IG-97-009

AUDIT REPORT

RAPID ACTION

CONTRACTOR FACILITY LEASES

LEWIS RESEARCH CENTER

November 22, 1996

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National Aeronautics and Space Administration

OFFICE OF INSPECTOR GENERAL

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National Aeronautics and Space Administration

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National Aeronautics and
Space Administration

Headquarters
Washington, DC 20546-0001

Reply to Attn of: W

November 22, 1996

TO: Lewis Research Center
0100/Director

FROM: W/Assistant Inspector General for Auditing

SUBJECT: Final Rapid Action Report
Contractor Facility Leasing
Assignment No. A-LE-96-002
Report No. IG-97-009

The NASA Office of Inspector General is conducting an audit of Contractor Facility Leases at four NASA Centers to determine whether NASA is adequately managing facility leasing. During the course of the audit, we identified leasing issues at Lewis Research Center (LeRC) that required immediate management attention. Specifically, LeRC could pay excessive lease costs on two leased facilities located in the Aerospace Technology Parkway adjacent to the Center.

We issued a draft rapid action report on September 27, 1996, and received your written response on October 28, 1996. The Center concurred with the intent of both recommendations. Your response is summarized in the recommendation section of this report and is included in its entirety as Appendix A. We consider the first recommendation closed with the issuance of this final report. However, we request to be included in the concurrence cycle for closure of the second recommendation.

The NASA Office of Inspector General staff members associated with this audit express their appreciation to LeRC civil service and contractor personnel for their courtesy, assistance, and cooperation. If you have any questions or need additional information, please call Lorne Dear, Program Director, Infrastructure and Support at (818) 354-5634; or Robert Wesolowski, Director, Audit Division-A, or me at (202) 358-1232.

Debra A. Guentzel
Debra A. Guentzel

Enclosure

cc:
H/D. Lee
H/J. Horvath
JM/P. Chait

INTRODUCTION

The NASA Office of Inspector General is conducting an audit of Contractor Facility Leases at four NASA Centers. During the audit, we noted leasing issues at the Lewis Research Center (LeRC) that required immediate management attention. Because of the significance and time sensitivity of the issues, we issued this rapid action report.

Several LeRC contractors currently lease office space located at the Aerospace Technology Parkway. The Parkway is located adjacent to LeRC, as well as the Cleveland-Hopkins International Airport. The City of Cleveland has completed a proposed master plan to construct a new runway at the airport. The proposal includes provisions that will affect NASA and its contractors located at the Parkway.

BACKGROUND

Contract awards with commercial activities sometimes require contractors to acquire facilities to perform Government work. NASA's Office of Procurement (Code H) and installation procurement divisions are responsible for carrying out the acquisition process which includes complying with applicable contract regulations and evaluating contractor facility costs. According to Federal Acquisition Regulations (FAR), lease costs for facilities are an allowable cost, but must be reasonable (FAR 31.201-3(a)).

During the fall of 1995, the City of Cleveland proposed a master plan to construct a 6,000-foot segment of a new runway for the Cleveland-Hopkins International Airport. The proposed expansion will require the acquisition of approximately 100 acres of land. This would include 21 acres of the existing Aerospace Technology Parkway and 40 acres of the NASA LeRC.

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OBJECTIVES, SCOPE, AND METHODOLOGY

OBJECTIVES

Our overall audit objective is to determine whether NASA is adequately managing facility leasing. Specifically, we will answer the following questions:

Are contractor facility leases correctly classified?

Are contractor facilities effectively utilized?

Do contractors accurately bill lease costs to the Government?

SCOPE

For purposes of this rapid action report, we limited the scope of work to the management of two facilities at LeRC. Specifically, we evaluated whether savings may be possible by having NASA reassess a contractor's request for reconstruction funds and reevaluate another contractor's request for refurbishment costs.

METHODOLOGY

The audit included interviews with officials from the City of Cleveland, Chelm Properties Incorporated, LeRC and contractor personnel. The audit included examination of agency and contractor records, as related to the audit objective. We relied on cost and financial data presented by NASA and contractor personnel.

