

## DOCUMENT RESUME

01140 - (A1051954)

(Recommended Change in the Pricing of General Services Administration Credit Change Orders). LCD-77-326-339; B-118623, April 7, 1977, 3 pp. Report to Sen. Charles H. Percy; Sen. Lowell P. Weicker, Jr.; Sen. Harry F. Byrd, Jr.; Sen. William L. Scott; Rep. Samuel L. Devine; Sen. Howard W. Cannon; Sen. Paul Laxalt; Sen. Orrin G. Hatch; Rep. James D. Santini; Rep. Caldwell Butler; Rep. Gunn McKay; Rep. Dawson Mathis; Sen. Gary Hart; Sen. Jake Garn; by Fred J. Shafer, Director, Logistics and Communications Div.

Issue Area: Facilities and Material Management: Design and Construction of Federal Facilities (707)

Contact: Logistics and Communications Div.

Budget Function: General Government: General Property and Records Management (804)

Organization Concerned: General Services Administration

Congressional Relevance: Rep. Samuel L. Devine; Rep. James D. Santini; Rep. Caldwell Butler; Rep. Gunn McKay; Rep. Dawson Mathis; Sen. Charles H. Percy; Sen. Lowell P. Weicker, Jr.; Sen. Harry F. Byrd, Jr.; Sen. William L. Scott; Sen. Howard W. Cannon; Sen. Paul Laxalt; Sen. Orrin G. Hatch; Sen. Gary Hart; Sen. Jake Garn.

The intent of a GAO report to the General Services Administration (GSA) on the pricing of contract change orders was to have such construction contract adjustments negotiated. It was noted that allowances for overhead, profit, and commission on subcontract work were routinely included in the negotiated price for change orders that added work, but no price deductions were made for change orders that deleted work. It was recommended that construction contract provisions be amended to provide that overhead, profit, and commission be applied on all change orders which either add or delete work. Findings/Conclusions: GSA plans to take steps to recover unexpended amounts of overhead, profit, and commission to credit change orders to construction contracts. In developing language equitable to both Government and its contractors, GSA will take into account overhead costs that may not be reduced as a result of deleted work, such as equipment rental, salaries, and temporary plant costs. GSA's statements are responsive to the recommendations in the GAO report. (RRS)

01140  
1954-1967 Same report to different addressees



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

LOGISTICS AND COMMUNICATIONS  
DIVISION

B-118623

APR 7 1977

The Honorable Charles H. Percy  
United States Senate

Dear Senator Percy:

By letter of January 11, 1977, you asked us to respond to your constituent's letter about our report to the General Services Administration (GSA) on pricing of construction contract change orders. Your constituent was concerned with our recommendation regarding GSA's future treatment of change orders which reduce the required scope of work.

Your constituent's letter and those received from numerous others in private industry apparently have interpreted our report as suggesting that GSA make arbitrary downward adjustments for overhead, profit, and commissions whenever a change order deletes work covered by a contract. This was not the intent. Rather our intent was to have such adjustments "negotiated."

As discussed below, GSA officials interpreted our recommendation as intended. To assure there is no misunderstanding between this Office and GSA in this matter, we are sending the Acting Administrator a copy of this letter.

On November 23, 1976, we reported to GSA on a survey of its method for establishing prices for change orders to construction contracts. Allowances for overhead, profit, and commission on subcontracted work were routinely included in the negotiated price for change orders that added work, but no price deductions for these allowances were made for change orders which deleted work. On the other hand, we noted that the practice of the Army Corps of Engineers is to obtain a credit for overhead and profit when the scope of work is reduced.

LCD-77-326

We expressed to the Administrator of General Services our opinion that estimated overhead, profit, and commission should be considered in negotiating deductive changes as well as additive changes, and we recommended that he amend construction contract provisions to provide that overhead, profit, and commission be applied on all change orders which either add or delete work.

Our recommendation was aimed at getting GSA to clarify its contract provisions which state that allowances for overhead, profit, and commission shall be negotiated for contract changes. As mentioned, such allowances were being considered in the case of additive change orders but were being excluded in the pricing of deductive change orders. It seems to us reasonable and equitable that in negotiating change orders appropriate consideration should be given to the effect of reductions in scope as well as to the effect of increases, and to changes in indirect as well as direct costs of the contractor. Thus a negotiated change order should reflect the extent that a reduction in the scope of the work can be expected to reduce the contractor's estimated costs, including overhead.

