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United States General Accounting Office
Washington, DC 20548

November 17, 2000

The Honorable John McCain
Chairman

The Honorable Ernest F. Hollings
Ranking Minority Member
Committee on Commerce, Science,
and Transportation
United States Senate

The Honorable Bud Shuster
Chairman

The Honorable James L. Oberstar
Ranking Democratic Member
Committee on Transportation
and Infrastructure
House of Representatives

Subject: Metropolitan Washington Airports Authority: Information on Contracting at Washington Dulles International Airport and Ronald Reagan Washington National Airport Between 1992 and 1999

The Metropolitan Washington Airports Act of 1986 provided for the lease of Washington Dulles International Airport (Dulles) and Ronald Reagan Washington National Airport (National) and the transfer of operating responsibility from the federal government to the Metropolitan Washington Airports Authority (MWAA). MWAA has operated the airports since June 7, 1987, under a 50-year lease with the U.S. Department of Transportation. Under the statutory terms of its lease, MWAA is charged with the protection, promotion, operation, and maintenance of Dulles and National airports in Virginia. To carry out this mandate, MWAA enters into a wide range of contractual relationships for the acquisition of goods, supplies, and construction and other services. Acquisitions range from office supplies to heavy mobile equipment, from fuel oil and gasoline to replacement parts for air-conditioning systems, and from minor repairs to major construction, as well as various professional consulting services. MWAA also contracts for a variety of revenue-generating concessions that provide rental cars, food and beverages, newspapers and gifts, public parking, and other goods and services needed by the airports' users. Because MWAA does not maintain a centralized database on its

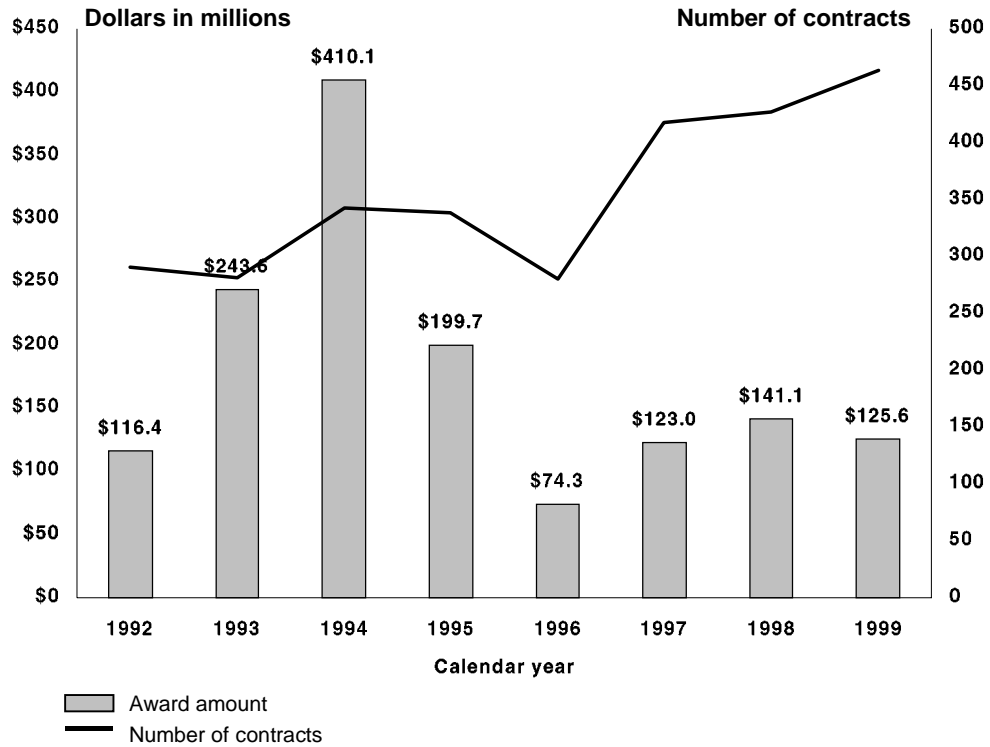
award of concession contracts, the information in this letter is limited to MWAA's award of contracts for supplies and services, including construction.

The 1986 act, as amended, requires us to periodically review MWAA's contracting practices.¹ In consultation with your offices, we agreed to determine (1) the extent of MWAA's contracting activities between 1992 and 1999; (2) whether MWAA maximizes the use of full and open competition for contracts estimated to exceed \$200,000, as required by the act and MWAA's lease with the federal government; and (3) whether MWAA follows sound government contracting principles. This letter provides information on the extent of MWAA's contracting for supplies and services between 1992 and 1999, including information on its contract awards in excess of \$200,000. We are continuing our review on the other two objectives and will report separately on these issues when our work is completed.

