in our opinion, the project clearly met the requirements for funding by BA54. Once the faucets and valves were installed, assuming that they require the repeated adjustments as stated in the Regional Administrator's response, the O&M contractor should treat those adjustments as service call time.

In our opinion, the additional services clause does not apply in this situation since the furnishing of new high tech faucets and valves should not have been ordered through a service contract funded by BA61. We, therefore, re-affirm our position, since the wholesale provision and installation of new faucets and valves in excess of \$10,000 do not meet the definition of the term maintenance as defined by current PBS directives.

Since only the O&M contractor was given the opportunity to bid on the job, it clearly meets the definition of a sole source procurement. The project was also a split procurement because the furnishing and installation of the faucets and valves was one project. Known requirements were divided resulting in costs kept below the simplified acquisition threshold.

No valid justification for specifying a brand name could be prepared. Many firms manufacture automatic faucets and several manufacture piston type automatic flush valves that have equal to, or better, warranties than the Toto products. As the report states, the faucets and valves were ordered on the same date from the same source with January 2007 delivery dates. It was all plumbing work for one building.

The report clearly states that the orders placed required purchase and installation of Toto equipment by the O&M contractor. No separate orders for installation were issued to any contractor. The faucets and valves did not install themselves. The report does state that the overhead and profit paid the contractor would have covered the cost of labor. The installation was performed by the O&M contractor's employees.

The provision and installation of new touch less automatic faucets and valves exceeded \$10,000 in cost and, therefore, met the definition of a BA 54 project. Use of the O&M contract for provision of the faucets and valves was, therefore, outside the scope of the contract and a misuse of BA61 funds.

The Regional Administrator's response notes that the most current data in IRIS now has an FY 2010 design date with construction to begin in FY 2012. He further states that nearly all of the faucets were in dire need of replacement. No explanation of the logic to have the Government bear the entire cost burden (as opposed to the contractor) is provided. The poor condition of the faucets, most likely occurred over many years and ineffective contract administration may have been a contributing factor. Any defective faucet or valve should have been repaired or replaced by the contractor in accordance with the O&M contract on a case by case basis up to the \$2000 repair limit in the O&M contract as stated in the report.

No explanation of the decision to select automatic faucets and valves instead of conventional faucets was apparent from the files or interviews. The idea may have come from customer satisfaction surveys we obtained from 2001 and 2004. We found one out of 319 written comments in the 2004 survey that suggested installation of “motion faucets like they have at the airports.” The 2007 survey which was conducted after the new plumbing equipment was installed, had 23 comments that indicated dissatisfaction with new equipment or continuing problems with the functioning of the plumbing in the Kluczynski Building.

Other Issues

Quality Controls Over Service Contracts

Performance based service contracts require the use of measurable performance standards in order for the Government to assess contractor performance and determine whether contract results and objectives are being attained. In order to assure that the contract performance standards are being achieved, agencies are required to develop quality assurance surveillance plans (QASPs). The contractor is also required to develop a quality control plan (QCP) that establishes a method of monitoring and inspecting the work to ensure that the quality standards of the contract are met.

We reviewed janitorial contracts for six buildings, maintenance contracts for six buildings and elevator contracts for two buildings. We determined that the QASPs and QCPs were implemented at all sites except for the QASP for the O&M contract at 610 Canal. Further detail is provided in Appendix A. The plan should be fully implemented in order to assure that the quality control standards for these buildings are maintained.

Security Clearances. PBS has an established policy that all contract employees must pass a background suitability check in order to work in a GSA-controlled facility. Of the 224 personnel security clearances included in our review, we found that 98 percent of the employees were properly cleared. The results of the review are shown in Appendix B. The buildings in question should be reviewed in order to assure 100 percent compliance with security requirements.

Our review showed a significant improvement in the provision of QCPs, QASPs and the security clearances relative to our earlier audits of the Great Lakes Region.

Internal Controls

We assessed the internal controls relevant to certain aspects of the GCSC operations. We concluded that the internal controls were in effect for the implementation of quality control plans, quality assurance surveillance plans as well as employee security clearance procedures. However, we found that controls for contract procurement and certain aspects of contract administration were often ineffective and provided little assurance that Government assets were reasonably protected.