Such a procedure is quite different, for example, from arbitrarily reducing the contract price by a certain percentage to allow for estimated applicable overhead, profit, and commissions, which is the sort of impression our report apparently conveyed to some readers.

By letters dated January 31, 1977, the Administrator of General Services informed us, the House Committee on Government Operations, and the Senate Committee on Governmental Affairs that he agrees with our recommendation and that GSA will take steps to promulgate suitable contract language to recover "unexpended amounts" of overhead, profit, and commission for credit change orders to construction contracts. The Administrator also stated that in developing contract language equitable to both the Government and its contractors GSA must take into account overhead costs that may not be reduced as a result of deleted work, such as equipment rental, salaries of supervisors and clerical employees, and temporary plant costs, as well as contractor costs already incurred for the deleted work.

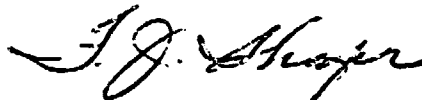
GSA intends to solicit comments from the private sector as it develops proposed contract provisions, and estimates that revised contract provisions will not be issued before December 1977.

We consider GSA's statements responsive to our recommendation. As we have stated above, we do not advocate that contract prices be reduced for overhead costs already incurred or likely to be incurred in connection with deleted work. However, neither would it be equitable to the Government for the contractor to receive unearned overhead, profit, or commission applicable to deleted work.

For your further reference, a copy of our November 23, 1976, report to GSA is enclosed.

We have received similar requests from other Congressmen based on their constituents' inquiries, and we are providing them a similar response. As you requested, the correspondence enclosed with your letter is returned.

Sincerely yours,



F. J. Shafer  
Director

Enclosures - 2



UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

LOGISTICS AND COMMUNICATIONS  
DIVISION

APR 7 1977

B-118623

The Honorable Lowell P. Weicker, Jr.  
United States Senate

Dear Senator Weicker:

By letter of January 28, 1977, you asked us to respond to your constituent's letter about our report to the General Services Administration (GSA) on pricing of construction contract change orders. Your constituent was concerned with our recommendation regarding GSA's future treatment of change orders which reduce the required scope of work.

Your constituent's letter and those received from numerous others in private industry apparently have interpreted our report as suggesting that GSA make arbitrary downward adjustments for overhead, profit, and commissions whenever a change order deletes work covered by a contract. This was not the intent. Rather our intent was to have such adjustments "negotiated."

As discussed below, GSA officials interpreted our recommendation as intended. To assure there is no misunderstanding between this Office and GSA in this matter, we are sending the Acting Administrator a copy of this letter.

On November 23, 1976, we reported to GSA on a survey of its method for establishing prices for change orders to construction contracts. Allowances for overhead, profit, and commission on subcontracted work were routinely included in the negotiated price for change orders that added work, but no price deductions for these allowances were made for change orders which deleted work. On the other hand, we noted that the practice of the Army Corps of Engineers is to obtain a credit for overhead and profit when the scope of work is reduced.

LCD-77-327

We expressed to the Administrator of General Services our opinion that estimated overhead, profit, and commission should be considered in negotiating deductive changes as well as additive changes, and we recommended that he amend construction contract provisions to provide that overhead, profit, and commission be applied on all change orders which either add or delete work.

Our recommendation was aimed at getting GSA to clarify its contract provisions which state that allowances for overhead, profit, and commission shall be negotiated for contract changes. As mentioned, such allowances were being considered in the case of additive change orders but were being excluded in the pricing of deductive change orders. It seems to us reasonable and equitable that in negotiating change orders appropriate consideration should be given to the effect of reductions in scope as well as to the effect of increases, and to changes in indirect as well as direct costs of the contractor. Thus a negotiated change order should reflect the extent that a reduction in the scope of the work can be expected to reduce the contractor's estimated costs, including overhead.

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GSA intends to solicit comments from the private sector as it develops proposed contract provisions, and estimates that revised contract provisions will not be issued before December 1977.