In summary, MWAA awarded 2,843 contracts for supplies and services, including construction, at an initial award amount (in constant 1999 dollars) of about \$1.43 billion from January 1, 1992, through December 31, 1999. On average, MWAA awarded about 355 contracts annually over the 8-year period. The average value of the contracts when awarded was approximately \$504,000. MWAA's contracting peaked in 1994, when it awarded about \$410 million in contracts. (See fig. 1.)

¹Our first report responding to this requirement, *Contract Award Practices: Metropolitan Washington Airports Authority Generally Observes Competitive Principles* (GAO/RCED-93-63), was issued on Feb. 8, 1993.

Figure 1: Number and Value of Contract Awards, Calendar Years 1992-99

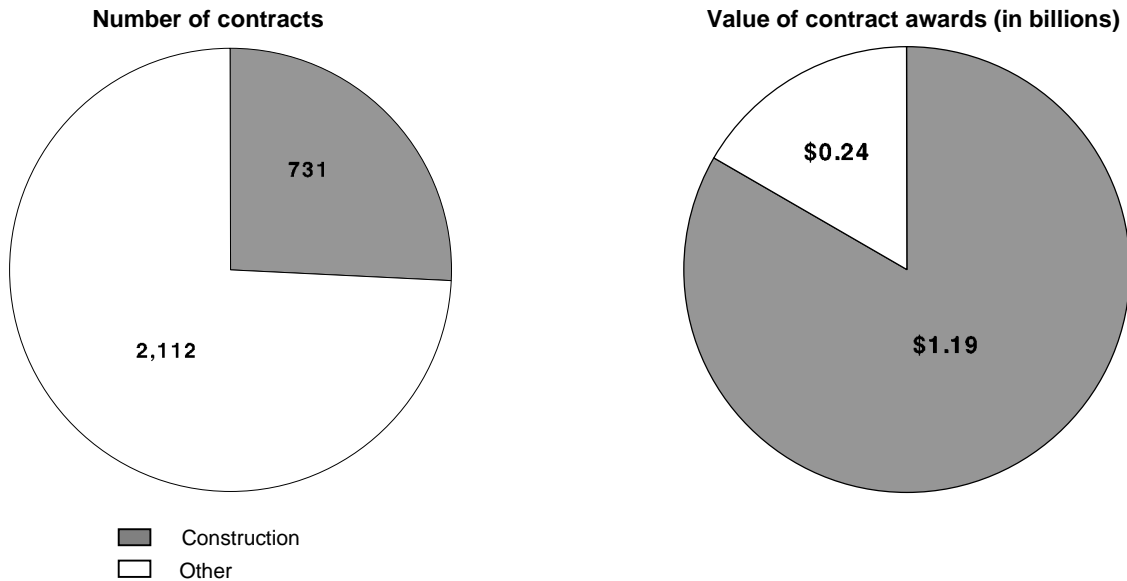


Note: Amounts are in constant 1999 dollars.

Source: GAO's compilation of data from MWAA. MWAA's data are as of Dec. 31, 1999.

About 74 percent of the contract awards were for non-construction-related supplies and services. However, these contracts accounted for only about 17 percent of the total amount of MWAA's awards during the period. As shown in figure 2, the bulk of MWAA's contract award dollars were for construction-related activities, including the design of airport facilities.

Figure 2: Number and Value of Contract Awards, by Contract Type, 1992-99



Notes:

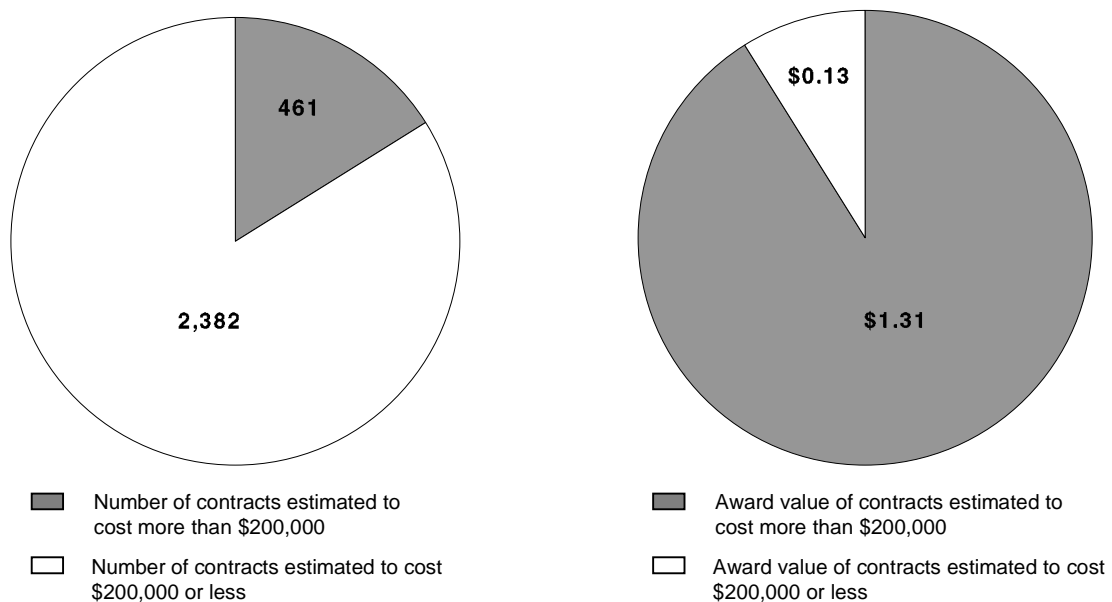
1. Amounts are in constant 1999 dollars.
2. Non-construction-related supplies and services are grouped together because, prior to 1997, MWAA's database did not differentiate between contracts for supplies and services.
3. Construction includes the design and construction of new projects and the design and rehabilitation of airport facilities. MWAA's database includes five categories for construction contracts. For our analyses, we combined these categories into one category—construction.

Source: GAO's compilation of data from MWAA. MWAA's data are as of Dec. 31, 1999.

Contract modifications have increased the cost of MWAA's initial contract awards. Specifically, the amount authorized through December 31, 1999, for the 2,843 contracts MWAA awarded between 1992 and 1999 grew by about 38 percent—from about \$1.43 billion at award to about \$1.98 billion. This growth resulted from, among other things, MWAA's modification of contracts to extend the period of performance or to otherwise purchase additional supplies or services.

The statute establishing the terms of MWAA's lease with the federal government requires MWAA to use full and open competition—to the maximum extent practicable—in contracting for supplies and services, including concession services, whose value is "estimated to be more than \$200,000." Our analysis of MWAA's database indicates that 461 of the 2,843 contracts awarded between 1992 and 1999 for supplies and services, including construction, were estimated to exceed \$200,000. The 461 contracts had an award value of about \$1.31 billion and accounted for about 91 percent of the amount of MWAA's contract awards during the period. (See fig. 3.)

Figure 3: Number and Value (in Billions) of Contract Awards Estimated to Exceed \$200,000, Calendar Years 1992-99



Note: Amounts are in constant 1999 dollars.

Source: GAO's compilation of data from MWAA. MWAA's data are as of Dec. 31, 1999.

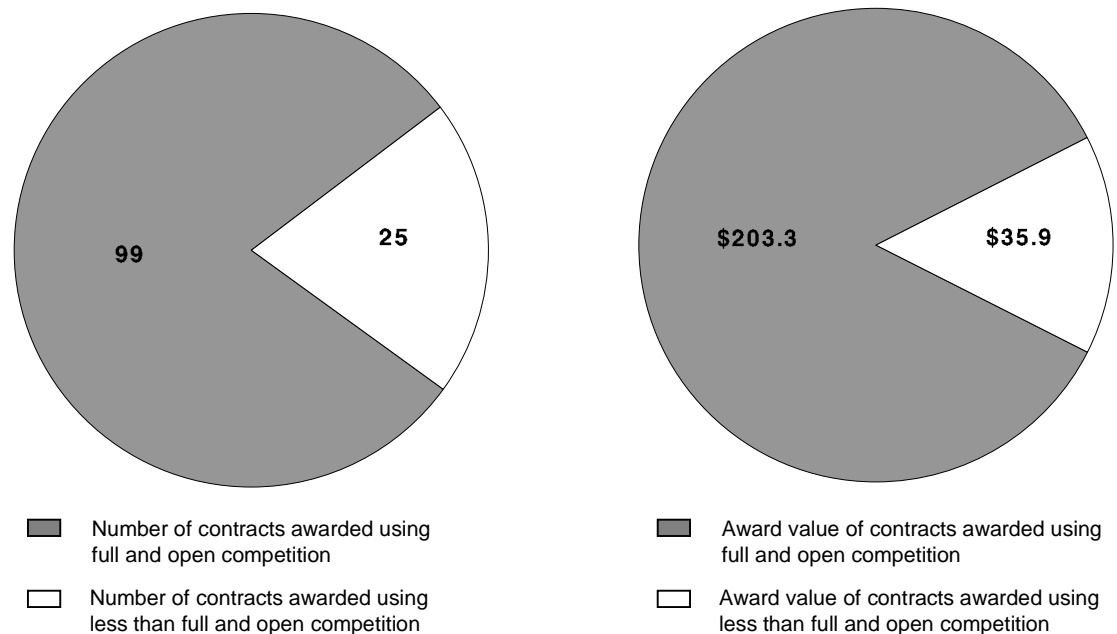
Construction contracts accounted for 62 percent (286) of the 461 contracts. The remaining 175 contracts were for other goods and services. In total, the amount authorized for the 461 contracts increased by about 35 percent—from about \$1.31 billion at award to about \$1.76 billion as of December 31, 1999.² The average increase was approximately \$980,000 for construction contracts and about \$1.01 million for other contracts.