APPENDIX A

AUDIT OF THE
GREATER CHICAGOLAND SERVICE CENTER
PUBLIC BUILDINGS SERVICE
GREAT LAKES REGION
REPORT NUMBER A060125/P/5/R08004

REVIEW OF SERVICE CONTRACTS

Building	Contractor	Contract Number	Type	QCP	QCP Implemented	QASP	Notes
							1
536 Clark Chgo, IL	Anixter	GAC0022	J	Yes	Yes	Yes	
610 Canal Chgo, IL	Anixter	GAC0022	J	Yes	Yes	Yes	
77 W Jackson Chgo, IL	TTCC	GAC0053	J	Yes	Yes	Yes	
219 S DearbornChgo, IL	Ada McKinley	GAC0166	J	Yes	Yes	Yes	
230 S Dearborn Chgo, IL	Blackstone	GAC0043	J	Yes	Yes	Yes	
Hammond Ct House Hammond, IN.	TTCC	GAC0049	J	Yes	Yes	Yes	
536 Clark Chgo, IL	Northern Mgmt Services	GAC0126	M	Yes	Yes	Yes	
610 Canal Chgo, IL	Northern Mgmt Services	GAC0126	M	Yes	Yes	No	2
77 W Jackson Chgo, IL	Wilson 5 Service Company	GAC0109	M	Yes	Yes	Yes	
219 S. DearbornChgo, IL	CSI	SIC0048	M	Yes	No	Yes	
230 S. DearbornChgo, IL	Urban Meridian	GAC0065	M	Yes	Yes	Yes	

APPENDIX A

REVIEW OF SERVICE CONTRACTS
(Continued)

Building	Contractor	Contract Number	Type	QCP	QCP Implemented	QASP	Notes
Hammond Ct House Hammond, IN	Urban Meridian	GAC0061	M	Yes	Yes	Yes	
77 W Jackson Chgo, IL	Kone Inc.	SI1026	E	Yes	Yes	Yes	
Hammond Ct House Hammond, IN	Kone Inc	GAC0013	E	Yes	Yes	Yes	

Key: Type

- J Janitorial Contract
- M Operation and Maintenance Contract
- E Elevator Contract

Notes:

1. "Yes" designates that the QASP was both available and implemented.
2. A QASP was available, but it required the completion of inspection forms by GCSC personnel. The inspection forms were not completed so we consider the QASP as not fully implemented.

APPENDIX B

AUDIT OF
THE GREATER CHICAGOLAND SERVICE CENTER
PUBLIC BUILDINGS SERVICE
GREAT LAKES REGION
REPORT NUMBER A060125/P/5/R08004

SECURITY CLEARANCES

Building	Service	Number Of Employees	Number Cleared	Percent Cleared
230 S. Dearborn	Janitorial	49	49	100
230 S. Dearborn	Mechanical	16	16	100
77 W Jackson	Janitorial	22	22	100
77 W. Jackson	Mechanical	5	5	100
77 W. Jackson	Elevator	2	1	50
610 Canal	Mechanical	3	3	100
536 Clark	Mechanical	3	3	100
610 Canal	Janitorial	14	14	100
536 Clark	Janitorial	22	21	95
219 S. Dearborn	Mechanical	15	15	100
219 S. Dearborn	Janitorial	51	50	98
Hammond Court House	Mechanical	6	6	100
Hammond Court House	Janitorial	16	16	100
Totals		224	221	98

APPENDIX C

AUDIT OF THE
GREATER CHICAGOLAND SERAVICE CENTER
PUBLIC BUILDINGS SERVICE
GREAT LAKES REGION
REPORT NUMBER A060125/P/5/R08004

