

GAO

Report to Congressional Committees
and the Administrator of General
Services

February 1997

COOPERATIVE
PURCHASING

Effects Are Likely to
Vary Among
Governments and
Businesses





General Government Division

B-274544

February 10, 1997

The Honorable Fred Thompson, Chairman
The Honorable John Glenn, Ranking Minority Member
Committee on Governmental Affairs
United States Senate

The Honorable Strom Thurmond, Chairman
The Honorable Carl Levin, Ranking Minority Member
Committee on Armed Services
United States Senate

The Honorable Dan Burton, Chairman
The Honorable Henry Waxman, Ranking Minority Member
Committee on Government Reform and Oversight
House of Representatives

The Honorable Floyd Spence, Chairman
The Honorable Ronald Dellums, Ranking Minority Member
Committee on National Security
House of Representatives

The Honorable David J. Barram
Acting Administrator
General Services Administration

Under the cooperative purchasing program authorized by section 1555 of the Federal Acquisition Streamlining Act of 1994, the Administrator of General Services was permitted to allow state and local governments, the government of the Commonwealth of Puerto Rico, and Indian tribal governments to purchase items available through the federal supply schedules. As directed by section 4309 of the Clinger-Cohen Act of 1996 and the conference report for that act, this report assesses the potential effects of a cooperative purchasing program on these nonfederal governments and federal agencies; and on industry, including small businesses and dealers. Because these effects depend on how the program is implemented, we have also assessed the preliminary implementation plan prepared by the General Services Administration.

We are sending copies of this report to the Director of the Office of Management and Budget; the Attorney General; the Secretaries of Defense, Health and Human Services, the Interior, and Veterans Affairs; and interested congressional committees. We will make copies available to others upon request.

We are issuing a separate report on the potential effects of cooperative purchasing of pharmaceuticals.

B-274544

Please contact me at (202) 512-4232 if you or your staff have any questions. Major contributors to this report are listed in appendix VIII.

A handwritten signature in cursive script that reads "Bernard L. Ungar".

Bernard L. Ungar
Associate Director, Federal Management
and Workforce Issues

B-274544

Executive Summary

Purpose

In 1993, the National Performance Review (NPR) reported that consolidating government purchasing actions would benefit the taxpayer through greater volume discounts and simplified administration. In 1994, Congress established a cooperative purchasing program that authorized the General Services Administration (GSA) to allow state, local, Indian tribal, and the Puerto Rican governments access to its supply schedules program. Little debate occurred over possible adverse effects of allowing nonfederal governments access to federal supply schedules, but such concerns did emerge after the cooperative purchasing program was enacted.

As a result, in 1996 Congress suspended GSA's authority for this program and mandated that GAO assess the effects cooperative purchasing may have on state, local, Indian tribal, the Puerto Rican, and federal governments; and on industry, including small businesses and local dealers. Since these effects would depend in large part on the program's implementation and discretionary choices yet to be made by GSA, vendors, and potentially affected state and local governments, GAO developed an audit approach that depended heavily on these groups' assessments of the potential effects of cooperative purchasing and included an assessment of GSA's tentative implementation plans. GAO surveyed state and Puerto Rican purchasing officials; conducted case studies in California, Montana, New York, and West Virginia and in selected local governments in those states to examine their purchasing practices and to compare prices that these governments paid for selected items with federal supply schedule prices; interviewed major federal users of the schedules program and several Indian tribal governments; interviewed businesses that now supply state and local governments (some of which are also vendors selling to federal agencies under the schedules program) and several industry associations; and interviewed GSA officials and reviewed public comments on GSA's proposed implementation plan. GAO is reporting separately on the potential effects of cooperative purchasing of pharmaceuticals.

Background

In fiscal year 1996, 146 federal supply schedules listed vendors that had contracted with GSA or with the Department of Veterans Affairs (VA), which administers part of the program, to sell commercial supplies and services to federal agencies. Total sales through the schedules program were about \$6.7 billion in fiscal year 1996 for items ranging from computers and furniture to medical supplies and auditing services. The goal of the schedules program is to take advantage of the total volume of federal purchases to negotiate the lowest possible prices for needed supplies and

make these prices available to all federal agencies through a procedure that conforms or is consistent with the Competition in Contracting Act of 1984.

Participation in the cooperative purchasing program would be optional for any nonfederal government and any GSA or VA vendor that sells through the federal schedules program. In its plan to implement the cooperative purchasing program, GSA said that it would make particular schedules available to eligible nonfederal users unless it decided that doing so would not be in the interests of the federal government.

Results in Brief

The potential effects of the cooperative purchasing program are likely to vary among state, local, and the Puerto Rican governments. Since participation is voluntary, these governments would use the schedules only if they perceived benefits, such as lower prices, from doing so. Most of the nonfederal entities GAO surveyed anticipated that they would participate. Although some of these governments may experience such benefits as cost savings and a reduction in the time to procure items, several factors, such as state contracting laws and preferences to purchase from in-state sellers, may limit the extent of these benefits. The program is likely to have little if any effect on Indian tribal governments because the schedules program is already available to them under separate authority. If GSA effectively implements its plan to exclude schedules from the program when adverse effects on federal agencies are indicated, there is little risk that the program will negatively affect the federal government, but whether it will have positive effects depends largely on whether increased use of the schedules by state and local governments would lead to lower prices and reduced administrative charges by GSA. It is unclear at this time whether either of these would occur.

The potential effects of the cooperative purchasing program on industry, including small businesses and dealers, are also likely to vary, although sufficient data are not available to conclusively predict these effects. Some businesses, particularly GSA vendors, expect to benefit from increased sales or reduced administrative costs, while other businesses expect to lose sales or have lower profits. Still other businesses do not believe they will be affected by the program. Most of the concerns that businesses have expressed about significant adverse effects involve only a few GSA schedules, such as airlines and fire fighting vehicles, and some medical schedules administered by VA.

GSA's plan to implement the cooperative purchasing program is still evolving. In 1995, it published its initial approach and has been considering changes while implementation has been suspended. GSA has not yet completed a more current, detailed plan, but such a plan would better enable Congress to weigh the merits of cooperative purchasing since so much depends on implementation decisions. Although the approach GSA has been considering appears reasonable in key respects, GAO believes a number of improvements would better position GSA to make decisions on making particular schedules available to nonfederal users. These improvements include the preparation of a written implementation plan and guidance to staff on the data, affected parties' views, and other factors for GSA and VA to consider when making decisions.

Principal Findings

Governments Expect Benefits, but These Could Be Limited

Puerto Rico and the majority of state and local governments GAO contacted indicated that they want access to the federal supply schedules because they perceive benefits from cooperative purchasing. Of the 48 states and 2 territories that responded to GAO's survey, 34 said they would use the program for purchases. Of the 26 state and local agencies GAO obtained information from in California, Montana, New York, West Virginia, and in Puerto Rico, all favored having access to the schedules. Reasons that they cited for favoring access included the potential for (1) obtaining lower prices on popular items they purchase, such as computers, furniture, and office equipment; (2) having a greater selection of items available to them; or (3) realizing administrative savings of both time and money by ordering through the federal supply schedules as a convenient alternative to current procurement procedures.

Even though Puerto Rico and the majority of state and local governments GAO contacted favored the option of using the federal supply schedules, several factors could limit the benefits they achieve in practice. These factors include (1) state or local laws, ordinances, mandated preferences, or procedures that would limit their ability to use the program; (2) the unavailability of certain heavily used items or products through the program; and (3) the availability of lower prices for some items from current or other sources. Potential savings on administrative costs would also be limited by the need to retain procurement operations for those items that will not be purchased through the schedules program. GAO's

examination of state and local governments' purchasing patterns suggests that those items for which nonfederal governments spend the most money are generally not available through the schedules program.

Allowing Indian tribal governments to use the federal supply schedules program would appear likely to have little effect on them because Congress has already provided many of these governments with the authority to use GSA supply schedules. Programs for tribes whose governments do not have this authority continue to be the responsibility of federal agencies with access to the schedules.

GSA believes that the increased sales from participation of nonfederal governments will enable it to negotiate better prices with GSA vendors and possibly reduce administrative fees charged to schedule users. However, the extent to which nonfederal purchases would actually increase the volume of GSA sales is unclear because of the noted limiting factors. Adverse effects on the federal government appear unlikely if GSA effectively implements its plan to exclude schedules from the program when adverse effects on federal agencies are indicated.

Effects on Industry Are Likely to Vary

The potential effect of cooperative purchasing on industry, including small businesses and dealers, is likely to vary among industries and businesses. Some industries, such as construction and electric utility services, that have provided substantial portions of their output to state and local governments will not be affected by cooperative purchasing because their products are not available through the schedules program. Other industries whose products are covered by the schedules program provide varying proportions of their output to state and local governments, but most have provided less than 6 percent of their output to nonfederal government customers.

There was no consensus about the potential effect of cooperative purchasing among the 59 state or local government contractors GAO contacted. Of these 59 contractors, 22 predicted a positive effect, 10 believed that they would be negatively affected, 13 predicted no effect, and 14 said that they did not know how they would be affected. Although none of the contractors provided any data to support their predictions, they did provide some reasons for their beliefs. For example, the contractors predicting a positive effect cited the prospect of increased sales and customer bases, as well as the advantages of not having to go through a bidding process. The contractors who said they would be negatively

affected were concerned that they would lose sales to GSA vendors. The contractors who believed that they would not be affected cited the unique nature of the products they sold or their ability to offer competitive prices as the reasons they would not be affected. Finally, the contractors who did not know how cooperative purchasing would affect them pointed to the potential for both gains and losses.

Several other businesses have also expressed concern about significant potential adverse effects of cooperative purchasing. These include companies largely represented on some of VA's schedules and three of GSA's schedules that provide certain types of heavy equipment, such as fire fighting vehicles and construction and highway maintenance equipment; and airline services. These companies were concerned that if schedules for these goods and services were made available to nonfederal users and GSA or VA vendors exercised their option to participate in the program, sales would be diverted to other vendors or would be at lower prices, potentially leading to lower revenues or profits.

GSA recognizes that the cooperative purchasing program has the potential to negatively affect some industries and businesses. It announced its plan, based on VA's recommendations, to exclude two schedules that are managed by VA and that include pharmaceuticals and certain other medical equipment and supplies. VA had contended that prices for items covered in those schedules would increase if the schedules were opened to nonfederal governments because of unique statutory requirements imposed by the Veterans Health Care Act of 1992. Because of concern that airlines might no longer participate in the schedules program, substantially increasing travel costs for federal agencies, GSA intends to exclude the airline schedule from the program. In recognition that some businesses that provide products on one heavy equipment schedule could face adverse effects, GSA also intends to exclude the fire fighting vehicles schedule. GSA plans to evaluate other schedules before any additional decisions are made.

GSA's Proposed Approach Appears Reasonable but Could Benefit From Refinements

In April 1995, GSA published a Federal Register notice outlining its initial plan for implementing the program. In that notice, GSA stated that its contracting officers would make case-by-case determinations on whether it would be appropriate to include schedules in the program. The notice also said that individual schedule vendors would be able to elect whether or not to make their products or services they sell available to authorized nonfederal users, and that schedule contracts would continue to focus on

the needs of federal agencies. Working with interested parties, GSA has continued to develop its approach for implementing the cooperative purchasing program while the program is in suspension. As a matter of policy, GSA said it would not make schedules available if doing so would adversely affect the federal government. GSA officials are also considering (1) the option of excluding portions of individual schedules, (2) having contracting officers conduct analyses to determine whether the negative effects on industry are outweighed by the benefits to nonfederal governments, (3) elevating the decisionmaking authority to a higher level official in GSA or VA than initially proposed, and (4) using the Commerce Business Daily and/or the Federal Register to announce its intent to open schedules.

The approach GSA is considering generally appears reasonable. However, given the uncertainties over the extent to which state and local governments and businesses actually would exercise their options to participate in the program and purchase items from vendors listed on the schedules, the lack of sufficient data on the potential beneficial and adverse effects, and conflicting views that GSA and VA would be likely to encounter for some schedules, GSA and VA are likely to have great difficulty in making quantitative assessments of the potential beneficial and negative effects of opening schedules. Thus, they will be required to make recommendations or decisions on including particular schedules in the cooperative purchasing program or excluding them based on limited information. In this situation, should the program be implemented as the law now provides, a detailed written implementation plan would assist both outside affected parties and GSA and VA staff.

GSA has not completed an implementation plan to guide it in making these decisions because of the program's suspension. GAO believes, however, that an assessment of the effects of the program would depend heavily on the kinds of implementation choices and decisions that would be reflected in such a plan and that such a plan would help inform Congress on the program's implementation. GSA is required to report to Congress with its views on GAO's findings.

Recommendation to the Administrator of General Services

GAO recommends that the Administrator provide a detailed plan emphasizing the optional nature of the program and setting forth the steps that GSA would take to implement it, as part of the Administrator's report on the cooperative purchasing program to Congress. GAO identifies several minimum elements the plan should include, such as the guidance that GSA

will provide to its staff on what needs to be analyzed, including the available quantitative data, affected parties' views, and other factors, in an assessment of the benefits and negative effects of opening up schedules. (See ch. 5.)

Agency Comments

In written comments on a draft of this report, GSA and VA agreed that the effects of cooperative purchasing on nonfederal users and businesses are uncertain. These agencies concurred with GAO's recommendation for a written implementation plan that would define a decisionmaking process that would consider the effects of opening particular schedules on federal and nonfederal governments and on businesses. In its comments, the National Association of State Purchasing Officials agreed that cooperative purchasing has the potential to create a positive effect on state and local governments; the Association also noted areas of concern that could limit the use of the program. Similarly, in oral comments, the Coalition for Government Procurement generally agreed with the report's findings, conclusions, and recommendation and emphasized the importance of a written implementation plan. It also noted several problems that might arise in GSA's implementation of the program.

Contents

Executive Summary		4
Chapter 1		14
Introduction	Overview of GSA's Supply Schedules Program	15
	The Federal Cooperative Purchasing Program	18
	Objectives, Scope, and Methodology	21
Chapter 2		29
Several Factors Are Likely to Limit Potential Benefits to Nonfederal and Federal Users	State and Local Governments Perceive Potential Benefits	29
	A Variety of Factors Could Limit the Potential Benefits of the Program for Nonfederal Users	32
	Effect on Indian Tribal Governments Would Likely Be Minimal	45
	Effect of Program on Federal Government Depends on How Much Other Governments Use It and the Response of Vendors	47
	Agency Comments	50
Chapter 3		52
Potential Effect on Industry, Including Small Businesses and Dealers, Is Likely to Vary	The Magnitude of State and Local Government Sales Varies by Industry	52
	Some Businesses Perceive Potential Benefits From the Cooperative Purchasing Program	56
	Some Businesses and Industries Perceive Potential Negative Effects of Cooperative Purchasing Program	58
	Some Businesses Predicted Cooperative Purchasing Would Have No Effect on Them	66
	Some Businesses Did Not Know What Effect Cooperative Purchasing Could Have on Them	67
	Industry Associations' Views on Cooperative Purchasing Vary	68
	Agency Comments	69
Chapter 4		71
GSA's Approach to Implementing Cooperative Purchasing	GSA's Approach to Implement the Program Is Evolving	71
	GSA's Planned Approach Appears Reasonable but Could Benefit From Refinements	73
	Agency Comments	78

Chapter 5		80
Conclusions and Recommendation	Recommendation to the Administrator of General Services	84
	Agency Comments	84
Appendixes	Appendix I: Federal Supply Schedule Sales, Fiscal Year 1996	86
	Appendix II: State Responses to Our Survey on the Potential Use of GSA's Schedules	97
	Appendix III: Government and Industry Associations' Views Obtained During the Course of Our Work	99
	Appendix IV: Comparability of State and Local Agencies' Procurements to GSA Schedule Items	101
	Appendix V: Comments From the General Services Administration	106
	Appendix VI: Comments From the Department of Veterans Affairs	108
	Appendix VII: Comments From the National Association of State Purchasing Officials	110
	Appendix VIII: Major Contributors to This Report	114
Tables	Table 3.1: Twenty-Eight Industries Providing More Than 3 Percent of Their Output to State and Local Governments During 1987	54
	Table IV.1: Comparison of State and Local Procurement Prices with Federal Supply Schedule Prices	101
Figure	Figure 1.1: Fiscal Year 1996 Sales for GSA's Schedules, Stock, and Special Order Programs	15

Abbreviations

BIA	Bureau of Indian Affairs
FASA	Federal Acquisition Streamlining Act of 1994
GSA	General Services Administration
NPR	National Performance Review
VA	Department of Veterans Affairs

Introduction

Pursuant to the Federal Property and Administrative Services Act of 1949, the General Services Administration (GSA) was created to manage and acquire federal government space and administrative and operating supplies in order to eliminate duplicative functions within government and to establish a professional resource that would maximize the government's effectiveness in obtaining supplies and services. Today, GSA's Federal Supply Service is responsible for supplying and procuring goods and services through three major programs—the special order, stock, and schedules programs. In the special order program, agencies order items from GSA; GSA places the agencies' orders with vendors; and the vendors deliver the items to the agencies.¹ In the stock program, GSA orders items from vendors who deliver the items to GSA's warehouses. Agencies order the items from GSA and receive the items from the warehouses. In the schedules program, agencies place orders directly with vendors holding GSA contracts, who deliver the items directly to the agencies.

The Federal Acquisition Streamlining Act of 1994 (FASA) revised and streamlined the procurement laws of the federal government.² Section 1555 of FASA (40 U.S.C. 481 (b) (2)) gives GSA the authority to establish a cooperative purchasing program through which state, local, Indian tribal, and the Puerto Rican governments could use GSA's federal supply schedules program to purchase needed goods and services. Under section 1555, eligible governments, upon their request, could purchase items directly from supply schedule vendors under the same terms and conditions that GSA has established for federal agency purchases. The conference report on FASA indicated that individual supply schedule vendors would not have to make the products or services on the supply schedules available to nonfederal users, such as state and local governments, unless the terms of the schedule contract would so provide.³

FASA explicitly precludes GSA from authorizing any state, local, Indian tribal, or the Puerto Rican government to order existing stock or inventory from federally owned and operated, or federally owned and contractor operated, supply depots, warehouses, or similar facilities. Thus, FASA excludes these governments from purchasing goods and services from GSA's federal stock program.⁴

¹In this report, the term "vendor" is used to refer to a business, including a manufacturer or distributor of goods or services, that is a federal contractor.

²Public Law 103-355, Oct. 13, 1994.

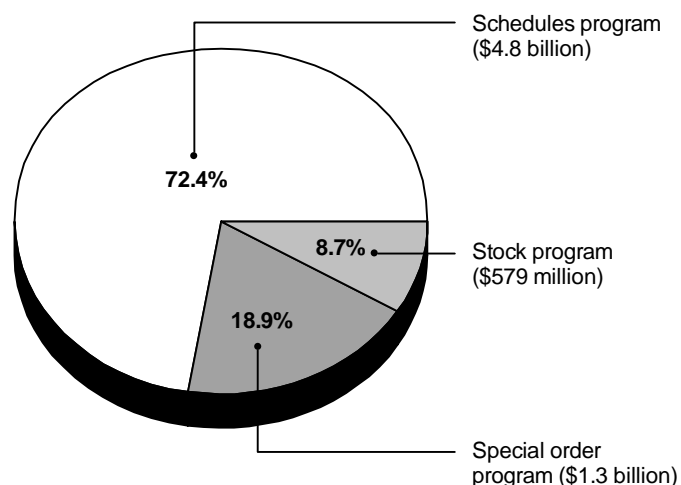
³H. Rep. Conf. No. 103-712 (103rd Cong., 2d Sess., Aug. 21, 1994).

⁴Many Indian tribal governments have access to GSA's stock program under separate authority; this access is discussed below.

Overview of GSA's Supply Schedules Program

The federal supply schedules program is one of GSA's largest programs for providing goods and services to federal agencies. In fiscal year 1996, GSA's sales through the schedules program accounted for about 72 percent, or about \$4.8 billion, of the approximately \$6.6 billion in agency purchases through GSA's schedules, stock, and special order programs. As shown in figure 1.1, fiscal year 1996 stock program sales of about \$579 million accounted for only about 9 percent of GSA's sales, while fiscal year 1996 special order program sales of about \$1.3 billion accounted for only about 19 percent of GSA's sales.

Figure 1.1: Fiscal Year 1996 Sales for GSA's Schedules, Stock, and Special Order Programs



Source: GSA.

Products from the supply schedules program are available on single-award schedules, multiple-award schedules, and new introductory product schedules, depending on the commodity. Single-award schedules consist of contracts with one vendor for the delivery of a particular product or service to a specified geographic area. Prospective vendors compete for the GSA contract to provide the product or service to government agencies, normally at the lowest price. Multiple-award schedules consist of contracts awarded to more than one vendor for comparable (but not necessarily identical) commercial supplies or services for delivery within the same geographic area. New introductory product schedules provide the means for new or improved products to enter the federal supply

system. Once a vendor's product is accepted for inclusion on a new introductory product schedule, if sufficient demand for that item is generated after a 3-year period, the item is to be transferred to one of GSA's other supply programs.

GSA's Federal Supply Service negotiates and awards contracts for products and services available through the majority of federal supply schedules. The Service issues solicitations, receives offers from prospective vendors, negotiates with them on product and service prices as well as terms and conditions of sale, and awards the contracts.⁵ The contracts are indefinite-delivery contracts that give vendors the right to sell goods and services to the government during the period of time that the contract is in effect.⁶ Contracts commonly are in effect for more than a 1-year period. Federal agencies order products and services directly from a vendor and pay the vendor directly. In fiscal year 1996, there were 146 schedules.⁷ GSA has responsibility for managing 133 schedules, and it has given the Department of Veterans Affairs (VA) responsibility for managing 13 schedules, including the schedule for pharmaceuticals and 12 schedules for medical equipment, devices, and supplies and certain food items, such as cookies and cereals. Fiscal year 1996 sales through VA's schedules totaled about \$1.9 billion.

A large number of vendors negotiate contracts with the Federal Supply Service or VA in order to provide products to federal agencies. Vendors include businesses that manufacture products as well as dealers or distributors that sell and service products. In fiscal year 1996, GSA had about 5,300 contracts with vendors that supply goods or services either through its single-award or multiple-award schedules, while VA had about 1,257 contracts. About 74 percent of these contracts were with small businesses. (See app. I for a listing of the 146 schedules as well as sales made through the schedules to large and small vendors.)

The supply schedules program provides several advantages to both federal agencies and vendors. For example, agencies have the option of ordering

⁵Terms and conditions of sale can include such factors as delivery and payment requirements, warranty requirements, timing of price increases, and functions performed for the government by the vendor. According to the Acquisition Management Center Director, these terms and conditions can vary by vendor and by product.

⁶The Acquisition Management Center Director said that GSA is in the process of converting contracts to multiyear contracts. However, these contracts, like most other federal contracts, can be amended at any time.

⁷The number and identity of schedules can vary from year to year due to the creation of new schedules, the elimination of old schedules, and the merging of schedules.

small quantities of commonly used goods and services without using the traditional procurement process. Also, agencies know that GSA is responsible for ensuring that all procurement regulations have been followed in awarding the schedules contracts and making items available. For example, multiple-award schedules conform to the requirements of the Competition in Contracting Act and are competitive in that participation has been open to all responsible sources.⁸ In addition, prices negotiated by the Federal Supply Service and the vendors are to be based on each vendor's best discounts within certain categories of customers and sales information on top-selling items within product or service groups. Vendors also benefit because their commercial products are exposed to a large number of potential customers. Also, the vendors expend less effort to sell products to federal agencies if their items are available through the schedules program because of the reduced paperwork. For example, a business would not have to prepare a separate offer in response to agency solicitations for every federal agency it wants to supply.

