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Our objective was to determine if GSA's efforts to correct the deficiencies noted in our prior reports have produced effective results. The review was conducted from February 1980 to June 1980 and was performed at GSA's Federal Supply Service (FSS) headquarters, Arlington, Virginia. Our review included discussions with officials and examinations of procurement files, management policies and procedures, and GSA internal audit reports.

Pursuant to your interest in the General Services Administration's (GSA's) management of the multiple award schedule program, we reviewed the actions GSA has taken to improve the program. In February 1979 and May 1980 you held hearings on this subject and encouraged GSA to introduce the necessary efficiencies and competition into the system needed to substantially reduce the cost of items procured by the Federal Government. Only until recently has GSA begun to address the issues of improving the schedule program and reducing the number of schedules. However, the schedules continue in force and still constitute the major source of supply for Federal agencies. While GSA's plans appear responsive to our recommendations, few procedures implementing these plans have been developed. From our review of the procedures that were developed, we found that GSA has not yet solved the program's basic deficiencies. GSA must reexamine these procedures and intensify its efforts toward improving the program.

Subject: Effectiveness of GSA's Actions to Improve the Multiple Award Schedule Program (PSAD-80-53)

Dear Mr. Chairman:

The Honorable Newton Chiles
Chairman, Subcommittee on Treasury,
Postal Service, General Government
Committee on Appropriations
United States Senate

B-199079



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

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Our examination consisted of reviewing actions taken by GSA on the recommendations contained in our prior reports on the multiple award schedule program. Accordingly, our review consisted of examining the effectiveness of procedures developed by FSS to implement internal GSA policies for program improvement. Also, for those GSA policy areas in which FSS procedures were not completely developed, we assessed the degree of progress made by FSS toward compliance with such policy.

A summary of our efforts follows. Additional details are included in enclosure I.

BACKGROUND

Under the schedule program, GSA, through its FSS, awards contracts to multiple suppliers of similar items. The users order directly from the suppliers at prices that are supposed to be favorable to the government. In fiscal year 1979 about 4 million items were listed, and total purchases were about \$1.8 billion. GSA estimates fiscal year 1980 sales will approach \$2.2 billion.

On May 2, 1979, we issued a comprehensive report to the Congress entitled "Ineffective Management of GSA's Multiple Award Schedule Program--A Costly, Serious, and Longstanding Problem" (PSAD-79-71). We reported that, because of GSA's ineffective management of the program, the government was buying commercial products of higher quality than needed, price competition was absent, the lowest possible prices were not obtained, and most of the 4 million schedule items did not belong in the program.

We made eight major recommendations to GSA for improving the program. In summary, we stated that (1) GSA should develop criteria for determining which items should be procured competitively and which should be purchased through multiple awards and (2) for those relatively few items which should remain on multiple award schedules, GSA should improve the contracting process. GSA agreed with all eight recommendations.

GSA ACTIONS TO IMPROVE THE

MULTIPLE AWARD SCHEDULE PROGRAM

Although congressional hearings and our May 1979 report prompted GSA to give considerable attention to the schedule program, this attention was short lived. Even though the GSA Office of Acquisition Policy issued an excellent policy

statement in April 1979 to improve the multiple award program, few of the operating procedures required by this statement have been developed by FSS. This statement also requires that the procedures be developed within stipulated time frames and that FSS report its progress on a quarterly basis. Until we began our followup review in February 1980, GSA had not made any improvements that would solve the program's fundamental deficiencies.

In view of the poor progress to correct these deficiencies, FSS, in March 1980, launched an intensive effort to again attack the problem. A task force was created and charged with reviewing all multiple award schedules to determine if schedule items could be procured competitively, thus reducing the program's size. Also, FSS recently developed some procedures in an attempt to improve the contracting for and usage of items which should remain in the program. However, these procedures have not solved the fundamental deficiencies of multiple award contracting. For example, our review of changes affecting late offer acceptance, maximum order limitations, and net price and benchmark discounts found that FSS

--does not maintain adequate documentation to prevent acceptance of late offers,

--does not follow procurement regulations for establishing maximum order limitations, and

--may not obtain prices any more favorable than in the past because vendor marketing categories are still used to evaluate discounts and net price is not adequately considered.

While progress has been evident in internal audit and training, it has been slow in market research, deletion or restriction of schedules, commercial item description development, and management information systems development.

CONCLUSIONS

GSA only recently addressed the crucial issues of reducing the number of schedules and improving the multiple award contracting process. The schedules continue in force and still represent a major source of supply for Federal agencies. GSA's plans, as evidenced by the GSA Office of Acquisition Policy planning statement and the recent initiatives of FSS, appear responsive to many of the recommendations

contained in our May 1979 report. However, few procedures implementing these plans have been developed by FSS. Our review of those procedures that were developed has shown that GSA has not yet solved the schedule program's basic deficiencies identified in our prior reports. Consequently, GSA must reassess these procedures and also intensify its efforts to improve the program. We will continue to monitor GSA's progress. Congressional oversight continues to be necessary to ensure that GSA completes needed program reforms in a timely manner. A clear expression of congressional intent to correct the problems is desirable.

RECOMMENDATIONS

We recommend that the chairman, Senate Subcommittee on Treasury, Postal Service, General Government, Committee on Appropriations,

--place GSA under a mandatory schedule to comply with the time frames stipulated in the GSA Office of Acquisition Policy statement for improving the multiple award schedule program and

--require GSA to report the status of its improvement actions by submitting copies of its quarterly progress reports made to GSA's Office of Acquisition Policy.

We also recommend that the Administrator of GSA

--intensify efforts to complete action on the recommendations contained in our May 1979 report,

--strengthen procedures to assure compliance with the policy statement establishing firm cutoff dates for receipt of offers,

--eliminate vendor marketing categories as a basis of bid evaluation and consider price together with discount when evaluating offers, and

--establish procedures to assure that methods used in setting the maximum order limitation are applied consistently and procurement regulations are followed.