REVIEW OF ADDITIONAL ORDERS

Order Number	Date	Building	Contractor	Contract Number	Amount	Notes
GS-P-05-06-SI-1090	6/30/06	211 Clark St.	CSI	GS05P05SIC0048	\$99,675	1
GS-P-05-06-SI-1085	6/20/06	JCK	CSI	GS05P05SIC0048	33,784	2
GS-P-05-06-SI-1137	9/15/06	JCK	CSI	GS05P05SIC0048	19,028	3
GS-P-05-06-SI-1130	9/11/06	JCK	CSI	GS05P05SIC0048	47,040	4
GS-P-05-07-SI-0043	12/28/06	JCK	CSI	GS05P05SIC0048	132,000	5
GS05P06SIP3016	2/27/06	JCK	Althoff	GS05P06SIP3016	35,545	6
GS-P-05-06-SF-1006	12/29/05	536 Clark St.	Northern	GS05P00GAC0126	26,915	7
GS-P-05-07-SF-0027	6/27/07	536 Clark St.	Meridian	GS05P06SIC3028	66,761	8
GS-P-05-07-SY-0037	6/28/07	610 Canal St.	Meridian	GS05P06SIC3028	70,890	9

Notes:

1. The GCSC placed this order with the O&M contractor for the clean up and repair of two existing dock platform lifts at 211 S. Clark St. The work was then subcontracted by the O&M contractor.
 - Misuse of Contract Vehicle. The order for \$99,675 exceeded the scope of the O&M contractor's contract and was an inappropriate vehicle for the procurement of this order.
 - Sole Source Procurement. The GCSC violated the competition requirements of FAR 5.101(a)(1) and FAR 13.104.

REVIEW OF ADDITIONAL ORDERS

(Continued)

- Procurement File Review. The O&M contractor subcontracted the work and marked up the subcontract work by [REDACTED] percent ([REDACTED]) for profit and [REDACTED] percent ([REDACTED]) for overhead. A detailed subcontractor proposal showing labor hours, labor rates and material costs was not available. A price reasonableness determination was also unavailable. We attempted to make a second review of this file, but the GCSC was unable to locate the file for the second review.
 - Time Value of Capital. The order included \$3,987 for the time value of capital. The GCSC could not provide an explanation for awarding this line item.
2. The GCSC placed this order with the O&M contractor for the repair of IRS computer room air conditioning units at the JCK Building. The work was then subcontracted by the O&M contractor.
- Misuse of Contract Vehicle. The order which was originally placed for \$24,965 and then amended to \$33,784 exceeded the scope of the O&M contract and was an inappropriate vehicle for the procurement of this order.
 - Sole Source Procurement. The GCSC violated the competition requirements of FAR 5.101(a)(1) and FAR 13.104.
 - Procurement File Review. The O&M contractor subcontracted the work and marked it up by [REDACTED] percent ([REDACTED]) for profit and [REDACTED] percent ([REDACTED]) for overhead. A detailed subcontractor proposal showing labor hours, labor rates and material costs was not available. A price reasonableness determination was also unavailable.
 - Time Value of Capital. The order included \$1,349 for the time value of capital. The GCSC could not provide an explanation for awarding this line item. A GCSC representative stated that the order would be amended.
3. The GCSC placed this order with the O&M contractor to replace, calibrate, test and reinstall steam safety pressure, reducing valves at various locations throughout the mechanical floors of the JCK. Building. The work was then subcontracted.
- Misuse of Contract Vehicle. The order for \$19,028 exceeded the scope of the O&M contract and was an inappropriate vehicle for the procurement of this order.
 - Sole Source Procurement. The GCSC violated the competition requirements of FAR 5.101(a)(2) and FAR 13.104. The procurement did not comply with the provisions of FAR 5.101(a)(2) which requires proposed contract actions expected to exceed \$10,000 but not exceeding \$25,000 to be displayed in a public place or by appropriate electronic means.
 - Procurement File Review. A price reasonableness determination was unavailable.

REVIEW OF ADDITIONAL ORDERS

(Continued)