Recent Changes to the Federal Schedule Program

Since 1994, GSA has taken several actions that were intended to make it easier for federal agencies to obtain commercial goods and services through its supply schedules program. For example, GSA has simplified ordering procedures to reduce the amount of paperwork involved. In addition, agencies have the option of placing orders of \$2,500 or less with any schedule vendor of their choice. Also, when placing orders of more than \$2,500, agencies are no longer required to fully justify when an item is not purchased at the lowest price. Instead, agencies are to review at least three price lists or consider other alternatives on the schedules. To further simplify ordering through the schedules program, GSA is in the process of deploying an electronic ordering system for customer access to the full range of GSA supplies and services. GSA plans to have this system, which is to be available through the Internet, fully operational by the end of fiscal year 1997.⁹ GSA is also making the use of the supply schedules program optional on the part of all executive branch agencies and is eliminating mandatory use provisions in its contracts. In addition, GSA is requesting that vendors be as expeditious as possible and identify items that can be delivered faster than both normal and expedited delivery times. Vendors are also requested to identify items that can be delivered overnight or within 2 days. Maximum order limitations are also being removed, and GSA has developed new procedures allowing vendors to accept "any size"

⁸41 U.S.C. 253.

⁹Under GSA's plan the system will not include schedules for which VA is responsible.

order. In addition, customers are encouraged to request price decreases from vendors before placing orders exceeding a certain size. Also, vendors are allowed to offer individual agencies price reductions without passing these reductions on to all other federal agencies.

Other Organizations Have Been Authorized to Use GSA's Services

The federal supply programs were initially for use primarily by federal agencies and the District of Columbia. However, since 1949, Congress has authorized a variety of other entities to use GSA's procurement services, including the federal supply schedules. For example, the Foreign Assistance Act of 1961 provides that the president may authorize certain countries, international organizations, the American Red Cross, and voluntary nonprofit relief agencies to use GSA's sources of supply.¹⁰ Many Indian tribal governments also have been authorized to make purchases from GSA under the Indian Self-Determination and Education Assistance Act of 1975.¹¹ In 1978, Gallaudet College, Howard University, and certain other charitable institutions or nonprofit organizations;¹² as well as fire fighting organizations cooperating with the Forest Service,¹³ were authorized to make purchases through GSA. In 1992, Congress provided the governments of American Samoa, Guam, the Northern Mariana Islands, the Trust Territory of the Pacific Islands, and the Virgin Islands the authority to make purchases through GSA.¹⁴ In 1993, Congress authorized law enforcement agencies involved in counter-drug activities to make purchases through GSA.¹⁵

The Federal Cooperative Purchasing Program

The 1993 report of the National Performance Review (NPR) recommended that state and local governments, grantees, and certain nonprofit agencies be allowed to use federal supply sources.¹⁶ In addition, NPR recommended that federal agencies be allowed to enter into cooperative agreements to

¹⁰Public Law 87-195, Sept. 4, 1961.

¹¹Public Law 93-638, Jan. 4, 1975.

¹²Public Law 95-355, Sept. 8, 1978.

¹³Public Law 95-313, July 1, 1978.

¹⁴Public Law 102-247, Feb. 24, 1992.

¹⁵Public Law 103-160, Nov. 30, 1993.

¹⁶See *From Red Tape to Results: Creating a Government That Works Better & Costs Less*, report of the National Performance Review, Vice President Al Gore, Sept. 7, 1993; and *Reinventing Federal Procurement: Creating a Government That Works Better and Costs Less*, accompanying report of the National Performance Review, Sept. 7, 1993. See also *Management Reform: Implementation of the National Performance Review's Recommendations* (GAO/OCG-95-1, Dec. 5, 1994).

share state and local government supply sources. The basis for the recommendation was the belief that consolidated government procurement actions tend to maximize the economic advantage of volume buying with lower costs to the taxpayer. The concept of cooperative purchasing was not unique to NPR. Cooperative purchasing has existed in varying forms since at least the 1930s when various governments started joining forces for the purposes of making intergovernmental cooperative purchases. In addition to the tangible benefit associated with cost savings, other benefits cited by members of such cooperative purchasing groups include the exchange of procurement information.

NPR's report noted that even though federal agencies, the District of Columbia, and some other organizations were authorized by law to use federal supply sources, state and local governments generally were not authorized to use them. The report concluded that allowing governments to enter into agreements to use one another's contracts would reduce administrative staffs and costs and that all levels of government would be able to negotiate better prices as a result of the increased volume of sales under the contracts.

A cooperative purchasing program that would allow state, local, the Puerto Rican, or Indian tribal governments to use the federal supply schedules was enacted as section 1555 of FASA, which amended the Federal Property and Administrative Services Act. The section provided GSA with considerable discretion on the way the program is to operate and the specific federal supply schedules it may authorize these governments to use. The section also allowed GSA to charge state, local, Indian tribal, or Puerto Rican governments a fee for any administrative costs it incurs by allowing these governments to use the schedules. FASA stipulated, however, that these governments are not authorized to use GSA's stock program. At the time that the provision was being considered by Congress, little debate occurred over any possible adverse effects of allowing state and local governments the use of GSA's schedules program.

On April 7, 1995, GSA published a Federal Register notice that presented and requested comments on its proposed implementation plan for section 1555.¹⁷ As proposed, GSA planned to make the schedules available to the authorized governments upon their requests unless a determination was made by the GSA contracting officers responsible for specific schedules that it would not be appropriate to do so. For example, schedules would not be made available to nonfederal users if doing so would raise prices

¹⁷Federal Register, Vol. 60, No. 67, Apr. 7, 1995, pp. 17764 - 17769.

that federal agencies pay for items on those schedules. Under GSA's proposal, individual schedule vendors would be able to elect whether or not to make the products or services they sell through the schedules available to authorized nonfederal users. If vendors elect to make products available to nonfederal users, GSA officials said that this could be accomplished by modifications to their existing contracts. GSA planned that these nonfederal users would place orders directly with supply schedule vendors. As authorized by FASA, GSA also planned on charging the governments an administrative fee for the use of the schedules as GSA converts the supply schedules program from a federally appropriated program to an operation funded by fees charged for services. The administrative fee was to be included in the vendors' prices for each schedule item. Vendors, in turn, would transfer fees collected to either GSA or VA.¹⁸

GSA does not envision that the supply schedules program, or items available through that program, would change significantly as a result of the cooperative purchasing program. In its April 1995 Federal Register notice, GSA cautioned that schedule contracts would be established only to meet the needs of federal agencies, and only to the extent that nonfederal users had a need for the same items or services would they be authorized to use the schedule contracts. GSA officials subsequently told us that GSA would determine, on a case-by-case basis, which schedules should be available to nonfederal users, taking into consideration the potential effect that opening up the schedule may have on the federal government. According to these officials, if allowing state or local governments the option of using a schedule could result in increased prices to federal agencies, GSA would not make the schedule available to nonfederal users.

In its Federal Register notice, GSA announced that it had determined that two schedules—one for drugs and pharmaceutical products and one for medical equipment and supplies (in vitro diagnostic substances, reagents, test kits and sets)—should not be made available for use by nonfederal users because it would not be in the interest of the federal government. GSA based its determination on VA's recommendation that these schedules not be made available because of unique statutory requirements imposed by the Veterans Health Care Act of 1992,¹⁹ which, according to GSA's Federal Register notice, would result in increased prices for products on

¹⁸Currently, GSA's administrative fee is 1 percent of the cost of the schedule item ordered, while VA's administrative fee is 1/2 percent.

¹⁹Public Law 102-585, Nov. 4, 1992.

these two schedules. The potential effects of opening the pharmaceutical schedule on drug prices will be discussed in a separate GAO report.

Following enactment of FASA, concerns emerged from several industries that because of either their market structure or other factors, they would be subject to adverse effects, such as lost sales, from cooperative purchasing. The Clinger-Cohen Act of 1996 suspended GSA's authority to implement the cooperative purchasing provision of FASA.²⁰ The 1996 act also mandates that we report on the implementation and effects of cooperative purchasing and that we submit a report to both GSA and Congress within 1 year of enactment. The 1996 act further requires GSA to submit comments to Congress on our report within 30 days. GSA's authority to implement the cooperative purchasing program under section 1555 of FASA is suspended by the 1996 act until 18 months after the act's enactment or until 30 days after GSA's comments on our report are submitted to Congress, whichever is later.

Objectives, Scope, and Methodology

The objectives of this report were to assess:

- the potential effects of cooperative purchasing on state and local governments, the government of the Commonwealth of Puerto Rico, Indian tribal governments, and federal agencies;
- the potential effects of cooperative purchasing on industry, including small businesses and local dealers; and
- GSA's plans to implement the cooperative purchasing program.

The Clinger-Cohen Act of 1996 mandated that our report include assessments of the potential effect of the cooperative purchasing program on (1) state and local governments, the government of the Commonwealth of Puerto Rico,²¹ and Indian tribal governments; and (2) industry, including small businesses and local dealers. The Conference Report accompanying the 1996 act further directed that we include an assessment of the effects on costs to federal agencies of state and local governments' use of the federal supply schedules.

To assess the potential effect of the cooperative purchasing program on state, local, and Indian tribal governments and on federal agencies, we

²⁰Public Law 104-106, Feb. 10, 1996. This act was originally the Federal Acquisition Reform Act of 1996 and was renamed by section 808 of Public Law 104-208; Sept. 30, 1996.

²¹Henceforth, this report will include the government of the Commonwealth of Puerto Rico within the phrase "state and local governments" to simplify presentation of collective data.

collected and reviewed data that described the procurements and procurement methods that each level of government used. To assess the potential effect on state governments, we conducted a September 1996 nationwide survey of states and territories to obtain information on state laws or practices that would encourage or inhibit states' use of the federal cooperative purchasing program and the extent to which they would use the program and for what purposes. Responses were obtained from 48 states and 2 territories. We did not attempt to verify the responses made by state officials or the reasons given for their responses about their potential use of the federal supply schedules program. (App. II provides the results of this survey.) We also contacted associations that represent state and/or local governments, including the National Association of State Purchasing Officials, to obtain their members' views on the cooperative purchasing program and to obtain any relevant data these associations had on the potential effect of the program. We obtained and reviewed available data from a nationwide survey conducted by the National Association of State Purchasing Officials in 1992 that asked whether the laws in the individual states would allow the use of the federal supply schedules; whether state purchasing officials expected to use the cooperative purchasing program; and what, if any, advantages and disadvantages these officials saw in the program. (App. III provides a listing of all associations whose views we obtained.) In addition, we reviewed comments made by state and local governments in response to GSA's April 1995 Federal Register notice.

To more fully understand factors that may influence state and local governments' decisions on whether to make purchases through the federal cooperative purchasing program, we contacted 29 purchasing officials in California, Montana, New York, West Virginia, and Puerto Rico to obtain information on procurement practices.²² We selected these states with a view to obtaining diversity in geographic location and size, as well as in size of population. In addition to obtaining information from each state's and Puerto Rico's central purchasing offices, we selected 24 program agencies in the 4 states. These agencies included each state's transportation department, a state university or university system, plus an agency suggested by the state procurement agency from which to obtain information. These program agencies also included three local government agencies so that we could provide similar information on those local agencies' purchasing requirements and practices. We selected the program agencies to ensure a range of potential users of a cooperative purchasing

²²Although we contacted 29 agencies' purchasing officials, we were able to obtain information on procurement practices from only 26 agencies.

program. We selected the local government program agencies, in consultation with state purchasing officials, to include both large and small local government entities. Our selection was not designed to produce a statistically valid sample of state and local government agencies that would be eligible to participate in a cooperative purchasing program. The purpose was to supplement our other information and provide an indication of the factors that would influence state and local agencies' decisions on whether to use the federal cooperative purchasing program.

In addition, we asked state and local officials in these four case study states if their procurement laws or policies would allow them to use the federal cooperative purchasing program and, if not, the nature of their procurement laws or policies that would prohibit or limit their use of the program. Although we did not attempt to determine if the views of the state and local officials regarding these laws and policies in these four states were necessarily correct, we did review the laws to understand the basis for their positions. We also obtained their views on whether they wanted access to the federal supply schedules and the reasons for their views. Further, we contacted the Puerto Rican Government's central purchasing office to obtain Puerto Rico's views on the cooperative purchasing program and information on its laws that may affect its use of the program.

To determine the extent that state or local governments could or would be likely to use the program, we conducted case studies in the four states. We asked the 24 selected program agencies to provide procurement documentation (i.e., invitations for bids, contracts, purchase orders, invoices, etc.) used to make recent purchases. We asked that these purchases reflect items that the agencies were interested in purchasing through GSA, because the items were (1) routinely purchased (i.e., high volume); (2) consumed a large portion of the procurement budget (i.e., high-dollar volume); (3) difficult to procure; or (4) available through GSA's schedule program, and the state or local agency believed the GSA vendor may be a better source. We received procurement documentation from 16 of the 24 agencies. We did not determine why the agencies selected the purchases for which they provided us documentation. We provided the procurement documentation to GSA, which had its contracting officers determine whether the same or comparable items were available through GSA's supply schedules program and, if so, how GSA's contract terms and conditions of sale, including price, compared to the terms and conditions of sale obtained by state and local agencies. We did not verify GSA's determinations. (App. IV presents the results of this comparison.)

Although the items represented by the procurement documentation obtained from state and local agencies do not comprehensively represent the types of goods or services these agencies could or would purchase through the federal cooperative purchasing program, they do provide an indication of the experience state and local agencies may encounter when considering making such purchases. Neither we nor GSA determined if the quantity of items purchased by individual state or local agencies was more than or less than vendors' maximum order limits, and hence potentially eligible for additional discounts from the vendors' list prices, or whether actual prices paid by federal agencies were less than schedule prices.

To better understand how state and local law enforcement agencies have used a similar program that has given them access to federal supply schedules to support state and local drug enforcement activities, we contacted state officials in seven states. We selected them either because they participated in GSA's pilot for this program or because of their geographic location. We asked these officials to describe their use of the program, including their experiences with the availability and prices of products on the federal supply schedules. In addition, to obtain similar information we contacted a purchasing official in the Virgin Islands, who already had access to federal supply schedules, and representatives of several cooperative purchasing arrangements under which state or local governments have agreed to pool their purchases of certain products.

We also used the Input-Output Accounts for the U. S. economy provided by the Department of Commerce's Bureau of Economic Analysis to provide data on the types of goods and services that state and local governments purchase and to compare their purchases with nondefense federal purchases. The Input-Output Accounts show the relationship among all industries in the economy (including the various levels of government) and all the commodities that they produce and use. We used these data to indicate the pattern of industry purchases made by the federal, state, and local governments and to determine the extent to which these governments' patterns of purchases are similar or different. We also used these data to indicate the extent to which state and local governments purchase items from industries whose products might be available on federal supply schedules.

We used these national data at an aggregate level to get a general indication rather than a precise measure of the pattern of federal, state, and local purchases among industry groups. We did not use these data to provide a precise measure of the relationship between the various levels of

government and the industries that might be affected. First, the Input-Output accounts are organized along industry classifications that differ from those of GSA's supply schedules. Second, as the Bureau of Economic Analysis notes, the most recent data in the Input-Output accounts are for 1987 and the patterns of purchases could have changed since that time. Our use of these data entails an assumption that there have not been major changes in interindustry relationships (including those between state and local governments and industries that supply these governments). We believe this to be a reasonable assumption given our use of the data for describing, in general terms, state and local purchases and comparing them with federal purchases.

To assess the potential effect of the cooperative purchasing program on Indian tribal governments, we discussed the use of the federal supply schedules by Indian tribal governments with Bureau of Indian Affairs (BIA) officials in the Department of the Interior and with GSA officials. We also contacted three Indian tribal governments that have entered into agreements with the federal government to assume responsibility for programs that would otherwise be the responsibility of the federal government to determine whether these tribal governments have used their existing authority to use GSA as a source of supplies and services. We selected tribal governments on the basis of a BIA official's recommendation that, as large tribes, these were likely to be among the heaviest users of GSA's supply programs and thus the most knowledgeable about GSA's programs. Although the tribal governments sampled do not represent all Indian tribal governments, they do provide an indication of Indian tribal procurement procedures and practices by Indian tribal governments that have entered into such agreements.

To assess the potential effect of the cooperative purchasing program on costs to the federal government, we obtained information from the Departments of Defense, Health and Human Services, the Interior, Justice, and VA to determine whether they had conducted any assessments of the program and what effects they identified as likely. These departments were selected on the basis of their being among the largest users of GSA's schedules program. In addition, we obtained the views of GSA's Acquisition Management Center and VA on the effect of opening up the supply schedules on schedule vendors and federal agencies purchasing through the schedules program.

To assess the potential effect of the cooperative purchasing program on industry, including small businesses and local dealers, we analyzed data

from the Department of Commerce's Input-Output Accounts (discussed previously) to estimate the government share of total sales for industry groups. We used these data to provide an indication of the extent to which various broadly defined industry groups rely on sales to the federal, state, or local governments rather than as a precise measure.

We also obtained information from industry associations, including those that represent small business, to identify factors that may affect those industries; these associations included the American Small Business Association, the Environmental Industry Association, the Health Industry Manufacturers Association, and the National Retail Federation. (See app. III.) In addition, we selected vendors from selected GSA schedules to obtain vendors' views on the potential effect of allowing nonfederal agencies to purchase through the federal cooperative purchasing program. We selected schedules on the basis of GSA officials' views that nonfederal governments would have high interest in procuring products on them. These schedules included the computer schedules (including the telecommunications equipment schedule and the microcomputers schedule); special industry machinery schedule (copying equipment, supplies, and services); and furniture systems schedule. We also selected schedules and vendors in industries where associations representing the industry have informed GSA or us that they would or could be negatively affected should specific schedules be made available to nonfederal agencies.

We also reviewed public comments GSA received from industry in response to its April 1995 Federal Register notice and contacted several businesses and trade associations that expressed concern over GSA's proposed plan for implementing the program. This group included dealers and distributors of heavy equipment. We also contacted those companies that supplied items to state and local governments, which were identified through procurement documentation provided by state and local agencies (as described above), to obtain their views on how the program could affect sales their companies made to state and local agencies. Even though the industry groups and the companies contacted do not represent all industry groups or all companies, these groups and companies do provide an indication of possible effects that businesses expect from the federal cooperative purchasing program.

To assess GSA's plans for implementing the cooperative purchasing program, we held discussions with GSA's Deputy Associate Administrator, Office of Acquisition Policy; the Director, GSA's Acquisition Policy Division;

the Assistant Commissioner, Federal Supply Service, Office of Acquisition; the Assistant Commissioner, Federal Supply Service; the Director, Acquisition Management Center, Federal Supply Service; as well as the director of GSA's automotive center and contracting officers for the selected schedules mentioned previously. In addition, we contacted contracting officers for several schedules, including those schedules for which companies informed GSA that they would be negatively affected should specific schedules be made available to nonfederal agencies. We also talked with representatives of VA's National Acquisition Center, which has primary responsibility for the pharmaceutical and medical equipment, supplies, and devices schedules, including Division Chiefs for 13 schedules.

We recognize that there are limits to our ability to predict the effects of opening the supply schedules on state and local governments or on industry. Part of the limitations stem from the unavailability of data. For example, except for VA's Pharmacy Prime Vendor programs, the various agencies generally do not have the detailed expenditure data that readily indicate what and how goods and services are purchased, and we do not have access to nonfederal contractors' records. However, even with these data, we would not be able to predict how state and local governments would choose to utilize these schedules, how industry would respond to any changes in state and local purchasing arrangements, or how contract terms would change.

We requested comments on a draft of this report from the Acting Administrator of GSA and the Secretary of the Department of Veterans Affairs; the Coalition for Government Procurement, which represents businesses supplying about 75 percent of federal purchases through the schedules program; and the National Association of State Purchasing Officials, which serves the purchasing administrators in the 50 states and U.S. territories. The Acting Administrator of GSA, VA's Deputy Assistant Secretary for Acquisition and Materiel Management, and the Chair and Co-chair of the National Association of State Purchasing Officials' Federal/State Relations Committee provided written comments, which are included as appendices V, VI, and VII of this report, respectively. The Executive Director and other representatives of the Coalition provided oral comments to us on January 9, 1997. Comments from these agencies and organizations are discussed at the end of chapters 2, 3, 4, and 5, as appropriate.

Chapter 1
Introduction

We conducted our work from July to December 1996 in accordance with generally accepted government auditing standards.

Several Factors Are Likely to Limit Potential Benefits to Nonfederal and Federal Users

Many state and local governments we contacted want access to the federal supply schedules because they perceive potential benefits from the use of cooperative purchasing. However, these potential benefits may be limited because of (1) state or local laws, ordinances, or policies that direct how or where state or local purchases can be made; (2) the unavailability of needed goods or services through the schedules program; (3) higher costs or unattractive sales conditions for goods or services through the program; and (4) the need for nonfederal governments to maintain capacity to purchase items they do not buy from the schedules program. The federal cooperative purchasing program is not likely to have a substantial effect on Indian tribal governments because many tribes already have access to GSA's federal supply schedules for many of their programs.

Although GSA believes the cooperative purchasing program has the potential to result in lower schedule prices because of the increased sales that GSA vendors may be able to make through the program, the extent to which this will happen is unclear because of many factors, including those that may limit nonfederal government agencies' use of the program and uncertainty over how many businesses will react. Given GSA's plan to not open schedules when adverse effects on federal agencies are anticipated, there appears to be little risk that federal agencies will be adversely affected if GSA effectively implements the program.

State and Local Governments Perceive Potential Benefits

Most state and local governments we contacted indicated that they want the option of using the GSA supply schedules. State and local government officials we contacted said that such an option would provide several potential benefits, including the ability to obtain more competitive prices, a wider selection of goods and services, reduced purchasing turnaround times and administrative time and costs, and additional negotiating leverage with their traditional suppliers.

Nonfederal Governments Want Access Because They Perceive Potential Benefits

The results of our nationwide survey of state purchasing officials, as well as discussions with 26 state, local, and Puerto Rican government purchasing officials, indicate that these state and local governments are generally in favor of having GSA supply schedules available for their use because of perceived benefits. Similarly, in its January 1997 report, GSA found that state and local governments want access to the federal supply schedules because of perceived benefits.¹

¹Cooperative Purchasing: Better Pricing and Administrative Ease Are Key Reasons for State and Local Governments in Using GSA Federal Supply Schedules, GSA, Jan. 1997.

In response to our survey, 34 of the 48 states and two territories that responded to our survey, including Puerto Rico, indicated that they would use the federal schedules program for making purchases. Even if the program were not used for making purchases, of the 50 respondents, 38 said they would use the schedules for price comparisons; 24 said they would use the schedules for benchmarking;² and 15 said they would use the schedules to negotiate with vendors. It is important to note that many states may already have access to schedules information, including through the Internet, and may already be using the schedules for these three purposes.

In addition to our nationwide survey, we contacted purchasing officials in 29 agencies in California, Montana, New York, Puerto Rico, and West Virginia to obtain their views on the federal cooperative purchasing program. We also reviewed comments GSA received from state or local agencies in response to its Federal Register notice. Of the 26 agencies' purchasing officials who responded to our information requests, all 26 said they favored having access to the federal supply schedules. Purchasing officials from seven of the agencies said that the supply schedules offer the potential for obtaining lower prices on popular items they purchase, such as computers, furniture, and office equipment. For example, the Assistant Director of Facilities for the West Virginia Office of Higher Education stated that the supply schedules would complement what state colleges and universities are already doing by providing them an additional source of potentially lower prices that could result in better use of state funds. The Business Service Officer for the California Highway Patrol said the agency would benefit because some of GSA's prices would be lower than those the agency can obtain, and knowing that it has access to GSA vendors will force the agency's current contractors to be more competitive and possibly lower their prices. In comments on GSA's Federal Register notice, the Purchasing and Material Manager for the City of Chandler, Arizona, stated that the federal cooperative purchasing program would benefit cities such as Chandler because it cannot obtain prices as favorable as GSA's prices because of the smaller quantities it orders.