GSA believes strongly that its efforts and achievements to date have not been recognized or accurately presented and urges that we revise our recommendations. (See enc. II.)

While we believe GSA's current plans and actions are certainly commendable, we maintain that our report places these initiatives in proper perspective. We have been periodically reviewing the multiple award schedule program since as early as 1973, and this report properly assesses GSA's actions.

GSA believes it has complied with our recommendations concerning (1) establishing firm cutoff dates for offers, (2) eliminating vendor marketing categories, and (3) establishing procedures for setting maximum order limitations. GSA outlined its current procedures and also provided additional documentation. However, we had already examined much of this data during our followup review. Also, our examination of procedures and reports prepared by GSA and supplied after our review did not warrant revision of our recommendations.

Based on our review of GSA's current procedures for late offers, we could not determine if GSA was in compliance with its policy statement establishing firm cutoff dates for offers. In fact, GSA noted that it would take additional steps to strengthen its procedures. Concerning our recommendation relating to eliminating vendor marketing categories, we believe that GSA's latest procedures still allow for the use of vendor marketing categories and do not adequately consider net price. Regarding our recommendation that GSA formulate procedures for maximum order limitations, our review of GSA's latest instructions concludes that GSA has not adequately addressed the issue of establishing reasonable or consistently applied limitations.

For these reasons, we believe that GSA must still solve the basic deficiencies of the multiple award schedule program, and we maintain that our recommendations are still valid.

Copies of this letter and the enclosures are being sent to the Administrator of GSA; the Director, Office of Management and Budget; the Administrator, Office of Federal Procurement Policy; and the chairmen of the House and Senate Committees on Appropriations, the Senate Committee

Enclosures - 2

Comptroller General
of the United States

Sincerely yours,
Arthur J. Altmeyer

on Governmental Affairs, and the House Committee on Government
Operations.

B-199079

RESULTS OF GSA'S EFFORTS TO IMPROVE

THE MULTIPLE AWARD SCHEDULE PROGRAM

BACKGROUND

The Federal Property and Administrative Services Act of 1949 created the General Services Administration (GSA) to give the Government an efficient and economical system for procuring and supplying personal property and nonpersonal services. GSA assigned the mission of supplying common-use items to its Federal Supply Service (FSS). To fulfill this task, FSS operates three buying programs: (1) stores, (2) nonstores, and (3) Federal Supply Schedules.

There are two separate schedule programs--the multiple award and the single award. The multiple award program is the largest FSS program, with fiscal year 1979 sales of \$1.8 billion. The much smaller single award program accounted for \$210 million in sales in 1979. Under this program, a single contract is awarded to the lowest responsive bidder for each product.

Under the multiple award program a number of commercial firms are awarded indefinite quantity contracts for a particular product category. Prices are based on a negotiated minimum discount off the vendors' commercial prices. Agencies select the particular product that best meets their needs and order directly from the vendor. The purpose of the multiple award program is to (1) decrease agency open market purchases by offering a wide selection of commercial products at lower prices and (2) make commercial items available when it is impractical to develop adequate specifications for bids.

Prior reports on multiple award schedule program

Since 1971 both this office and GSA's internal audit have reviewed various aspects of the multiple award schedule program and made numerous recommendations to GSA. For example, a May 1971 GSA internal audit report stated that \$100 million could be saved annually if GSA were to competitively award contracts for products in the multiple award program. This report recommended that GSA

--discontinue the use of all multiple award Federal Supply Schedules and develop performance specifications to encourage competition,

We made eight major recommendations to GSA for improving the program. In summary, we stated that (1) GSA should develop criteria for determining which items should be procured competitively and which should be purchased through multiple awards and (2) for those relatively few items which should

- Overall, the program could not be managed effectively.
 - There were too many suppliers of similar items.
 - Many items of a questionable nature were available for purchase.
 - GSA did not know what agencies were buying under the schedule program.
 - Most of the 4 million items could be purchased competitively.
 - Multiple award schedules do not provide assurance that the government is obtaining the lowest possible prices.
- In essence, our report pointed out that:

We also completed a comprehensive audit of the schedules program and issued a report on May 2, 1979, entitled "Ineffective Management of GSA's Multiple Award Schedule Program--A Costly, Serious, and Longstanding Problem" (PSAD-79-71).

- perform more preaward and postaward audits.
- obtain better data to improve contract negotiating, and
- limit the number of awards to increase competition,
- obtain more detailed knowledge of its customers, award schedule program. We recommended that GSA
- During the period 1973-77, we issued four reports which contained recommendations for improving the multiple award schedule program.
- establish a system for setting target figures in budgeting and measuring cost savings for improved efficiency.
- improve the degree of professionalism of contracting officers, and

remain on multiple award schedules, GSA should improve the contracting process. GSA agreed with all eight recommendations. However, until we began our followup review in February 1980, few changes to the program resulted.

GSA ACTIONS TO IMPROVE THE MULTIPLE AWARD SCHEDULE PROGRAM

Although GSA management has almost always agreed with our conclusion that the multiple award schedule program needed improvement and agreed to take action, accomplishments have been slight. For this reason, we suggested in our May 1979 report, and in related congressional testimony, that the Congress consider legislation mandating certain actions by GSA and prescribing reasonable time frames for their accomplishment.

Progress slow until our followup review

Although there was a noticeable increase in activity at the time we issued our May 1979 report, subsequent GSA management action was sporadic, at best, until our followup review began in February 1980. This is evidenced by GSA's failure to significantly reduce the number of multiple award schedules and their related sales. For fiscal year 1979, GSA reported sales of \$1.8 billion from 116 schedules and estimated fiscal year 1980 sales from approximately 113 schedules will approach \$2.2 billion. This is approximately a 22-percent increase in sales.