4. The GCSC placed this order with the O&M contractor to provide labor and materials for rebuilding an air compressor, install a new control system and replace pipes in the JCK Building. The work was then subcontracted.
 - Procurement File Review. The O&M contractor and another contractor responded with bids. The O&M contractor was the low bidder and was awarded the order for \$18,500 on September 11, 2006. On December 21, 2006 the order was increased by \$28,540 to \$47,040. A price reasonableness determination was unavailable despite the large cost increase.
 - Time Value of Capital. The order included \$740 for the time value of capital. The GCSC could not provide an explanation for awarding this line item.
5. The GCSC placed this order for re-commissioning the building automation system at JCK with the O&M contractor. The O&M contractor subcontracted this work.
 - Misuse of Contract Vehicle. The order for \$132,000 exceeded the scope of the O&M contract and was an inappropriate vehicle for the procurement of this order.
 - Sole Source Procurement. The GCSC violated the full and open competition requirements of FAR 6.1.
6. The GCSC placed this order for the installation of water leak sensing devices and control mechanisms in the JCK Building with an outside contractor.
 - Sole Source Procurement. The original order was for \$24,795 and was then amended to \$35,545. The GCSC violated the competition requirements of FAR 5.101(a)(1) and FAR 13.104.
 - Procurement File Review. A detailed contractor proposal showing labor hours, labor rates and material costs was not available. A price reasonableness determination was also unavailable. The file contained a sole source justification but it did not contain sufficient detail. The justification stated that the contractor "is the only contractor with access to the buildings controls system and is capable of meeting the performance requirements of this contract."
7. The GCSC placed this order for material and labor to install an overflow pipe at 536 Clark St. The order was placed with the O&M contractor for the building.
 - Misuse of Contract Vehicle. The order for \$26,915 exceeded the scope of the O&M contract and was an inappropriate vehicle for the procurement of this order.
 - Sole Source Procurement. The GCSC violated the competition requirements of FAR 5.101(a)(1) and FAR 13.104.

REVIEW OF ADDITIONAL ORDERS

(Continued)

8. The GCSC placed this order for the purchase and installation of Toto flush valves and faucets at 536 Clark St. The order was placed with the O&M contractor for the building. The O&M contractor then purchased the equipment through the Toto distributor and marked up the order by [REDACTED] percent or [REDACTED] for overhead.
 - Misuse of Contract Vehicle. The order for \$66,761 exceeded the scope of the O&M contract and was an inappropriate vehicle for the procurement of this order.
 - Sole Source Procurement. The GCSC violated the competition requirements of FAR 5.101(a)(1) and FAR 13.104.
 - Misuse of Funds. The order was funded with BA 61 funding despite the fact that it involved repair and alteration work in excess of the \$10,000 BA 61 repair threshold.
 - Brand Name not Justified. Toto flush valves and faucets were purchased from the Toto distributor without the brand name justification required by FAR 6.303 and 6.304.

9. The GCSC placed this order for the purchase and installation of Toto flush valves and faucets at 610 Canal. The order was placed with the O&M contractor for the building. The O&M contractor then purchased the equipment through the Toto distributor and marked up the order by [REDACTED] percent or [REDACTED] for overhead.
 - Misuse of Contract Vehicle. The order for \$70,890 exceeded the scope of the O&M contract and was an inappropriate vehicle for the procurement of this order.
 - Sole Source Procurement. The GCSC violated the competition requirements of FAR 5.101(a)(1) and FAR 13.104.
 - Misuse of Funds. The order was funded with BA 61 funding despite the fact that it involved repair and alteration work in excess of the \$10,000 BA 61 repair threshold.
 - Brand Name not Justified. Toto flush valves and faucets were purchased from the Toto distributor without the written brand name justification required by FAR 6.303 and 6.304.

APPENDIX D

AUDIT OF THE
GREATER CHICAGOLAND SERVICE CENTER
PUBLIC BUILDINGS SERVICE
GREAT LAKES REGION
REPORT NUMBER A060125/P/5/R08004

SUBCONTRACTOR LABOR COSTS
(See Note)

Order Number	Date	Building	Order Amount	Subcontractor Wage Rate	Overhead
P0506SF0004	12/6/05	536 Clark	\$ 2860	\$112	████████
P0505SF0033	6/20/05	450 Federal	9775	61	████████
5CS6-10-0003	9/1//05	610 Canal	1529	96	████████
GSP0506SF1011	4/17/06	536 Clark	2958	112	████████
5CS6-06-0102	6/26/06	610 Canal	2402	95	████████
GSP0506SF1033	7/25/06	610 Canal	5184	96	████████
GSP0506SF1006	12/29/05	536 Clark	26915	80	████████

Note:

The orders shown in the table were placed against Northern Management Services Contract, GS05P00GAC0126. The contract provides for a labor rate of \$46.75 per hour which includes labor, overhead and profit. As shown in the table above the PMC granted hourly labor rates up to \$112 per hour.