We consider GSA's statements responsive to our recommendation. As we have stated above, we do not advocate that contract prices be reduced for overhead costs already incurred or likely to be incurred in connection with deleted work. However, neither would it be equitable to the Government for the contractor to receive unearned overhead, profit, or commission applicable to deleted work.

For your further reference, a copy of our November 23, 1976, report to GSA is enclosed.

We have received similar requests from other Congressmen based on their constituents' inquiries, and we are providing them a similar response. As you requested, the correspondence enclosed with your letter is returned.

Sincerely yours,



F. J. Shafer  
Director

Enclosures - 2



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

LOGISTICS AND COMMUNICATIONS  
DIVISION

APR 7 1977

B-118523

The Honorable Harry F. Byrd, Jr.  
United States Senate

Dear Senator Byrd:

By letter of January 28, 1977, you asked us to respond to your constituent's letter about our report to the General Services Administration (GSA) on pricing of construction contract change orders. Your constituent was concerned with our recommendation regarding GSA's future treatment of change orders which reduce the required scope of work.

Your constituent's letter and those received from numerous others in private industry apparently have interpreted our report as suggesting that GSA make arbitrary downward adjustments for overhead, profit, and commissions whenever a change order deletes work covered by a contract. This was not the intent. Rather our intent was to have such adjustments "negotiated."

As discussed below, GSA officials interpreted our recommendation as intended. To assure there is no misunderstanding between this Office and GSA in this matter, we are sending the Acting Administrator a copy of this letter.

On November 23, 1976, we reported to GSA on a survey of its method for establishing prices for change orders to construction contracts. Allowances for overhead, profit, and commission on subcontracted work were routinely included in the negotiated price for change orders that added work, but no price deductions for these allowances were made for change orders which deleted work. On the other hand, we noted that the practice of the Army Corps of Engineers is to obtain a credit for overhead and profit when the scope of work is reduced.

LCD-77-328



We expressed to the Administrator of General Services our opinion that estimated overhead, profit, and commission should be considered in negotiating deductive changes as well as additive changes, and we recommended that he amend construction contract provisions to provide that overhead, profit, and commission be applied on all change orders which either add or delete work.

Our recommendation was aimed at getting GSA to clarify its contract provisions which state that allowances for overhead, profit, and commission shall be negotiated for contract changes. As mentioned, such allowances were being considered in the case of additive change orders but were being excluded in the pricing of deductive change orders. It seems to us reasonable and equitable that in negotiating change orders appropriate consideration should be given to the effect of reductions in scope as well as to the effect of increases, and to changes in indirect as well as direct costs of the contractor. Thus a negotiated change order should reflect the extent that a reduction in the scope of the work can be expected to reduce the contractor's estimated costs, including overhead.

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B-118623

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We consider GSA's statements responsive to our recommendation. As we have stated above, we do not advocate that contract prices be reduced for overhead costs already incurred or likely to be incurred in connection with deleted work. However, neither would it be equitable to the Government for the contractor to receive unearned overhead, profit, or commission applicable to deleted work.

For your further reference, a copy of our November 23, 1976, report to GSA is enclosed.

We have received similar requests from other Congressmen based on their constituents' inquiries, and we are providing them a similar response.

Sincerely yours,



F. J. Shafer  
Director

Enclosure



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

LOGISTICS AND COMMUNICATIONS  
DIVISION

B-118623

APR 7 1977

The Honorable William L. Scott  
United States Senate

Dear Senator Scott:

By letter of February 4, 1977, you asked us to respond to your constituent's letter about our report to the General Services Administration (GSA) on pricing of construction contract change orders. Your constituent was concerned with our recommendation regarding GSA's future treatment of change orders which reduce the required scope of work.

Your constituent's letter and those received from numerous others in private industry apparently have interpreted our report as suggesting that GSA make arbitrary downward adjustments for overhead, profit, and commissions whenever a change order deletes work covered by a contract. This was not the intent. Rather our intent was to have such adjustments "negotiated."

As discussed below, GSA officials interpreted our recommendation as intended. To assure there is no misunderstanding between this Office and GSA in this matter, we are sending the Acting Administrator a copy of this letter.