On April 19, 1979, GSA's Office of Acquisition Policy issued a statement setting forth 14 general management and 13 specific policies for improving the multiple award schedule program. This statement required FSS to develop procedures for implementing the specific policy matters. Further, GSA required that the procedures be developed within stipulated time frames and that FSS report its progress on a quarterly basis. These policies and related procedures are designed to establish the basis upon which FSS should award and administer multiple award schedule contracts.

We believe this statement constitutes an excellent plan for devising specific procedures to improve the schedule program. However, as indicated in its October-December 1979 quarterly report, FSS had completed action on only two policy matters: (1) treatment of late offer proposals and (2) review of effectiveness in providing supply support to customer agencies.

During our followup review, we examined schedule contract files in which 356 offers were received and noted that

FSS returned 10 proposals which were determined to be late offers. However, in most cases, FSS did not record either the time or the date the offer was received. Consequently, because of this poor documentation, we could not determine if FSS is in compliance with the policy directive concerning treatment of late offers.

Although FSS stated in its quarterly report that it had completed action on reviewing its effectiveness in providing supply support to customer agencies, we noted that implementation was not complete. FSS is required to develop a schedule of regular liaison visits with major procuring activities and to document these visits. FSS officials indicated that 73 visits were made to customer agencies during the first half of fiscal year 1980. However, we found support for only 35 such visits. An FSS official said that future visits would be adequately documented.

According to the quarterly report, procedures were not completely developed on the policy matter concerning the collection and use of information relating to the procurement of schedule items from less expensive sources. We believe FSS has made significant progress by relaxing the schedule mandatory use requirements. Agencies are now permitted to purchase items "off-schedule" if an identical item is less expensive.

Progress has also been slow in the following important policy areas:

1. Market research--FSS has only recently begun to assess the types and quantities of typewriters agencies procure. Little else has been accomplished regarding other multiple award items.
2. Deletion or restriction of multiple award schedules--FSS eliminated or restricted eight schedules in July 1979. Since then, many of these restrictions have been lifted. Although FSS is considering eliminating or restricting other schedules, action has not yet been completed.
3. Commercial item description development--Significant savings can be realized through competitive award of many products currently on multiple award schedules. Essentially, a commercial item description is a one-page document which describes the important performance characteristics of the item to be procured. FSS has developed 72 such descriptions for multiple award items. On May 22, 1980, GSA used one of these recently developed commercial

item descriptions to award an experimental competitive bid for 350 typewriters.

- 4. Management information systems development--FSS is currently using information from agency furniture procurements to develop a model for a multiple award data base. This furniture information system, which is scheduled to be available by October 1980, will be used to forecast agency requirements. Information systems for other major product categories will not be available until the furniture model becomes operational. GSA officials stated that development of the data base is progressing on schedule and all multiple award product categories will be incorporated into the management information system by 1986.

Progress has been more evident in the areas of training and internal audit. In comparison with only 11 audits performed during fiscal years 1977 and 1978, GSA's internal audit has issued 7 reports and begun 22 reviews during fiscal years 1979 and 1980. An additional 29 reviews have been scheduled for the third quarter of fiscal year 1980. Internal audit found that vendors have submitted defective pricing data, violated the contract price reduction clause, and inaccurately billed the government. As a result of these and other findings, internal audit recommended cash recoveries of \$958,466 on the seven completed audits. As of April 15, 1980, \$126,000 had been recovered.

In accordance with our May 1979 report recommendation to improve the procurement education of GSA contracting officers, GSA established a Contracting Officer Warrant program on December 18, 1979. Its purpose is to make sure that only those officials who are qualified to obligate the government are appointed as contracting officers. Seventeen courses, such as Cost and Price Analysis, Contracting by Formal Advertising, and Negotiation Techniques, are required at various levels of responsibility. As of April 15, 1980, FSS contracting officers attended courses on 80 occasions.

In April 1979 FSS formally appointed a Schedules Program Manager in an attempt to give the program top level management attention. Four persons have occupied this position. This lack of continuity has contributed to little being accomplished. Our May 1979 report indicated that the position did not carry the necessary authority, its duties were not delineated adequately, and the responsibility the Manager needed to operate effectively was dispersed throughout

the organization. This situation still existed well into our followup review. For example, the Schedules Program Manager was responsible for developing procedures to implement the plans of GSA's Office of Acquisition Policy. However, the Manager did not have authority over the FSS contracting officers to enforce these procedures. Thus, the Manager was developing procedures which may or may not have been implemented.

In yet another instance, the FSS Office of Programs and Requirements is responsible for developing commercial item descriptions and determining customer requirements through market research. Yet, the Schedules Program Manager could not exercise any type of authority over these functions which directly affect the multiple award schedule program.

Acknowledging our reservations concerning the function of the Schedules Program Manager and because of decentralized responsibility for multiple award schedule improvement, on April 28, 1980, the FSS Commissioner created the position of Director of Acquisition Planning. The Director was placed higher in the FSS organization, was made responsible for providing overall schedules program direction, and assumed the duties of the former Schedules Program Manager.

This Director will be assisted by eight specialist groups which are involved in areas such as requirements planning, commercial items description development, market research, and contracting. If the Director can overcome the organizational difficulties which surrounded the Schedules Program Manager, we believe significant progress can be made in effectively managing multiple award schedules.

More progress during our followup review

As shown in its January-March 1980 quarterly report to GSA's Office of Acquisition Policy, FSS made little progress. With only one specific policy matter completed in the prior quarter, FSS completed action on only one additional item--developing training needs for FSS contracting officers. (See p. 5.)