APPENDIX E

AUDIT OF THE
GREATER CHICAGOLAND SERVICE CENTER
PUBLIC BUILDINGS SERVICE
GREAT LAKES REGION
REPORT NUMBER A060125/P/5/R08004

UNOBLIGATED RWA'S (UNFILLED CUSTOMER ORDERS)

<u>RWA Number</u>	<u>Start Date</u>	<u>Amount</u> (Note 1)	<u>Notes</u>
3444906	10/01/04	\$ 11,791	2
2830401	09/26/01	25,000	2
2229517	09/21/05	48,000	2
3118245	12/30/02	30,000	2
3070969	08/31/04	3,778	
3291175	09/24/04	150,000	
3118371	09/23/03	271,310	3
3117628	09/12/02	13,637	2

Notes:

1. As of 11/15/06 the date of our review, the RWA funds shown had not been obligated.
2. The RWA file was requested from the GCSC, but was not provided.
3. RWA 3118371 had a start date of 9/23/03 and a customer certification of bona fide need, but the certification was dated 8/23/06 which was approximately three years after the start date. Consequently, the funds were available for approximately three years before the certification of bona fide need.

APPENDIX F

AUDIT OF THE
GREATER CHICAGOLAND SERVICE CENTER
PUBLIC BUILDINGS SERVICE
GREAT LAKES REGION
REPORT NUMBER A060125/P/5/R08004

RWA BALANCES ON DELIVERED ORDERS

<u>RWA</u>	<u>Start Date</u>	<u>Date of Last Billing</u>	<u>RWA Amount</u>	<u>Obligated Amount</u>	<u>Remaining Balance</u> (Note 1)	<u>Note</u>
2830773	08/22/02	09/25/04	\$342,908	\$299,291	\$43,617	2
3118216	09/16/03	06/25/04	38,604	21,983	16,621	2
3291298	08/31/04	03/25/05	21,205	12,669	8,536	2
3118410	09/19/03	04/25/05	49,472	36,764	12,708	2

Notes:

- 1 As of 11/15/06 the date of our review, the RWA's shown above had not been closed out and had the outstanding balances shown.
2. The RWA file was requested from the GCSC, but was not provided. We concluded that the files could not be located.

APPENDIX G

AUDIT OF THE
GREATER CHICAGOLAND SERVICE CENTER
PUBLIC BUILDINGS SERVICE
GREAT LAKES REGION
REPORT NUMBER A060125/P/5/R08004

RWA PROCUREMENT FILE DEFICIENCIES

Order No.	Amount	Late Closeout	Missing File	Notes
		(Note 1)	(Note 2)	
2830333	\$ 16,740	X		3
2830553	30,112	X		4
3445086	21,558			5
2616010	10,407	X		6
N9291807	80,000	X	X	7
3444883	45,334	X		8
3377594	15,245		X	9
3377565	10,000		X	10
2829849	25,204	X	X	11
2830074	28,452	X		12
2830197	105,049	X		13
2830265	22,441	X	X	14
2830605	25,054	X	X	15
3117602	22,846	X	X	16
2615516	60,566	X	X	17
2830443	24,447	X		18
2830456	81,828	X		19
2830731	21,048	X		20
3117709	142,995	X		21
3445248	68,424			22
1529182	80,000	X	X	23
1529250	85,256	X	X	24
2615477	67,348			25
2615545	47,000	X	X	26
2615804	100,000	X		27
2830032	51,792	X		28
3118229	14,769	X		29
N9290633	28,000	X		30

APPENDIX G

RWA PROCUREMENT FILE DEFICIENCIES
(Continued)

Notes:

1. These orders were completed for 1 to 5 years before they were closed out.
2. RWA files and/or procurement files were not available for these orders.
3. RWA 2830333 showed that the last billing was dated 3/25/02, but the RWA was not closed out until 1/18/06.
4. RWA 2830553 showed that the work was completed on 2/20/03 and the last billing was dated 9/25/03, but the RWA was not closed out until 1/27/06.
5. No exception noted.
6. The last billing for RWA 2616010 was 8/25/01, but the RWA was not closed out until 7/12/05.
7. The IBAA N9291807 was missing. The project started 9/26/02 and has not been closed out.
8. RWA 3444883 showed that the last billing was dated 3/25/05, but the project has not been closed out.
9. RWA 3377594 has a recent start of 9/30/05 and we attempted to review the file. The RWA and procurement files were missing and the RWA has not been closed out.
10. RWA 3377565 started 7/14/04 and was closed out on 6/30/05. We attempted to review the RWA and procurement files but both were missing.
11. The last billing for RWA 2829849 was dated 11/25/01 but the RWA was not closed out until 7/12/05. The RWA file was available but the procurement file was missing.
12. The last billing for RWA 2830074 was dated 4/25/02 but the RWA was not closed until 7/12/05.

APPENDIX G

RWA PROCUREMENT FILE DEFICIENCIES

(Continued)

13. RWA file 2830197 showed the work as completed on 11/28/01 and the last billing was dated 8/25/02, but the RWA was not closed out until 2/14/06.
14. The last billing for RWA 2830265 was dated 4/25/02, but the RWA was not closed out until 7/12/05. Both the RWA file and the procurement file were missing.
15. The last billing for RWA 2830605 was dated 5/25/02, but the RWA was not closed out until 2/14/06. Both the RWA file and the procurement file were missing.
16. The last billing for RWA 3117602 was dated 12/25/03, but the RWA was not closed out until 2/14/06. Both the RWA and procurement file were missing.
17. The last billing for RWA 2615516 was dated 8/25/02, but the RWA was not closed out until 1/13/05. Both the RWA file and the procurement file were missing.
18. RWA 2830443 showed the work as completed on 8/11/03 and the last billing was dated 9/25/03, but the RWA was not closed out until 4/11/06.
19. RWA 2830456 showed the work as completed on 2/3/03 and the last billing was dated 9/25/03, but the RWA was not closed out until 4/14/05.
20. RWA 2830731 showed the work as completed on 9/30/02 and the last billing was dated 9/25/03, but the RWA was not closed out until 4/11/06.
21. RWA 3117709 showed the work as completed on 8/8/03 and the last billing was dated 2/25/04, but the RWA was not closed out until 2/14/06.
22. No exception noted.
23. The last billing for RWA 1529182 was dated 9/25/00, but the RWA was not closed out until 9/30/05. The RWA file was available but the procurement file was missing.
24. The last billing for RWA 1529250 was dated 12/25/00, but the RWA was not closed out until 1/13/05. The RWA file was available but the procurement file was missing.

APPENDIX G

RWA PROCUREMENT FILE DEFICIENCIES

(Continued)

25. No exception noted.
26. The last billing for RWA 2615545 was dated 9/25/01, but the RWA was not closed out until 3/16/06. Both the RWA file and the procurement file were missing.
27. RWA 2615804 showed that the final inspection was performed on 6/5/01 and the last billing was dated 8/25/01, but the RWA was not closed out until 3/16/06.
28. RWA 2830032 showed the work as completed on 5/28/03, and the last billing was dated 10/25/02, but the RWA was not closed out until 7/12/05.
29. RWA 3118229 showed the work as completed on 10/10/03, and the last billing was dated 3/25/04, but the RWA was not closed out until 6/1/05.
30. The IBAA N9290633 showed that work was started 9/3/02. The file showed that the project was completed 11/17/02, but the project has not been closed out.

AUDIT OF THE
GREATER CHICAGOLAND SERVICE CENTER
PUBLIC BUILDINGS SERVICE
GREAT LAKES REGION
REPORT NUMBER A060125/P/5/R08004

REGIONAL ADMINISTRATOR'S RESPONSE TO THE DRAFT REPORT



MAY 5 2008



MEMORANDUM FOR DAVID K. STONE
REGIONAL INSPECTOR GENERAL FOR AUDITING (JA-5)

FROM: JAMES C. HANDLEY
REGIONAL ADMINISTRATOR (5A)

SUBJECT: Response to Draft Report – Audit of the Greater Chicagoland Service Center, Public Buildings Service, Great Lakes Region Report Number A060125

Thank you for the opportunity to provide revised comments regarding the subject audit. The Public Buildings Service (PBS) is in general agreement with the recommendations put forth in the draft audit. The PBS, Property Management Division (PMD) has processes and procedures in place to address each recommendation and has begun to correct the deficiencies noted in the audit. However, PBS continues to express its concerns that several of the findings and requests presented in the audit be amended. These concerns are presented below for your consideration.