MANAGEMENT CONTROLS

We reviewed management controls related to the leases addressed in this report. The review included the oversight of lease agreements, FAR and other contractual documents. Additional management controls pertaining to the audit objectives will be reviewed as part of our ongoing work.

AUDIT FIELD WORK

The audit field work related to the observations in this report was conducted from March to July 1996. All of the field work was conducted at LeRC and in the Cleveland, Ohio area. The audit was performed in accordance with generally accepted government auditing standards.

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OBSERVATIONS AND RECOMMENDATIONS

OVERALL OBSERVATION

LeRC could pay excessive lease costs on two leased facilities located in the Parkway adjacent to the Center. For one leased facility, the contractor has submitted a $164,000 proposal to NASA for reconstruction work; however, we found that the City of Cleveland plans to purchase the same building as part of an airport expansion project and destroy the building to make room for a runway. On the second leased facility, the LeRC contractor has requested the Center pay for refurbishment costs of about $1 million. The original documentation called for refurbishment costs of $250,000. We found no documentary evidence to support the increased cost.

Proposed Reconstruction Costs

One contractor, Analex Corporation, has proposed $164,000 in reconstruction work for a leased building at 3001 Aerospace Parkway, Brook Park, Ohio (the Analex Building) as part of its NASA contract for the Space Station Facility Combustion Subsystem. Originally, the reconstruction costs were $360,000; however, since our inquiry, the proposed costs have been revised downward to $275,000 then $164,000. The Contracting Officer's Technical Representative (COTR) stated that if the construction proposal is approved, the construction will start on October 1, 1996 and will be completed within two and one-half months.

Based on our discussions with a City of Cleveland official, the Assistant Manager for the Planning & Environment Department, and the LeRC Chief of Public Affairs, the Analex Building is in the process of being purchased by the City of Cleveland for an airport expansion project. The project is estimated to begin in 1997 and would involve demolishing the Analex Building to make room for a runway extension. According to the City official, an agreement has been reached to acquire land located at the NASA Lewis Research Center and Aerospace Parkway and to expand the runway by 10,500 feet. (See picture and map on next pages)

The LeRC Chief of Procurement told us that he was not aware of the current status of the airport expansion and did not realize that the Analex Building would be purchased and destroyed. He agreed that money spent reconstructing the building would not be in the Government's best interest.

RECOMMENDATION 1

The Chief of Procurement should deny the contractor's request for reconstruction funds.

MANAGEMENT'S RESPONSE

We concur with the intent of this recommendation not to approve any request for major building modifications to the building at 3001 Aerospace Parkway, leased by the Analex Corporation in support of contract NAS3-27600. There have been discussions between Analex and the Space Experiments Division of LeRC to determine the equipment and building modifications required to create an "assembly, test, and integration" capability in the existing facility. This capability would support a major space experiment project entitled the "Fluids Combustion Facility" (FCF). Currently, because of significant budget reductions, the FCF project is on indefinite hold. Moreover, the building has been targeted for demolition in support of airport expansion. For both of these reasons, the decision has been made not to proceed and Analex has not requested the Government's consent to modify its lease. Based on the current circumstances, we do not anticipate receiving any such request or consenting to one if received.

Evaluation of Management's Response

Management's action is responsive to the recommendation. Rapid Action Reports are issued to provide a heads up to NASA management on issues that concern the best interest of the Government. At the time of our initial inquiry, LeRC personnel provided documentation indicating that NASA was considering a proposal for reconstruction totalling $360,000 which was subsequently reduced to $164,000 in June 1996. As such, when our office discovered that consideration was being given to approving funds for the reconstruction in the Analex building, we took immediate action to advise NASA management that spending these funds were not in the best interest of the Government.