In addition, several state and local government officials said that having the schedules available to them could provide them a greater selection of items. For example, in comments to GSA, the Executive Director of the Lexington-Fayette Urban County Housing Authority in Kentucky said that it had a high interest in using the supply schedules to purchase commonly

²Benchmarking refers to the practice of using the terms and conditions of sale for an item available through the schedules program as a standard to judge whether bids received in state solicitations are reasonable.

used goods and services because small purchases could be simplified and the choice of items increased because of the large number of GSA vendors. He said his agency could benefit from the wide range of items available on the schedules because virtually every GSA schedule other than medical, dental, or laboratory contained items the housing authority used on a regular basis. A purchasing official from the New York State Office of General Services said state agencies can benefit from using the schedules because they provide greater choice of products, brand names, and sizes.

Several state and local government procurement officials also said that they could realize administrative savings of both time and money by ordering through the federal supply schedules. For example, procurement officials from Albany, New York, and Missoula, Montana, said that the administrative functions and their associated costs could be reduced. These functions and costs include the time and cost necessary to develop formal solicitation packages; time and personnel costs to evaluate, negotiate, administer, and award contracts; and, in some instances, inventory costs to stock items. The Director of Purchasing for Puerto Rico's territorial purchasing agency said that the agency would not have to spend as much time and money developing solicitations annually. Puerto Rico currently awards over 120 competitively bid contracts with local vendors, according to the director. In its comments on GSA's Federal Register notice, the city of Chandler, Arizona, estimated that in fiscal year 1995 it spent from \$1,500 to \$2,000 per contract to obtain bids for items that were also available through the schedules program. The city Purchasing and Material Manager told us these items included computers, office supplies, janitorial supplies, plumbing, and electrical hardware. Procurement officials from the New York State Office of General Services and the city of Albany, New York, said that procurement lead times could also be shortened for state and local governments because they would be able to simply place a delivery order from an existing supply schedules contract. An official from Louisiana State University commented that the university could eliminate about 8 weeks from the time it usually takes to receive and review bids on systems furniture for its Computing Services Building if it could use the GSA contract on systems furniture.

GSA asked the National Institute of Governmental Purchasing, which is an association of federal, state, and local government procurement officials, to survey its members to determine members' interest in participating in the cooperative purchasing program. In its January 1997 summary of survey results, GSA also found that the majority of respondents indicated that they would participate in the program if it became available. Of the

131 respondents, 111 indicated that they would participate, even though 31 respondents indicated local ordinances and laws may be a barrier. The most cited reasons respondents gave for wishing to participate in the program were better pricing and administrative ease. Some concerns, however, were also cited about legal restrictions, quality, and price, as well as the administrative complexity of using the federal supply schedules. Schedules cited as being of most interest to respondents include the computer, furniture, office equipment, office supplies, and signs schedules. These schedules were each cited by more than 30 respondents. However, 15 respondents stated they were interested in all schedules. Overwhelmingly, respondents indicated a strong desire for some form of training on using the schedules—including video tape training and Internet training. GSA noted that it has videos available for training and would provide training programs.

U.S. Department of Commerce data suggest that state and local governments could potentially benefit substantially from having access to federal supply schedules depending on the extent to which they use them. Commerce data for 1987 suggest that state and local governments collectively spend substantially more for several of the types of items that are available through the schedules than the federal government does. For example, Commerce data show that state and local governments spent \$2.3 billion for paper and allied products in 1987 compared to about \$243 million in federal, nondefense expenditures.

A Variety of Factors Could Limit the Potential Benefits of the Program for Nonfederal Users

Although purchasing officials from most states and the local agencies we contacted want to have the option of using the federal supply schedules, several factors could significantly limit the benefits they cited. These factors include (1) state or local laws, ordinances, or policies that direct how or where state or local purchases can be made; (2) the unavailability of certain items or products through the federal supply schedules program; (3) the availability of lower prices or better terms and conditions on items obtained from other sources, and (4) the likelihood that these nonfederal governments would need to maintain the procurement capacity to continue using their other supply sources for items they do not purchase through the schedules.

State Procurement Laws, Ordinances, or Policies May Limit Potential Benefits

State or local competitive bidding laws, ordinances, and policies; the requirement to use state contracts; or preferences to use special groups of vendors, such as local businesses, the disabled, or prisons, may direct how or where state or local purchases can be made. These laws, ordinances, and policies thus may limit the extent to which state or local agencies would be able or would want to use the federal supply schedules program. Because of this, the perceived benefits cited by local procurement officials, such as the ability to obtain more competitive prices, a wider selection of goods, and reduced time and costs, may be less than otherwise expected. In response to our survey of state purchasing officials, 28 of the 34 respondents who indicated that they would make purchases from the supply schedules said that some law, ordinance, or regulation would limit their use of the cooperative purchasing program. All four of the states we contacted had competitive bidding requirements for state agency procurements, and they generally mandated that state agencies use existing state contracts. All four of the states also had preference programs for unique vendor groups, such as local businesses, the disabled, and the prison industry.

Although these types of requirements and preference programs would limit state and local use of federal supply schedules, the possibility exists that they could be changed in the future to allow greater use of federal supply schedules by state and local governments.

Competitive Bidding

According to the National Association of State Purchasing Officials, in an effort to obtain the lowest prices available, most state and local government procurement statutes, ordinances, and rules provide that procurements exceeding a specified dollar amount must be made through formal competition, with public notices, sealed bidding, and public bid opening. In its 1992 survey of states, the Association found that 46 states had statutes requiring the procurement of goods or services by competitive sealed bids. According to the survey, the dollar amount above which competitive solicitation was required varied widely among states, from \$100 in one state to \$50,000 in another. However, 17 states were required to use competitive sealed bids for purchases exceeding \$10,000, and 9 states were required to use sealed bids for purchases exceeding \$5,000. The federal supply schedule programs are considered to be competitive under the Competition in Contracting Act in that participation in the program has been open to all responsible sources. Although some states have amended their statutes to exempt purchases obtained through the federal supply schedule program from competitive bidding requirements of state laws, this is not the case in all states.

As of September 1996, more than half of the states reported still having restrictions that would limit their using the federal supply schedules. In our survey, 27 of the 50 respondents indicated that state competitive bidding requirements would limit their states' use of supply schedules programs. All four of the states included in our case studies said that they had state bidding requirements that would limit their use of the supply schedules program. Because state competitive bidding statutes apply only to purchases that exceed specified thresholds, however, state and local governments might be able to use GSA's schedule program for purchases that were below these thresholds and for other limited purchases. For example, in its comments to GSA in response to the April 1995 Federal Register notice regarding GSA's plan to implement the cooperative purchasing program, Kentucky said that its state law requires state agencies to make aggregate purchases in excess of \$5,000 through competitive sealed bids. Because of this requirement, Kentucky said that its agencies would be able to use the federal supply schedules only in instances where competitive bidding could not be used, such as when only one source of supply was available or an agency requested a specific brand and no substitute was justifiable. Similarly, Salt Lake City, Utah, commented that it could use the supply schedules only for small, sole-source, and emergency purchases.

Comprehensive data are not readily available for us to estimate the amount of state and local governments' purchases that must be made using state competitive purchasing requirements. However, in its 1992 survey, the National Association of State Purchasing Officials estimated that 85 percent or more of state and local government expenditures resulted from competitive solicitation.

Requirement to Use Statewide Contracts

Another factor that could limit state or local governments' use of the federal cooperative purchasing program is a requirement to use statewide or local contracts. According to the National Association of State Purchasing Officials, all states and most local governments consolidate requirements and award contracts for the purchase of goods or services for multiple users in order to reduce administrative costs associated with the preparation and issuance of solicitations on the same or similar items and the receipt, handling, and evaluation of the responses. Although the use of these contracts may be optional for some state or local agencies, the contracts may be mandatory for others. The 1992 National Association of State Purchasing Officials survey found that the extent to which states and local governments rely on statewide contracts varied. For example,

state purchases through statewide contracts ranged from 5 percent of total dollar volume to up to 90 percent.

Of the 50 respondents to our survey, 16 states indicated that they could use GSA's schedules program to procure items only if the items were not available through other state procurement arrangements, such as schedules. The four states included as our case studies also generally were required to use statewide contracts. For example, the New York State Office of General Services is the central procuring office for hundreds of New York state agencies. It annually awards about 2,100 contracts with an estimated purchasing value of \$800 million. According to the Purchasing Director, Office of General Services, New York state finance law requires state agencies to first consider the use of the state contracts to acquire commodities. State contracts for services and technology are available for optional use. However, they are developed to specifically address the needs of New York state agencies. In addition, the Purchasing Director explained that the Commissioner of the Office of General Services is authorized to approve the use by state agencies of a contract let by the federal government. The Director said such approval would be the procedure used to enable a New York state agency to use a federal supply schedule that would be available under the cooperative purchasing program. More than half of the contracts are available for use by about 3,100 eligible nonstate agencies, including local governments, school districts, and fire districts. These agencies account for about 40 percent of the purchases made under the statewide contracts.

However, even though a state may require state agencies to use statewide contracts, exceptions may exist when agencies can demonstrate they can obtain items elsewhere at a lower cost. In addition, the mandatory use of statewide contracts may not always apply. The Purchasing Director for the West Virginia Procurement Division said that even though state agencies are generally required to use state contracts, if a state agency can document that it can procure goods or services at a lower price elsewhere, the Procurement Division will, upon request from a state agency, grant a written waiver for the agency to do so. The Assistant City Manager for Charleston, West Virginia, said that the city makes its purchases using whatever methods or procedures will result in the lowest price. This could include using a state contract. The Chief of Purchasing for the Raleigh County Board of Education in West Virginia said that the board uses a combination of purchasing methods, including the use of statewide contracts, its own contracts, and spot purchases. According to this official,

the driving factor determining which procurement method is used is obtaining the lowest price.

Vendor Preferences

State and local laws, ordinances, or policies that provide for contracts to be awarded on the basis of factors other than best price or best conditions of sale could also limit the potential benefits of the cooperative purchasing program. These include laws that direct contracts to local businesses or to certain groups, such as prisons; preferences to support local businesses over other businesses; and commitments to use cooperative contracts.

The National Association of State Purchasing Officials found in its 1992 survey that 15 states had laws mandating preference for in-state vendors, and an additional 16 states had laws favoring products produced in-state. In addition, it found that 45 states that award contracts to manufacturers required that sales and services be rendered through local dealers. Of the four states we contacted in our review, two had local vendor preference statutes. According to the Business Manager for the West Virginia Department of Transportation's Division of Highways, West Virginia's vendor preference law provides in-state vendors with up to a 5 percent price advantage over out-of-state vendors. In addition, if at least 75 percent of an out-of-state vendor's workforce is located within the state, the vendor is given a 2.5 percent price advantage. Similarly, according to the Chief of Procurement, Department of Administration, Montana's vendor preference law provides in-state vendors with a 3 percent price advantage over out-of-state vendors. She explained that the Montana statute also provides vendors a 5 percent price advantage for products produced in Montana.

Some states have laws to direct purchases to certain groups, such as the disabled or the prison system. Three of the four states included in our case studies had such preferences. For example, New York's priority system for making purchases requires state agencies to first determine whether an item or service is available from one of the state's established preferred sources, including Corcraft, New York State Department of Correctional Services, Division of Industries; the Industries for the Blind of New York State, Inc.; the New York State Industries for the Disabled; and the New York State Office of Mental Health. State law requires that purchases be made from one of the preferred sources when needed goods or services meeting the form, function, and utility requirements of the agency are available from those sources. Similarly, state officials told us that state agencies in California and West Virginia that are purchasing goods made

by the state prison industry must attempt to purchase these goods from this industry before going to another source.

Even though there may not be state laws that direct that purchases be made from certain groups, regardless of whether the price is competitive, state and local governments may prefer purchasing products and services from in-state or local vendors. Their reasons could include a need for customer support services and/or the desire to support the local economy. Of the 26 state and local agencies that provided information on their procurement practices, three state and four local agencies said that a need for customer support services or the desire to support the local economy affected their procurement decisions. At the state level, the West Virginia Department of Transportation's Business Manager said that when developing requests for bids, the Department assigns point values to such things as vendor warranty, local vendor servicing, and local availability of spare and repair parts, as well as to the bid price when awarding contracts. An official of the University of California said that its campus system prefers to patronize local businesses in the communities where campuses are located because to do so helps support the local economy. At the local level, the Finance Director for the city of Missoula, Montana, said that all equipment the city purchases is from local sources because the city cannot afford to send equipment out of Missoula for repairs. In addition, the Purchasing Coordinator for the city of Elmira, New York, said that although contracts are awarded strictly on the basis of price, contract minimum requirements may stipulate that the vendor must arrange for repair parts and servicing to be provided by dealers within 150 miles of the city.

The Director of Purchasing for the Puerto Rican government said that this government also has a practice of purchasing locally. Puerto Rico may find its potential use of the supply schedules similar to that of the Virgin Islands. That territory has been able to use the schedules since 1992. According to the Deputy Commissioner for the Virgin Islands Department of Property and Procurement, the Virgin Islands uses the supply schedules only for those items that its local vendors cannot supply. This is because territorial vendors complain to their local legislators if the government procures from businesses that are not on the island. As a result, most of the Virgin Islands' purchases are not made through the federal supply schedules program, according to the Deputy Commissioner.

Commitments to Use Cooperative Contracts May Reduce Perceived Benefits

Interstate and intrastate arrangements that state and local governments use to combine procurement needs and collectively procure items also have the potential to reduce the extent to which these governments procure certain items through the supply schedules program. These types of arrangements may require participating nonfederal governments to combine the needs for specific items for the purposes of soliciting bids and awarding contracts and to purchase those items through those contracts. According to the Manager of Contracts and Administration for the Metropolitan Washington Council of Governments, these arrangements may result in lower prices than those arrangements where the needs of participants are not combined for the purpose of soliciting offers. In its 1992 survey, the National Association of State Purchasing Officials found that 42 states had statutory authorization for entering into cooperative procurement agreements with different units of government, and 22 states had statutory authority to enter into cooperative procurement agreements with other states.

In our discussions with 26 state and local agencies' procurement officials, 3 of the 4 states—Montana, New York, and West Virginia—indicated that they were members of cooperatives. In our nationwide survey, 30 of 50 respondents indicated that they used cooperative purchasing agreements with states, and 36 indicated that they used such agreements with local governments. One example of a large-scale cooperative procurement arrangement is the National Financial Services Center's National Cooperative Purchasing Alliance, which is affiliated with the National Association of Counties and relies on county purchasing agents across the nation to both select and bid on products and services on behalf of local governments in the United States. One of the Center's programs currently uses the services of a number of purchasing entities across the country, including Fairfax, Virginia; Los Angeles, California; Orange, Florida; and Erie, New York. This program, which is in the early stages of development, has resulted in the award of one contract for office supplies, many of which may be available on federal supply schedules. Center officials said that they had not compared their cooperative purchasing contracts with those of GSA's supply schedules. However, they believed that their contracts were competitive with GSA's.

Cooperatives also exist at the regional level. For example, the Washington Council of Governments comprises 18 of the largest jurisdictions in and around the Metropolitan D.C., area, including Fairfax, Loudon, and Prince William counties in Virginia; Prince George's and Montgomery counties in Maryland; and the District of Columbia. According to the Manager of

Contracts and Administration for the Council, as of September 1996, the Council had about 20 or more cooperative solicitation contracts for the purchase of such items as fuel oil (heating and diesel), road salt, and antifreeze. Members who have pooled their demands for those products must then use those contracts to purchase those products. The Council's Manager of Contracts and Administration said that items suitable for such cooperative solicitations include those whose specifications are established by industry, such as fuel oil, and have great pooled demand among the governments. This official said that the Council had not compared its cooperative contracts to GSA's supply schedule contracts. However, in general, he did not believe that having the option of using GSA's contracts would change local governments' purchasing practices. Similarly, a representative from a cooperative initiated by the city of Fort Lauderdale and Broward County, Florida, said that the cooperative is able to obtain highly competitive bids through the pooling of members' needs. Currently, the cooperative has about 23 members. Members have pooled their demands to obtain such items and services as oils, greases, and lubricants; photographic film; diesel fuel; gasoline; office supplies; sod; brass valves and fittings; red clay for baseball fields; aggregate (for construction); field marking paint; mail presort services; athletic bleachers; paging services; uniforms; water testing; and trucks and vans. Once a member agrees to participate in a contract, the member agrees to purchase through the contract. Although this representative said that the cooperative had not compared its contracts to GSA's supply schedules contracts, another cooperative representative said that the city of Coral Springs and the cooperative use some GSA schedules for benchmarking and price comparisons to determine if local vendors are quoting reasonable prices. These representatives said that they would like the option of using GSA's schedules. One representative said that having the option of using GSA's schedules program would be convenient for making those individual purchases that are sporadic in nature, where it would be too costly to solicit for bids, or when local vendors may not be able to supply city and county needs during times of a natural disaster.

**The Unavailability of Items
Through the Federal
Supply Schedule Program
May Limit Benefits**

Although more than 4 million items are available through the federal supply schedules program, not all items needed by state and local governments would be available through the schedules. This could affect (1) whether state and local governments make purchases through the schedules program and (2) the extent to which these governments would incur benefits. We asked 24 state and local agencies in California, New York, Montana, and West Virginia to provide invoices of recent purchases

to compare prices with similar items on GSA supply schedules. Of the 24 agencies, 16 provided documentation for 255 items that they indicated that they would be interested in buying through the supply schedules program. Of the 255 items, GSA determined that 84 were not available. GSA was unable to make a determination on whether 101 of the 255 items were available because the agencies provided insufficient information for GSA to make this determination.³ The fact that all goods and services needed by state and local governments are not available through the schedules program is not surprising, because GSA operates the schedules program to meet federal, not state, needs.

State and local government agencies in California, Montana, New York, and West Virginia said that they were interested in buying a wide variety of items through the schedules program, including computers and computer hardware, office equipment and supplies, laboratory equipment, airline tickets, furniture, ammunition, asphalt, prestressed concrete beams and culverts, road salt, paint, diesel fuel, tires, automobiles, and heavy road maintenance equipment. Of the 154 items that state and local government agencies said they were interested in buying and that GSA could make a determination on whether the items were available through the federal supply schedules, GSA identified 70 that were available through the schedules program. Whether this would be true for all state and local government needs is not known because our sample was not designed to represent all potential users of the federal cooperative purchasing program. Items that were available include selected computer printers, certain types of computers, certain types of copiers, lawn mowers, de-icing road salt, and certain kinds of office supplies. Items that were not available include certain specific types of computers and computer hardware, some airline tickets, ammunition, automobiles, certain specific office equipment and supplies, asphalt, and diesel fuel. (App. IV contains a summary of GSA's determinations on availability and pricing of these items on federal supply schedules.)

According to the Director of GSA's Acquisition Management Center, these items, as well as other items that state and local government agencies may be interested in purchasing, may not be available through the schedules program because the program is not intended to supply all federal agencies' needs and is not designed to meet state or local government agencies' needs. Rather, the program is intended to facilitate federal agencies' purchases of commercially available items that are purchased frequently enough to warrant having them available through the schedules

³We did not attempt to collect additional information on the invoices or contracts for these 101 items.

program. According to GSA officials, GSA will not be changing its basis for determining what items are available through the schedules program in order to accommodate state or local government agencies' needs.

U. S. Department of Commerce data suggest that those items for which state and local governments spend the most money are not available through the federal supply schedules. For example, Commerce data for 1987 show state and local governments spending their largest amounts of money on new construction, maintenance repair and construction, and electric utilities services—none of which are available through the schedules program. Of the items that accounted for the next two largest amounts of funds—other business and professional services and petroleum refining and related products—only a small portion of the former and none of the latter are available through the schedules.

Experience among some law enforcement agencies that have been able to purchase items through the federal supply programs since 1994 also shows that some items are not available through the schedules program. Law enforcement agencies may make purchases through the program if items purchased are suitable for counter-drug activities. A North Carolina official said that some items that state or local law enforcement agencies want to purchase are on the schedules, while some are not. For example, while purchasing a portable thermal imaging unit suitable for use on helicopters, the state found that some of the components for the system were available through GSA's supply schedules, and some were not. The state was able to purchase part of the system through the schedules program and obtained competitive bids for the remainder of the system. The North Carolina official said that the law enforcement agency that purchased the system was able to obtain the entire system for \$90,000. Had GSA's schedules not been available for the agency to obtain components of the system, he estimated that the system would have cost an additional \$15,000.

Since GSA's policy is that it will not make items available if doing so would be contrary to the interests of its principal customers, which are federal agencies, state and local agencies may continue to find some products unavailable to them. In some cases, GSA may not make all schedule items available; and in other cases, the schedules may not include items that these nonfederal governments need. For example, GSA's Federal Register notice proposed excluding the pharmaceutical schedule and one medical equipment and supply schedule from the cooperative purchasing program. GSA also does not intend to make its airline or fire fighting vehicles

schedules available through the cooperative purchasing program because of its concern that doing so would lead to higher federal prices or adverse effects on businesses. (See. ch. 3.)

Items Available Through the Schedules Program May Be More Costly

The extent to which items are available through the supply schedules program but at higher prices than are available through other means or with less desirable servicing or sales conditions will limit the potential effect of the cooperative purchasing program on state and local governments. Our case studies conducted as part of this review and procurement work we have done previously demonstrate that GSA does not always have the lowest price or the most favorable sales conditions.⁴

As part of our review, we asked GSA to compare its schedules' offerings with 255 items recently purchased by 16 state and local governments included in our case studies. GSA found that although some items were more favorably priced through the schedules program, others were not.⁵ Of 70 items that state and local governments said they would be interested in purchasing that are available through the schedules program, 20 were purchased by the state and local governments at lower sales prices or with more attractive sales conditions than those of the schedules program, 47 items could have been purchased at lower prices through the schedules program, and 3 items could have been purchased at the same price. For example, the Raleigh County, West Virginia, Board of Education purchased a Hewlett Packard Laserjet computer printer for \$485; GSA's schedule price was \$446, or 8.04 percent lower. The City of Mountain View, California, purchased another type of computer printer (Laserwriter 16/600) for \$2,046; the GSA schedule price was \$2,104, or 2.83 percent higher. Fairmont, West Virginia, State College purchased a computer system upgrade for \$510.75; GSA's schedule price was \$394, or 22.86 percent lower. The State of West Virginia purchased road de-icing salt for \$36.90 per delivered ton; the GSA schedule price was \$42.75 per delivered ton, or about 15.9 percent higher.

According to state purchasing officials, GSA may not always have the lowest price. Of the 50 respondents to our survey, 33 indicated that they had analyzed some GSA schedule prices. Of those 33 respondents, 13, or

⁴See Multiple Award Schedule Contracting: Changes Needed in Negotiation Objectives and Data Requirements (GAO/GGD-93-123, Aug. 25, 1993).

⁵As noted previously, of the 255 items, 84 were not available through the federal supply schedules program, and GSA was unable to make a determination on whether 101 other items were available because insufficient information was included in the invoices and/or contracts for those items. We did not attempt to collect additional information on these 101 invoices and/or contracts.

about 39 percent, indicated that state prices were generally lower than those available through GSA for the items they compared, while 2 states, or about 6 percent, indicated that GSA generally had lower prices for the items they compared. In addition, of the 33 respondents, 18, or about 55 percent, said some state prices were higher and some were lower than GSA's prices for the items they compared. We did not ask state purchasing officials to identify any specific items or prices they compared, nor did we verify their responses.