In view of FSS's poor progress in improving the multiple award schedule program, the FSS Commissioner, on March 24, 1980, created a task force of about 60 persons under the guidance of the Schedules Program Manager (now Director of Acquisition Planning). As a first step, this task force is charged with (1) eliminating or greatly restricting 12 multiple award schedule items and all schedules on which total annual purchases are less than \$25,000 and (2)

conducting test purchases by September 1980 on 11 item categories using competitive methods. By September 1981 the task force is charged with conducting test purchases on an additional 12 item categories. These latter items represent sales of about \$1 billion, and GSA expects to save \$100 million by fiscal year 1982. According to the FSS Commissioner, all multiple award schedules will be reviewed to determine if the items available under these schedules can be procured competitively by using commercial item descriptions. Other major tasks given to the task force include: (1) recruiting an industry consultant for advice on production and marketing factors, (2) developing a procurement strategy, and (3) monitoring the results.

OVERDUE CHANGES IN MULTIPLE
AWARD CONTRACTING PROCEDURES

Although GSA concurred with the recommendations contained in our May 1979 report, it was not until our followup review began that any positive action was taken in the areas of multiple award schedule item reduction, net price and benchmark discount procedures, maximum order limitations, and blanket purchase agreements.

Item reduction criteria

In our May 1979 report we stated that criteria did not exist for reviewing multiple award schedule items and recommended that GSA restrict their use to products where:

--Competitive single award procedures are not practicable using commercial item descriptions or performance specifications.

--Sales volume justifies centralized procurement. A minimum dollar threshold of \$10,000 or more, depending on the item, should be established, and those items not meeting the volume requirement should be authorized for local purchase. Items of a luxury or sensitive nature should be eliminated from the schedule program.

--The majority of agency needs are divided among several functionally similar products with significant variances in prices and features.

It was not until March 31, 1980, that criteria was established to eliminate or restrict the use of luxury or sensitive-type items and not until April 29, 1980, that criteria restricting the use of multiple award

schedules was established. However, no written operating procedures have been developed to implement these guidelines. GSA officials stated that procedures will be completed to assure that usage of luxury or sensitive-type items are validated. Also, the criteria for restricting the use of schedules will become an integral part of the multiple award process.

Net price and benchmark discount procedures

Since 1968 offers submitted in response to solicitations for multiple award schedules have been evaluated by FSS on the basis of contractor discounts from established commercial price lists without regard to net price. This practice can result in the government's paying different prices for virtually identical items. For this reason, we recommended in May 1979 that GSA consider price together with discount when evaluating offers. In response, GSA stated that net pricing was not compatible with present multiple award technology, but agreed to accelerate efforts to define the extent to which net pricing could be applied.

On April 24, 1980, GSA issued procedures for evaluating net price. These procedures state that products with the lowest net price should be included on the multiple award schedule even if the bidder's discount does not meet the established benchmark discount. The benchmark discount technique is used to establish the minimum goal in negotiating discounts from commercial price lists. Once the benchmark is established, only those vendors offering a discount equal to or greater than the benchmark should be awarded a contract.

When establishing the benchmark discount, vendors' offers are grouped into various marketing categories and compared only with other offers in the same category. This practice of subdividing offers supposedly gives recognition to differences in marketing techniques. However, it dilutes competition and can result in higher prices to the government. In our May 1979 report, we recommended eliminating marketing categories as a basis of bid evaluation.

On April 29, 1980, GSA revised its benchmark guidelines to reduce the number of authorized marketing categories from four (with occasional creation of additional marketing categories) to three (with no authorized exceptions). According to FSS officials, by reducing the number of marketing categories, competition would be increased. On May 14, 1980, GSA again revised its benchmark guidelines and stated that only one marketing category would be used except when the use of more than one category would produce dramatic

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GSA took no action until April 29, 1980, when instructions were issued to FSS contracting officers to review and follow previously established procurement regulations--the same regulations that were in effect during our prior review. These latest instructions do not establish procedures to assure that methods used in setting maximum order limitations are applied consistently.

In our followup review of five multiple award schedules, we found that FSS contracting officers still do not follow a uniform system in establishing reasonable maximum order limitations. Although some limitations were reduced in an attempt to get better prices, others were simply retained at previous levels. Also, we found no written justification for the limitation selected in any of the contract files examined.

A maximum order limitation is a dollar amount or unit quantity established for an entire schedule or category of items above which orders may not be placed under the schedule contract. The purpose of this limitation is to enable the Government to explore the possibilities of securing lower prices for quantities exceeding the limitation on a definite quantity basis. Over the years, these limitations have been raised to the point where they have generally become ineffective. In our May 1979 report we stated that no uniform system existed for establishing reasonable maximum order levels. Also, the files did not contain adequate written justifications for the maximum order limitation selected. This was true despite procurement regulations requiring that the limitations be examined before each new solicitation of offers and that a record of the justification for the limitation selected be made part of the contract file. For these reasons, we recommended in May 1979 that GSA establish procedures to assure that methods used in setting maximum order limitations be applied consistently. GSA concurred with this recommendation.

Maximum order limitations

differences in offerors' discounts and prices. Historically, GSA has maintained that different marketing techniques produce dramatic differences in an offeror's ability to extend discounts and set prices. Thus, GSA has not adequately come to grips with this problem. GSA continues to evaluate offers based on discounts rather than net price. Because GSA has basically retained its benchmark discount technique intact, it does not appear that GSA will obtain prices any more favorable than in the past.

