

DOCUMENT RESUME

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[Notification and Publication of Price Changes Made under General Services Administration Schedule Contracts]. PSAD-78-63; S-114807. January 17, 1978. 6 pp.

Report to Rep. J. Kenneth Robinson; by *mer B. Staats, Comptroller General.

Issue Area: Federal Procurement of Goods and Services: Reasonableness of Prices Under Negotiated Contracts and Subcontracts (1904).

Contact: Procurement and Systems Acquisition Div.

Budget Function: National Defense: Department of Defense - Procurement & Contracts (058).

Organization Concerned: General Services Administration.

Congressional Relevance: Rep. J. Kenneth Robinson.

The multiple-award Federal Supply Schedule system is the method by which the General Services Administration (GSA) awards contracts to more than one supplier for comparable supplies or services. These suppliers are awarded contracts annually and are listed on schedules which are distributed to agencies for use in ordering directly from the contractors. GSA selects contractors from the schedules on the basis of discounts from established commercial pricelists. Findings/Conclusions: Federal Property Management Regulations require that agencies not solicit bids, proposals, and quotations to test the market solely for the purpose of seeking alternative sources to Federal Supply Schedules. Contractors are required to notify GSA when price changes are made under schedule contracts. An examination of 9 office equipment contractor files indicated that, of 23 price reduction notifications, 18 had been made in the required 10 days or less. There are two types of Federal Supply Schedules, both of which are competitive to some degree. Multiple-award schedule contracts are designed to use industry distribution facilities and provide users with a selection of products from comparable suppliers. Single-award schedules cover contracts made with one supplier at a stated price for delivery to a geographical area and are either formally advertised or noncompetitively negotiated. Historical records on procurements are maintained differently at various agencies. (RRS)



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

B-114807

JAN 17 1978

04690

The Honorable J. Kenneth Robinson
House of Representatives

Dear Mr. Robinson:

In your letters of March 14, 1977, and May 6, 1977, you wanted to know

- how the multiple-award Federal Supply Schedule system operates and how effective that system is from the standpoint of small businesses,
- how price changes should be handled under the Federal Supply Schedule system and whether publication of such changes should be made before becoming effective, and
- if the procurement history of an item could be maintained in agencies as a convenience to prospective suppliers.

OPERATION OF THE MULTIPLE-
AWARD SCHEDULE SYSTEM

The multiple-award Federal Supply Schedule system is a method by which the General Services Administration awards contracts to more than one supplier for comparable supplies or services. The suppliers are awarded contracts annually and are listed on schedules. These schedules are distributed to agencies for use in ordering directly from contractors.

The General Services Administration selects contractors for the schedules on the basis of discounts from established commercial pricelists. Particular attention is devoted to ensure that discounts offered to the Government are equal to, or exceed, discounts and terms extended to each contractor's most favored customer. The ultimate goal is to negotiate discounts commensurate with the Government's large volume of purchases.

PSAD-78-33
(950415)

NOTIFICATION AND PUBLICATION
OF PRICE CHANGES

You requested that we comment on the following:

"It would appear that procurement of items for which a supplier has filed a price change should not be contracted for until the General Services Administration has been notified of the price change and made public an amendment to the appropriate Federal schedule."

To be equitable, Federal Property Management Regulations require that agencies are not to solicit bids, proposals, and quotations or otherwise test the market solely for the purpose of seeking alternative sources to Federal Supply Schedules. Also, agencies are not to request formal or informal quotations from Federal Supply Schedule contractors for comparing contract prices.

Contractors should notify the General Services Administration when price changes are made under schedule contracts. Each multiple-award schedule contract contains a clause entitled "price reductions." This clause states that any price reduction shall be effective under the Government contract at the same time as the price reduction is effective for any other customer.

Contractors are allowed 10 days in which to report all price reductions to the General Services Administration's Federal Supply Service. According to one GSA official, this 10-day rule was instituted to allow contractors enough time for mailing and other associated administrative tasks.

During the current contract period, we examined nine office equipment contractor files at the General Services Administration, which had the most amendments regarding price reductions. We found that of 23 price reduction notifications, 18 had been made in 10 days or less. Of the remaining five notifications, four were made in less than 15 days and one notification was made in 47 days. We believe, on the basis of this sample, that the 10-day period is a reasonable period for contractors to report price changes to the General Services Administration.

Since special price reductions cannot be made for individual Government customers, revisions have recently been made

to the General Services Administration's regulations. These revisions provide that "Government-only" temporary price reductions must have a duration of at least 30 days, except during the last month of the contract period when any such offer must be for the remainder of the contract period.