ANALEX CORPORATION

Aerospace Parkway

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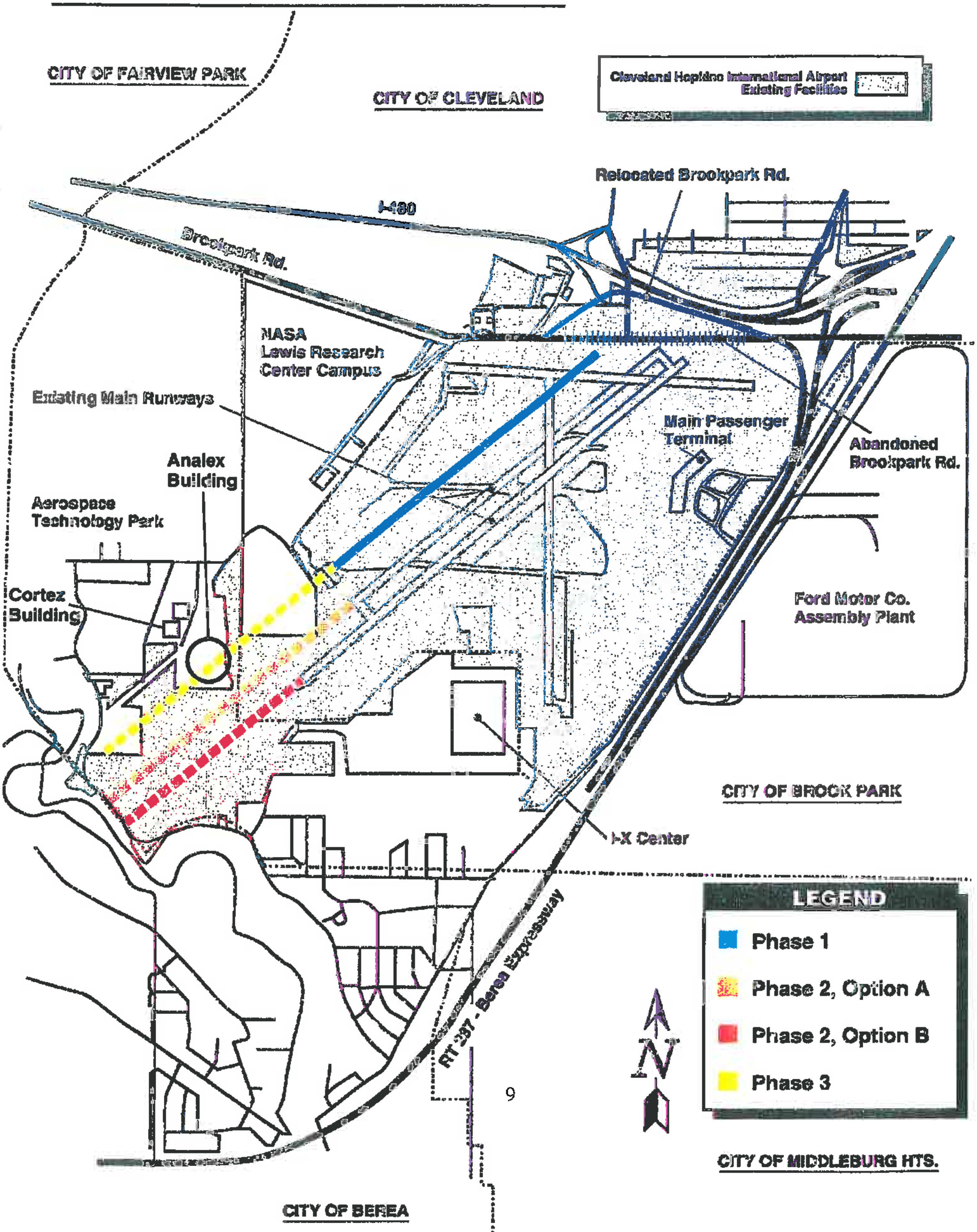
Cleveland Hopkins International Airport
Proposed Expansion



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Proposed Refurbishment Costs

Another LeRC contractor, Cortez III Service Corporation, requested the Center pay for refurbishment costs of $1 million for a leased building at 3000 Aerospace Parkway, Brook Park, Ohio. Cortez III entered into a lease agreement with Techpark Limited Partnership (Landlord) in 1989 to construct and lease a calibration laboratory. The contractor's lease agreement required a refurbishment charge to be paid six months prior to the expiration of the lease. An escrow account was established to deposit funds for the refurbishment of the building to general office use in the event that the subsequent tenant would not need calibration laboratory facilities. This building is currently vacant because the Cortez III employees were moved to onsite offices at LeRC in June 1996. The lease will expire in August 1996, at which time the refurbishment charges will become due. In preparation for refurbishment payments, LeRC has already obligated $830,000 and allowed Cortez III to set up an escrow account at a local bank.