Some officials we interviewed in the four states included in our case studies also indicated that GSA's schedule prices were not always lower than their prices. For example, a purchasing director in the New York State Office of General Services said that state contract prices are frequently lower than GSA's schedule prices. Also, the Chief of Purchasing for the Raleigh County, West Virginia, Board of Education said that at times he has compared GSA's schedule prices to prices the board can obtain locally and found that GSA's schedule prices have generally been higher. For this reason, he said that opening the federal supply schedules for state and local governments will probably have little effect, even on small local businesses. He said that state and local buyers are already seeking the best match between the product or service they need or want and the lowest price, and competitively bid prices are generally lower than the prices GSA obtains.

States we contacted that are participating in GSA's law enforcement schedules program have had similar experiences. According to a North Carolina official, prices are not always lower through GSA's schedules program, particularly with the administrative fee that is included on schedule prices to pay for administrative costs.⁶ He said that law enforcement agencies can, at times, find items through state contracts that are less expensive, and having the supply schedules available would not likely result in any state or local firms being put out of business because the schedule prices are not always better. He also said that law enforcement agencies frequently have many reasons to purchase locally aside from price, such as the desire to support local businesses. According to a West Virginia official, West Virginia has found that GSA's prices are not always the best prices. She said that statewide contracts or department

⁶Under the law enforcement schedule program, agencies pay a 4 percent administrative fee to purchase items. (Under Public Law 103-160, this fee is to be set by the Secretary of Defense, and GSA, in coordination with the Department of Defense, is to maintain catalogs for the schedule.) In contrast, the Director of GSA's Acquisition Management Center said that GSA would only charge a 1-percent fee under the cooperative purchasing program. According to the Director, GSA can change the amount of this fee depending on whether sufficient revenue is generated to pay for GSA's administrative costs.

contracts frequently are competitive with GSA's prices. She explained, for example, that the state of West Virginia and GSA both have contracts with the same manufacturer for light bar assemblies, which are the racks used to mount lights on top of police cruisers, and the state's contract had a per item cost of about \$100 to \$125 less than GSA's list price. However, some law enforcement agencies have realized savings through the federal supply schedules. For example, according to the North Carolina Alcohol Law Enforcement's Deputy Director for Purchasing, the agency has purchased radios as well as a camera through the program. He said that the agency could not have afforded the camera except at the price available through the schedules program. An official in California's Counter Drug Activities Procurement Program said that of the \$360,000 in purchases made through the program, it was estimated that about \$60,000 had been saved. This official said that departments can save about 33 percent off the prices of such items as cameras and night vision goggles.

Our previous work has also shown that GSA's prices may not always be the best available to state or local governments. In 1993, we reported that about half of the top-selling GSA multiple-award schedule items we examined were less expensive when offered to the general public or certain state governments than they were through the program.⁷

GSA has pointed out that a number of factors must be considered when one makes price comparisons between the schedules program and other supply sources. One is that federal purchases must comply with all federal procurement laws. The Raleigh County, West Virginia, Board of Education purchased a computer system for \$1,455, but the GSA price for a comparable system was \$1,687. However, GSA said that the lower priced system included a particular computer monitor that GSA could not offer because federal acquisition of this item would not be in compliance with federal international trade law. Another factor GSA cites is the terms of sale. To illustrate this, GSA points out that all GSA prices on the office supplies schedule provide for delivery to the customer's desk within 24 hours of purchase, while state or local prices often require customer pick-up. GSA pointed out that GSA schedule prices represent ceiling prices and that customers are encouraged and permitted to contact schedule contractors to negotiate lower prices when making a purchase.

Extent of Administrative
Savings Unclear

The extent to which state and local governments could reduce administrative costs through a cooperative purchasing program is unclear.

⁷GAO/GGD-93-123, August 25, 1993.

Data compiled by the Center for Advanced Purchasing Studies at Tempe, Arizona, indicate that the costs of procurement and, therefore, any costs that state or local governments may save by purchasing through the schedules program vary considerably. For example, the Center's 1994 studies on purchasing performance benchmarks for state, county, and municipal governments⁸ show that the cost to procure a dollar's worth of goods or services varied widely, ranging from fractions of a cent to 4 cents of administrative costs per dollar of procurement. (We have not verified these data or assessed reasons for this variability.) As chapter 1 notes, GSA charges a 1-percent fee for purchases from schedule vendors, and VA charges a 1/2-percent fee. Whether this fee will be more or less than the expenses that nonfederal governments would still incur should they use the federal supply schedules is unknown. Further, since nonfederal governments would not likely be able to use the cooperative purchasing program to meet all their procurement needs, these governments would continue to have some administrative and personnel expenses for procurement purposes. Moreover, the extent to which they could reduce their administrative costs is also unknown.

Effect on Indian Tribal Governments Would Likely Be Minimal

Allowing Indian tribal governments to use the federal supply schedules program would appear unlikely to have a substantial effect on many Indian tribal governments because many of these governments already have the authority to use not only GSA's supply schedules program but its other supply programs as well. The Indian Self-Determination and Education Assistance Act of 1975, as amended,⁹ gives Indian tribes the authority to contract with the federal government to operate programs serving their tribal members, as opposed to having these programs administered by BIA in the Department of the Interior and the Indian Health Service in the Department of Health and Human Services. After entering into an agreement to assume federal responsibilities, tribal governments receive the authority to purchase items from federal supply schedules or from GSA's stock program, which has a range of items available in a nationwide network of distribution centers. Since section 1555 of FASA does not provide these tribal governments with any additional authority, the section should have little or no effect on the tribal governments that have contracted with the federal government to operate programs serving their members. In fact, by allowing Indian tribal governments to purchase from

⁸Purchasing Performance Benchmarks for State and County Governments, Center for Advanced Purchasing Studies, 1994; Purchasing Performance Benchmarks for Municipal Governments, Center for Advanced Purchasing Studies, 1994.

⁹Public Law 93-638, Jan. 4, 1975.

GSA customer service centers, the 1975 act provides these governments with broader access to GSA procurement programs than would section 1555, which would allow nonfederal users to make purchases only from federal supply schedules.

According to BIA officials, approximately 70 percent of BIA's programs are operated by tribes or tribal organizations. However, BIA and GSA do not maintain data on the extent to which tribal governments use GSA's programs. According to BIA officials, although BIA may help a tribal government that has assumed responsibility for federal programs set up an account with GSA, BIA is not involved in any transactions between the tribal government and the GSA schedule vendors. According to an official in GSA's customer support center, although GSA is aware that Indian tribal governments have purchased items through GSA's programs, including its stock programs, GSA does not have data to measure the total sales to Indian tribal governments or to indicate what products were purchased.

Officials from three tribal governments we contacted confirmed that their governments use GSA's supply programs, but they said that their reliance on the programs varies because of the availability of items and the competitiveness of supply schedule prices. These officials said that they could not readily identify the share of their total purchases that were made through the different GSA supply programs. Even so, they stated that in certain cases, items and prices that are available through the supply programs can be financially attractive.

One tribal official considered access to the schedule program to be important and noted use of GSA's airline schedule as an example of a benefit of having access to GSA's schedules program. (As noted earlier, GSA does not plan to make this schedule available to state and local governments through the federal cooperative purchasing program.) Officials from the other two tribal governments said that they may use GSA supply programs if needed products are available and if the prices are better than prices offered by other suppliers. However, they said that their use of the programs varied widely. The purchasing officer for one tribal government said that GSA's supply programs, including the schedules program, represent about three-quarters of the tribal government's total purchases. In contrast, an official for another tribal government said that this tribe's use of GSA's supply programs, particularly the stock program, was limited to about 5 percent of the tribe's purchases because GSA frequently did not have needed items in stock. Both officials noted that

these were only rough estimates because they did not have records that would provide a breakdown of sales by source.

Tribal governments that have not entered into an agreement under the 1975 act could gain access to GSA's supply schedules under the federal cooperative purchasing program in FASA. In practice, however, the fact that BIA or the Indian Health Service remains responsible for providing services to the tribal governments effectively means that any effect on such a tribal government from this new access may be limited. Since federal agencies continue to be responsible for providing services, these agencies would have to purchase the goods and services needed to support those services. Thus, the tribal government may not need to purchase many items.

Effect of Program on Federal Government Depends on How Much Other Governments Use It and the Response of Vendors

GSA officials we contacted believe that if sales made through the federal supply schedules program increase, a net reduction in prices paid by federal agencies could result from the agencies having a stronger negotiating position and a reduction in the administrative fee. Procurement officials from the Departments of Health and Human Services, the Interior, and Justice said that they had not assessed the potential effects of cooperative purchasing. The Department of Defense did assess the potential effects of cooperative purchasing on pharmaceutical prices, but Defense procurement officials told us that the Department had not conducted a comprehensive assessment of the potential effects of cooperative purchasing on other types of products. Officials in these departments said that procurement actions are decentralized in their departments and detailed data on transactions are not maintained centrally. Because procurement actions are handled at lower levels throughout their agencies, they believed that the effects of price changes at the lower levels would be small. VA and the Department of Defense have expressed concern about a possible price increase by pharmaceutical companies if drugs were made available to state and local governments through the schedules program.

The Program May Result in Lower Administrative Fees or Lower Schedule Prices

GSA believes that an increase in the use of and an increase in the number of sales made through the federal supply schedules as a result of the federal cooperative purchasing program would have the potential to reduce the costs of federal purchases. However, the extent to which prices could be reduced may be limited to the extent that GSA already tries to obtain the "best customer price" on contracts, even though it may encourage some potential GSA vendors to negotiate lower schedule prices.

According to the Acquisition Management Center's Director, the Federal Supply Service is mandated to become a nonprofit, self-sustaining agency. A 1-percent charge on sales made by or through the Federal Supply Service is assessed to purchasers of goods or services. The provision to assess a 1-percent fee is included in GSA's contracts with supply schedule vendors. The vendors collect this fee as part of their sales price and transfer the fee to GSA, which offsets its operating costs. The Director of GSA's Acquisition Management Center said that fiscal year 1997 is to be the first year that fees assessed and collected will be sufficient to sustain the Federal Supply Service's operations.

According to the Director, if state and local agencies were to make purchases through the supply schedules program, the additional sales made through the supply schedules program could ultimately result in GSA's lowering the 1-percent charge on sales, because revenues would be more than sufficient to pay for GSA's administrative costs. The Director said that GSA will be monitoring the extent to which revenues exceed its costs to determine whether it may need to renegotiate contracts with its vendors to reduce the fee. GSA officials also said that the cooperative purchasing program could also benefit the federal government because if the program results in increased sales, GSA may be able to negotiate lower prices with its vendors for items available through the supply schedules. They believe vendors may be willing to reduce prices because of the increased volume of sales.

Views of Selected Federal Agencies

Procurement officials from the Departments of Health and Human Services, the Interior, and Justice said that their departments had not conducted a formal assessment of the possible effects that cooperative purchasing might have on their budgets or purchases. The Department of Defense assessed the potential effects of cooperative purchasing on pharmaceutical purchases; Defense procurement officials told us that they had not conducted a comprehensive assessment of the possible effects on other purchases. Officials in these departments commented that such an analysis would be at best difficult, if not impossible, to conduct. In addition, these officials said that they did not have sufficient data on the use of the schedules program by their departments because ordering authority in their departments was dispersed. The departments authorized program managers to manage their budgets and purchase needed items using their budgets, but they do not maintain detailed, centralized data on all items purchased by the different components of their departments.

An official in the Department of the Interior's procurement office noted, for example, that Interior had over 900 authorized purchasing officials working throughout its bureaus and offices and that these purchasing officials were not required to report all the specific items purchased. This official noted that the new purchasing card program would compound the data limitations.¹⁰ The official said that Interior had issued over 14,000 purchasing cards and concluded that it would not be possible to assess the effects of cooperative purchasing on Interior with the limited available data. Similarly, officials at the Departments of Defense and Health and Human Services noted that their departments did not have data centrally on the individual items purchased by their components. One official at the Department of Defense told us that the department had maintained such records until about 10 years ago but that currently, maintaining systematic data is not feasible because of how purchases are made through the schedules program.

Although noting that data limitations prevented them from developing definitive predictions of the effects of cooperative purchasing, some procurement officials identified several reasons why they felt it would be unlikely that the cooperative purchasing program would have a readily noticeable effect on their departments' purchases. One reason was that purchasing authority was spread throughout the departments. Because of this dispersed purchasing authority, procurements are generally smaller in scale than major, departmentwide procurements. Thus, if the cooperative purchasing program did affect prices paid by their departments' components, the effect may not be large enough to be observed in any particular purchase.

Some officials also noted that many of the industries that are included in the schedules program are competitive industries where other vendors would have an incentive to underbid any vendor seeking to increase prices as a consequence of cooperative purchasing. One official in the Department of the Interior, for example, said that buyers seek to pay the lowest price available for an item. If the schedule price is the lowest price for a particular item, other buyers, including business buyers, would seek to pay that price. An official in the Department of Defense also said that it was unlikely that the Department would see any sizeable effect from cooperative purchasing because the items on the federal supply schedules are commercial items with many buyers and sellers, so a shift in how any

¹⁰The purchase card program works like other credit card programs and allows federal employees who have such cards to purchase commercially available goods and services for government use. According to GSA, most vendors that accept commercial credit cards will accept this government purchase card; the card may also be used for agency purchases from GSA's stock program.

particular group of buyers operates (such as state governments using the federal supply schedules rather than their own procurement process) would not necessarily be noticeable to other buyers (such as the Department of Defense). Defense officials further noted that since use of the multiple-award schedules is not mandatory for the Department, and since any departmental component may purchase items through contracts negotiated by any other component, the Department would be less likely to experience substantial effects of wider use of the multiple-award schedules under a cooperative purchasing program.

GSA's Actions to Limit the Potential Negative Impact on the Federal Government

As discussed in chapter 1, GSA officials have stated that GSA would not open up a schedule if it believes that doing so would negatively affect the federal government. Prior to publishing the April 1995 Federal Register notice, GSA was told by VA that opening up the pharmaceutical schedule and one medical supply and equipment schedule may result in an increased cost to VA. On the basis of VA's recommendation, GSA announced in the Federal Register that it proposed to exclude the two schedules from the program.

After the notice was published, the Department of Defense notified GSA that it concurred in GSA's proposal to exclude these two schedules because of the potential for increased federal prices. Also after the notice was published, a GSA official said that discussions were held with airline companies, during which these companies indicated that if nonfederal governments were able to use the airline schedule, they may raise their schedule prices. This GSA official said that because the estimated cost to the federal government of increased airline fares could be substantial, GSA is not planning on opening this schedule for state and local use. GSA's Acquisition Management Center Director also said that GSA is not planning on opening up the schedule containing fire fighting vehicles because of the perceived potential negative effect this may have.

Agency Comments

In their written comments on a draft of this report, GSA and VA agreed that many factors make it difficult to definitively assess the effects of the cooperative purchasing program on federal and nonfederal governments. In its comments, the National Association of State Purchasing Officials agreed that opening the use of federal schedules has the potential to create a positive effect on state and local governments. The Association further noted that there were also potential areas of concern. For example, the Association noted that there could be a perception among local

contractors, particularly small businesses, of diminished opportunities to bid for state and local government contracts. It also noted that in some circumstances, the Federal Supply Schedule contract will not have the lowest price and said that in such cases, the current system of multiple contracts helps to ensure that the most competitive prices are obtained. Finally, the Association pointed to several conditions in addition to those we cited that could limit use of or benefits from the cooperative purchasing program or that could cause difficulties for nonfederal governments. These conditions included mandatory contract terms or restrictions required in many state and local procurement contracts that schedule contractors might have to agree to abide by and the possibility that reliance on federal contracts could adversely affect some nonprofit, nongovernmental entities, such as charities, schools, and hospitals, that, in some states, now have access to state contracts. These types of organizations would not be eligible to use federal schedules under cooperative purchasing.

Potential Effect on Industry, Including Small Businesses and Dealers, Is Likely to Vary

The potential effect of cooperative purchasing on industry, including small business and local dealers, is likely to vary. Department of Commerce data on industry sales suggest that a number of industries that supply large portions of their output to state and local governments will not be affected at all because the services or goods they provide are not available through the schedules program. The data also show that the extent of the effects of cooperative purchasing on other industries is likely to vary due to the differing portions of their output that are sold to state and local governments.

Businesses we contacted also differed in their expectations of the potential effects. Some state and local contractors we contacted believe that cooperative purchasing will have a positive effect by increasing their sales and customer bases. On the other hand, some state and local contractors fear negative effects in the form of business lost to GSA vendors if the program were implemented. Also, certain industries—including medical supplies and equipment, heavy equipment, and airlines—have expressed concern that they may be negatively affected by the cooperative purchasing program. These effects include a potential for reduced profits and decreased customer support. Because of these potential adverse effects, GSA plans to exclude some schedules that contain those industries' goods or services. Other state and local contractors do not foresee any effect on their business, citing the unique specifications of the products they sell or their ability to offer competitive prices as the reasons they would not be affected. Finally, some contractors did not know how cooperative purchasing would affect them, citing uncertainties about how the program would be carried out and the potential for both gains and losses.

Reflecting the diversity of views among individual businesses about how they would be affected by the cooperative purchasing program, associations representing industry have taken a range of positions on the program. However, these associations generally did not provide conclusive data that would provide the basis for a prediction of the effects of cooperative purchasing.

The Magnitude of State and Local Government Sales Varies by Industry

Department of Commerce data on interindustry relationships for 1987—the most recent data available—provide a broad perspective on the extent to which different industry groups might be affected by the cooperative purchasing program. These data suggest that the effects are likely to vary among different industries. Some industries that supply large

portions of their output to state and local governments—such as construction and service industries—generally are not available through the schedules program. Other industries that provide relatively large portions of their output to state and local governments provide products that generally are available on the schedules. According to Commerce’s data, few industries that supply goods to state and local governments rely on these governments for a large share of their sales. According to the most recent data, only 28 industries out of the 89 industries identified in the Commerce data supplied more than 3 percent of their total industry output to state and local governments.¹ Of these 28 industries, only 14 supplied goods or services that are available through the schedules program. However, these data are national averages for broad industry groups, and particular firms, specific products, or geographical areas could have a much higher reliance on state and local purchases than suggested by these figures.

Several of the industries that provided a relatively large share (6 percent or more) of their total output to state and local governments are not likely to be affected much, if at all, by cooperative purchasing according to Commerce’s data. The output that these industries supply to state and local governments was generally not available through the schedules program. For example, maintenance and repair construction, new construction, electric utility services, petroleum refining products, computer and data processing services, other printing and publishing services, and railroads and related services are the industries that supplied 6 percent or more of their output to state and local governments, as demonstrated by table 3.1. However, the types of output provided by seven of these industries were not available through the federal schedules program as of fiscal year 1996. In contrast, four industries that supplied 6 percent or more of their output to state and local governments produce output that was available through the schedules program, including ophthalmic and photographic equipment; drugs; miscellaneous manufactured products, such as signs, pens, mechanical pencils, and hard surface floor coverings; and farm, construction, and mining machinery. GSA has a photographic equipment and supplies schedule; a construction and highway maintenance schedule; and several material handling equipment schedules containing such items as forklifts and material handling equipment. It also has office supply schedules and a resilient flooring schedule. This could suggest that cooperative purchasing may have more of an effect on those industries.

¹These data reflect the pattern of industry purchases in 1987, and changes in these proportions may have occurred since that time. However, the Commerce Department suggests that the proportion of sales from one industry to another remains relatively constant over time.

Chapter 3
Potential Effect on Industry, Including Small
Businesses and Dealers, Is Likely to Vary

Table 3.1: Twenty-Eight Industries Providing More Than 3 Percent of Their Output to State and Local Governments During 1987 (Dollars in Millions)

Industry^a	State and local government purchases	Percentage of state and local government purchases as a share of total commodity output^b	Are some outputs available through schedules program?
Maintenance and repair construction	\$41,821	24.1	No
New construction	71,111	16.0	No
Ophthalmic and photographic equipment	2,619	14.0	Yes
Electric services (utilities)	16,204	10.4	No
Petroleum refining and related products	12,180	8.9	No
Computer and data processing services	5,607	8.5	No
Drugs	2,867	8.0	Yes ^c
Other printing and publishing	5,031	7.5	No
Miscellaneous manufactured products	1,974	6.4	Yes
Railroads and related passenger transportation services	3,093	6.4	No
Farm, construction, and mining machinery	1,569	6.0	Yes
Other nonmedical business and professional services	12,290	5.8	Yes ^d
Gas production and distribution (utilities)	4,754	5.8	No
Agricultural, forestry, and fishery services	1,165	4.9	No
Furniture and fixtures	1,776	4.8	Yes
Water and sanitary services	1,286	4.5	No
Motor vehicles (passenger cars and trucks)	5,714	4.3	No
Coal mining	1,094	4.3	No
Scientific and controlling instruments	3,266	3.8	Yes
Industrial and other chemicals	3,339	3.7	Yes
Communications, except radio and TV	5,774	3.6	No

(continued)

Chapter 3
Potential Effect on Industry, Including Small
Businesses and Dealers, Is Likely to Vary

Industry^a	State and local government purchases	Percentage of state and local government purchases as a share of total commodity output^b	Are some outputs available through schedules program?
Computer and office equipment	1,984	3.6	Yes
Finance	9,769	3.5	No
Miscellaneous machinery, except electrical	680	3.4	Yes
Electrical industrial equipment and apparatus	776	3.3	Yes
Electric lighting and wiring equipment	578	3.3	Yes
Agricultural fertilizers and chemicals	443	3.3	Yes
Service industry machinery	674	3.1	Yes

^aThe Commerce Department identified 61 other industries that provided less than 3.1 percent of their output to state and local governments in 1987.

^bPercentages are calculated by dividing the value of industry sales to state and local governments by the total value of industry output. Significant differences in the size of industries cause industries with a relatively small absolute value of state and local government purchases to rank high in terms of dependence on state and local purchases.

^cGSA has proposed excluding this schedule from the cooperative purchasing program.

^dA limited number of these services are available through the supply schedules, including total quality management consulting services, consumer and commercial credit reports, and investigation of discrimination complaints.

Source: Survey of Current Business, April 1994.

An additional 17 industries supplied over 3 percent, but less than 6 percent, of their output to state and local governments. These industries include furniture and fixtures, scientific equipment, industrial chemicals, computer and office equipment, and electrical equipment. Some types of computers, office equipment, and office furniture are sold in high volumes through the schedules program and, as noted in chapter 2, are products that state and local government purchasing officials would be interested in having access to through the schedules program. The remainder of the industry groups included in the national statistics sold less than 3.1 percent of their goods to state and local governments. These include various machinery industries (e.g., metalworking and electrical equipment); transportation-related equipment (e.g., engines and turbines,

aircraft, and other transportation equipment, such as ships and railroad equipment); and a wide range of other services or products.

Although these data provide an indication of the extent of the potential effect of cooperative purchasing on industries, the magnitude of the effect on industries within specific geographical areas could be larger or smaller than the effect suggested by the national data. In addition, the size of the effects on specific suppliers of subindustries could be larger or smaller than the averages for the industry groups included in table 3.1. For example, while the national data indicate that 3.6 percent of computer and office equipment sales could potentially be affected by the federal cooperative purchasing program, effects could vary significantly among office equipment suppliers depending on the locations of these firms, the types of office equipment they sell, and the importance of state and local governments as their customers. A discussion of the potential effect of the federal cooperative purchasing program on individual businesses follows.