MWAA's database does not indicate to what extent MWAA used full and open competition for the entire period between 1992 and 1999, in part because MWAA did not begin recording this information in its database until mid-1997. According to MWAA's database for 1998 and 1999, however, 95 of the 124 contracts that MWAA estimated would cost more than \$200,000 were awarded using full and open competition. The remaining 29 contracts were identified as having been awarded either using limited competition or on a sole-source basis. Our discussions with MWAA officials and our review of the contracts' documentation indicated that 4 of the 29 contracts were miscoded. After being corrected for this miscoding, the database indicates that MWAA awarded 99 contracts using full and open competition in 1998 and 1999. According to MWAA's database, the remaining 25 contracts were awarded using less than full and open competition. The 25 contracts constituted

²All amounts are in constant 1999 dollars.

about 20 percent of the 124 contracts awarded during the 2-year period and about 15 percent of the contracts' award value. Fourteen of the 25 were awarded on a sole-source basis, and 11 were awarded using limited competition. (See fig. 4.)

Figure 4: Number and Value (in Millions) of Contracts Awarded in 1998 and 1999 That MWAA Estimated Would Cost More Than \$200,000



Note: Amounts are in constant 1999 dollars.

Source: GAO's compilation of data from MWAA. MWAA's data are as of Dec. 31, 1999.

Scope and Methodology

To determine the extent of MWAA's contracting activities, we obtained, reviewed, and analyzed MWAA's database on supply and service contracts, including construction contracts, and identified contracts MWAA awarded between January 1, 1992, and December 31, 1999. We performed limited work to evaluate the integrity and reliability of MWAA's database. This included the identification and elimination of duplicate contract entries and the reconciliation of contracts identified in MWAA's database as having been awarded using limited competition or on a sole-source basis (less than full and open competition). We did not, however, review contracts identified as having been awarded using full and open competition to determine whether the contracts were properly coded in MWAA's database. We analyzed the database by year, number, amount, contract type, and solicitation method—full and open competition, limited competition, or sole-source award.³ We discussed database limitations and the results of our analyses with MWAA contracting

³"Amount" includes the estimated amount, award amount, and current amount as indicated in MWAA's database as of Dec. 31, 1999. "Contract type" indicates whether a contract was for supplies, services, or construction.

personnel. We performed our work from October 1999 through November 2000 in accordance with generally accepted government auditing standards.

Agency Comments

We provided copies of a draft of this letter to MWAA for its review and comment. MWAA commented that it fully appreciates its statutory obligation to secure, to the maximum extent practicable, full and open competition on its contract awards and that, in its view, it has achieved that objective. MWAA took exception to our inclusion of 12 of the 14 contracts identified as sole-source awards in this letter. According to MWAA, six of these contracts were to reimburse individual airlines for work the airlines had performed and were therefore not subject to the statutory terms of MWAA's lease (statutory lease provision). MWAA also maintained that three other contracts, which it had initially expected to cost more than \$200,000, were not subject to the statutory lease provision because their value, when awarded, was less than \$200,000 each. Finally, MWAA commented that the remaining three contracts were for follow-on work to contracts that had previously been awarded using full and open competition. According to MWAA, these contracts were misclassified in its database as sole-source awards. MWAA's comments are included in enclosure I.