GSA's plans, as evidenced by the GSA Office of Acquisition Planning policy statement and the recent initiatives of FSS, appear responsive to many of the recommendations contained in our May 1979 report. However, few procedures implementing these plans have been developed by FSS. Our review of those procedures that were developed has shown that GSA has not yet solved the schedule program's basic deficiencies identified in our prior reports. Consequently, GSA must reassess these procedures and also intensify its efforts to improve the program. We will continue to monitor GSA's progress. Congressional oversight continues to be necessary to ensure that GSA completes needed program reforms

GSA only recently addressed the crucial issues of reducing the number of schedules and improving the multiple award contracting process. The schedules continue in force and still represent a major source of supply for Federal agencies.

CONCLUSIONS

In our May 1979 report we recommended that GSA intensify its efforts to get vendors to offer quantity discounts and encourage agencies to establish blanket purchase agreements. GSA agreed and on April 29, 1980, issued a letter to all agency property management officers highlighting the advantages of blanket purchase agreements under the multiple award schedule program and requesting that agencies be more aggressive in establishing such agreements. While this action appears responsive to our earlier recommendation, continuing efforts by GSA are necessary to remind agencies of the benefits provided by blanket purchase agreements.

Each multiple award schedule contract is required to include a blanket purchase agreement clause. This clause is intended to permit agencies to obtain discounts greater than those offered for small quantity purchases by taking advantage of quantity levels anticipated to be purchased agencywide.

Blanket purchase agreements

Although our review of multiple award schedules occurred before GSA's April 29, 1980, instructions, it is clear that contracting officers do not follow the procurement regulations. For this reason, we believe that GSA's April 29, 1980, instructions may not be sufficient. Procedures have yet to be established to assure that methods used in setting maximum order limitations are applied consistently and that procurement regulations are followed.

ENCLOSURE I

ENCLOSURE I

in a timely manner. A clear expression of congressional intent to correct the problems is desirable.

RECOMMENDATIONS

We recommend that the chairman, Senate Subcommittee on Treasury, Postal Service, and General Government, Committee on Appropriations,

--place GSA under a mandatory schedule to comply with the time frames stipulated in the GSA Office of Acquisition Policy statement for imposing the multiple award schedule program and

--require GSA to report the status of its improvement actions by submitting copies of its quarterly progress reports made to GSA's Office of Acquisition Policy.

We also recommend that the Administrator of GSA

--intensity efforts to complete action on the recommendations contained in our May 1979 report, strengthen procedures to assure compliance with the policy statement establishing firm cutoff dates for receipt of offers,

--eliminate vendor marketing categories as a basis of bid evaluation and consider price together with discount when evaluating offers, and

--establish procedures to assure that methods used in setting the maximum order limitation are applied consistently and procurement regulations are followed.

AGENCY COMMENTS

GSA believes strongly that its efforts and achievements to date have not been recognized or accurately presented and urges that we revise our recommendations. (See enc. II.) GSA's main points are addressed below.

Intensity efforts to comply with May 1979 report recommendations

Regarding our recommendation that GSA intensify its efforts to complete action on the recommendations contained in our May 1979 report, GSA believes that our report fails to comprehend the nature of GSA's current actions. This report addresses GSA's actions to improve the schedule program

since at least May 1979. While we believe GSA's current plans and actions are certainly commendable, we believe strongly that our report places these initiatives in proper perspective. We have been reviewing the multiple award program since as early as 1973 and generally have received agreement from GSA on our conclusions and recommendations. However, actual accomplishments have been few.

Effectiveness is measured to a large degree by results. GSA has the proper plans in place to effect results. However, these plans must be translated into action, and our report assesses GSA's actions to date. Consequently, we reiterate our recommendation that GSA intensify its efforts to complete action on our May 1979 report recommendations.

Establish procedures for receipt of offers

GSA believes it has complied with our recommendation that procedures be established to assure compliance with the policy statement establishing firm cutoff dates for receipt of offers. In this regard, GSA outlined its current system for treating late offers and also indicated that, had we examined documentation contained in the solicitation case files, we would have found that procedures were adequate to prevent late offer acceptance.

We did review GSA's current procedures and the solicitation case files. However, because of GSA's poor documentation, we could not determine if GSA was in compliance with the policy directive. In fact, GSA commented that it will take additional steps to strengthen its system for documenting the timeliness of offers received. Consequently, we maintain that our recommendation on late offer treatment is still valid.

Eliminate vendor marketing categories

GSA believes it has complied with our recommendation that it eliminate vendor marketing categories as a basis of bid evaluation and consider price together with discount when evaluating offers. GSA contends that it complied with this recommendation by issuing three procurement letters approved between April and June 1980.

According to GSA, these procedures eliminate the marketing categories previously authorized except under peculiar circumstances. These circumstances permit using more than one marketing category when dramatic differences would be produced in offerors' discounts and prices. However, GSA has traditionally maintained that various marketing categories produce great differences in an offeror's ability to set

discounts. Thus, we believe that these latest procedures still allow for vendor marketing categories to be used.

GSA commented that net prices are to be compared in circumstances in which

--identical products are offered by two or more suppliers,

--similar products with essentially the same features are offered, and

--offers do not meet the benchmark but still have a net price which is equal to or better than those meeting the benchmark.

We believe that the circumstances outlined provide a positive step, but they are still limited. The point at issue in our recommendation is that GSA still continues to compare offers' discounts rather than their final net price. Until net prices are used as the main determinant in evaluating offers, we do not believe that GSA will obtain the most favorable prices from its vendors. Hence, our recommendation is still valid.

Establish procedures for maximum order limitations

GSA believes it has achieved the intent of our recommendation to establish procedures to assure that methods used in setting the maximum order limitations are applied consistently and that procurement regulations are followed. GSA stated that it believes the current regulations are adequate. Further, GSA noted that instructions issued on April 29, 1980, will be successful in attaining more realistic limitations. According to GSA, the maximum order limitations on 29 schedules were reduced as a result of these instructions.