A key PBS contention is that once an Operation and Maintenance (O&M) contract is awarded, all work that falls within the scope of the contract, including Additional Services, should be directed to the O&M contractor once the assignment of this work is determined to be in the best interest of the Government. The subject audit contests this claim, and as a result, develops a series of findings.

Finding 1: Additional Procurement Controls Needed – PBS disagrees with the finding concerning the misuse of contract vehicles, sole source procurements, split procurements, diversion of contract employees, improper use of BA61 funds, and lack of bona fide need. The audit did not address bona fide need. The Greater Chicagoland Service Center strongly enforces a bona fide need requirement with all purchases and PBS requests that this claim be deleted from the audit.

Misuse of Contract Vehicle – PBS believes that the upkeep of plumbing systems is clearly part of the O&M contract, and, consequently, the faucets and flush valves are integral to that system. The faucets require repeated adjustments for temperature and activation. The flush valves also require repeated adjustment. These adjustments are performed as service calls, which are part of the O&M contract. PBS believes it would not be practical to have separate contractors install the devices and attempt to troubleshoot the devices during the ensuing months. The delivery order utilized the Additional Services

REGIONAL ADMINISTRATOR'S RESPONSE TO THE DRAFT REPORT
(Continued)

clause in the O&M contract to order this work. Additionally, the contract does not specify a limitation on the value of work ordered using the Additional Service clause. PBS requests that this claim be removed from the audit.

The information in the audit in several locations questions the purchase of additional services over \$10,000. The existing contract does allow for this type of service through the Additional Services clause. It has long been the policy and practice in this Region to have the O&M contractor perform work beyond the \$10,000 limit with the approval of the COR through the additional services clause. This work would be for items clearly related to the O&M contract and would include such items as pumps, parts, labor, and materials for maintenance. This work is not for activities outside of the contract, or for major construction repairs or alterations. In light of the subject audit, the O&M specifications have been updated to further clarify that the contractor may perform these types of repairs beyond the \$10,000 threshold with the COR's approval (a copy of the revised specifications have been provided previously).

Sole Source Procurement – The orders in question were not sole source procurements. The contract provided for Additional Services. The orders in question were placed in accordance with the Additional Services clause which allows for any work, requested and authorized by the Government, that is within the scope of this contract but in addition to the contract requirements. PBS acknowledges that the delivery orders and files were not adequately documented and may have been misleading to a reviewer.

Brand Name Not Justified – PBS acknowledges that although staff did research on the Toto product, the file documentation does not demonstrate appropriate market research for the name brand product.

Split Procurement – PBS believes the two orders were purchased correctly because they were two separate and distinct items and ordered as a delivery order through the O&M contractor. The items were installed at different times and were not a single, unified project. The flush valves and faucets were to replace existing items as these items malfunctioned or needed to be replaced. In addition PBS did not know at the time the orders were being developed whether sufficient funds would be available to pursue both items. The faucets were considered a priority due to the condition of the existing faucets. PBS believes it to be entirely legitimate to procure the items separately as these items were being installed on different components, would be installed at different times, and required different installation techniques. PBS purchased two separate items in two separate procurement actions utilizing the Additional Services clause in the O&M contract. PBS does acknowledge that the files were not adequately documented regarding this matter.

FSS Contracts Not Utilized – PBS did market research around July 2006 and found that the Toto products, faucets and flush valves (urinal and toilet), were

REGIONAL ADMINISTRATOR'S RESPONSE TO THE DRAFT REPORT
(Continued)

not on Schedule. Based on the file documentation, as of April 11, 2007, the faucets and urinal flush valves were still not available on Schedule. PBS made the business decision to place a delivery order with the O&M Contractor for the Toto product for which PBS had received competitive quotes. PBS acknowledges that although Regional personnel did research on the Toto product, the file documentation does not demonstrate appropriate market research for other similar products.