Some Businesses Perceive Potential Benefits From the Cooperative Purchasing Program

Representatives of 22 of the 59 state or local government contractors we contacted said that the cooperative purchasing program would have a positive effect on their businesses, although they provided no data to support their views. Of these 22 businesses, 11 said they were small businesses. The 22 businesses primarily sell computer equipment, furniture, photographic equipment and supplies, and office equipment, including copying machines, all of which are available through the schedules program. A majority of these businesses—15 of the 22—are either GSA vendors or dealers for GSA vendors. Representatives from these businesses said that allowing nonfederal governments access to the federal supply schedules would increase their sales, profits, customer base, or exposure to potential additional customers or could reduce the administrative time and effort associated with state or local governments' competitive bidding processes. For example, nine state or local government contractors that supply photographic equipment and supplies, office equipment, or furniture said that opening the federal supply schedules to state and local governments would increase the number of buyers using the schedules. Because these contractors are also GSA vendors or dealers for GSA vendors, most noted that their businesses could expand their current customer bases, which would ultimately benefit their businesses.

Further examples of businesses that perceived potential benefits include two contractors that sell office equipment. One contractor, located in

Virginia, that is also a GSA vendor of office equipment has a nationwide network of dealers that provides sales and service support for products it sells. An official for this contractor said that all dealers in its network would be able to participate in sales to nonfederal agencies if the cooperative purchasing program is implemented. Another contractor, located in New York, told us that cooperative purchasing will result in increased revenues from product sales and servicing with the additional customers purchasing products off the schedule. A third state and local government contractor, located in New York, that sells office equipment said that it does not fear the competition from GSA's vendors because there would be enough buyers in the marketplace allowing them to compete in a larger market.

Finally, two businesses that sell heavy equipment both through GSA schedules and to state and local governments believed they would benefit from cooperative purchasing. One of the firms, located in Georgia, that sells forklifts said that under cooperative purchasing it would not have to bid separately on state and local contracts and that the company uses the same procedures and dealership network regardless of whether the purchasing agency is federal or nonfederal. According to the company, its sales to governmental agencies are about 2 percent of its total sales.

The other company, located in New Jersey, that represents 13 different manufacturers of lawn and garden equipment said that the company's contracts with GSA, state, and local governments are essentially identical and provide the same sales conditions. The products sold, however, rely little on a dealership network. As a result, this company believed that it would be beneficial to the company, the manufacturers it represents, and nonfederal governments to make sales only through the schedules.

The contracting officers for some of GSA's federal supply schedules, including the telecommunications equipment, office furniture, copying equipment, microcomputer, and office supply schedules, said that they expected companies that provide supplies through these schedules would benefit from the cooperative purchasing program. For example, the contracting officer for the telecommunications schedule said that this schedule should be opened to nonfederal users because, in his opinion, GSA, the contractors, and state and local governments would all benefit. He said GSA would benefit because its vendors would be selling to a broader market, thereby increasing sales, which should lower prices further in the future. He said state and local governments would also benefit by saving time and money in their purchases.

Similarly, the contracting officer for the office supply schedule said that GSA would benefit since its contractors would be able to sell to a broader market, thereby increasing sales, which should lower prices further in the future. In addition, he said GSA would benefit from the 1-percent fee it receives to cover its costs. In his opinion, the office supply schedule would likely be one of the better schedules to open to state and local governments because the manufacturers currently on the schedule must be able to supply nationwide, and because the GSA vendors include five large office supply companies. He explained that upon receipt of an order, the companies contact their warehouses and the order is immediately shipped to the customer for “next-day delivery.” This contracting officer said that he has heard of no concerns on the part of the contractors about this schedule being opened to state and local governments. The other three contracting officers similarly said that they have heard of no concerns from their respective contractors, including microcomputer contractors, systems furniture contractors, and copying equipment contractors.

Some Businesses and Industries Perceive Potential Negative Effects of Cooperative Purchasing Program

Some of the state and local contractors we contacted said that the cooperative purchasing program could have a negative effect on them. In addition, the medical equipment and supplies, airline, and heavy equipment industries have expressed concern about the adverse effect cooperative purchasing may have on them. Because of the possible adverse effects cited by these industries, which include a potential for reduced profits, and the resulting possibility of increased prices, GSA plans to exclude, or is considering excluding, those schedules that contain these industries’ equipment or services.

State and Local Contractors Fear Losing Business to GSA Vendors

Of the 59 state and local contractors we contacted, 10 contractors said that the cooperative purchasing program may have a negative effect on their businesses. Of these 10 contractors, 7 said they were small businesses. These contractors supply state and local governments with furniture, photographic equipment, computer equipment, paper products, paint, and heavy equipment. Almost all of the contractors said they could lose business to GSA vendors because state and local governments would have access to the federal supply schedules under the cooperative purchasing program.

For example, a small paper products distributor and a small computer equipment distributor in West Virginia said that their companies would

lose business because agencies could purchase directly from the manufacturers if the federal supply schedules were opened to nonfederal agencies rather than purchase from their companies. Also, a representative from a furniture store in West Virginia said that his company buys products from manufacturers and then sells them to state and local governments at a retail price. If nonfederal governments were able to use the federal supply schedules for furniture, his company would not be able to compete with the manufacturers' prices.

A paint manufacturer in Montana was also concerned about negative effects on his business and on the customer. He explained that he believes that decentralized purchasing is better, as the needs of the local government entity are not the same as those of the federal government. He has seen that local governments often do not want to use products that they can obtain through state contracts because the terms of the state contract will not meet their needs. However, purchasing agents are likely to use the GSA schedules because it is easier than going through another procurement process. Thus, he could lose sales to GSA vendors, and the customer could get an unsuitable product.

A different concern was expressed by a representative from a small woman-owned company in California that supplies products such as reflective sheeting to the California Department of Transportation. The representative said that the company would lose sales if state and local agencies had access to the federal supply schedules because the business had minority status in the state of California, and many of the state contracts the company had been awarded through competitive bidding were based on its small, minority status in the state.

Certain Industries Perceive Negative Effects From Cooperative Purchasing

Several industries are opposed to GSA's planned cooperative purchasing program because they believe the program will have an adverse effect on them. These industries are represented on some of the 13 schedules managed by VA and on 3 of the 133 schedules managed by GSA. For example, the medical equipment and supply industries fear that cooperative purchasing will disrupt their distribution networks or cause them to increase prices to the federal government. The airline industry is concerned about loss of revenues from a greater use of discounted fares. The heavy equipment industry is concerned about negative effects on dealers who currently service the state and local government market. VA has already recommended to GSA that 2 of the 13 schedules it manages—the pharmaceuticals and one medical equipment and

supply—be excluded from cooperative purchasing. In its April 1995 Federal Register notice, GSA proposed excluding those two schedules, based on VA's recommendation. Since that notice, GSA officials told us that they plan to exclude the airline schedule and the schedule containing fire fighting vehicles. GSA has not, however, made any final decisions on excluding other schedules. However, the Director of GSA's Acquisition Management Center said that GSA intends to exclude those schedules or portions of those schedules from the cooperative purchasing program where significant controversy exists about the potential adverse effects.

Medical Equipment and Supply Industries Perceive Negative Effects

Several associations, manufacturers, and dealers raised concerns to GSA and us about the potential adverse effects cooperative purchasing of medical equipment and supplies may have on their companies. They cited a disruption of the distribution network, reduction in profits, and an increase in federal supply schedule prices as possible effects. An association representing public hospital pharmacies, on the other hand, pointed to potential savings and diminished needs for government subsidies as possible benefits of cooperative purchasing.

The Health Industry Manufacturers Association and the Health Industry Group Purchasing Association, representing medical equipment and supply manufacturers and purchasing organizations, oppose cooperative purchasing. These associations sponsored individual studies to determine the impact of opening the federal supply schedules. Both studies concluded that opening the federal supply schedules would decrease the federal government discount and increase the cost of medical and surgical equipment and supplies. According to the contractor who conducted these studies, his research found that large, infrequently purchased expensive equipment with long life cycles may offer little opportunity for discounting. However, the medical and surgical supply industry is more complex. Since the medical supply industry includes a broad range of products and categories with varying discounts, the contractor that conducted the studies found that some individual product lines can be discounted significantly but others cannot. The conclusions in these studies are based on the assumption that the medical equipment and supply industry would react to the cooperative purchasing program in the same manner as the pharmaceutical industry. We did not verify the data or analyses contained in these studies.

The Health Industry Distributors Association, which represents over 700 companies, many of which are small businesses, opposes the cooperative

purchasing program because public hospitals could not select their own distributor to meet their needs, and health care providers and distributors would incur an increased administrative and recordkeeping burden. Manufacturers expressed the same concerns. The manufacturers we spoke with said that the distribution network for federal and state or local government customers is different. They said that federal government orders are usually shipped directly from the manufacturer to the buyer, while sales to state and local governments are generally handled through a local dealer. According to manufacturers, cooperative purchasing could put local dealers who rely heavily on sales to state and local governments out of business to the extent that the manufacturers would ship directly to state and local governments. With sales no longer being handled by local dealers, manufacturers also were concerned about the increase in the administrative burden that would be placed on VA vendors if they had to fill orders for state and local governments. According to one manufacturer, making the schedules available to state and local governments could increase this burden to the point where he would have to consider reducing the products he sold on the schedule or raising prices.

In contrast, the Public Hospital Pharmacy Coalition, representing hospitals owned or funded by state or local governments, supports cooperative purchasing because it anticipates lower prices and reduced administrative expenses for eligible hospitals. Noting that public hospitals rely heavily on government payers and subsidies, the coalition said that cost reductions would lessen their dependence on state and local governments.

Officials at VA's National Acquisition Center, which manages the medical equipment and supply schedules, said that distribution networks at the state and local level would likely vary considerably, depending on the size of the customer. In some cases, the manufacturer might be directly supplying the state or local customer. The officials said that one would have to check with each state or local customer to determine if they received products from a distributor or manufacturer. A VA official also stated that in her opinion, one of the real issues was not the disruption of the distribution network; rather, it was that manufacturers would have to break their established agreements with dealers and distributors for state and local customers in order to serve that market themselves. The VA officials did not agree that a manufacturer's administrative burden would increase significantly. Most companies would be tracking their sales regardless of whether the sale was made through a federal supply schedule or through a state or local agency procurement.

Manufacturers we spoke with said that there is a higher cost of doing business with state and local government customers, a cost that the manufacturer cannot recoup at the federal supply schedule price. They said that implementing cooperative purchasing could result in manufacturers raising prices on the federal supply schedule. Manufacturers and distributors are also concerned that nonfederal governments would expect VA vendors to perform additional services, such as warehousing, training, or filling small orders. The manufacturers and distributors do not have to perform these services for federal agencies, and the schedule prices do not include costs that would be associated with providing such services. GSA officials agreed that some medical equipment suppliers provide more services to nonfederal governments, such as training, and that this service is not available through federal contracts. According to GSA officials, should state or local governments want additional services, they would have to separately contract and pay for them. VA officials also said that vendors should not be expected to provide services beyond what the federal supply contracts specify at the schedule prices. The Public Hospital Pharmacy Coalition also agreed that state and local customers may require additional services. It said that if distributors and dealers can justify higher prices by providing such services, the state and local customers would be less likely to use cooperative purchasing.

In addition, manufacturers and distributors are also concerned that nonfederal government agencies would not promptly pay bills for medical equipment and supplies ordered through VA vendors and instead take 2 to 3 months to pay their bills as opposed to 15 days. Although the VA officials at the National Acquisition Center acknowledged that some state and local governments do not always have good payment histories, they reiterated that any entity using the federal supply schedules would have to abide by the terms and conditions specified, which include prompt payment provisions. According to GSA, it is considering having federal prompt payment provisions apply under cooperative purchasing unless a state has a prompt payment law, in which case the state provisions, including recourse for noncompliance, would apply. GSA officials further pointed out that vendors would be informed of these provisions and could refuse to sell to a nonfederal government if vendors chose not to do so.

Two other issues raised by the Health Industry Distributors Association were how vendors would determine whether a nonfederal organization was eligible to purchase products under the schedules program, and what monitoring would be done to determine whether vendors were selling only

to eligible organizations. GSA's current plan is to establish an eligibility determination process under which nonfederal organizations wishing to participate in cooperative purchasing would submit an application to GSA. GSA would then determine eligibility and list those eligible nonfederal governments in an electronic data base. According to GSA officials, GSA has not yet determined how it will monitor adherence to program requirements, including eligibility requirements, under the cooperative purchasing program, and it could change its approach for implementing several aspects of the program, including prompt payment provisions and the eligibility determination process, when it finalizes its implementation plan.

As discussed in chapter 2, GSA proposed to exclude two schedules maintained by VA because VA believed that if these two schedules were included in the cooperative purchasing program, the industries selling items on these schedules would increase prices charged to the federal government. These schedules include the pharmaceutical schedule and one of the medical equipment and supply schedules—in vitro diagnostic substances, reagents, test kits, and sets. As indicated previously, the issues surrounding pharmaceuticals will be discussed in a separate GAO report.

VA recommended that one schedule that includes certain medical equipment and supplies be excluded from the cooperative purchasing program because prices for some items on that schedule were also governed by the Veterans Health Care Act of 1992. Since making its initial recommendation to GSA, VA has concluded that items available through this schedule are not governed by the 1992 act. However, VA officials fear that businesses that manufacture and sell some products that are available through this schedule would increase their schedule prices. GSA accepted VA's recommendation on the basis that the schedule contained some items that were covered by the 1992 act. This schedule also contains other medical equipment and supplies—such as needles and pipettes—and these types of products may or may not be affected by the cooperative purchasing program as much as other products on this schedule. Industries represented on the other schedules managed by VA may or may not be similarly affected. Among other items, medical equipment and supply schedules include wheelchairs, antiseptic soap, and dental equipment.

According to VA officials responsible for managing these schedules, they did not review other schedules when GSA's implementation of cooperative

purchasing was suspended because they did not know if the program would be implemented.

Airline Industry Foresees Negative Effects

According to GSA, the airline industry also raised objections to federal airline fares being made available for the cooperative purchasing program. A GSA official told us that airline company representatives expressed concern about the loss of revenue from greater use of the discounted federal fares and about controlling the use of GSA fares for state and local government employees. Further, she said that airline company representatives told her that the companies are concerned that some nonfederal employees may abuse the GSA fares and use these fares for nonbusiness-related travel. This GSA official said that GSA was concerned that if the schedule were opened to state and local governments, airlines would no longer be willing to participate, increasing travel costs for federal agencies substantially. Even though GSA has not made a final determination on whether the airline schedule will remain closed to state and local governments, as noted in chapter 2, GSA officials told us that they do not intend to make the schedule available for cooperative purchasing.

Some Heavy Equipment Providers Believe They Could Be Negatively Affected by the Program

In comments provided to GSA in response to its April 1995 Federal Register notice, representatives of the heavy equipment industry expressed their concerns that the cooperative purchasing program would negatively affect the industry. GSA has subsequently received additional comments expressing this concern from the heavy equipment industry since publishing its notice. Heavy equipment includes products such as road sweepers; emergency vehicles, such as fire trucks; tractors; and turf equipment, which are sold through about six GSA schedules. In their comments, several manufacturers and dealers that sell various products on some of these schedules said that local dealers' profits could be adversely affected if the schedules containing these products are opened to state or local governments. According to these companies, profits would be reduced because dealers would receive lower fees for sales through schedules in their geographic areas, and profits from warranty work would not be sufficient to sustain operations. Several dealers said they would be forced out of business or would have to lay off employees, and local governments would lose the benefit of the training assistance they provide as part of their sales efforts.

We confirmed that these concerns remain, at least for a number of such businesses. For example, three heavy equipment manufacturers whose

equipment is available through the federal schedules program told us that sales to state and local governments through the federal schedules program would take business away from their dealers and present serious financial difficulties for many dealers. These manufacturers sell directly to federal agencies and pay their local dealers for any necessary set-up, delivery, and related servicing. Several dealers told us that what manufacturers pay them is not enough to keep them operating.

Similarly, a fire truck manufacturer that is a GSA vendor said that nearly all of its fire truck sales are to state and local governments through a dealership network. The manufacturer pays dealers a fee or commission for each sale in the dealers' geographic sales areas, and this fee is reduced for sales through the schedules program. Although acknowledging that it would have the option of not participating in the cooperative purchasing program, this manufacturer expressed concern that its competitors would do so, thus forcing it to do the same. During the course of our review, several other dealers that sell fire fighting vehicles contacted us expressing concern about significant adverse effects they would experience due to the high proportions of their sales that are to state and local governments and the limited or nonexistent fees or commissions they would receive for schedule purchases.

At our request, GSA's contracting officers for five heavy equipment schedules reviewed comments GSA received in response to its April 1995 Federal Register notice. According to the contracting officers, the majority of the comments focused on one GSA schedule—the construction and highway maintenance equipment schedule. Subsequent to GSA's Federal Register notice, GSA received numerous comments from another heavy equipment industry represented on GSA's fire fighting vehicles and waste disposal vehicles schedule. The contracting officer for these two schedules said that he did not believe that those two schedules should be available to nonfederal governments. First, he was concerned that the cooperative purchasing program may have a detrimental effect on the dealers because a high proportion of sales are made to state and local governments, and this may affect the manufacturers' relationships with their dealers. His second concern was that the GSA vendors on these schedules may elect to cancel their GSA contracts, or increase the prices under the federal schedules program. In contrast, contracting officers for other schedules that were mentioned in the industry comments to GSA, including the aerial lift equipment, turf equipment, generators, and air compressor schedules, said that few companies commented that they were concerned about equipment sold through these schedules. The Director of GSA's Acquisition

Management Center stated that as of January 1997, GSA was planning on excluding the schedule that contains fire fighting vehicles from the cooperative purchasing program based on information we provided GSA as well as the responsible contracting officer's assessment of the potential impact opening this schedule may have on the industry as well as the federal government. According to the Director, both the industry and the federal government could be negatively affected. Even though GSA has not yet made final decisions on other schedules, such as the construction and highway maintenance schedule, the Director said that GSA intends to exclude those schedules or portions of those schedules from the cooperative purchasing program where significant controversy exists about the potential adverse effects.

Some Businesses Predicted Cooperative Purchasing Would Have No Effect on Them

Representatives from 13 of the 59 state or local government contractors we contacted said that the cooperative purchasing program would have no effect on their companies. Of these 13 contractors, 6 said they were small businesses. The 13 contractors sell, among other things, office supply equipment; computer equipment; furniture; and road construction supplies, such as stone and asphalt. Among the reasons they cited were the unique specifications of products they sell to state or local governments, competitive prices, or the desire of local governments to have local servicing.

For example, a hot mix asphalt contractor and a concrete products contractor told us that opening the GSA schedules to state and local governments would not have any effect on their companies. The contractors said that the products they supply had different specifications for different applications or projects, so state and local government agencies would have to continue to request bids for their projects, as the specifications and requirements would be unique to a project. For example, the mixture needed to repair a dam surface would be different from that needed to pave a parking lot.

In another example, a contractor for the state of West Virginia who supplies office equipment said that even though state government agencies' requests for procurements are much narrower and more localized than those of federal agencies, there would likely be little effect if the GSA schedules were opened because state and local government agencies are successful at obtaining competitive prices, and these agencies always seek out the best price. As a result, the contractor said that it was doubtful that state or local agencies would change the way they procured

goods and services and instead buy through the federal schedules program. As a result, he said that his small business would likely see little impact from the cooperative purchasing program.

A contractor in Montana that supplies computer equipment said that customers want “today’s technology at today’s prices.” He also said that because GSA’s contracts with vendors are long-term contracts, his contracts with the City of Missoula, Montana, and the University of Montana are such that his small business can react more quickly to the dynamics of the fast-changing computer industry. Because of this ability, he did not believe that the cooperative purchasing program would affect his business.

A spokesman for another office supply company, which is both a GSA vendor and a state contractor in California and Nevada, also said that the cooperative purchasing program would have little effect on his company because the state of California already has a schedules program very similar to the federal schedules program. However, he said the program could assist some states, such as Nevada, by reducing the amount of time required to procure office equipment from several months to only a few weeks.

Finally, a spokesman for a road sweeper company said that the cooperative purchasing program would not affect his company because even though the company holds the GSA contract to supply sweepers to the federal government, he believes local governments would not buy this type of equipment through a federal supply schedule. According to this spokesman, local governments will not buy sweepers through the road-clearing and equipment schedule because such governments can get comparable prices through competitive bidding at the dealership level. He also said that contracts that local dealers have with local governments provide for extensive training and servicing, which would not be provided under this manufacturer’s contract with GSA.

Some Businesses Did Not Know What Effect Cooperative Purchasing Could Have on Them

Of the 59 state and local government contractors we contacted, 14 said that they did not know what effect the cooperative purchasing program would have on their companies. Of these 14 companies, 7 said they were small businesses. These companies include those that sell furniture, computer equipment, laboratory equipment and supplies, photographic supplies, and heavy equipment. These companies cited uncertainties about

how others would react to cooperative purchasing and noted that the program offered both potential gains and losses.

For example, according to one computer equipment supplier in West Virginia, it was difficult to predict what impact cooperative purchasing would have because it would depend not only on the difference in pricing between GSA's vendors and state and local contractors but also on other factors, such as the servicing and warranty arrangements that were included as part of manufacturers' contracts with GSA.

In addition, a furniture contractor in California, who is a dealer for a furniture manufacturer that is a GSA vendor, told us that it was difficult to determine what effect the cooperative purchasing program might have on his company. According to a dealership official, the GSA contract is not very profitable for the dealership because the manufacturer sets the price for GSA contract sales, which usually results in a lower profit margin than the dealership would like. This lower price can hurt the servicing of the contract, because there is not sufficient profit for the local dealer to provide proper service. However, the dealership official said that although contracts with local government agencies are more profitable than GSA schedule program sales, his company incurs substantial costs by bidding on local government agency procurements. The process has become very complex and expensive, and costs had ranged from \$5,000 to \$10,000. Consequently, quite often this particular dealership had not bid on local government procurement solicitations.

Industry Associations' Views on Cooperative Purchasing Vary

Reflecting the diversity of views among individual businesses about how they would be affected by the cooperative purchasing program, associations representing industry have taken a range of positions on the program. With the exception of the medical equipment and supply industries, these associations did not provide data that would provide the basis for their predictions of the effects of cooperative purchasing.

Some industry associations told us that they are in favor of the cooperative purchasing program. The Information Technology Industry Council, for instance, said that it supported the program but noted that its members would want some flexibility in its implementation. The Coalition for Government Procurement, representing over 300 businesses that supply about 75 percent of the federal government's purchases, told us that about half of the Coalition's membership supports the program and the other half opposes it.

In some other cases, however, industry associations told us that they have not taken a position on cooperative purchasing or that they had mixed opinions on the program. In some cases, association officials told us that they were not sufficiently familiar with cooperative purchasing to take a position. Several associations that represent small businesses, including the American Small Business Association and National Small Business United, said that they did not have enough information to form positions.

As discussed earlier, several associations representing heavy equipment manufacturers and dealers and manufacturers of medical equipment and supplies opposed the program. These associations, most of which expressed their opposition in comments on GSA's Federal Register notice, included the Associated Equipment Distributors, the Environmental Industry Association, the Material Handling Equipment Distributors Association, the National Retail Federation, the Health Industry Distributors Association, and the Health Industry Manufacturers Association.