At the time of the lease, September 1989, a refurbishment cost of $250,000 was established. Subsequently, however, the Landlord:

- doubled this amount to take into account inflation,
- included a 15 percent annual markup over 15 years, and
- added security interest with respect to the refurbishment charge.

We found no documentary evidence to support doubling the refurbishment cost, the 15 percent markup, or the security interest. We also could not find documents to support the landlord's $1 million estimate or why NASA and Cortez III agreed to such costs. Therefore, we can not determine whether any of these charges are allowable and/or reasonable. The LeRC Chief of Procurement agreed that the refurbishment costs are questionable, and to date, Procurement has not agreed to pay for such costs.

RECOMMENDATION 2

The LeRC Center Director should direct the Chief of Procurement to reevaluate the refurbishment costs for allowability and reasonableness.

MANAGEMENT'S RESPONSE

We concur with the intent of this recommendation as well. This recommendation refers to the facility at 3000 Aerospace Parkway leased by Cortez III Service Corporation, and Cortez liability to pay for refurbishment of the facility to general office use if Cortez does not renew its lease. The draft report implies that an amount of $250,000 had been previously agreed upon to refurbish the facility. In fact, there was no such agreement. That amount was discussed between Cortez and its landlord as the lease terms were being negotiated in 1989, but there were no resulting documents which bound any party to any specific sum.

The draft also implies that a current estimate of $1 million has been made by the landlord. However, no formal estimate has been made to date. A $1 million "number" was communicated verbally to Cortez III by the landlord without any written support. Although the Government has now, in fact, obligated $1 million to the contract, Cortez is obligated only to pay the least of three competitive bids for the refurbishment. Cortex expects that the competitively-selected bid will be substantially less than $1 million. Cortez has reviewed initial refurbishment requirements in the form of construction drawings with the landlord, negotiated substantially-reduced requirements, and briefed us on the results. We believe the current refurbishment drawings represent a reasonable amount of refurbishment. Presently, the landlord is developing a construction estimate based on those initial drawings. Competitive bidding, and then the actual refurbishment, will be initiated only after the landlord has identified a successor tenant. This process will take at least several months. We, as well as Cortez, plan to closely review the bidding process used to establish final costs prior to determining the reasonableness of those costs.

Evaluation of Management's Response

Management's action is responsive to the recommendation. According to documentation reviewed by our office, $250,000 was initially stated as the refurbishment costs. However, interviews with the landlord and NASA personnel revealed that refurbishment costs could be as much as $1 million. In addition, since neither the contractor nor NASA management could provide supporting documentation as to what the refurbishment costs would be, and as the management comments state, NASA had already obligated $1 million for these costs, we determined it was in the best interest of the Government to recommend these costs be reevaluated for allowability and reasonableness.

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MAJOR CONTRIBUTORS TO THIS REPORT

Jet Propulsion Laboratory	Lorne Dear, Program Director, Infrastructure & Support
Lewis Research Center	Bobbie J. Wells, Auditor-in-Charge Olivia Terry, OIG Auditor Annette Huffman, Audit Program Assistant

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Management's Response to the Audit Recommendations

National Aeronautics and
Space Administration
Lewis Research Center
Cleveland, OH 44135-3191

Reply to Attn of: 0610

OCT 28 1996

TO: NASA Headquarters
Attn: W/Assistant Inspector General for Auditing

FROM: 0100/Director

SUBJECT: Reply to Draft Audit Report - Rapid Action
LE-96-006
Contractor Facility Leases

The draft "Rapid Action Report" on Contractor Facility Leases contains two recommendations for action by the Procurement Officer. Although we concur with the intent of the recommendations, some of the information contained in the draft report is misleading. We suggest that certain changes be made in the final report to accurately reflect the circumstances and background relative to the two recommendations.