Diversion of Contract Employees – The two orders to the O&M contractor were for materials only. Page 7 of the audit states, "The Toto orders did not include installation costs." PBS did not enter into any orders with Toto directly. The "mark ups" referred to were overhead and profit. The subject audit questions the inclusion of overhead and profit on these two orders. Paragraph C.6 (B) of the O&M contract specifically provides for contractor mark ups on all subcontractor pricing including parts or material costs. PBS believes appropriate procedures were followed, and PBS received concurrence from the Office of the Regional Counsel regarding this matter.

As the subject audit does not substantiate diversion of contract employees, PBS is unable to address this matter further. PBS believes no diversion of contract employees occurred.

Use of Funds – These orders were for materials. The funding source was correctly determined to be BA 61 as these purchases were for materials ordered from the O&M contractor. The work in question was not part of a construction project and therefore use of BA 54 or 55 funds would not have been appropriate.

PBS believes that it was therefore appropriate to issue delivery orders against the O&M contract utilizing the additional services clause which allows for any work, requested and authorized by the Government, which is within the scope of this contract but in addition to the contract requirements.

Existing Prospectus Project – According to the current data in the Information Reporting Information System (IRIS), a prospectus for the Kluczynski Federal Building had a study completed in 2006 and is scheduled to be in the design phase in fiscal year 2010 with construction scheduled to begin in fiscal year 2012, at the earliest. These current dates in IRIS are at best tentative and may change again. The prospectus request has gone forward to National Office. However, there is no assurance it will get approved. PBS requests that the subject audit be corrected to reflect these dates.

Since the audit began approximately February 2006, it is very likely the auditor did view IRIS as reported in the draft audit with design/construction 2008/2009. In February 2008, the GSA Asset Manager and the GSA R&A Program Specialist confirmed that IRIS was updated approximately 18 months ago

REGIONAL ADMINISTRATOR'S RESPONSE TO THE DRAFT REPORT
(Continued)

(approx. June 2006). The IRIS does not record when updates are made. Only the R&A Program Specialists have access to update IRIS.

Nearly all of the faucets in this building were in dire need of replacement. The need to replace these faucets as soon as possible presented PBS an opportunity to upgrade all the existing devices. The poor functionality of the restroom fixtures has long been a tenant issue expressed in customer satisfaction surveys. PBS made the decision to investigate and subsequently upgrade the faucets and valves in the restrooms once it was confirmed the construction phase was well into the year 2012. Therefore, the research by the SC began sometime after the June 2006 update in IRIS and issued the delivery orders in September 2006.

Recommendation #1 – PBS agrees with the recommendation.

Finding 2: Contract Administration Problems

Subcontractor Rates Exceed the Specified Contract Rates – PBS concurs with the finding and recommendation and will present its remediation measures in response to this finding in the final audit.

Davis Bacon Act – The two delivery orders for Toto equipment were ordered off established line items in the contract that were subject to the Service Contract Act. The Davis Bacon Act did not apply to these two orders.

Time Value of Capital – PBS concurs with the finding and recommendation and will present its remediation measures in response to this finding in the final audit.

Recommendation #2 – PBS agrees with the recommendation.

Finding 3: RWA Controls – PBS concurs with the finding and recommendation and will present its remediation measures in response to this finding in the final audit.

Recommendation #3 – PBS agrees with the recommendation.

Finding 4: Inadequate Disclosure Provided in Contract Solicitation – PBS concurs with the finding and recommendation and will present its remediation measures in response to this finding in the final audit.

Recommendation #4 – PBS agrees with the recommendation.

PBS requests that your office revise the subject audit prior to issuance of the final report. Please contact PBS Assistant Regional Administrator J. David Hood or me with any questions regarding this information.

APPENDIX I

AUDIT OF THE
GREATER CHICAGOLAND SERVICE CENTER
PUBLIC BUILDINGS SERVICE
GREAT LAKES REGION
REPORT NUMBER A060125/P/5/R08004

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