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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548



LOGISTICS AND COMMUNICATIONS
DIVISION

B-118623

NOV 23 1976

The Honorable Jack Eckerd
Administrator of General Services

Dear Mr. Eckerd:

Our survey of selected construction contracts awarded and administered by the General Services Administration (GSA) disclosed that the method GSA uses to establish prices for change orders which reduce the scope of work needs to be changed. Under existing GSA practice, a contractor is not required to give the Government credit for overhead, profit, and commission on work deleted from the contract. On the other hand, it is the practice of the Army Corps of Engineers to obtain a credit for overhead and profit if the scope of work is reduced. When change orders add work to be performed, GSA allows for overhead, profit, and commission in negotiating the total amount due the contractor.

Most GSA construction contracts are firm fixed price contracts awarded to the lowest responsive bidder after formal advertising. Few, if any, construction contracts are completed without change and a net increase in cost.

Federal procurement regulations are silent on the method for pricing construction contract change orders. GSA contract provisions state that allowances for overhead, profit, and commission shall be negotiated for contract changes. The percentages for each may vary depending upon the nature and complexity of the work but in no case should it exceed the following:

LCD-77-304

	<u>Overhead</u>	<u>Profit</u>	<u>Commission</u>
To contractor on work performed by other than his own forces	--	--	10%
To contractor and/or sub-contractors for that portion of the work performed with their respective forces	10%	10%	--

"Not more than three ^{1/} percentages, not to exceed the maximum percentages shown above, will be allowed On proposals covering both increases and decreases in the amount of the contract, the overhead, profit, and commission will be allowed on the net increases only."

Change orders for the five GSA construction contracts we reviewed increased costs by \$2.7 million from \$36.5 to \$39.2 million as follows:

269 change orders increased costs by	\$3,470,136
21 change orders were at no cost	- 0 -
76 credit change orders decreased costs by	<u>(749,064)</u>

Cost increase \$2,721,072

Our examination of the method GSA used to price 19 of the above change orders showed that allowances for overhead, profit, and commission were not applied consistently. Allowances for overhead, profit, and commission were included in the negotiated price for added work but excluded from the negotiated price for work deleted. The method GSA used in pricing two different change orders is illustrated in Enclosure I.

¹ Changed in April 1976 to allow not more than four percentages.

We estimate that the overall cost to the Government on the five contracts would have been reduced by about \$140,000 if GSA had obtained allowances for overhead, profit, and commission on the 76 credit change orders. This estimate is based on a composite average of 19 percent allowed on five change orders for overhead, profit, and commission.

We believe that overhead, profit, and commission should apply to the pricing of deductive (credit) charges as well as additive changes. A contractor's proposal for a credit change order should be increased for the estimated overhead, profit, and commission applicable thereto unless the credit change is large enough to alter the contractor's total overhead and profit structure.

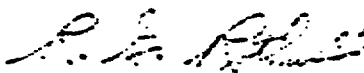
RECOMMENDATION

We recommend that the Administrator of General Services amend construction contract provisions to provide that overhead, profit, and commission be applied on all change orders which either add or delete work.

As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the House and Senate Committees on Government Operations not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to the Director, Office of Management and Budget; the House and Senate Committees on Government Operations and Appropriations; the House Committee on Public Works and Transportation; the Senate Committee on Public Works; and the Subcommittee on Treasury, Postal Service, and General Government of the Senate Committee on Appropriations.

Sincerely yours,



Fred J. Shafer
Director

Enclosure

COMPUTATION OF COSTS FOR TWO GSA CHANGE ORDERS

	<u>Contract GS-00B-02765</u>	
	<u>Change order #17</u>	<u>Change order #3</u>
	<u>cost addition</u>	<u>cost deletion</u>
Labor and material	\$ 487	\$(77,337)
Overhead - 10 percent	49	- 0 -
	<u>\$ 536</u>	<u>\$(77,337)</u>
Profit - 10 percent	54	- 0 -
	<u>\$ 590</u>	<u>\$(77,337)</u>
Subcontractor work	\$19,841	
Overhead and profit	<u>4,167</u>	- 0 -
Commission - 10 percent	<u>2,402</u>	<u>- 0 -</u>
Total - negotiated price	<u>\$27,000</u>	<u>\$(77,337)</u>
Overhead, profit, and commission included in negotiated price	<u>\$ 6,672</u>	
Credit for overhead and profit included in the negotiated price		<u>\$ - 0 -</u>
Estimated overhead and profit allowances retained by the contractor (maximum)		<u>\$ 16,241</u>