We do not assess in this letter whether MWAA has complied with its statutory obligation to secure full and open competition to the maximum extent practicable in contracting for supplies and services whose value is estimated to exceed \$200,000. Such an assessment cannot be made on the basis of the information in MWAA's database. Our purpose was solely to describe the scope of MWAA's contracting activity. To determine the number of sole-source awards, we used contracts identified in MWAA's database as having been awarded without competition and as having an initial estimated value in excess of \$200,000. This approach is consistent with the language of MWAA's statutory lease provision. Since the 12 contracts that MWAA would exclude were, in fact, awarded without competition, we did not adjust the number of sole-source contracts identified in this letter. We did, however, revise the letter to more clearly indicate that the contracts were classified as sole-source awards in MWAA's database. Our assessment of MWAA's compliance with the statutory lease provision will be the subject of a subsequent report.

We are sending copies of this letter to the Honorable David T. Ralston, Jr., Chairman, Board of Directors, MWAA, and to others upon request. Please contact me or Kathleen Turner at (202) 512-2834 if you or your staff have any questions. In addition, David Bryant, Jr.; Etana Finkler; Arthur James, Jr.; and Larry Turman made key contributions to this letter.



Phyllis F. Scheinberg
Director, Physical Infrastructure Issues

Enclosure

Comments From the Metropolitan Washington Airports Authority



METROPOLITAN WASHINGTON AIRPORTS AUTHORITY

1 Aviation Circle → Washington, DC 20001-6000

November 14, 2000

Ms. Phyllis F. Scheinberg
Director, Physical Infrastructure Issues
U.S. General Accounting Office
441 G Street, NW, Room 2Y09
Washington, DC 20548

Dear Ms. Scheinberg:

We appreciate the opportunity to review your Draft Report on the Authority's contracting practices as furnished to Margaret E. McKeough on November 9, 2000. We request the following comments be included in the GAO report as the Authority's response.

The Airports Authority's procurement of supplies and services is governed by Section 11.D of the 1987 lease agreement between the Airports Authority and the U.S. Department of Transportation. Section 11.D of the Lease states:

In acquiring by contract supplies or services for an amount estimated to be more than \$200,000, or awarding concession contracts, the Airports Authority to the maximum extent practicable shall obtain full and open competition through the use of published competitive procedures. By a vote of seven members, the Airports Authority may grant exceptions to the requirements of this paragraph.

We fully appreciate our obligation to secure to the maximum extent practicable full and open competition and believe that we have achieved that objective. We have taken exception to 12 out of the 14 sole source contracts listed in the GAO report, either because the contracts are not subject to the requirements of Section 11.D of the Lease, or because full and open competition was in fact obtained for the contract.

- Six of the fourteen contracts are for reimbursements of work done by the airlines. The Authority and many of the airlines have entered into a Use and Lease Agreement which governs the relationship between the Authority and the airlines. Although improvements to airline facilities are often the Authority's responsibility, sometimes these improvements need to be accomplished by the airline in order to best meet its needs. When this occurs, the airline contracts for the work, not the Authority. These reimbursement agreements are not subject to the requirements of Section 11.D of the Lease. Agreements of this type are common in the airport industry, as it is not always feasible for the airport to contract for work relating to airline operations.

Enclosure I

Ms. Phyllis Scheinberg
U.S. General Accounting Office
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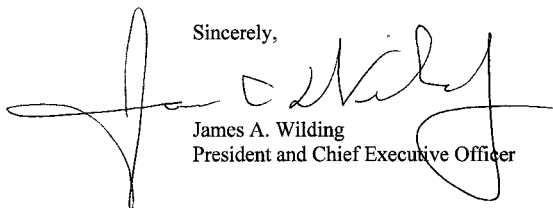
- Three of the fourteen sole source contracts should be deleted from your listing because they were awarded for less than \$200,000. The Authority interprets the Lease as requiring it to obtain Board of Directors' approval prior to entering into sole source supply or service contracts that exceed \$200,000 when awarded.
- Three of the fourteen contracts should be deleted because the tasks involved were included within a contract that was competed on a full and open basis. The tasks could have been performed under the original contract, but the Authority chose to place some of the tasks under a separate contract number to make tracking and accounting more convenient.

The remaining two sole source contracts are properly categorized. Sole source procurements are a valid business approach that may be appropriate in certain circumstances, depending upon the nature of the contracting requirement.

The Draft Report lists eleven other contracts that were procured using less than full and open competition. These procurements were made properly, using limited competition procedures. In each instance it made good business sense to secure limited rather than full competition because of the compelling urgency of each contract requirement. The Airports Authority's Board of Directors adopted limited procurement as an exception to full and open competition in 1993, thus satisfying the requirement of the Lease.

If you have any questions or need further elaboration, please contact Ms. Margaret E. McKeough at (703) 417-8750. We look forward to receiving a copy of the final GAO report.

Sincerely,



James A. Wilding
President and Chief Executive Officer

JAW:bs

(348197)

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