RECOMMENDATION 1 - The Chief of Procurement should deny the contractor's request for reconstruction funds.

We concur with the intent of this recommendation not to approve any request for major building modifications to the building at 3001 Aerospace Parkway, leased by the Analex Corporation in support of contract NAS3-27600. There have been discussions between Analex and the Space Experiments Division of LeRC to determine the equipment and building modifications required to create an "assembly, test, and integration" capability in the existing facility. This capability would support a major space experiment project entitled the "Fluids Combustion Facility" (FCF). Currently, because of significant budget reductions, the FCF project is on indefinite hold (see attached August 27, 1996, letter to NASA from Analex). Moreover, the building has been targeted for demolition in support of airport expansion. For both of these reasons, the decision has been made not to proceed and Analex has not requested the Government's consent to modify its lease. Based on the current circumstances, we do not anticipate receiving any such request or consenting to one if received.

RECOMMENDATION 2 - The LeRC Center Director should direct the Chief of Procurement to reevaluate the refurbishment costs for allowability and reasonableness.

We concur with the intent of this recommendation as well. This recommendation refers to the facility at 3000 Aerospace Parkway leased by Cortez III Service Corporation, and Cortez' liability to pay for refurbishment of the facility to general office use if Cortez does not renew its lease. The draft report implies that an amount of $250,000 had been previously agreed upon to refurbish the facility. In fact, there was no such agreement. That amount was discussed between Cortez and its landlord as the lease terms were being negotiated in 1989, but there were no resulting documents which bound any party to any specific sum.

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Management's Response to the Audit Recommendations

be initiated only after the landlord has identified a successor tenant. This process will take at least several months. We, as well as Cortez, plan to closely review the bidding process used to establish final costs prior to determining the reasonableness of those costs.

Donald J. Campbell

Enclosure

cc:
HQ/H/D. A. Lee
HQ/HC/J. E. Horvath
JPL/W/L. Dear
LeRC/B. J. Wells
LeRC/O. Terry

Management's Response to the Audit Recommendations

Analex Corporation Cleveland Office

3001 Aerospace Parkway, Brook Park, Ohio 44142 • Ph. 216-977-0000 • Fax 216-977-0200

August 27, 1996

National Aeronautics and Space Administration
Lewis Research Center
21000 Brookpark Road
Cleveland, Ohio 44142

Attention: Tom St. Onge, MS: 500-217

Subject: Conversion of AOS-C Area for Assembly, Test, and Integration of Combustion Facility Hardware

References:
1. February 27, 1996 Presentation by ARADS Group (Attachment 1)
2. Nyman Construction Company Quote of June 4, 1996, for building alterations
3. Chelm Management Quote for lease modification to finance construction, dated July 17, 1996

Dear Mr. St. Onge:

Per our discussion of last week, I have assembled the attachments to be put in file for the project that was investigated to facilitate an assembly area for Combustion Facility Hardware in AOS-C. As you can see, the estimated construction costs and the actual bid were very close. The willingness of Chelm Management to capitalize on the project for an increase in the remaining lease payments for the period August 1, 1996 through March 31, 2000, would allow development of the project without an instant infusion of capital by the project.

However, due to uncertainties in the project budget and schedule, and recently an indication that the AOS Building will be condemned at an unknown future date to accommodate airport expansion, it appears that the project will not be initiated at this time and the attached package should be put in an indefinite hold status. The effort at this point definitely indicates that the original scope and estimates for the project were valid. Resolution of the project schedule and indication as to the time frame for AOS condemnation may allow us to readdress the project in the future with the attached information as a starting baseline.

Sincerely,

Lawrence L. Gooch

Lawrence L. Gooch
ARADS Program Manager

Enclosures

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