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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-175733



AUG 2 1972

R Dear Mr. Sikes:

In response to your request received April 13, 1972, we investigated the statements made by Mr. L. E. Bogan, Jr., of Bogan Supply Co., Inc., Pensacola, Florida, and by the Air Force concerning the award by Eglin Air Force Base, Florida, of an indefinite-quantity requirements contract for plumbing supplies. The correspondence enclosed with your request is being returned with this letter. 237

Three bids were received on this advertised procurement. The award was made to the low bidder and, on the basis of Eglin's estimated 12-month requirements, was valued at \$138,225. Mr. Bogan does not object to the Air Force's selection of the low bidder, but he is concerned that the method of procurement is uneconomical.

We interviewed knowledgeable personnel and reviewed pertinent records at Eglin Air Force Base. In addition, we talked with Mr. Bogan at his place of business in Pensacola.

USE OF REQUIREMENTS CONTRACTS BASED ON DISCOUNTS FROM TRADE CATALOGS

Mr. Bogan's primary concern appears to be that each bidder is required to offer a single discount for all items within each section of a trade catalog entitled "National Mechanical Contractor's Estimator." Some sections of the catalog include categories of items on which discounts available to wholesale distributors may range from 25 to about 60 percent.

Because the bidder quotes a composite discount for indefinite quantities in each section of the catalog, Mr. Bogan states that premium prices are paid for almost all of these items. He also questions the Air Force's contention that this method of procurement reduces administrative costs.

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Mr. Bogan is correct in stating that certain items listed in the catalog could likely be procured at a lower price by the use of individual discounts or by separate procurements. He compared the current-contract prices for two of the items with the prices for those items in the prior-year requirements contract. The prior contract had been priced on the basis of an individual discount for each item.

We compared the prices of all 56 items in the prior contract with the current-year contract prices. We found that 27 items, including the two mentioned by Mr. Bogan, would cost more under the current contract; whereas, 21 items would cost less and eight would cost the same. Irrespective of changes in market prices and differences in individual net unit prices, the broad issue, in our opinion, is whether overall lower prices can result and whether savings in administrative costs are possible through the use of requirements contracts of this type.

Enclosed is a copy of our report to the Congress entitled "Requirements Contracting and Other Aspects of Small Purchases in the Department of Defense" (B-162394, Feb. 5, 1969). In that report we disclosed that more favorable prices and reduced administrative costs could be achieved by increasing the use of requirements contracts for large dollar volumes of certain commodities rather than by making many small individual purchases. We recommended that the Department of Defense accumulate information pertaining to the volume of purchases at selected installations for selected commodities and, when appropriate, use this information to contract for estimated annual requirements.

The Air Force subsequently reported to the Assistant Secretary of Defense (Installations and Logistics) the results of tests at 10 Air Force installations on the use of trade catalogs as a basis for competitively awarding requirements contracts by commodity groups. Five of these installations contracted for plumbing items and five for electrical items.

Indefinite-quantity term contracts were awarded on the basis of discounts from the trade catalog pricelist. According to the Air Force, the tests showed that the composite-discount technique for procuring these items could achieve lower unit prices in most instances and could reduce buying and administrative effort.

The requirements contract which Mr. Bogan questioned was Eglin's first application of a single discount to entire sections of a plumbing supply catalog rather than separate discounts to individual items. The Air Force agreed with Mr. Bogan that it was difficult for bidders to estimate a single composite discount for indefinite quantities because of the wide range of discounts within sections of the particular trade catalog used for this award. They told us that Mr. Bogan's constructive criticism would be considered when establishing composite-discount groupings in future procurements of plumbing supplies.

OTHER ISSUES

Mr. Bogan also questioned whether the solicitation should have been restricted to small business, because practically all the orders would be small purchases under \$2,500. The Armed Services Procurement Regulation states, in part, that:

**** a manufacturer or a regular dealer submitting bids or proposals in his own name must agree to furnish in the performance of the contract end items manufactured or produced by small business concerns."

Because many of the plumbing supplies under this contract are manufactured only by large business concerns, the solicitation could not have been restricted to small businesses.

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Mr. Bogan also questioned the need to increase the radius for eligible bidders from 300 miles, as stated in the prior-year solicitation, to 325 miles, as stated in the current-year solicitation. We examined the procurement records for the prior-year contract and found that the 300-mile radius was intended to cover New Orleans, Atlanta, and Jacksonville, because overnight trucking service was available from these cities. However, one firm in Atlanta had disqualified itself because of the 300-mile limit. In the current solicitation, the radius was set at 325 miles so that firms with sales facilities in these cities would understand that they would be eligible to bid.

We plan no further distribution of this letter until your agreement has been obtained or public announcement has been made by you concerning its contents.

We trust that this letter is responsive to your request. If we can be of additional assistance, please let us know.

Sincerely yours,



Comptroller General
of the United States

Enclosures

The Honorable Robert L. F. Sikes
House of Representatives