The current regulations, as cited by GSA, have been in effect since 1976 and require that the limitations be examined before each new solicitation and that a record of the justification for the limitation be made a part of the contract file. In our May 1979 report and in this followup review, we found that no uniform system existed for establishing reasonable limitations and they were not adequately justified.

The latest GSA instructions simply emphasize the intent of the regulations but do not establish procedures to assure that methods used to set the maximum order limitations are

award items. Although these reports may constitute a good "first step" toward market research, we doubt that, in their present format, they would provide a sound foundation upon which to base informed procurement decisions. Consequently, based on our analysis of these reports, we maintain that little has been accomplished in the market research area on multiple award items.

Only 5 of the 12 reports indicate major government customers, and none analyzes customer usage either by percentage or dollar volume. Further, only 3 of the 12 reports provide a viable acquisition strategy for the items examined.

GSA disagreed with our comment that little has been accomplished in market research on multiple award items and provided us with 12 market research studies on various items. From our review of these studies, we noted they are only draft reports (for the most part dated June 12, 1980); have little uniformity; and appear to be, at best, superficial. Examination of these studies reveals that much of the information was extracted from data readily available "in-house" and from industry magazines. For example, we noted that information relating to contractors and sales volume was evidently derived from reports which contractors are required to submit to GSA.

Need for market research

Consequently, we believe GSA's latest instructions do not adequately address the issue of establishing reasonable or consistently applied maximum order limitations. We maintain that our recommendation is still valid.

As for the 29 schedules which had the maximum order limitations reduced, our report acknowledges this point but notes that most of the schedules had simply retained their previous limitations.

JUN 24 1980

Mr. Jerome H. Stolarow

Director

Procurement and Systems

Acquisition Division

General Accounting Office

Washington, DC 20548

Dear Mr. Stolarow:

This letter is in reply to your draft letter report entitled "Effectiveness of GSA's Actions to Improve the Multiple Award Schedule Program" dated June 11, 1980. Your report makes four recommendations to the Administrator of General Services, namely that

GSA:

- o Intensify efforts to complete action on the recommendations contained in your May 1979 report.
- o Establish procedures to assure compliance with the policy statement establishing firm cutoff dates for receipt of offers.
- o Eliminate vendor marketing categories as a basis of bid evaluation and consider price together with discount when evaluating offers.
- o Establish procedures to assure that methods used in setting the maximum order limitation are applied consistently and that procurement regulations are followed.

Detailed comments concerning late bids, vendor marketing categories and maximum order limitations are enclosed. (Enclosures 1, 2, 3) In each case, we feel strongly that our efforts and achievements to date have not been recognized or accurately presented by your staff. Hence we urge that the recommendations be revised.

With respect to the recommendation that we intensify our efforts toward completing the actions mentioned in your May 1979 report, we feel again that your staff has failed to comprehend the real nature of our current actions. The multiple award task force efforts represent an intensive top management initiative -- receiving daily attention from the Commissioner of Federal Supply Service -- to review a major portion of the multiple award program in one year's time. This is a major



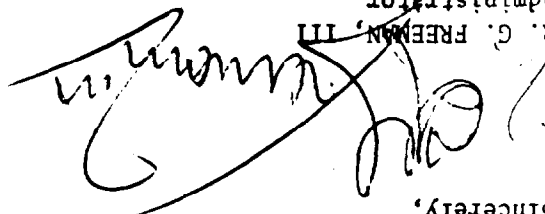
undertaking which we feel is consistent with your recommendations, but has been seriously understated by the draft report. We are enclosing supporting data with respect to the establishment of the Office of Acquisition Planning, the review process being utilized, and the scheduled phases of effort over the next year (Enclosure 4). The most important point we would like to make is that an undertaking of this magnitude cannot be achieved by merely writing new policies and procedures; it must be conducted on an intensive case-by-case basis, with resources brought to bear from throughout the organization under the leadership of a full-time SES-level Director. It is a Government-wide effort involving 32 teams, studying often for the first time, industry production and marketing practices, as well as using agency requirements and ordering patterns.

Detailed comments relating to several statements made in the draft report where we are in disagreement appear as Enclosure 5. One statement in the market research area on multiple award items. This statement overlooks the twelve market research studies already completed by the task force teams on products ranging from copying machines to dictating equipment. We are enclosing copies of these reports as evidence that significant progress has been made in this area. (Enclosure 6) Others are in process or planned.

We will be pleased to talk with you and your staff regarding any of these matters, and trust that they will assist you in more accurately reporting to the Congress the real nature of our efforts to correct longstanding and unsolved problems in the management of the multiple award schedules program.

Sincerely,

R. G. FREEMAN, III
 Administrator



6 Enclosures

GAO note 1: Due to the length of GSA's enclosures, only the summary statements have been included.
 GAO note 2: Page references have been changed to correspond to page numbers in the final report.

Although GAO reports that no time and date documentation appeared in the 356 schedule contract files they examined, documentation for receipt of

Although we feel that the present procedures constitute ample documentation to prevent acceptance of late offers, we will take additional steps to strengthen our system for documenting timeliness of offers received. Instructions will be issued to Contracting Officers to retain copies of all time and date stamped envelopes as an integral part of the offer and as a permanent part of each contract file. When late offers are returned, a copy of the time and date stamped envelope will be retained by the contracting office along with the file copy of the letter of explanation. We will also take appropriate steps to recommend that the above procedures be formalized in the GSPR 5A.

e. Late mailed offers are then sent to the Contracting Officer. Offers officially determined as late are returned to the offeror with a letter of explanation. (Attachment C)

d. Hand carried late offers are rejected. Mailed late offers are time and date stamped and logged on the bid room copy of the GSA Form 1378 as such, along with the date and time received. (Attachment B)

c. The original copy of GSA Form 1378, Record of, and Receipt for, Bids and Responses, along with sealed offers are sent to the appropriate contracting officer to be retained in the permanent solicitation case file.

b. Sealed offers are sorted in appropriate solicitation groupings as identified by the solicitation number included in the address and held until closing date for receipt of offers, at which time a record of bids and responses is prepared by the bid opening official. This listing, therefore, includes only those offers received timely. (Attachment A)

a. All offers for multiple award solicitations are sent to the Official Bid Room where the sealed envelope is time and date stamped.

