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UNITED STATES GENERAL ACCOUNTING OFFICE



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STATEMENT OF

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Before the
Committee on Governmental Affairs
United States Senate

on

Pricing of Commercially Procured Printing

Mr. Chairman and Members of the Committee:

I am pleased to be here to present the background and issues related to the pricing of commercially procured printing. We believe that the Government Printing Office is the logical agency to study and implement new procedures and services. We understand that based on your interest they are now studying the area to see whether it would be cost beneficial to provide added services to the agencies for their direct deal contracts and what specific approach would offer the best service at least cost. We have not made a detailed study of this area--the kind necessary to show cost/benefit relationships, but we have concluded that savings and other benefits can be realized through abstracting of direct deal contracts.

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BACKGROUND

According to 501 U.S.C. 44, all Government printing, binding, and blank-book work, except for that of the Supreme Court of the United States, must be done at the Government Printing Office (GPO), unless otherwise stated by the Joint Committee on Printing (JCP). Further, Title 44 allows the commercial procurement of printing which cannot be accomplished at GPO. The Printing and Binding Regulations published by JCP state that Government printing plants shall not print items determined to be commercially procurable. The Federal Printing Procurement program implemented by JCP is designed to increase the amount of commercially procured printing.

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In FY 1979 \$606 million of printing went through GPO, of which \$427 million was contracted out, both through the central office and the Regional Printing Procurement offices. In procuring printing commercially, GPO uses two types of contracts--one-time and term contracts. One-time contracts are processed through all procurement steps and awarded when an individual requisition is received from an agency. Term contracts are open-ended contracts for indefinite quantities. When a request for a term contract product is received from an agency, a purchase order is then issued for the quantity desired. GPO establishes term contracts yearly in anticipation of a large number of

similar requests for printing from agencies. These contracts can involve a single contractor, or be multiawards, involving a number of contractors.

To evaluate one contractor's proposal against another's, for multiaward contracts, GPO includes line items in invitations for bid for such things as estimates of the quantity, number of pages, and certain specialized features which Government agencies expect to purchase within the year. However, GPO does not guarantee that these items will be actually procured. On the basis of these bids GPO ranks the bidders from low to high, based on an average of all line items under the contract. This is referred to as the aggregate bid. The average term contract contains prices for up to 142 line items. For each print order, GPO contacts the lowest responsive bidder first. If he cannot meet the time frame, they then move to the next lowest responsive bidders until the order is placed.

Prior GAO Efforts

In 1974, we pointed out that the prices of the aggregate low bidder may not be the most favorable for any one line item. An individual order placed against the term contract should not necessarily be awarded to the lowest aggregate bidder, but should be awarded to the contractor who will deliver the product of the particular purchase order at the lowest cost. The process of selecting the lowest cost for

an order is called abstracting. For example, if there are three products on a contract, the yearly volume of each is estimated. Contractors bid on various line items which can be used to make up a product, and their total bids, or aggregate prices are the basis for making the award. However, if less than the total contract line items are requested for a specific printing order, the lowest price for this product may be through a contractor other than the lowest aggregate bidder. This can be seen on the chart. While contractor number 2 is the low aggregate bidder, a print order for product 1 should go to contractor number 1, product 2 to contractor 2, and product 3 to contractor 3.

In our prior work, we pointed out that this process can get quite cumbersome, when one deals with many line items and numerous bids. To do this manually can take from 30 to 90 minutes, and the process is likely to introduce a high error rate.

GAO developed and demonstrated to the Public Printer a simple computer program capable of making this analysis. The use of a computer program made it possible to abstract bids in minutes, and it provided hard copy audit trails in case of bid protests. It also reduced backlogs and helped to assure better service through closer review of print orders.

GPO Abstracting

GPO accepted the abstracting concept and has installed a computer abstracting system for the term contracts placed by the central office and Regional Printing Procurement offices. The system has been installed on a national time sharing computer service. It permits GPO to select the low bidder for about \$6 an order.

GPO told us that their system consists of two major programs. Currently the programs are being rewritten to reduce the cost of using the application. GPO estimates that the new computer programs can reduce the abstracting cost from \$6 per order to \$3.

Currently, GPO is abstracting 66 multiaward contracts, or about 48 percent of their total multiaward contracts.