You made the following suggestions and comments in reference to publication of such changes.

"That in fairness to all suppliers participating in the contract price schedule system, any proposed price reduction by a supplier should not be made effective until a time after notification to the Federal Supply Service sufficient to permit publication of the - proposed price change, and to permit other suppliers of the same item to meet or beat the proposed new price. Secondly, in such circumstances, the Federal Supply Service might direct that the procurement item be published for competitive bidding with a view to establishing a new contract price."

Presently, price reductions are effective immediately when the supplier announces the reductions. The supplier, as previously stated, is required to advise the General Services Administration in writing of the reduction within 10 days of the effective date. This method appears reasonable because the items on the multiple-award schedules are common commercial items, whose prices are generally dictated by marketplace competition. To delay applicability of the effective date of price reductions to the Government would mean that Government activities would pay higher prices than other customers for the period involved. This would not serve the best interest of the Government.

In response to your second comment, there are two types of Federal Supply Schedules, which are both competitive, to some degree. Multiple-award schedule contracts are designed to use industry distribution facilities and provide users with a selection of products from comparable suppliers where there are no prescribed standards or specifications.

Single-award schedules cover contracts made with one supplier at a stated price for delivery to a geographical area, as defined in the schedule. They may be either formally advertised or noncompetitively negotiated.

The Government can frequently obtain better prices through formal advertising, particularly when large volume procurement is involved, good specifications have been established, and there are adequate suppliers to permit effective competition.

In another comment you stated:

"As amendments to the contract price schedules customarily are not printed and made generally available for up to 15 days after notifying the Federal Supply Service, other departments and agencies, and other suppliers who might be inclined to match the reductions do not become aware of the changes until after procurements have been made at the new prices from a single supplier who has become privy to information as to the date of an intended procurement."

One General Services Administration official stated that the estimate of a 15-day period for printing and making available amendments to the price schedule was fairly accurate. He believes that the agency should emphasize a fair price during initial negotiations in order to limit price changes and, therefore, solve this problem.

An alternative would be to have suppliers make price reductions effective 15 days after the General Services Administration is notified of pending reductions. However, the Government would then have to pay higher costs on any procurement during the 15-day period. Thus, while the present system has recognizable drawbacks, we believe that it is preferable to the alternative.

LOCATION AND EXAMINATION OF THE PROCUREMENT HISTORY OF AN ITEM

In your final comment you stated:

"If there is no convenient means for prospective suppliers of an item to locate and examine records of procurements of this item over a reasonable period in the recent past, mechanisms might be developed for the provision of such information, as a matter of public record, at a central place in each department and agency."

We have found that historical records on item purchases are maintained differently at various agencies. Some agencies have many purchasing offices in many locations. Sometimes particular buyers at a designated location are responsible for purchasing specific items. Whether or not records on item purchases are maintained in a central location depends on the organization of the purchasing office and the items the agency buys.

Federal Supply Service headquarters keeps records of Federal Supply Schedule contract purchases. Each month a schedule contractor must report the dollar volume of orders received from Federal agencies under each contract to the General Services Administration. The contractor does not report sales by item since a contractor may sell hundreds of different items. We believe that maintaining purchase records by individual item would be impractical.

Several data banks in the Government compile information on the items purchased by a procurement office. The Department of Defense, Office of Assistant Secretary of Defense (Comptroller), Directorate for Information Operations and Control, maintains a computer listing of all defense procurement actions over \$10,000 which can be identified by commodity or service during any one year.

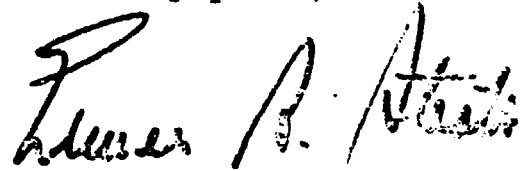
The General Services Administration is also responsible for managing a standard Government purchasing reporting system that compiles information from the various executive agencies and departments. This system, however, does not identify individual items bought by a Government agency.

CONCLUSION

Using the multiple-award Federal Supply Schedule system is one way the Government obtains goods and services. The schedules provide opportunities for small and large business suppliers to sell to the Government.

Generally, we believe the multiple-award Federal Supply Schedule system is designed to seek a fair and reasonable price from suppliers during annual negotiations. A number of areas, however, could be improved, as discussed in our report entitled, "Federal Supply Service Not Buying Goods at Lowest Possible Price," PSAD-77-69. We are enclosing a copy for your information.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Luther B. Atch". The signature is written in a cursive style with a large initial "L".

Comptroller General
of the United States

Enclosure