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LCD-77-329

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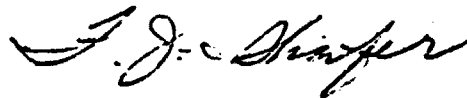
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F. J. Shafer  
Director

Enclosure



UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

LOGISTICS AND COMMUNICATIONS  
DIVISION

APR 7 1977

B-118623

The Honorable Jake Garn  
United States Senate

Dear Senator Garn:

By letter of February 8, 1977, you asked us to respond to your constituent's letter about our report to the General Services Administration (GSA) on pricing of construction contract change orders. Your constituent was concerned with our recommendation regarding GSA's future treatment of change orders which reduce the required scope of work.

Your constituent's letter and those received from numerous others in private industry apparently have interpreted our report as suggesting that GSA make arbitrary downward adjustments for overhead, profit, and commissions whenever a change order deletes work covered by a contract. This was not the intent. Rather our intent was to have such adjustments "negotiated."

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LCD-77-330

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F. J. Shafer  
Director

Enclosure





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

LOGISTICS AND COMMUNICATIONS  
DIVISION

APR 7 1977

B-118623

The Honorable Samuel L. Devine  
House of Representatives

Dear Mr. Devine:

By letter of February 8, 1977, you asked us to respond to your constituent's letter about our report to the General Services Administration (GSA) on pricing of construction contract change orders. Your constituent was concerned with our recommendation regarding GSA's future treatment of change orders which reduce the required scope of work.

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LCD-77-331

We expressed to the Administrator of General Services our opinion that estimated overhead, profit, and commission should be considered in negotiating deductive changes as well as additive changes, and we recommended that he amend construction contract provisions to provide that overhead, profit, and commission be applied on all change orders which either add or delete work.

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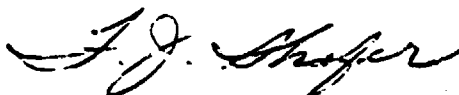
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Sincerely yours,



F. J. Shafer  
Director

Enclosure

1059  
  
UNITED STATES GENERAL ACCOUNTING OFFICE  
WASHINGTON, D.C. 20548

LOGISTICS AND COMMUNICATIONS  
DIVISION

B-118623

APR 7 1977

The Honorable Howard W. Cannon  
United States Senate

Dear Senator Cannon:

By letter of February 15, 1977, you asked us to respond to your constituent's letter about our report to the General Services Administration (GSA) on pricing of construction contract change orders. Your constituent was concerned with our recommendation regarding GSA's future treatment of change orders which reduce the required scope of work.

Your constituent's letter and those received from numerous others in private industry apparently have interpreted our report as suggesting that GSA make arbitrary downward adjustments for overhead, profit, and commissions whenever a change order deletes work covered by a contract. This was not the intent. Rather our intent was to have such adjustments "negotiated."

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Sincerely yours,



F. J. Shafer  
Director

Enclosure

1960  
  
UNITED STATES GENERAL ACCOUNTING OFFICE  
WASHINGTON, D.C. 20548

LOGISTICS AND COMMUNICATIONS  
DIVISION

APR 7 1977

B-118623

The Honorable Paul Laxalt  
United States Senate

Dear Senator Laxalt:

By letter of February 15, 1977, you asked us to respond to your constituent's letter about our report to the General Services Administration (GSA) on pricing of construction contract change orders. Your constituent was concerned with our recommendation regarding GSA's future treatment of change orders which reduce the required scope of work.

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LCD-77-333

We expressed to the Administrator of General Services our opinion that estimated overhead, profit, and commission should be considered in negotiating deductive changes as well as additive changes, and we recommended that he amend construction contract provisions to provide that overhead, profit, and commission be applied on all change orders which either add or delete work.

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By letters dated January 31, 1977, the Administrator of General Services informed us, the House Committee on Government Operations, and the Senate Committee on Governmental Affairs that he agrees with our recommendation and that GSA will take steps to promulgate suitable contract language to recover "unexpended amounts" of overhead, profit, and commission for credit change orders to construction contracts. The Administrator also stated that in developing contract language equitable to both the Government and its contractors GSA must take into account overhead costs that may not be reduced as a result of deleted work, such as equipment rental, salaries of supervisors and clerical employees, and temporary plant costs, as well as contractor costs already incurred for the deleted work.



GSA intends to solicit comments from the private sector as it develops proposed contract provisions, and estimates that revised contract provisions will not be issued before December 1977.