Agency Comments

In their oral comments, representatives from the Coalition for Government Procurement agreed with the contents of this chapter. They also raised concerns about some aspects of the cooperative purchasing program as currently proposed. For example, the Coalition said that it did not agree with GSA's tentative plan to apply state prompt payment provisions in those cases in which states have them. It said that this could significantly increase industry's burden because businesses would have to work under many different state laws rather than a uniform law—the federal prompt payment statute. In addition, the Coalition raised some concerns about possible problems that could develop as the cooperative purchasing program is implemented. For example, it cited the possibility of some nonfederal governments (1) bypassing the cooperative purchasing program by asking GSA vendors to sell them products at schedule prices or at schedule prices less the administrative fee, without the GSA vendors remitting the administrative fee to GSA; or (2) purchasing products through the cooperative purchasing program but, instead of using the products themselves, reselling the products at higher prices than they paid. Finally, the Coalition noted that although it recognized that some businesses could save administrative costs by not having to compete separately for state or local contracts, some nonfederal government procurement processes required relatively little administrative effort by businesses.

Chapter 3
Potential Effect on Industry, Including Small
Businesses and Dealers, Is Likely to Vary

In their comments, both GSA and VA acknowledged the uncertainties of and lack of data associated with the effects cooperative purchasing would have on businesses. Similarly, the National Association of State Purchasing Officials noted a number of uncertainties, such as the extent to which businesses would be willing to abide by various state requirements and that the value of state contracts to some businesses could be diminished if some state agencies used the federal schedules rather than state contracts.

GSA's Approach to Implementing Cooperative Purchasing

GSA's plans for implementing the cooperative purchasing program continue to evolve. These plans include, among other things, determining whether the potential negative effects on small business that might be associated with opening up particular supply schedules are outweighed by the potential positive effects on nonfederal government agencies. GSA's determinations will entail judgments about trade-offs of positive and negative effects, and the data necessary to conclusively predict these effects are not likely to be available. GSA recognizes these trade-offs exist, but Congress, state and local governments, and industry would have better information on how GSA would make its determinations if GSA improved its implementation approach in several ways.

GSA's Approach to Implement the Program Is Evolving

As noted in chapter 1, in its April 1995 Federal Register notice, GSA indicated that schedules would be made available to nonfederal agencies upon their request unless the contracting officer responsible for the applicable schedule determined that it would not be appropriate to do so. Individual schedule vendors would be able to elect whether or not to make the products or services they sell through the schedules available to authorized nonfederal users. In addition, the notice stated that schedule contracts would be established only to meet the needs of federal agencies and proposed that two schedules—one for pharmaceuticals and one for certain medical equipment and supplies—would not be opened to state and local governments.

GSA officials said that GSA took no further actions to finalize the Federal Register notice after its authority to implement section 1555 was suspended. GSA officials, however, told us that GSA was considering a number of changes to how it would implement the program. GSA stated that it developed these changes after meeting with representatives of the National Association of State Purchasing Officials, the National Institute of Governmental Purchasing, as well as several industry associations; and after reviewing public comments received after publishing its initial implementation plan. First, as a matter of policy, individual supply schedules would not be made available for use by nonfederal governments if opening that schedule would adversely affect the support provided to federal agencies in terms of price, quality of products or services, or delivery. Second, rather than assigning responsibility to the contracting officer for making case-by-case determinations regarding opening individual schedules, GSA officials were considering assigning responsibility to the Federal Supply Service's Assistant Commissioner for Acquisition. In making these determinations, the Assistant Commissioner

would be expected to consider the recommendation of the contracting officer responsible for particular schedules and to consult, as appropriate, with other interested parties or associations representing them. The contracting officers' recommendations would be based on an evaluation of the potential effects on federal agencies and whether opening the schedule would be likely to have an adverse effect on local small business concerns or dealers that would not be offset by benefits to nonfederal agencies. With respect to VA's schedules, GSA officials told us that GSA is considering assigning responsibility for making decisions to VA.

The option of excluding individual schedules or classes of schedules from the cooperative purchasing program has come up in both the Federal Register notice and in our discussions with GSA. The Federal Register notice proposed excluding two schedules (pharmaceuticals and one medical equipment and supply schedule) from the cooperative purchasing program. According to a GSA official, GSA also does not intend to open the fire fighting vehicle schedule or the airline fare program to state and local participation. GSA officials said that they proposed to exclude the pharmaceutical schedule and one medical equipment and supply schedule in the Federal Register notice and plan to exclude fire fighting vehicles and airlines because of concern that opening up these schedules to nonfederal users would not be in the interest of the federal government. In these cases, GSA anticipated that costs to federal agencies would rise for products on these schedules if the schedules were opened. For other schedules, GSA officials said that GSA would decide on opening up schedules on a case-by-case basis. According to GSA officials, GSA could also exclude portions of individual schedules from the program while opening the remaining portions of the individual schedules.

Once GSA decides that it may be appropriate to open a schedule to nonfederal agencies, GSA officials said that GSA would publish notices in the Commerce Business Daily and/or the Federal Register to obtain input from interested parties, such as industry associations; federal, state, and local government agencies; and schedule vendors. According to GSA, it would also use associations as a vehicle to provide information to individual interested industries and state or local governments. These notices would identify which schedule or schedules GSA would consider opening up for use by nonfederal agencies and explain how the program would work. The notices would include a contract clause that would have to be included in vendors' contracts in order for these vendors to sell to nonfederal agencies through the schedules program. Each contractor on each federal supply schedule (about 6,600 contractors in total) that GSA or

VA would propose to open would have the option to sell to state and local governments.

GSA officials stated that such a process will allow GSA and VA to gauge the interest on the part of state and local governments in using the schedule and willingness of schedule contractors to sell to state and local governments under the schedule contract. They said that the process will also provide the opportunity for nonschedule contractors and federal agencies to express their views. According to GSA, after GSA considers the input of potentially affected parties and if it decides to open a particular schedule, schedule contracts will be modified to permit use by state and local governments. The state and local governments that applied for authorization to use the federal supply schedules would subsequently be notified that the schedule was open for use. According to GSA officials, this approach would allow for interested parties to provide input before a decision is made and allow GSA to make an assessment of the appropriateness of opening a particular schedule while minimizing the costs of implementing the cooperative purchasing program.

GSA's Planned Approach Appears Reasonable but Could Benefit From Refinements

The approach to implementing the cooperative purchasing program that GSA officials told us about appears reasonable in several respects. For example, it makes the program optional for GSA vendors and recognizes that nonfederal governments cannot be compelled to use the program, acknowledges that there may be trade-offs associated with opening up a particular schedule, recognizes that GSA's primary mission is to meet the needs of federal agencies, provides a process for informing many potentially affected businesses, allows for schedule-by-schedule consideration, establishes decisionmaking authority at a higher level than initially proposed, and identifies the trade-off decisions that have to be made. However, although GSA is considering changes to the implementation plan in the Federal Register notice, GSA has not completed a detailed, written plan that sets forth all its current thinking on how it intends to implement cooperative purchasing.

Since the suspension of section 1555's authority for the cooperative purchasing program is temporary, we believe that it would be prudent for GSA to be prepared to implement the program by having a detailed, written implementation plan. Such a plan would provide information to Congress, state and local governments, and industry that would better enable them to evaluate the likely effects of GSA's determinations. Further, it would provide guidance to GSA and VA staff to facilitate consistency in these

determinations. Our work indicates that a successful plan would require, at a minimum, several components:

- guidance on the data that should be sought and analysis conducted in determining the (1) expected effects on federal agencies; (2) expected effects on nonfederal governments; and (3) expected effects on businesses, including non-GSA vendors;
- identification of potentially affected parties and the various means to be used to notify them when schedules will be considered for opening to nonfederal governments;
- designation of an official at an appropriate level of responsibility to make final determinations on whether individual schedules should be made available to nonfederal governments, particularly when businesses express concerns about significant adverse effects;
- provisions for evaluating the actual effects of opening schedules; and
- provisions for opening part of a schedule.

A Detailed, Written Plan Would Assist Congress, GSA, and Affected Parties

As indicated above, GSA initially published a Federal Register notice containing several elements of its planned implementation approach for the cooperative purchasing program. When the program was suspended, GSA discontinued work on completing a formal, written plan. However, GSA officials appropriately continued to consider how it would implement the program and identified changes to its initial planned approach set forth in the Federal Register. Several state and local governments and industry associations we contacted, as well as several of GSA's contracting officers, did not know how GSA planned to implement the program, or what information GSA would use to make its decisions on whether schedules would be opened up to nonfederal governments. Limited or nonexistent data make assessing the potential effects of the cooperative purchasing program a difficult task. Not having information on how GSA intends to implement the program made it difficult for affected parties to assess the potential effects of cooperative purchasing and is likely to make it difficult for GSA's and VA's contracting officers to act consistently when they seek and consider information on possible effects. The lack of this type of information is also likely to hamper Congress in any further deliberations it may want to have on cooperative purchasing.

Guidance for Making Judgmental and Trade-Off Decisions

GSA, in deciding whether or not to make products or services available on federal supply schedules to nonfederal governments, will be required to make judgmental decisions regarding (1) the extent to which vendors and

nonfederal governments will exercise their option of participating in the program; (2) the likelihood of vendors responding in such a manner that prices, the quality of products or services, or delivery will be affected from the standpoint of federal agencies; and (3) trade-offs between any expected potential benefits to nonfederal governments and any expected potential adverse effects on businesses. The Director of GSA's Acquisition Management Center said that GSA has not yet provided guidance to its or VA's staff, industry, or nonfederal governments on the data and analysis to be considered for making these judgmental decisions. For example, while many of the associations we contacted had views on the possible effects of cooperative purchasing, they generally provided no conclusive, detailed data to support their views. This guidance would help GSA and VA staff, including contracting officers, as well as affected businesses, industry associations, and nonfederal governments, know the data and analyses that are to be considered to make decisions and should help GSA staff make decisions that are as informed and consistent as possible.

Although data availability is likely to remain a challenge for GSA, having a process that facilitates gathering appropriate data and developing an analytical framework to analyze these data would enhance the process of making those decisions. Our work indicates that some data, such as the share of an industry's output that is sold to state and local governments, can provide some insight on potential effects, even if a particular measure, such as the share of output, alone cannot provide a precise quantitative prediction of the effects. Similarly, analysis of some characteristics of an industry, such as the ability of firms in an industry to charge different buyers different prices, may also help provide some insight on potential effects, such as the potential for increased prices to federal agencies.

Explicitly identifying its priorities in weighing potential benefits and adverse effects would enhance GSA's efforts to make its decisions on a consistent basis. Although GSA has indicated that its first priority is that its federal customers not face adverse effects, it has not yet indicated how it would address any recurring benefits or adverse effects compared to any one-time effects.

Process for Notifying Affected Parties

Even with guidance for GSA and VA staff, industry, and nonfederal entities, however, our findings suggest that sufficient data may not be available to GSA or VA for them to make quantitative assessments of expected benefits and negative effects. This indicates that GSA would often have to make judgmental and trade-off decisions based largely on views of affected

parties. In some cases, GSA's decisions to open schedules may have significant adverse effects on some businesses, and GSA would have to make judgments about whether expected benefits to nonfederal governments outweigh expected adverse effects on these businesses. Excluding schedules, however, may prevent state and local governments from realizing some potential benefits. Given this situation, a sensible plan would detail the process to be used to identify potentially affected parties and solicit and consider data and views from them.

GSA officials told us they plan to announce their intentions to open schedules in the Commerce Business Daily, whose purpose is to announce federal government contracting opportunities, and/or the Federal Register, as well as work with associations representing state and local governments and industry. It is unclear, however, whether these actions could reach a sufficient number of potentially affected groups or would sufficiently target those groups that may be most affected by GSA's opening up individual schedules. It is unclear that these groups would routinely be aware of Commerce Business Daily announcements or Federal Register notices, even though this latter publication is intended to reach a broader audience. Further, while GSA states that it plans to use associations representing industry as a means to get information to individual interested parties, it is unclear that consulting with industry associations alone would provide GSA with an understanding of the effects that opening a schedule may have on individual businesses. During the course of our work, we found that some industry groups, state and local contractors, and state and local governments were not aware of the cooperative purchasing program, despite the April 1995 Federal Register notice. In addition, several associations told us that their memberships had conflicting views on the program, which, in some cases, prevented the association from taking a position.

Decisionmaking Level

To recognize the judgment inherent in the decisions GSA may be making when determining whether schedules should be opened and the potential lack of sufficient data with which to make these decisions, GSA acknowledges that it may need to elevate the level at which decisions are made. In its Federal Register notice, GSA indicated that its contracting officers may be making decisions on opening schedules. However, GSA is now considering assigning this responsibility to the Assistant Commissioner for Acquisition, Federal Supply Service. The Assistant Commissioner would receive recommendations from contracting officers regarding requests to make schedules available to nonfederal users. In

those instances where GSA has delegated authority to award schedule contracts to another agency, such as VA, GSA is considering also delegating authority to decide on opening schedules to that agency's Senior Procurement Executive.

Decisions to open schedules are policy decisions that could have significant adverse effects on some businesses or industries. In our opinion, policy decisions that can have such significant effects should be made at a higher level than the contracting officer level.

Evaluating Decisions to Open Schedules and Dealing With Unexpected Effects

Neither GSA's Federal Register notice nor changes GSA officials told us they were considering included a provision for evaluating GSA's implementation of the cooperative purchasing program, including the effects of opening schedules to state and local governments, even though GSA officials said that at one time it had considered implementing the program in a series of "pilots." Because the effects of cooperative purchasing are likely to vary by industry or even product or service, the uncertainties over the extent to which state and local governments and business will actually exercise their options to participate in the program and purchase items from vendors listed on the schedules, and because it will likely be very difficult to get sufficient data before implementation to predict effects, we believe evaluations would be helpful to GSA. Such evaluations should help GSA (1) determine actual effects, (2) better gauge the types of data needed to make decisions, (3) identify the best means for obtaining relevant input from potentially affected organizations, and (4) provide a basis for GSA to reverse any decisions that may turn out to have more negative than positive effects. These evaluations could also provide objective information on whether the program may be lowering prices or administrative costs.

A related improvement to GSA's implementation approach would be to include in its plan steps to be taken in the event a decision to open a schedule is found to have unexpected adverse effects. This situation was not addressed in GSA's Federal Register notice. Possible steps could include reversing its decision or taking some other action to mitigate the adverse effects.

Excluding Portions of Schedules

Another element that would enhance the potential for the implementation plan to be successful would be a provision for opening part of a schedule to nonfederal governments when a schedule contains a mix of products

that could be affected differentially by cooperative purchasing. For example, the fire fighting and waste disposal vehicles schedule contains products that are made by two different industries, as does the construction and highway maintenance equipment schedule. According to GSA's contracting officer for these two schedules, the effects of the cooperative purchasing program would be quite different on the various industries contained in those schedules. The fire fighting vehicle industry relies almost exclusively on sales to nonfederal governments, while the waste disposal vehicle industry produces many types of products that are sold not only to nonfederal governments, but private industry as well. Similarly, the in vitro diagnostic medical equipment and supply schedule contains a diverse mix of products. According to a VA official, when VA requested GSA to exclude this schedule from the cooperative purchasing program, it was concerned with potential price increases for only three of the items on the schedule because they represent most of the costs related to the schedule.

Agency Comments

In their written comments on a draft of this report, GSA and VA agreed that assessing the potential effect of cooperative purchasing will be difficult because of questions about how nonfederal governments and businesses would react to the program and the lack of data on which to predict the potential effects; the agencies agreed that an implementation plan that would consider the effects on all affected parties would enhance the decisionmaking process for the program. Both agencies further said that the uncertainty about the program would make it important that the determination to open or not open a particular schedule to cooperative purchasing be on a case-by-case basis. GSA said that it believed using a process like the one we recommended would provide enough information for GSA to make informed decisions. GSA said that it would base its decisions on the best available information. VA also noted the importance of having a good decisionmaking process and implementation plan and said that it was considering industry conferences for schedules that were candidates for the cooperative purchasing program.

In its comments on the draft report, the Coalition for Government Procurement said that it generally agreed with our conclusion that GSA's approach to implementing cooperative purchasing appears reasonable in several respects, but it expressed some concerns about GSA's tentative plan. In particular, as indicated in chapter 3, it disagreed with GSA's tentative plan that state prompt payment provisions would be applied for states having such laws, noting the potentially increased administrative

burden of requiring sellers to work under multiple laws rather than a uniform law—the federal prompt payment law.

The Coalition also disagreed with a part of GSA's tentative plan regarding how businesses could exercise the option not to accept orders. Under GSA's tentative plan, vendors would have the option to modify their contracts with GSA to enable nonfederal governments to purchase goods and services. Once a vendor had agreed to the modification, it would have 5 days after receiving orders from nonfederal governments to decline a particular order. The Coalition said that this would not be adequate time for some businesses to make this decision for new customers and that this could also create uncertainty among the nonfederal governments placing orders. The National Association of State Purchasing Officials also expressed concern with this aspect of GSA's tentative plan, noting that such a provision could leave state agencies without a readily available supply source.

The Coalition suggested that GSA involve representatives from nonfederal governments and from businesses in developing its implementation plan and phase in its implementation of cooperative purchasing. Similarly, VA pointed out that some effects of cooperative purchasing, such as lower federal product prices or lower vendor administrative costs, will not be known until some experience is gained under the program.

During the course of our review, GSA officials told us they were aware of concerns potentially affected parties had with cooperative purchasing and have worked with and will continue to work with VA and these parties in developing its implementation plan. Further, it appears that GSA's and VA's intention to consider opening schedules on a schedule-by-schedule basis would, in effect, provide for a phase-in approach that would provide them experience with opening some schedules before a large number are opened.

Conclusions and Recommendation

The potential benefits and negative economic consequences of opening up federal supply schedules to nonfederal governments are likely to vary considerably among state and local government agencies as well as among industries and individual businesses. Since the effects of cooperative purchasing will depend in large part on how GSA implements the program, it is important for GSA to provide Congress with a detailed implementation plan. Such a plan could show how GSA would decide whether or not to open a particular schedule to nonfederal users and how it would seek to find a balance of the benefits and adverse effects of cooperative purchasing. Such information would provide a stronger basis than is currently available for Congress in its consideration of whether it should take any action while GSA's authority for the cooperative purchasing plan remains suspended.

The potential effects of the cooperative purchasing program are likely to vary among state, local, and the Puerto Rican governments. Since participation is voluntary, these governments would use the schedules only if they perceived benefits from doing so. Some state and local governments are likely to benefit from lower prices for some products, less administrative burden, and shortened procurement cycle times as a result of cooperative purchasing, although the extent to which these benefits would materialize is unclear and depends on several factors. The expected benefits are likely because several state and local governments and some businesses want the schedules opened and because some schedule prices are lower than nonfederal governments' prices. Also, some state and local governments and businesses agree that reduced administrative effort and cycle times are a likely result of cooperative purchasing. In addition, some nonfederal law enforcement agencies that have had access to the schedules said that they experienced benefits from having such access.

Several factors are likely to affect the extent to which these expected benefits would materialize. These include state or local laws, policies, or preferences that could preclude or constrain use of the schedules in some instances; the unavailability of some items through the schedules program; the frequent ability of state and local agencies to get better prices or contract terms through other sources; and the relatively small proportion of state and local expenditures that are made for some items available through the schedules program. These factors will vary among and within states and localities, making precise predictions of effects quite difficult, if not impossible. Predictions are even more difficult given the possibility that some state and local governments could change their laws,

ordinances, or policies in the future to permit greater use of federal supply schedules, and businesses could change their practices as well. These possibilities remain speculative at this point.

Indian tribal governments are not likely to experience significant effects from cooperative purchasing. This is because many have already had access to federal supply schedules, and federal agencies would remain responsible for providing services to tribes in program areas for which tribal governments do not already have access to the schedules.

Cooperative purchasing's effects on businesses are likely to vary among industries and individual firms, including firms in the same industry. It appears reasonable to us that at least some of the benefits perceived by some businesses, including small businesses and dealers, may occur. These potential benefits would include increased sales, profits, or exposure to additional markets and reduced administrative costs as a result of businesses not having to compete separately for some contracts with various state and local governments.

Those companies that are already GSA vendors and that sell to both federal and nonfederal governments would likely see the greatest administrative savings since these companies would not have to separately compete for the federal, state, and local contracts. For a particular firm, these administrative savings would depend on the nature of the business, the extent to which it supplies state or local governments, and the extent to which state and local governments exercise the option of buying through the cooperative purchasing program. Thus, the potential for administrative savings cannot be predicted. The full extent to which businesses would elect to exercise the option of selling to nonfederal governments through the program also cannot be predicted.

On the other hand, some industries, including small businesses and dealers, could experience reduced sales or profits, a reduction in operations, or even closure if the schedules containing products they sell are opened for nonfederal buyers. While the extent to which these effects would occur cannot be predicted, two factors that can influence the results are the proportion of an industry's or firm's sales to state and local governments and how that industry takes into consideration its dealership network in its contracts with GSA. Those manufacturers that sell higher proportions of their products to state and local governments and whose dealerships receive no or reduced fees or commissions for sales made through the federal supply schedules program appear to have the greatest

potential for experiencing significant adverse effects, along with their dealers. The effects can be even more severe if dealers are expected to provide extensive service in connection with these types of sales.

The optional nature of the program, however, should limit the extent to which manufacturers would want to participate in the program when doing so would negatively affect their dealership networks. In those cases when competitive forces could influence decisions, however, these effects could be further mitigated by GSA through its plan to exclude schedules from the program when adverse effects on federal agencies are likely or if the adverse effects on businesses are likely to exceed expected benefits to nonfederal governments.

Regardless of whether the actual effect on different industries would be positive or negative, several factors would tend to limit the magnitude of the effect. Various industries sell varying proportions of their output to state and local governments, and, as previously discussed, several conditions would limit the volume of purchases nonfederal governments would make through the schedules. Also, some businesses are not likely to be affected at all because prices already offered to state and local governments may be comparable to or better than schedule prices, their product or service is not available through the schedules, or state or local governments may not choose to buy through the schedule to retain such benefits as service or training from their current contractors. These variables, together with the lack of available data to independently predict how nonfederal governments or their suppliers would respond to the cooperative purchasing program in the future, make it impossible to accurately predict the overall effect of the program on individual businesses.

All of the uncertainties at the state, local, and business level make it difficult, if not impossible, to determine the effect of cooperative purchasing on the federal government. Although it appears likely that Puerto Rico and some state and local governments and businesses would use the program, it is not clear whether this expanded use of the schedules would lead to lower schedule prices or lower federal administrative fees. On the other hand, it is doubtful that the federal government would experience adverse effects since GSA plans to exclude schedules when such effects are anticipated and would be able to act if unexpected negative effects arise. GSA's policy that it will continue to administer the federal supply schedules program primarily for its federal customers is consistent with GSA's mission.

GSA's plan for implementing the cooperative purchasing program is evolving and has not yet been put into a final written document. Although this is understandable given the legislative suspension of authority for the program, Congress, GSA, and any affected parties will need a written plan before implementation of cooperative purchasing. In our view, such a plan is essential for Congress to be able to judge whether GSA is taking appropriate steps to fairly balance the potentially beneficial and adverse effects of cooperative purchasing, without compromising the interests of its federal customers.

The implementation approach GSA has been developing seems reasonable in several respects, including recognition that effects will vary and judgment will be involved in making trade-off decisions. However, these trade-off decisions are likely to be quite difficult in a number of situations in which some or many businesses perceive significant adverse effects, while state or local governments desire access to the schedules. A written plan would provide a basis for GSA to ensure that its staff is making decisions in a manner consistent with all available information. The plan could indicate, for instance, that GSA would consider the share of industry output that is sold to state and local governments as one data element that would contribute to GSA's decision. It could also discuss how GSA would weigh the views of affected parties in situations without adequate quantitative data. Further, should GSA delegate decisionmaking authority to VA's Senior Procurement Executive, a written plan could provide a mechanism for consistent decisionmaking at GSA and VA.

