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

CIVIL DIVISION

December 23, 1969

Dear Mr. Spangler:

This letter is to inform you that we have completed our review of the policies and procedures of the Federal Supply Service pertaining to the procurement of security file cabinets for the Federal Government. Our review considered mainly the feasibility of competitive award alternatives to the negotiated, indefinite quantity, multiple-award Federal Supply Schedule contracts that have been used by FSS for the procurement of cabinets.

For several years, FSS procurement officials and internal auditors have been concerned with the reasonableness of cabinet prices. Efforts to obtain more favorable prices have been hampered because (1) cabinets are manufactured for the exclusive use of Federal agencies and their contractors, (2) the number of suppliers qualified to produce cabinets for the Government has been somewhat limited, and (3) FSS is concerned with maintaining a continuing supply of qualified cabinet products.

In discussions with FSS procurement representatives, we have suggested that FSS attempt to obtain more favorable prices for cabinets available from more than one supplier, by seeking to make use of a competitive system of contracting. FSS has attempted to foster such competition by periodically reducing the maximum order limitation in the Schedule and thereby increasing the number of definite quantity contracts. We believe that there are additional opportunities for GSA to increase its purchases under competitive procedures.

For example, in 1967, FSS adopted a zonal basis of contracting for cabinets but also continued to contract on a multiple-award basis. In our opinion, the award of competitive contracts on a zonal basis could serve both to reduce prices and to alleviate the concern for maintaining a continuing supply of qualified products. Competitive zonal contracting would offer existing suppliers several opportunities to obtain contracts, and at the same time, might attract additional firms to compete for the Government's cabinet requirements.

Even with a concerted effort to maximize the use of competitive contracting for cabinets, negotiated contracts are necessary for those cabinet models

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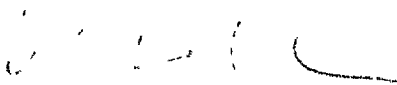
available from only one supplier. Our review indicated that in negotiating contracts, FSS had seemingly lacked assurances that the price-setting techniques used by suppliers were appropriate or that the prices themselves were reasonable. Accordingly, on several occasions during the review, we discussed with FSS procurement representatives the need to employ negotiating techniques specifically set forth by the Truth-in-Negotiations provisions of the Federal Procurement Regulations.

Subsequently, in April 1969, FSS awarded the Schedule contracts for cabinets on the basis of certified and audited cost estimates submitted by the suppliers as required by the Federal Procurement Regulations. For the first time, FSS, as a result of its cost-based negotiations, obtained reductions from the previous year's prices for several cabinet models. Based on estimated contract requirements for these models, the total reductions amounted to about \$220,000.

At this time we plan no reporting of our review beyond this letter, except such oral information or discussion as you may ask us to provide. Later, we expect to again review selected security cabinet procurements in order to keep abreast of improvements and consider further any problems that continue to hamper economy of operations.

The courtesy and cooperation extended to the GAO staff by the personnel of the Federal Supply Service is acknowledged with pleasure.

Sincerely yours,


V. L. Hill
Assistant Director

Mr. Lewis C. Spangler
Acting Commissioner
Federal Supply Service 43
General Services
Administration