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For your further reference, a copy of our November 23, 1976, report to GSA is enclosed.

We have received similar requests from other Congressmen based on their constituents' inquiries, and we are providing them a similar response. As you requested, the correspondence enclosed with your letter is returned.

Sincerely yours,



F. J. Shafer  
Director

Enclosures - 2



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

LOGISTICS AND COMMUNICATIONS  
DIVISION

APR 7 1977

118623

The Honorable Orrin G. Hatch  
United States Senate

Dear Senator Hatch:

By letter of February 17, 1977, you asked us to respond to your constituent's letter about our report to the General Services Administration (GSA) on pricing of construction contract change orders. Your constituent was concerned with our recommendation regarding GSA's future treatment of change orders which reduce the required scope of work.

Your constituent's letter and those received from numerous others in private industry apparently have interpreted our report as suggesting that GSA make arbitrary downward adjustments for overhead, profit, and commissions whenever a change order deletes work covered by a contract. This was not the intent. Rather our intent was to have such adjustments "negotiated."

As discussed below, GSA officials interpreted our recommendation as intended. To assure there is no misunderstanding between this Office and GSA in this matter, we are sending the Acting Administrator a copy of this letter.

On November 23, 1976, we reported to GSA on a survey of its method for establishing prices for change orders to construction contracts. Allowances for overhead, profit, and commission on subcontracted work were routinely included in the negotiated price for change orders that added work, but no price deductions for these allowances were made for change orders which deleted work. On the other hand, we noted that the practice of the Army Corps of Engineers is to obtain a credit for overhead and profit when the scope of work is reduced.

LCD-77-334

We expressed to the Administrator of General Services our opinion that estimated overhead, profit, and commission should be considered in negotiating deductive changes as well as additive changes, and we recommended that he amend construction contract provisions to provide that overhead, profit, and commission be applied on all change orders which either add or delete work.

Our recommendation was aimed at getting GSA to clarify its contract provisions which state that allowances for overhead, profit, and commission shall be negotiated for contract changes. As mentioned, such allowances were being considered in the case of additive change orders but were being excluded in the pricing of deductive change orders. It seems to us reasonable and equitable that in negotiating change orders appropriate consideration should be given to the effect of reductions in scope as well as to the effect of increases, and to changes in indirect as well as direct costs of the contractor. Thus a negotiated change order should reflect the extent that a reduction in the scope of the work can be expected to reduce the contractor's estimated costs, including overhead.

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GSA intends to solicit comments from the private sector as it develops proposed contract provisions, and estimates that revised contract provisions will not be issued before December 1977.

We consider GSA's statements responsive to our recommendation. As we have stated above, we do not advocate that contract prices be reduced for overhead costs already incurred or likely to be incurred in connection with deleted work. However, neither would it be equitable to the Government for the contractor to receive unearned overhead, profit, or commission applicable to deleted work.

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We have received similar requests from other Congressmen based on their constituents' inquiries, and we are providing them a similar response. As you requested, the correspondence enclosed with your letter is returned.

Sincerely yours,



F. J. Shafer  
Director

Enclosures - 2



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

LOGISTICS AND COMMUNICATIONS  
DIVISION

APR 7 1977

B-118623

The Honorable James D. Santini  
House of Representatives

Dear Mr. Santini:

By letter of February 17, 1977, you asked us to respond to your constituent's letter about our report to the General Services Administration (GSA) on pricing of construction contract change orders. Your constituent was concerned with our recommendation regarding GSA's future treatment of change orders which reduce the required scope of work.

Your constituent's letter and those received from numerous others in private industry apparently have interpreted our report as suggesting that GSA make arbitrary downward adjustments for overhead, profit, and commissions whenever a change order deletes work covered by a contract. This was not the intent. Rather our intent was to have such adjustments "negotiated."

As discussed below, GSA officials interpreted our recommendation as intended. To assure there is no misunderstanding between this Office and GSA in this matter, we are sending the Acting Administrator a copy of this letter.

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LCD-77-335

We expressed to the Administrator of General Services our opinion that estimated overhead, profit, and commission should be considered in negotiating deductive changes as well as additive changes, and we recommended that he amend construction contract provisions to provide that overhead, profit, and commission be applied on all change orders which either add or delete work.