FSS currently has a system for documenting time and date of offer receipt which was basically adopted from former GSPR regulations prescribed for opening of bids in procurements by formal advertising. Our procedures are as follows:

II. FSS Response

FSS does not maintain adequate documentation to prevent acceptance of late offers.

I. GAO Draft Comment

MULTIPLE AWARD SCHEDULES

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ENCLOSURE II

ENCLOSURE II

these offers would have been verified by the records and receipt of bids (GSA Form 1378) retained in the solicitation case file. As additional evidence that FSS is successfully complying with the new policy for treatment of late offers for multiple award solicitations, we have attached responses to 18 recent responses to Congressional inquiries regarding late offers. (Attachment D)

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MULTIPLE AWARD SCHEDULES

I. GAO Draft Comment

FSS MAY NOT OBTAIN PRICES ANY MORE FAVORABLE THAN IN THE PAST BECAUSE VENDOR MARKETING CATEGORIES ARE STILL USED TO EVALUATE DISCOUNTS AND NET PRICE IS NOT ADEQUATELY CONSIDERED.

II. FSS Response

We have complied on this subject through issuance of Procurement Letters 299 (issued April 24, 1980), 299-A (issued June 13, 1980), and 144-A (issued May 14, 1980).

The issue of net prices is addressed in Procurement Letter 299. Net prices are to be compared in the following circumstances:

- 1. Identical products offered by two or more suppliers: In this situation, award will be made to the offeror offering the lowest net price.

- 2. Similar products with essentially the same characteristics, capabilities, and capacities offered by one or more suppliers. When a technical determination reveals that products offered by two or more firms have essentially the same characteristics, capabilities, and capacities, award for such product(s) can be made on a single award basis.

- 3. Offerors not meeting benchmark. In these cases, award is authorized if the prices offered are equal to or better than the net price(s) offered by the successful offerors, provided further that the products are in competition in the commercial marketplace with products awarded under the benchmark.

Procurement Letter 299-A amplifies 299. Net price evaluations can be used only where the products are identical or technically similar and price competitive. In the case of marketing categories, Procurement Letter 144-A eliminated the various marketing categories previously authorized except under peculiar circumstances. P.L. 144-A, in effect, requires all offers received on a given special item number to be considered in one group irrespective of marketing technique. Any exception to this provision requires the approval of the Assistant Commissioner for Contracts.

As these Procurement Letters set forth a new concept in multiple award contracting, we plan to closely monitor their effectiveness in obtaining improved discounts from multiple award schedule contractors. In this regard, FSS procurement divisions were required by memo dated June 6, 1980, to submit to the Office of Contracts a detailed report on the impact and results of the implementation of these procurement letters.

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FACT SHEET

GAO DRAFT AUDIT 6/11/80

MULTIPLE AWARD SCHEDULES

1. GAO Draft Comment

FSS does not follow procurement regulations for establishing Maximum Order Limitations (MOL).

11. FSS Response

We believe the current procedures of GSPR 5A-73.205-5 are adequate and therefore, do not agree with GAO's conclusion on this issue. FSS Procurement Letter 300 was issued on April 29, 1980, emphasizing the intent of GSPR. This procurement letter advised procurement personnel of management's concern that MOL's had been raised over the years to the point where they have become generally ineffective. The procurement letter required that prior to the issuance of the next solicitation, each MOL be examined to ensure the appropriateness for satisfying the intent of GSPR 5A-73.205-5. Further, it requires that these limitations should be reduced to the level where some definite quantity procurements will be expected.

While the GAO report acknowledges this procurement letter, GAO concludes it is inadequate. This conclusion is based on a review of cases conducted by GAO prior to the issuance of PL 300. We believe PL 300 will be successful in attaining more realistic and consistent MOL's now and in the future. However, PL 300 has been in effect for too short a period to warrant any final conclusions at this time. Nonetheless, preliminary reports indicate it will be successful in reducing MOL's. In this regard, we are enclosing a report from our General Products Center showing reductions in MOL's of 29 Multiple Award Schedules made as a result of Procurement Letter 300.

We are again reminding our contracting officials that written justifications for the selection of MOL's are to be included in each case file.

CUSTOMER AGENCY RELATIONS AND COMMUNICATIONS

GAO Statement, p. 4, enc. I:

"Although FSS stated in its quarterly report that it had completed action on reviewing its effectiveness in providing supply support to customer agencies, we noted that implementation was not complete. FSS is required to develop a schedule of regular liaison visits with major procuring activities and to document these visits. FSS officials indicated that 80 visits were made to customer agencies during the first half of fiscal year 1980. However, we found support for only 35 such visits. An FSS official told us that future visits would be adequately documented."

FSS Response:

1. Several actions have been taken to insure that communications with agencies are expanded and the results of this communication read into FSS product line and acquisition strategy decisions. Within FSS's Office of Requirements, a schedule of liaison visits has been developed and is being monitored to assure that reports of visits are widely distributed within FSS. It is intended that each visit provide an opportunity to inform agencies and solicit their reactions concerning FSS management emphasis areas including multiple award schedule program changes, AD/OP and supply considerations related to energy conservation while anticipating and assessing changing requirements of agencies which may affect what and how FSS supports these needs. The Property Management Officer network, established early in 1980 to focus initially on the furniture management reform throughout the Federal Government, will provide an additional mechanism for high level communications.