GSA's decisions will be further complicated in some cases because businesses in the same industries have differing views about the program, and there may not be sufficient quantitative data to enable GSA to weigh the benefits and adverse effects. This makes it critical for the parties that are potentially affected to have a clear understanding of how GSA intends to implement the program and how it will consider the views of affected parties as well as any available quantitative data. Such understanding will be crucial for the credibility of GSA's decisions should the program be implemented as the law now provides.

We believe that certain elements in the approach GSA has been considering should particularly be incorporated into its final written plan. These include such items as the optional nature of the program, designation of a high-level official to make final decisions on opening schedules, provision for opening parts of schedules when effects for different industries may vary significantly, and use of the Commerce Business Daily and/or the

Federal Register to announce its intention to open schedules. However, we believe that GSA's plan should also include (1) guidance to its and VA's staff on considering benefits and negative effects, (2) steps that will be taken in addition to using the Commerce Business Daily and/or the Federal Register to notify potentially affected parties, (3) provisions for evaluating the actual effects of decisions made to open schedules, and (4) steps that will be taken if the actual effects of opening schedules are different from those GSA projected.

Recommendation to the Administrator of General Services

We recommend that as part of GSA's report on the cooperative purchasing program to Congress mandated by the Clinger-Cohen Act of 1996, the Administrator provide a detailed plan setting forth the steps that GSA will take to implement the program. In particular, the Administrator's report should provide Congress with a written implementation plan that emphasizes the optional nature of the program and

- includes guidance that will be provided to GSA and VA staff on the available quantitative data, affected parties' views, and other factors that need to be considered in assessing benefits and negative effects of opening up schedules;
- identifies appropriate processes for obtaining and considering information and views from a full range of affected parties;
- designates a high-level official or officials who are to make final decisions on opening schedules, especially when businesses express significant concern about potential adverse effects;
- provides for evaluating the actual effects of decisions to open schedules, and a means for addressing the effects if the data so warrant; and
- allows for partially opening schedules when appropriate.

Agency Comments

GSA and VA agreed with our conclusions and recommendation. Both agencies said that the uncertain effects of cooperative purchasing illustrated the importance of having a process that would enable them to make informed decisions on a case-by-case basis. GSA agreed that such a plan would assist Congress and others in understanding the program and evaluating its potential impact and benefits.

The National Association of State Purchasing Officials agreed with our conclusion that allowing nonfederal governments to use federal supply schedules can lead to positive effects for state and local governments. It noted, however, that any potential positive effects would be limited by the

exclusion of certain contracts from the program. The Association also agreed that GSA should use communication tools in addition to the Commerce Business Daily for states and small businesses.

The Coalition for Government Procurement generally agreed with our conclusions and recommendation and emphasized the importance of an implementation plan and good evaluations of the program's effects. The Coalition suggested that GSA involve business and nonfederal government representatives in formulating this plan and that GSA phase in the implementation.

Federal Supply Schedule Sales, Fiscal Year 1996

Schedule title	Schedule number	Large
International schedule	IFSS	18
Boats and marine barriers	19 I	4
Wheel and track vehicles	23 I	9
Pneumatic highway tires	26 I	3
Woodworking and metalworking machinery and equipment	32 & 34	7
Printing and bookbinding equipment	36 II	21
Copying equipment, supplies and services	36 IV	23
Lawn and garden equipment	37 II A	11
Construction and highway maintenance equipment	38 I A	16
Material handling equipment—conveyors, hand-lift trucks, carts, pallets	39 II A	13
Fire fighting and rescue equipment	42 I B	6
Fire fighting vehicles and waste disposal vehicles	42 IV	9
Water filtration equipment	46 I A	
Repair shop equipment	49 I B	9
Maintenance and repair shop cleaning equipment	49 II	3
Power-driven hand tools	51 VI	14
Scaffolding, work, and service platforms ^b	54 II A	3
Prefabricated structures, warehouses	54 II B	2
Construction and building materials	56 IV A	7
Communications equipment	58 III B	18
Telecommunication supplies (recording tapes and magnetic cards)	58 V A	10
Communications equipment	58 VI and VII	
Telecommunications equipment	58 IX	6
Batteries	61 III	2
Portable generators	61 V A	12
Power distribution equipment	61 V B	16
Lighting fixtures and lamps	62 I	
Energy-efficient products	62 II	1
Alarm and signal equipment	63 I	19
Drugs and pharmaceutical products ^c	65 I B	149
Antiseptic liquid skin cleansing detergents and soaps ^c	65 I C	8
Medical and veterinary supplies ^c	65 II B	83

**Appendix I
Federal Supply Schedule Sales, Fiscal Year
1996**

Number of vendors		Fiscal year 1996 sales			
Small	Other ^a	Large	Small	Other	Total
78	39	\$5,728,981	\$10,434,251	\$38,448,323	\$54,611,555
35	1	\$2,108,127	\$3,420,453		\$5,528,580
17		\$653,733	\$1,991,166		\$2,644,899
					\$0
18		\$3,220,260	\$3,810,439		\$7,030,699
38	3	\$3,784,048	\$8,835,515	\$2,971	\$12,622,534
24	5	\$400,388,532	\$9,465,681	\$10,259,601	\$420,113,814
65		\$1,665,063	\$11,271,768		\$12,936,831
29	1	\$16,429,463	\$4,386,486	\$93,141	\$20,909,090
61		\$304,730	\$2,534,955		\$2,839,685
35	1	\$847,009	\$4,723,616	\$74,482	\$5,645,107
35		\$11,910,870	\$5,532,947		\$17,443,817
					\$0
39		\$3,492,431	\$3,685,352		\$7,177,783
56	1	\$485,954	\$4,425,042	\$4,726	\$4,915,722
9			\$1,978		\$1,978
12		\$5,044,520	\$979,984		\$6,024,504
3		\$428,636	\$492,491		\$921,127
22	1	\$578,475	\$988,090		\$1,566,565
57	20	\$16,017,908	\$13,413,958	\$54,172,882	\$83,604,748
59		\$17,817,660	\$6,684,871		\$24,502,531
					\$50,743,000
23	5	\$7,503,742	\$9,104,791	\$1,908,020	\$18,516,553
10		\$1,132,958	\$1,102,773		\$2,235,731
22		\$4,046,397	\$2,442,933		\$6,489,330
45	1	\$11,491,931	\$2,243,836	\$598	\$13,736,365
23			\$2,613,802		\$2,613,802
31		\$349,588	\$1,643,633		\$1,993,221
48		\$3,783,220	\$7,572,005		\$11,355,225
113		\$1,188,675,299	\$100,626,096		\$1,289,301,395^d
14		\$2,477,352	\$65,902		\$2,543,254^d
235		\$112,895,055	\$73,486,681		\$186,381,736^d

(continued)

Appendix I
Federal Supply Schedule Sales, Fiscal Year
1996

Schedule title	Schedule number	Large
Dental equipment and supplies ^c	65 II C	21
Medical equipment and supplies ^c	65 II D	108
Pacemakers and ancillary systems ^c	65 II E	7
Wheel chairs, three-wheeled scooters ^c	65 II F	4
Medical X-ray equipment and supplies, including medical and dental X-ray film ^c	65 V A	9
In vitro diagnostic substances, reagents, test kits, and sets ^c	65 VII	40
Blood chemistry, electrophoresis, imaging	66 II A	36
Lab accessories and supplies	66 II B	11
Clinical sample preparation and analysis instruments	66 II C	12
Laboratory balances and special purpose scales	66 II E	6
Graphic recording instruments	66 II G	2
Instrumentation components (data acquisition, calibration)	66 II H	13
Electronics analyzers and meters	66 II J	35
Materials, temperature utilities, and test equipment	66 II L	10
Spectrometers and spectrophotometers	66 II M	15
Chromatograph and miscellaneous analyzers	66 II N	30
Lab ovens, chambers, and thermometers	66 II O	5
Individual and modular furniture	66 II P	6
Geophysical, surveying, and GPS equipment	66 II Q	11
Environmental analysis and hazard detection equipment	66 II R	11
Vertical laminar flow biological safety cabinets	66 II T	
Cost per test—clinical, lab, chemistry, hematology, coagulation, urinalysis, microbiology ^c	66 III	22
Photographic equipment and supplies	67 II	37
Microphotographic equipment and supplies	67 IV B	7
Calcium chloride, deicing compounds, and bulk sodium chloride	68 I A	4
Dry ice ^b	68 III C	3
Propane	68 III D	2
Sulphur hexafluoride ^b	68 III E	
Helium ^b	68 III G	11

**Appendix I
Federal Supply Schedule Sales, Fiscal Year
1996**

Number of vendors		Fiscal year 1996 sales			
Small	Other ^a	Large	Small	Other	Total
56		\$17,658,788	\$9,886,270		\$27,545,058^d
249		\$145,769,750	\$47,471,228		\$193,240,978^d
3		\$3,276,369	\$649,989		\$3,926,358^d
21		\$19,219,014	\$5,065,840		\$24,284,854^d
12		\$40,450,869	\$2,418,488		\$42,869,357^d
91		\$90,104,124	\$13,777,082		\$103,881,206^d
52		\$10,899,421	\$10,621,060		\$21,520,481
49		\$5,061,873	\$4,768,427		\$9,830,300
27		\$15,992,075	\$4,541,286		\$20,533,361
3	1	\$876,446	\$268,348	\$93,079	\$1,237,873
6		\$628,357	\$15,002		\$643,359
59		\$20,134,087	\$9,591,871		\$29,725,958
38	1	\$93,733,824	\$5,311,510		\$99,045,334
51		\$2,062,712	\$3,153,998		\$5,216,710
29		\$4,723,349	\$1,106,452		\$5,829,801
62		\$30,151,906	\$10,421,765		\$40,573,671
52	4	\$3,260,373	\$8,584,834	\$172,524	\$12,017,731
15	1	\$5,255,547	\$1,291,907		\$6,547,454
50	3	\$1,550,244	\$14,754,024	\$670,970	\$16,975,238
57		\$1,110,630	\$7,958,168		\$9,068,798
3			\$1,100,204		\$1,100,204
0		\$42,623,896			\$42,623,896^d
89	6	\$34,498,595	\$13,278,217	\$2,191,090	\$49,967,902
24	2	\$12,022,098	\$4,244,677	\$3,590,841	\$19,857,616
6		\$999,324	\$161,975		\$1,161,299
14		\$37,547	\$324,609		\$362,156
4		\$2,710	\$68,935		\$71,645
1			\$60,203		\$60,203
13		\$87,766	\$114,971		\$202,737

(continued)

Appendix I
Federal Supply Schedule Sales, Fiscal Year
1996

Schedule title	Schedule number	Large
Oxygen: aviator's breathing ^b	68 III K	7
Industrial gases in high-pressure cylinders ^b	68 III L	8
Industrial gases—liquid, bulk and in low-pressure chambers ^b	68 III M	12
Industrial gases—chlorine and ammonia ^b	68 III N	3
Other chemicals including water treatment chemicals	68 V B & C	9
Disinfectants	68 VI A	4
Deodorants	68 VI B	5
Training aids and devices - programmed learning materials	69	11
ADP equipment, including used and refurbished equipment	70 A and D	
Computers	70 B/C	
Electronic commerce	70E	
Upholstered household and quarters furniture	71 I E	15
Wall units, loft groups, and unaccompanied personnel furniture	71 I H	4
Executive office and conference room furniture	71 II D	11
Systems furniture	71 II E	16
Packaged room furnishings	71 II H	3
Classroom, auditorium, and theater seating	71 III A	6
Library furniture	71 III B	2
Storage cabinets for forms and flammable liquids; card-size filing cabinets	71 III C	1
Mail sorting and distribution equipment, modular storage cabinets, and molded storage bins	71 III D	
Security filing cabinets, safes, vault doors, map and plan files, and special access control containers	71 III E	2
Hospital patient room furniture	71 III F	10
Multipurpose seating	71 III H	30
Steel vertical blueprint filing cabinets, roll drawing files, high-density movable shelf filing cabinets	71 III J	4
Ergonomic chairs ^b	71 III K	
Cafeteria and food service furniture	71 III L	
Partitions	71 III M	
ADP furniture	71 III N	16

**Appendix I
Federal Supply Schedule Sales, Fiscal Year
1996**

Number of vendors		Fiscal year 1996 sales			
Small	Other ^a	Large	Small	Other	Total
7		\$444,649	\$172,082		\$616,731
22		\$150,129	\$438,523		\$588,652
25		\$1,640,387	\$911,176		\$2,551,563
12		\$12,350	\$23,575		\$35,925
55		\$5,542,419	\$6,476,730		\$12,019,149
3		\$30,708	\$555,733		\$586,441
10		\$470,686	\$208,606		\$679,292
80		\$2,882,119	\$14,996,175		\$17,878,294
					\$387,310,000
					\$479,284,000
					\$376,700
39	5	\$10,275,680	\$7,513,087	\$1,036,496	\$18,825,263
25	1	\$8,054,800	\$70,925,926		\$78,980,726
21	2	\$1,266,252	\$760,906	\$783,334	\$2,810,492
27	1	\$244,026,858	\$30,200,868	\$6,521,396	\$280,749,122
10			\$60		\$60
26	2	\$1,311,105	\$1,189,817	\$8,257	\$2,509,179
28	2	\$79,537	\$4,263,904		\$4,343,441
18			\$11,582,564		\$11,582,564
10			\$2,589,022		\$2,589,022
7		\$6,667,740	\$2,552,979		\$9,220,719
22	3	\$12,243,642	\$3,180,688		\$15,424,330
86	9	\$32,470,903	\$35,336,389	\$96,166,651	\$163,973,943
16	1	\$5,648,592	\$10,446,820	\$6,495	\$16,101,907
1			\$199,980		\$199,980
14			\$2,520,043		\$2,520,043
28			\$1,772,421		\$1,772,421
67	7	\$56,562,815	\$25,064,191	\$8,954,743	\$90,581,749

(continued)

Appendix I
Federal Supply Schedule Sales, Fiscal Year
1996

Schedule title	Schedule number	Large
Display and communication boards	71 III T	
Clothing lockers and drafting stools	71 III Y	2
Partitions ^b	71 III Z	
Conference room and multipurpose tables	71 X	12
Work benches, work tables, storage cabinets	71 XIV B	7
Carpet, carpet tile, and carpet cushion	72 I A	14
Resilient flooring	72 I B	3
Mats and matting	72 I E	1
Drapes and blinds	72 V	2
Recycling collection containers and specialty waste receptacles	72 VII B	9
Wall art	72 VIII	1
Food service equipment	73 III	56
Office machines (typewriters, dictation systems, lettering machines, etc.)	74 I A	2
Office machines (calculators, mailing equipment, etc.)	74 II & III	7
Visible record equipment (frames for cards, posting/ledger trays, etc.)	74 IV	6
Recording paper and supplies (plotting, facsimile, chart)	75 I D	16
Office supplies (pencils, markers, binders, desk sorters, etc.)	75 II A	17
Desk top	75 III A	5
Envelopes (mailing, printed and plain)	75 V	4
Cards: tabulating, aperture, copy	75 VIII A	1
Paper: xerographic and thermal copy	75 XI	1
Publications (dictionaries, encyclopedias, atlases, charts, globes)	76 I	23
Publications (law books, tax and reporting periodicals, microfilmed library systems)	76 II	11
Musical instruments	77 II	
Audio and video equipment (televisions, radios, phonographs, VCRs)	77 III	2
Indoor/outdoor athletic and recreational equipment	78 I A	25
Park and outdoor recreation equipment	78 I C	7
Cleaning equipment and supplies	79 I B	12
Ware washing compounds and laundry detergent	79 II A	3
Sorbents	79 V	2

**Appendix I
Federal Supply Schedule Sales, Fiscal Year
1996**

Number of vendors		Fiscal year 1996 sales			
Small	Other ^a	Large	Small	Other	Total
35			\$6,191,780		\$6,191,780
22		\$15,537	\$1,998,307		\$2,013,844
1			\$43,847		\$43,847
45	4	\$3,632,712	\$4,690,947	\$1,105,456	\$9,429,115
20		\$21,126,934	\$2,519,140		\$23,646,074
24	1	\$44,239,791	\$8,523,674	\$2,689,188	\$55,452,653
6		\$137,642	\$1,330,054		\$1,467,696
9		\$214,725	\$227,011		\$441,736
55		\$16,548	\$10,545,064		\$10,561,612
52		\$2,020,537	\$3,701,207		\$5,721,744
60		\$7,177	\$5,595,512		\$5,602,689
174	3	\$8,850,717	\$30,426,366		\$39,277,083
15	7	\$2,883,479	\$692,912	\$3,918,031	\$7,494,422
22	7	\$23,519,457	\$1,793,330	\$1,846,558	\$27,159,345
16	2	\$5,797,724	\$3,183,449	\$2,252,111	\$11,233,284
46	1	\$2,983,233	\$2,546,998		\$5,530,231
70		\$4,272,125	\$16,093,212		\$20,365,337
1		\$12,383			\$12,383
4		\$4,823,424	\$1,722,041		\$6,545,465
3		\$1,451,162	\$8,321		\$1,459,483
10			\$189,129		\$189,129
46	1	\$7,400,825	\$7,029,509		\$14,430,334
1		\$6,938,445	\$433		\$6,938,878
16			\$837,133		\$837,133
9		\$3,893,129	\$4,509,191		\$8,402,320
190	2	\$6,895,850	\$27,872,479	\$48,176	\$34,816,505
89	3	\$1,889,309	\$9,614,915	\$199,412	\$11,703,636
25	1	\$6,597,578	\$4,218,732	\$450,119	\$11,266,429
12		\$7,838,402	\$1,403,470		\$9,241,872
13		\$204,956	\$2,476,649		\$2,681,605

(continued)

Appendix I
Federal Supply Schedule Sales, Fiscal Year
1996

Schedule title	Schedule number	Large
Latex paints	80 VI A	11
Packing and packaging supplies	81 I B	6
Special purpose clothing	84 II B	7
Athletic and recreational clothing and footwear	84 V A	6
Law enforcement and security equipment	84 VI A	19
Subsistence (condiments and cereals) ^c	89 I A	3
Subsistence (cookies, crackers, etc.) ^c	89 I B	3
Signs	99 IV A	6
Recruiting aid and promotional material	99 V A	1
Trophies and awards	99 VI A	
Airlines	451 II	
Express transportation services (FEDEX)	451 III	1
Solvent recycling services ^b	495 I A	1
Governmentwide commercial credit card services	615	1
Relocation service	653	2
Factual data reports: consumer and commercial credit	732 I A	7
Professional debt collection services	732 I B	6
Investigation of discrimination complaints and preparation of reports	738 X	
Closed-end lease, without maintenance: automobiles and light trucks ^b	751 II	2
Leasing: surveillance and law enforcement vehicles ^b	751 III	
Professional film processing and videotape processing services	781 I & II	1
Lending library	823	2
Prepayment audit of government transportation billing documents	872	
Consulting services: total quality management implementation	874	40
New item introductory schedule	NIIS 999	9
New item introductory schedule ^c	NIIS 65	0
Miscellaneous ^g		
Totals		1,544

**Appendix I
Federal Supply Schedule Sales, Fiscal Year
1996**

Number of vendors		Fiscal year 1996 sales			
Small	Other ^a	Large	Small	Other	Total
14		\$1,697,752	\$534,689		\$2,232,441
33		\$1,928,541	\$5,406,441		\$7,334,982
44	2	\$6,538,077	\$8,912,491	\$1,771,062	\$17,221,630
23		\$153,825	\$1,826,948		\$1,980,773
139	3	\$20,440,732	\$31,761,484	\$730,203	\$52,932,419
1		\$2,921,294	\$640,153		\$3,561,447 ^d
0		\$420,112			\$420,112 ^d
69		\$376,840	\$4,783,316		\$5,160,156
23		\$1,473	\$965,618		\$967,091
61			\$2,231,929		\$2,231,929
		\$1,400,000,000			\$1,400,000,000 ^e
		\$69,884,000			\$69,884,000 ^e
		\$587,264			\$587,264
					\$0 ^f
		\$14,773,390			\$14,773,390
10		\$8,564,706	\$210,508		\$8,775,214
1		\$119			\$119
2			\$2,373,028		\$2,373,028
		\$203,380			\$203,380
1			\$7,146		\$7,146
42			\$1,041,435		\$1,041,435
		\$255,308			\$255,308
2			\$67,228		\$67,228
48		\$59,743,535	\$36,557,990		\$96,301,525
219	2	\$14,428,459	\$5,800,082	\$58,264	\$20,286,805
5			\$147,187		\$147,187
					\$139,063
4,879	168	\$4,585,817,615	\$976,127,585	\$240,229,200	\$6,720,027,163^h

Appendix I
Federal Supply Schedule Sales, Fiscal Year
1996

Note 1: The number and identity of schedules will vary from year to year as schedules are created, cancelled, or merged with other schedules.

Note 2: The total number of vendors is overstated since many vendors have contracts on more than one schedule.

Note 3: All schedules but those indicated are managed by GSA.

^aOther includes vendors such as foreign contractors and nonprofit or educational sources of supplies or services.

^bSchedule has been cancelled or merged with another schedule in fiscal year 1997.

^cSchedule is managed by VA.

^dVA fiscal year 1996 total sales are preliminary and could change.

^eGSA does not collect the 1 percent industrial funding fee on these sales.

^fThis schedule does not generate sales.

^gMiscellaneous includes receipts from cancelled or converted schedules.

^hTotal sales is greater than the sum of sales to large, small, and other vendors because GSA could not break out sales of communications, computer, and electronic commerce equipment by vendor size.

Source: GSA and VA.

State Responses to Our Survey on the Potential Use of GSA's Schedules

To assist us in our review, we asked state purchasing agencies about (1) their use of state schedules, (2) their use of cooperative purchasing agreements, (3) regulations that would prohibit them from using GSA schedules, (4) factors that would limit their use of GSA schedules, and (5) any comparisons they had made of GSA schedule and state prices. A copy of the survey instrument is included in this appendix.

We used a membership directory of the National Association of State Purchasing Officials to contact all the state agencies with responsibility for purchasing. Following interviews with selected state agencies, we developed a questionnaire. On September 5 and 6, 1996, we pretested the questionnaire with two state agencies. We faxed the survey to all 50 states and 3 territories between September 9 and 11. After follow-ups, we received fax responses from 48 states and 2 territories.

To ensure data reliability and consistency, we performed edit checks of the instruments and made follow-up phone calls when issues arose. The edit checking and follow-ups raised some issues that need to be considered when interpreting the results. For example, most of the respondents who reported in question 6 that their states had procurement statutes or regulations prohibiting the use of GSA schedules also reported limiting factors in question 7. Two of the respondents who reported prohibitions in question 6 revealed to us in subsequent discussions that the prohibitions only applied to purchases above \$10,000. Therefore, the answers to question 7 are a combination of factors that limit and factors that prohibit use of the GSA schedules. In question 8, two of the states reporting prohibitions indicated that they expected to make purchases from the GSA schedules because they anticipated the prohibitions would be removed.

**Appendix II
State Responses to Our Survey on the
Potential Use of GSA's Schedules**

GAO

United States General Accounting Office

Survey of State Agency Purchasing

The U.S. General Accounting Office (GAO) an independent congressional agency, has been directed to study the effects of allowing state and local governments to purchase items listed on federal supply schedules. Under the Federal Acquisition Streamlining Act of 1994, the General Services Administration (GSA) was given the authority to open schedules to state and local participation. State and local government vendor participation would be optional.

To aid us in our study, we would like to update your state's information since the 1995 NASPO survey. Please take a few minutes to answer the following questions, and return the survey by fax to Martin De Alteriis at (202) 512-4516. Thank you very much.