Our recommendation was aimed at getting GSA to clarify its contract provisions which state that allowances for overhead, profit, and commission shall be negotiated for contract changes. As mentioned, such allowances were being considered in the case of additive change orders but were being excluded in the pricing of deductive change orders. It seems to us reasonable and equitable that in negotiating change orders appropriate consideration should be given to the effect of reductions in scope as well as to the effect of increases, and to changes in indirect as well as direct costs of the contractor. Thus a negotiated change order should reflect the extent that a reduction in the scope of the work can be expected to reduce the contractor's estimated costs, including overhead.

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B-118623

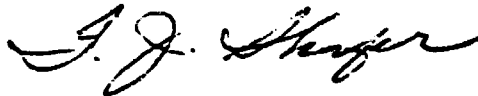
GSA intends to solicit comments from the private sector as it develops proposed contract provisions, and estimates that revised contract provisions will not be issued before December 1977.

We consider GSA's statements responsive to our recommendation. As we have stated above, we do not advocate that contract prices be reduced for overhead costs already incurred or likely to be incurred in connection with deleted work. However, neither would it be equitable to the Government for the contractor to receive unearned overhead, profit, or commission applicable to deleted work.

For your further reference, a copy of our November 23, 1976, report to GSA is enclosed.

We have received similar requests from other Congressmen based on the constituents' inquiries, and we are providing them a similar response.

Sincerely yours,



F. J. Shafer  
Director

Enclosure



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

LOGISTICS AND COMMUNICATIONS  
DIVISION

APR 7 1977

B-118623

The Honorable Caldwell Butler  
House of Representatives

Dear Mr. Butler:

Your Office asked us to respond to your constituent's inquiry about our report to the General Services Administration (GSA) on pricing of construction contract change orders. Your constituent was concerned with our recommendation regarding GSA's future treatment of change orders which reduce the required scope of work.

Your constituent's letter and those received from numerous others in private industry apparently have interpreted our report as suggesting that GSA make arbitrary downward adjustments for overhead, profit, and commissions whenever a change order deletes work covered by a contract. This was not the intent. Rather our intent was to have such adjustments "negotiated."

As discussed below, GSA officials interpreted our recommendation as intended. To assure there is no misunderstanding between this Office and GSA in this matter, we are sending the Acting Administrator a copy of this letter.

On November 23, 1976, we reported to GSA on a survey of its method for establishing prices for change orders to construction contracts. Allowances for overhead, profit, and commission on subcontracted work were routinely included in the negotiated price for change orders that added work, but no price deductions for these allowances were made for change orders which deleted work. On the other hand, we noted that the practice of the Army Corps of Engineers is to obtain a credit for overhead and profit when the scope of work is reduced.

LCD-77-336



We expressed to the Administrator of General Services our opinion that estimated overhead, profit, and commission should be considered in negotiating deductive changes as well as additive changes, and we recommended that he amend construction contract provisions to provide that overhead, profit, and commission be applied on all change orders which either add or delete work.

Our recommendation was aimed at getting GSA to clarify its contract provisions which state that allowances for overhead, profit, and commission shall be negotiated for contract changes. As mentioned, such allowances were being considered in the case of additive change orders but were being excluded in the pricing of deductive change orders. It seems to us reasonable and equitable that in negotiating change orders appropriate consideration should be given to the effect of reductions in scope as well as to the effect of increases, and to changes in indirect as well as direct costs of the contractor. Thus a negotiated change order should reflect the extent that a reduction in the scope of the work can be expected to reduce the contractor's estimated costs, including overhead.

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B-118623

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We consider GSA's statements responsive to our recommendation. As we have stated above, we do not advocate that contract prices be reduced for overhead costs already incurred or likely to be incurred in connection with deleted work. However, neither would it be equitable to the Government for the contractor to receive unearned overhead, profit, or commission applicable to deleted work.

For your further reference, a copy of our November 23, 1976, report to GSA is enclosed.

We have received similar requests from other Congressmen based on their constituents' inquiries, and we are providing them a similar response.