2. Federal Supply Service's Office of Property Management will be working with agency PMO's as systems for property management are strengthened and professionalism reinforced within the property management occupational fields throughout the Federal Government. Directed specifically at the Federal Supply Schedules Program improvements, the interagency Federal Supply Schedule Committee has been reconstituted. Agency reaction was very favorable to the first meeting and to its continued use as a medium for dialogue on changes within this supply program. As an adjunct to this, we are exploring the use of user agency panels as we conduct product line and acquisition strategy reviews. We believe this can prove to be an effective way to combine the process of determining major user's requirements with analysis of varied approaches to acquisition and distribution.

1. We recognize that planning and procedures are necessary in order to assure that Multiple Award Schedule commodities are properly evaluated and competitive acquisition methods are introduced. All commodities supplied through an FSS program must be subjected to scrutiny to assure that what FSS supplies meets a legitimate Government need and that the method of acquisition is both competitive and cost-advantageous to the Government.

2. Based upon this premise, we have developed procedures, currently being coordinated, which will provide for an annual plan composed of Product Line and Acquisition Strategy Reviews (PLASR's). These PLASR's institutionalize and delineate in greater detail the process tested during recent months and referred to on page 9 of the draft report. Each PLASR project will address a commodity in total, and will be assigned to a PLASR team composed of a representative of commodity management, engineering and contracting, augmented by other supply fields as called for.

3. Each project will follow a step by step procedure which requires market research, application of item reduction and luxury criteria, and is directed at introducing or improving the competitive purchase opportunities afforded by Commercial Item Descriptions. In the initial annual PLASR plan, currently being developed, those projects undertaken in recent months will be joined by other projects composed of high dollar volume commodities with greatest emphasis to those having multiple award as the principal method of acquisition.

4. Through the use of this planning mechanism and systematic process for conducting the product line and acquisition strategy reviews, we feel confident that the improvements to the Multiple Award Schedule program can be realized and that the benefits can extend to all FSS supply programs.

FSS Response:

1. "Market research"
 2. "Deletion or restriction of multiple award schedules"
 3. "Commercial Item Description development"
- "Progress has also been slow in the following important policy areas:

GAO Statement, p. 4, enc. I:

SLOW PROGRESS ON REFORMS

RELANCE ON FURNITURE REQUIREMENTS MODEL

GAO Statement, p. 5, enc. I:

"Management information systems development FSS is currently using information from agency furniture procurements to develop a model for a multiple award data base. This furniture information system, which is scheduled to be available by October, 1980, will be used to forecast agency requirements. Information systems for other major product categories will not be available until the furniture model becomes operational."

FSS Response:

Systems development for the purchase order data base is progressing on schedule. The expansion of this system's application to other commodities will be considered for each commodity which will be scheduled for a product line and acquisition strategy review. It is currently envisioned that all multiple award purchase orders will be accommodated in this management information system by 1986. While we refine and plan for the expansion of this system, we are also evaluating the use of other methods of data collection such as the potential for automated purchase order generation by agencies. In this way, agencies would be creating a purchase order, simultaneously establish a record for the management information system (MIS). This data collection method will produce an MIS with greater validity and reliability in that it would relieve agencies of the responsibility of sending hard copy purchase orders to GSA, a responsibility which without concerted management attention could be occasionally overlooked.

LUXURY-TYPE ITEMS

GAO Statement, pp. 7 and 8, enc. I:

"It was not until March 31, 1970, that criteria was established to eliminate or restrict the use of luxury or sensitive-type items and not until April 29, 1980, that criteria restricting the use of multiple award schedules was established. However, no written operating procedures have been developed to implement these guidelines."

FSS Response:

Agencies have been asked to provide justification and requirements for items on schedule which might be luxury or subject to misuse. Upon evaluation of agency responses, procedures will be finalized which will assure that future usage of these schedules continue to be validated. These criteria and those addressing the reduction of multiple award schedule items have been issued to each project group for use in conducting their product line and acquisition strategy review. The procedure for conducting product line and acquisition strategy reviews (referred to as the 43 step procedure) is being modified to make these criteria an integral part of each such project.

GAO note: The date in the first paragraph above should be March 31, 1980, not March 31, 1970.

PROCUREMENT OF SCHEDULE ITEMS FROM LESS EXPENSIVE SOURCES

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GAO Statement, p. 4, enc. I:

"We noted that procedures were not completely developed on the policy matter concerning the collection and use of information relating to the procurement of schedule items from less expensive sources. Although FSS has not yet begun to collect or use this data, we believe FSS made significant progress by relaxing the schedule mandatory use requirements. Agencies are now permitted to purchase items "off-schedule" if an identical item is less expensive." (Underlining added)

FSS Response

We do not agree with all aspects of the GAO comments.

1. Operational procedures were developed on 10/1/79 by our Office of Cost and Pricing (CPC) covering the receipt, analysis and disposition of agency purchase orders issued pursuant to the provisions of FPMR 101-26. 401-4 (f). Copies of purchase orders issued pursuant to the FPMR provision are forwarded to FCC by the using agency at the time of issuance. These orders are registered at time of receipt.

2. Thus far, 147 purchase orders have been received. Analysis has been completed on 86 and appropriate action taken. Analysis is continuing on the remainder. This is clear indication that we are adhering to the substance of the GAO recommendation.

3. We have proposed certain changes in the FPMR prescribing escape provisions. These proposed changes are the result of a lack of information received from the agencies with respect to the purchase orders received to date. This results in a duplicate effort in FSS since the information required would have been available as a result of the using (ordering) agency purchase orders which we have been receiving that are not issued pursuant to the FPMR exception.

In summary, we have made significant progress in implementing this recommendation.