Agency Direct Deals

In addition to the contracts placed by GPO, many agencies have been granted the use of direct deal program contracts. We understand that this is the major focus of today's hearings. GPO negotiates these contracts for the agency, and provides them a list of bidders, ranging from low to high, based on the aggregate bid. To place each print order, the agencies directly contact the bidders--lowest first, until the requirements are met. While GPO still performs the billing and quality control functions, the agencies can maintain direct contacts with these

printers. It should be noted, however, that GPO retains responsibility for execution of the contracts.

The use of these contracts is permitted by GPO when there are recurring needs and a fast response is required by the agency. GPO decides on a case by case basis whether or not an agency should be given direct deal contract authority.

There are about 1236 direct deals in existence. While many direct deal contracts involve a single contractor, 224 of the existing term contracts are multiple awards, similar to the GPO multiaward term contracts. The yearly awards made under these contracts exceed \$46 million. If these contracts were abstracted, we believe savings could be realized.

POTENTIAL FOR ADDITIONAL ABSTRACTING

Several agencies have identified a potential for savings, through various abstracting concepts, for their direct deal contracts. The agencies who have explored this potential have generally made use of computer technology to assist in this process. For example:

Housing and Urban Development (HUD) *AbC00023*

HUD has developed an abstracting system for use on an Olivetti Minicomputer. The system is comparable to the GPO abstracting system in that it permits the selection of the low bidder based on specific print orders in lieu of selecting the bidder with the lowest aggregate bid. HUD claims significant cost savings have resulted from

abstracting. The use of the system also provides more accurate information for obligation of funds and accounting entries. Savings were estimated at \$320,000 out of a total of about \$5 million expended for direct deal contracts during FY 1978.

Internal Revenue Service (IRS)

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IRS told us that they had planned to develop an abstracting system for use with their direct deal contracts. Their system was to be similar to HUD's. IRS estimated that the developmental cost of their system would be in the range \$2,000 - \$10,000. IRS currently has a computer system application that provides accounting control and reporting for their print order work. The abstracting system would be integrated into their current system. IRS has dropped its plans to develop an abstracting system because GPO has withdrawn their direct deal contract authority.

GPO Involvement

GPO currently abstracts orders that it places. However, GPO had not considered providing this abstracting service to the agencies with direct deal authority. Based on our recent discussions with GPO officials, they are now studying the feasibility of providing this service.

GAO Involvement

Your staff asked that we look at this area of abstracting for direct deal contracts and determine whether it is

desirable. While we have not had a chance to study all the pros and cons, we believe based on prior work and current efforts, that abstracting offers opportunities for savings. The issue is not whether to do abstracting, but instead who should provide the abstracting service, what tools should be used and should it be provided centrally or on a decentralized basis.

Based on the information we have gathered to date, it appears GPO would be the logical focal point for all abstracting for the following reasons:

--GPO is already abstracting their term contracts and all that would be needed is to include agency direct deals.

--GPO is currently in process of reducing the cost of abstracting, which if realized would make the cost very competitive.

--Agencies could continue to have direct deals, using GPO's abstracting services. This could be accomplished through the use of remote terminals which most agencies probably already have.

--The volume of orders placed by many agencies is small and therefore the cost involved for doing abstracting with their own equipment and programs may not be as cost-effective as other alternatives, such as using the GPO model.

--While GPO appears to be the logical source to do abstracting, some agencies, such as HUD, are doing their own abstracting. However, investment costs for new equipment along with the development of programs could increase the abstracting cost, thereby making it less cost-effective than using GPO's model.

We believe these issues and alternatives should be considered by GPO in their analysis to assure that direct deal contracts are abstracted in the most cost-effective manner.

Mr. Chairman, this concludes my testimony. We are prepared to respond to your questions.

ABSTRACTING A CONTRACT

PRODUCT	QUANTITY	CONTRACTOR #1		CONTRACTOR #2		CONTRACTOR #3	
		UNIT RATE	COST	UNIT RATE	COST	UNIT RATE	COST
1	1,000	\$ 1.00	\$ 1,000	1.50	\$ 1,500	1.25	\$ 1,250
2	10,000	2.50	25,000	2.00	20,000	3.00	30,000
3	5,000	3.25	16,250	4.00	20,000	3.00	30,000
OTHER							
AGGREGATE BIDS			\$ 42,250		\$ 41,500		\$ 46,250
LOW AGGREGATE BIDDER							

COST IF ABSTRACTED: PRODUCT CONTRACTOR * COST

1 1 \$ 1,000
 2 2 20,000
 3 3 15,000

TOTAL COST - ABSTRACTED

* 36,000

SAVINGS FROM ABSTRACTING

= 5,500