Sincerely yours,



F. J. Shafer  
Director

Enclosure



UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

LOGISTICS AND COMMUNICATIONS  
DIVISION

B-118623

APR 7 1977

The Honorable Gunn McKay  
House of Representatives

Dear Mr. McKay:

By letter of February 28, 1977, you asked us to respond to your constituent's letter about our report to the General Services Administration (GSA) on pricing of construction contract change orders. Your constituent was concerned with our recommendation regarding GSA's future treatment of change orders which reduce the required scope of work.

Your constituent's letter and those received from numerous others in private industry apparently have interpreted our report as suggesting that GSA make arbitrary downward adjustments for overhead, profit, and commissions whenever a change order deletes work covered by a contract. This was not the intent. Rather our intent was to have such adjustments "negotiated."

As discussed below, GSA officials interpreted our recommendation as intended. To assure there is no misunderstanding between this Office and GSA in this matter, we are sending the Acting Administrator a copy of this letter.

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LCD-77-337

We expressed the Administrator of General Services our opinion that estimated overhead, profit, and commission should be considered in negotiating deductive changes as well as additive changes, and we recommended that he amend construction contract provisions to provide that overhead, profit, and commission be applied on all change orders which either add or delete work.

Our recommendation was aimed at getting GSA to clarify its contract provisions which state that allowances for overhead, profit, and commission shall be negotiated for contract changes. As mentioned, such allowances were being considered in the case of additive change orders but were being excluded in the pricing of deductive change orders. It seems to us reasonable and equitable that in negotiating change orders appropriate consideration should be given to the effect of reductions in scope as well as to the effect of increases, and to changes in indirect as well as direct costs of the contractor. Thus a negotiated change order should reflect the extent that a reduction in the scope of the work can be expected to reduce the contractor's estimated costs, including overhead.

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We have received similar requests from other Congressmen based on their constituents' inquiries, and we are providing them a similar response. As you requested, the correspondence enclosed with your letter is returned.

Sincerely yours,



F. J. Shafer  
Director

Enclosures - 2



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

LOGISTICS AND COMMUNICATIONS  
DIVISION

B-118623

APR 7 1977

The Honorable Dawson Mathis  
House of Representatives

Dear Mr. Mathis:

By letter of February 28, 1977, you asked us to respond to your constituent's letter about our report to the General Services Administration (GSA) on pricing of construction contract change orders. Your constituent was concerned with our recommendation regarding GSA's future treatment of change orders which reduce the required scope of work.

Your constituent's letter and those received from numerous others in private industry apparently have interpreted our report as suggesting that GSA make arbitrary downward adjustments for overhead, profit, and commissions whenever a change order deletes work covered by a contract. This was not the intent. Rather our intent was to have such adjustments "negotiated."

As discussed below, GSA officials interpreted our recommendation as intended. To assure there is no misunderstanding between this Office and GSA in this matter, we are sending the Acting Administrator a copy of this letter.

On November 23, 1976, we reported to GSA on a survey of its method for establishing prices for change orders to construction contracts. Allowances for overhead, profit, and commission on subcontracted work were routinely included in the negotiated price for change orders that added work, but no price deductions for these allowances were made for change orders which deleted work. On the other hand, we noted that the practice of the Army Corps of Engineers is to obtain a credit for overhead and profit when the scope of work is reduced.

LCD-77-338

We expressed to the Administrator of General Services our opinion that estimated overhead, profit, and commission should be considered in negotiating deductive changes as well as additive changes, and we recommended that he amend construction contract provisions to provide that overhead, profit, and commission be applied on all change orders which either add or delete work.

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B-118623

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Sincerely yours,



F. J. Shafer  
Director

Enclosure





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

LOGISTICS AND COMMUNICATIONS  
DIVISION

B-118623

APR 7 1977  
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The Honorable Gary Hart  
United States Senate

Dear Senator Hart:

By letter of March 1, 1977, you asked us to respond to your constituent's letter about our report to the General Services Administration (GSA) on pricing of construction contract change orders. Your constituent was concerned with our recommendation regarding GSA's future treatment of change orders which reduce the required scope of work.

Your constituent's letter and those received from numerous others in private industry apparently have interpreted our report as suggesting that GSA make arbitrary downward adjustments for overhead, profit, and commissions whenever a change order deletes work covered by a contract. This was not the intent. Rather our intent was to have such adjustments "negotiated."

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LCD-77-339

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B-118623

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Sincerely yours,



F. J. Shafer  
Director

Enclosure