State: _____

Official's name: _____

Phone: (____) _____

1. Approximately what percent, if any of your agency purchases are made off state schedules? *(Check one.)*
 0% 1-5% 6-10% 11-25% 26%+ Don't know
4 1 2 8 26 9
2. Does your state currently have cooperative purchasing agreements with other states? *(Check one.)*
 Yes No Don't know
30 20 0
3. Does your state currently have cooperative purchasing agreements with local governments? *(Check one.)*
 Yes No Don't know
36 14 0
4. Approximately what percent, if any, of your agency purchases are made using these cooperative purchasing agreements? *(Check one.)*
 0% 1-5% 6-10% 11-25% 26%+ Don't know
4 18 6 3 2 11
5. Please indicate the three items most commonly purchased through cooperative purchase agreements.
 1. **Pharmaceuticals (13)**
 2. **Computers (6)**
 3. **Vehicles (5)**
 Don't know
6. Are there state procurement statutes or regulations that would prohibit the use of GSA schedules by your state agencies or local governments? *(Check one.)*
 Yes No Don't know
13 35 1

7. Would any of the following factors limit your state agencies' or local governments' ability to use the GSA schedules? *(Check all that apply.)*
9 State content laws
4 Laws favoring state vendors
27 Competitive bidding requirements
6 Set aside provisions
16 Could only use GSA schedules if item not on state schedule
11 Could only use GSA schedules if item not in department/agency contract
20 Could only use GSA schedules if least expensive option
6 Other - Please specify: _____
8. If GSA were given authority to open the federal schedules to state and local participation, how do you think your state agencies might use the schedules? *(Check all that apply.)*
34 Purchases
38 Price comparison
24 Benchmarking
15 Negotiation with vendors
3 Other - Please specify: _____
0 Other - Please specify: _____

6 Would not use the schedules
5 Don't know
9. Has your state or your agency made any comparisons of prices on the GSA schedules and the prices paid by state or local agencies? *(Check one.)*
 Yes No Don't know
33 16 1
10. If yes, what were the results of these comparisons? *(Check one.)*
13 State prices are generally lower than GSA prices
2 GSA prices are generally lower than state prices
18 Some state prices are lower than some GSA prices and some GSA prices are lower than some state prices
0 No major differences between state and GSA prices
0 Other - Please explain: _____

Thank you for your response and assistance in our study.

Government and Industry Associations' Views Obtained During the Course of Our Work

Alabama Retail Association*
American Small Business Association
Associated Equipment Distributors
Business Council of New York State
California Association of Public Purchasing Officials
California League of Cities
Coalition for Government Procurement
Contract Services Association of America
Environmental Industry Association*
Fire Apparatus Manufacturers Association
Health Industry Distributors Association
Health Industry Group Purchasing Association
Health Industry Manufacturers Association
Information Technology Association of America
Information Technology Industry Council
Material Handling Equipment Distributors Association
Montana Association of Counties
Montana Small Business Development Center
National Association of Counties
National Association of Housing and Redevelopment Officials*
National Association of Purchasing Management
National Association of State Purchasing Officials
National Association of Towns and Townships
National Association of Wholesalers & Distributors*
National Retail Federation
National Small Business United
National Institute of Governmental Purchasing, Inc.
New York State Association of Towns
New York State Small Business Development Center
North American Equipment Dealers Association
Public Hospital Pharmacy Coalition
Public Housing Authorities Directors Association*
Public Technology Incorporated
RGF Environmental Group*
Small Business Legislative Council*
Texas Association of Counties
West Virginia Association of Counties
West Virginia Manufacturers Association
West Virginia National Federation of Independent Businesses
West Virginia Small Business Development Center

**Appendix III
Government and Industry Associations'
Views Obtained During the Course of Our
Work**

* These associations provided written comments to GSA or GAO on cooperative purchasing.

Comparability of State and Local Agencies' Procurements to GSA Schedule Items

To compare items procured by state and local governments to items available through GSA supply schedules, we obtained documentation of recent state and local procurements. We asked state and local procurement officials for documentation of procurements that, in their opinions, were frequent, were large in volume, took a substantial portion of their procurement budget, were difficult to procure, or might be available through GSA's supply schedules at better prices or terms. Upon receipt, we forwarded this documentation to GSA and requested that it make a determination of the availability of the same or comparable items on GSA's supply schedule and a comparison of the state/local prices to the GSA schedules' prices.

GSA's responses are presented in table IV.1. In cases where more than one item had been included in a procurement action, GSA broke out each procurement action into separate line items and reported separate comparisons for each line item. Thus, the number of GSA responses does not equal the number of procurement actions. Further, GSA responded that, in some cases, the documentation provided by the state and local officials was not sufficient to determine if an item was available. We did not contact the state and local officials for additional documentation in these cases.

In its responses, GSA noted that price is only one factor that has to be considered in these comparisons. Other factors that it noted included costs associated with awarding and administering contracts, costs of maintaining inventories, and costs to deliver items.

Table IV.1: Comparison of State and Local Procurement Prices With Federal Supply Schedule Prices

Procured items	Item(s) available on FSS			GSA	GSA	GSA
	No	Yes	Cannot be determined	price lower	price higher	price equal
ADP equipment						
Toshiba 100 computer with memory upgrade & network card		2	1	2		
Document scanner, computer upgrade & lab equipment			3			
Computers with upgrades	1	1	2	1		
Apple computer monitor & CD drives			3			
HP printer memory upgrade		1		1		
DEC computer equipment with keyboard			2			
Compaq computer with upgrades & printer	1	1	2	1		

(continued)

**Appendix IV
Comparability of State and Local Agencies'
Procurements to GSA Schedule Items**

Procured items	Item(s) available on FSS			GSA	GSA	GSA
	No	Yes	Cannot be determined	price lower	price higher	price equal
Motorola portable radios (4 watt, 16 frequencies) with batteries & charger			5			
Gateway 2000 computer system	1	1			1	
Samsung notebook computer & graded Okidata & HP printers		4	4	4		
DEC Venturis microcomputer		1		1		
Miscellaneous computer hardware			16			
Dell 5100 microcomputer with upgrades	3					
IBM microcomputers			15			
HP computers		3	2	1	2	
Custom Pentium computer systems with Diamond video cards, Colorado & Seagate hard drives, Toshiba CDs			1			
Computers & servers			4			
HP Vectra and Macintosh computer systems with upgrades & printer	1	5	5	3	2	
Office & scientific equipment						
Film, 35 mm, 12 frame rolls		1		1		
Xerox 5100 duplicator (lease)		1		1		
Low energy/low spread ion source	1					
Kodak copiers (lease)	1	2		2		
Lanier 6745 copier	3					
Thermocycler		1			1	
Canon 6050 II copier		2		2		
Film, Polaroid self-developing (Spectra 990)		1			1	
Miscellaneous lab supplies & equipment	22					
Services						
Southwest Airline tickets			1			
Airline tickets ^a (various cities)	2	4		4		
Amtrak tickets	1					
Waste removal service	1					
Furniture						
McDowell Craig furniture systems/clusters		3				3
ABCO computer table & Globel chairs			2			
Teachers' desks, chairs, filing/storage cabinets			14			
Miniblinds			2			
Larson desks and Nunnally desks, tables, credenzas, chair, chair arms, keyboard trays			6			
General products						

(continued)

**Appendix IV
Comparability of State and Local Agencies'
Procurements to GSA Schedule Items**

Procured items	Item(s) available on FSS			GSA	GSA	GSA
	No	Yes	Cannot be determined	price lower	price higher	price equal
Ammunition, 40 caliber	1					
Stone & aggregate	1					
Prestressed concrete box beams	1					
Prestressed concrete culverts	1					
Construction of site utilities & paving	1					
Electric wire	1					
Guardrail post & block	1					
Wood sign posts	1					
Reflective sheeting	1					
Lawn mowers		2		1	1	
Pine shavings (animal bedding)	1					
Innerspring mattresses	2					
Traffic lamps	5					
Traffic cones	1					
Fuses, highway	1					
Hot mix asphalt	1					
Paints & chemicals						
Sodium chloride (road salt)		1			1	
Paint			1			
Diesel fuel	1					
Gasoline	1					
De-icing salt (city of Elmira, New York)		1			1	
De-icing salt (DOT New York)			1			
De-icing salt (Albany, New York)			1			
Paint/paint supplies	7					
Automotive						
Tires, high speed	1					
Police pursuit automobiles	1					
Pickup trucks	1					
Police vehicles	1					
Abrasive & chemical spreader			1			
Power reversible snowplow			1			
Barricades	1					
Refuse vehicle			1			
Industrial rider sweeper			1			
4-Wheel articulated loader			1			
Articulated frame grader			1			

(continued)

**Appendix IV
Comparability of State and Local Agencies'
Procurements to GSA Schedule Items**

Procured items	Item(s) available on FSS			GSA	GSA	GSA
	No	Yes	Cannot be determined	price lower	price higher	price equal
Dump truck			1			
Passenger cars	1					
Office supplies						
Xerographic paper (letter)		1		1		
Xerographic paper (legal)		1		1		
Toilet paper		1			1	
Paper towels		1		1		
Roll towels		1		1		
Paper towels (Bounty)	1					
Desk jet ink cartridge black		1			1	
Cartridge F/660C printer, black		1			1	
Toner, cartridge. LaserJet 4L, 4MI		1			1	
Paper, letter #24 GY 25% cot (Eaton)		1		1		
Glue/Krazy Pen .07 oz.		1			1	
Moistener, squeeze bottle	1					
Memo, trip 8.5X7, NCR, 50 set	1					
Binder, ring, 11X8.5, 1" Dbe			1			
Scissors, 8" 12/BX, 12/CS		1			1	
Paper 8.5X11, #20 wht (Springhill Relay DP)	1					
Punch, 3 hole 25SH cap black		1			1	
Rest, foot, adjustable, DGY		1		1		
Headset, Lanier	1					
Dispenser, Pop-N-Jot, Bgy		1		1		
Organizer, drawer, smoke		1		1		
Refill, pad, Post-It 3X3, BL		1		1		
Marker, highlighter, "Boss," Y		1		1		
Marker, highlighter, "Boss," G	1					
Marker, highlighter, "Boss," R	1					
Pen, Rolg, XF, precise, gn, pv		1		1		
Pen, Rolg, XF, precise, pe, pv		1		1		
Folder, hang, BX2," exp, lgl, gn		1		1		
Dispenser, Gem, clip, smoke		1		1		
Clips, Gem vinyl, #1, assorted		1		1		
Pad, legal, ruled, 5X8, ivory		1		1		
Pad, legal, ruled, 5X8, gray		1		1		
Routing req, 34" yel	1					
Folder, letter, 1/3, sgl, 11 pt, A		1			1	

(continued)

**Appendix IV
Comparability of State and Local Agencies'
Procurements to GSA Schedule Items**

Procured items	Item(s) available on FSS			GSA	GSA	GSA
	No	Yes	Cannot be determined	price lower	price higher	price equal
Folder, legal, 1/3, asst 166	1					
Staples, std CP 5M/ppr BX		1			1	
Dispenser, tape black, 1" core		1		1		
Pad, doodle black	1					
Tape, Magic .75X1296" 1" C		1		1		
Magnifier, round, 2X4"		1			1	
File, box letter/legal 12X10X15		1		1		
Tape, carton seal 2" clear		1		1		
Marker ultrafine, Flair, bl		1		1		
Ribbon, Nex P5/P9 XL	1					
Totals	84	70	101	47	20	3
Total number of items on invoices	255					

^aAs noted in chapter 3, GSA officials told us that they do not intend to make the schedule with airline fares available for use in the cooperative purchasing program.

Source: GSA and state and local agencies.

Comments From the General Services Administration



Administrator
General Services Administration
Washington, DC 20405

JAN - 7 1997

Mr. Bernard L. Ungar
Associate Director
Federal Management and Workforce Issues
General Accounting Office
Washington, DC 20548

Dear Mr. Ungar:

Thank you for the opportunity to review and comment on your draft report to the General Services Administration (GSA) and congressional committees entitled COOPERATIVE PURCHASING: Effects Are Likely to Vary Among Governments and Businesses.

GSA commends the General Accounting Office (GAO) for its efforts and for a comprehensive report. The report reflects your extensive efforts to address the issues raised by Congress and other interested parties regarding opening Federal supply schedule contracts for use by State, local and Indian tribal governments. The report's findings confirm much of the information that GSA obtained in the process of preparing to implement section 1555 of the Federal Acquisition Streamlining Act.

GSA agrees with your finding that given the uncertainties over the extent to which state and local governments and businesses actually will exercise their options in the program and purchase items from vendors on the schedules, the lack of sufficient data on the potential beneficial and adverse effects, and conflicting views that will likely be encountered for some schedules, it will be very difficult for GSA to make quantitative assessments of the potential beneficial and negative effects of opening schedules. GSA believes, however, that it will be able to obtain enough information to make informed decisions by employing a process that examines each schedule on a case-by-case basis, and one that involves all potentially affected or interested parties.

Every effort will be made to create a process that fully considers the effects that opening a particular schedule may have on the Federal Government, state and local governments, and industry, especially small business concerns. GSA will

**Appendix V
Comments From the General Services
Administration**

-2-

make decisions on including or excluding particular schedules, or portions of schedules, based on the best available information. Where significant controversy or concern about potential adverse impact exists, GSA will exclude that schedule, or portions of the schedule, from the Cooperative Purchasing program.

As you noted in the draft report, GSA has not yet finalized an implementation plan. When our authority to implement section 1555 was suspended, we purposely delayed finalizing the implementation plan so that we could consider GAO's findings and recommendations. Now that GSA has your draft report, GSA will proceed with finalizing its implementation plan. We agree that such a plan will assist Congress and others in understanding the program and evaluating its potential impact and benefits.

Please thank all GAO personnel involved with preparing the draft report for a job well done.

Sincerely,



David J. Barram
Acting Administrator

Comments From the Department of Veterans Affairs



DEPARTMENT OF VETERANS AFFAIRS
DEPUTY ASSISTANT SECRETARY FOR ACQUISITION AND MATERIEL MANAGEMENT
WASHINGTON DC 20420

JAN 10 1997

Mr. Bernard L. Ungar
Associate Director
Federal Management and Workforce Issues
General Accounting Office
Washington, DC 20548

Dear Mr. Ungar:

Thank you for the opportunity to review and comment on your draft report, "COOPERATIVE PURCHASING: Effects Are Likely to Vary Among Governments and Businesses." Thank you also for providing an extension for receipt of our comments.

Like GSA, we commend you for your efforts in completing the report on a very complex subject. We do understand that GAO is separately studying the impact of Section 1555 of the Federal Acquisition Streamlining Act on the pharmaceutical schedules. That separate study, referenced as GAO/HEHS-97-XX, dated February 10, 1997, is very important to VA and may impact on the comments we are providing you. We look forward to reviewing that study.

Your review has appropriately identified many of the factors making it difficult in definitively assessing the overall impact of opening a Federal Supply Schedule to state and local Government users. We believe that some of the impacts cannot be projected but will in fact require experiences to be gained from the actual opening of some of the schedules. For instance, will there be consistent adherence to payment provisions by all state and local ordering entities? Will diverse business processing systems and other differences erode the expected vendor administrative savings identified in the report? Further, while we generally ascribe to the theory that increased market share through consolidating requirements will result in better pricing, the opposite may occur if doing so diminishes effective competition or the characteristics of the industry make it less susceptible to such market forces.


We believe your report and the issues raised above illustrate the importance of the process used by GSA and VA in making informed decisions regarding the opening of each schedule on a case-by-case basis. That process should be clearly enunciated in the implementation plan that GSA will be developing. We expect to participate in the development of that plan and recommend GAO's ongoing assistance in the plan development. Once the Implementation Plan is finalized, we believe an industry conference will need to be held for each schedule. Timing of the conferences and associated costs will need to be evaluated.

**Appendix VI
Comments From the Department of
Veterans Affairs**

Mr. Bernard L. Ungar

Again, thank you for the opportunity to provide comments on your draft report, and we look forward to reviewing your assessment of Cooperative Purchasing vis-a-vis our Pharmaceuticals Federal Supply Schedules. Should you have any questions, please call Chris Figg at 202-273-6029.

Sincerely,


for Gary J. Krump

Comments From the National Association of State Purchasing Officials



The National Association of State Purchasing Officials

January 7, 1997

EXECUTIVE COMMITTEE

PRESIDENT

Donald G. Buttum, CPPPO
Director
Office of Purchasing & Travel
Department of Finance & Administration
550 High Street, Room 1504
Jackson, MS 39201

PRESIDENT ELECT

Dugan A. Petty, CPPPO
Alaska

IMMEDIATE PAST PRESIDENT

Richard B. Thompson
Maine

FINANCE CHAIRPERSON & HOST STATE CHAIRPERSON

Gary Lambert
Massachusetts

AT-LARGE

Robert P. McWilliams
Delaware

David P. Gragan
Indiana

Joyce Murphy
Missouri

Manvin Eicholtz
Montana

Cameron Birmie
Oregon

Pat Kohler
Washington

Jan Abrahamson
Wisconsin

Mr. Bernard L. Ungar
Associate Director
Federal Management and Workforce Issues
U.S. General Accounting Office
General Government Division
Washington, DC 20548

Dear Mr. Ungar:

The National Association of State Purchasing Officials (NASPO) appreciates the opportunity to review and comment on the Draft Report to Congressional Committees and the Administrator of General Services on *Cooperative Purchasing: Effects Are Likely to Vary Among Governments and Businesses*. NASPO is an organization that serves the purchasing administrators of the 50 states, and U.S. territories providing leadership in professional public purchasing. NASPO's mission is to improve the quality of procurement, and foster information exchange and cooperative efforts to result in greater economy, efficiency and service to customer agencies. Consistent with its mission, NASPO supports any practice that will improve the ability to make acquisitions of quality goods and services, from responsible vendors and at competitive prices.

As indicated in the GAO draft report, opening the use of federal schedules has the potential to create a positive impact on state and local government, therefore NASPO is in support of the continued review of the proposed practice. As with any beneficial practice, however, there are also potential areas of concern. The following are specific issues on which NASPO feels compelled to comment.

1. The stated purpose of government procurement at all levels - federal, state and local, is the acquisition of quality goods and services, from responsible vendors, at competitive prices. Laws governing the process also dictate competitive procurement procedures. However, even if not stated, another aim is economic development. Government contracting keeps dollars flowing back to the companies which support government with their taxes, and provide employment opportunities. Should state and local contracting opportunities be diminished as a result of increased use of federal schedules, the perception at the local level could be negative. Even if the reality is that the small, local vendors are not generally successful bidders, the perception of diminished opportunities is, in and of itself, a concern.
2. The draft report states that 75 percent of the GSA negotiated contracts are with small businesses. NASPO is familiar with this statistic and its use to allay concerns that certain small and medium sized businesses could



NASPO, 167 W. Main Street, Suite 600, Lexington, KY 40507
Telephone: (606) 231-1877 • FAX: (606) 231-1928

Appendix VII
Comments From the National Association of
State Purchasing Officials

Mr. Bernard L. Ungar

-2-

January 7, 1997

be hurt by state and local government use of federal schedules. Nevertheless, concern remains as state and local definitions of a small business may differ considerably from the federal definition, and in some instances, local residency is a criteria. As articulated in issue #1, we must be prepared to deal with the reality and/or perception of lost contracting opportunities for smaller, regional, and/or local firms.

3. As the report notes, no general statement can be made with respect to opportunities for savings at the state and local government level - examples abound of both higher and lower federal supply schedule prices. We note at the state level that frequently the government agency that holds the first competitive letting may inadvertently establish the "price which must be beat." Non successful bidders use the prices set by the first letting as their benchmark, with each successive letting (i.e., neighboring state, large local government, federal versus state) resulting in more competitive prices from "hungrier" bidders aware of the benchmark prices. Certain bidders may also be able to offer lower prices only in certain regions of the country, or even of a state. Thus, lower prices resulting from the combined volume of federal, state and local agencies using the same contract may not be a "given." Multiple bid lettings and opportunities for regional discounting, not just the aggregation of larger volumes under fewer contracts, help keep prices competitive. There is also a point where larger volume alone, especially when the larger volume is dependent on voluntary participation, does not automatically and continually drive prices lower. Use of a single contract by multiple levels of government may weaken, in some circumstances, the current system of checks and balances that helps to ensure the most competitive prices are obtained.
4. We agree with the report's conclusion that any potential positive impact on state and local governments will be limited by the exclusion of certain contracts from the extension program. It is interesting to note that contractors in favor of extension claim schedule prices will decrease with the larger volume, while those who do not want their schedules extended maintain prices will increase. Should GSA also opt to open, in certain instances, portions of an individual schedule while excluding others, savings opportunities would be further impacted. If a state ends up contracting for only certain items in a given contract category, the subsequent state contract covering a reduced product line could result in higher prices to that state.
5. One issue not included in the report's list of state and local government concerns is the right of a contractor to reject a purchase order within five days of receipt, even if the contractor agrees to schedule extension. NASPO believes this to be a major concern of most states. If a state determines a federal schedule provides the best procurement alternative, one course of action would be cancellation of the state contract. The

Appendix VII
Comments From the National Association of
State Purchasing Officials

Mr. Bernard L. Ungar

-3-

January 7, 1997

purchase order rejection condition makes such alternative very risky, yet continuing a state contract while authorizing use of a federal schedule would disadvantage state contractors who could end up with contracts of very limited value. Also, the benefit attributed in the draft report to an Albany, NY, official, with respect to the advantage of shortened procurement lead times, would not materialize if an order was rejected after receipt by a contractor, especially if there was no local "backup" contract.

6. Many state procurement statutes require agencies to select the most cost effective alternative. Not justifying selection of the lowest cost or best value alternative, and limiting the review to only three schedule price lists, may not be options available to agencies in all states, as they apparently are for federal agencies. For this reason, states issue single, or limited multiple award contracts. Complying with this type of state requirement will be difficult for an agency with limited procurement staff faced with a federal schedule with dozens of contractors. Staff previously devoted to new contract development may find their duties shifted to analysis of federal schedules. This circumstance, and issues raised in several other points, including 4, 5 and 10, will work against any perceived benefit resulting from reduced administrative and staff costs.
7. NASPO agrees with GAO that GSA should use communication tools other than just the *Commerce Business Daily (CBD)*. Few state procurement officials and small businesses review *CBD* notices.
8. State and local government procurement statutes contain mandatory contract terms and conditions. It may be necessary for federal contractors to honor certain of these terms and conditions, in writing, before their schedule can be legally used by a local ordering agency. For example, certain laws require contractors to abide by state specific human rights, affirmative action, or even international business restrictions (i.e., Burma, Northern Ireland).
9. NASPO questions the statement with respect to "none of the 26 state...officials...indicated that they were members of cooperatives..." (Chapter 2, page 15). In fact, there are several active purchasing cooperatives involving NASPO members.
10. Several state administered contract extension programs permit various categories of non profit, non government entities to participate in state contracts. Examples include charities, non profit educational institutions, and non profit hospitals. Unless federal schedule holders are willing to serve all state contract customers, a state's decision to authorize use of a federal contract could result in the disenfranchisement of a large, vocal constituency.

**Appendix VII
Comments From the National Association of
State Purchasing Officials**

Mr. Bernard L. Ungar

-4-

January 7, 1997

It would be appreciated if 50 copies of GAO's final report could be provided to the NASPO Program Manager, Dana Carter, at the following address:

The Spieler Group
167 West Main Street, Suite 600
Lexington, KY 40507

NASPO will distribute the report to the 50 state members, and advise associate members of its availability on the Internet (please also provide the Internet address for accessing the report). Finally, NASPO would like to receive a copy of GAO's separate report on pharmaceuticals, when available.

Thank you for this opportunity to comment. NASPO looks forward to continued discussions on this very important issue. Questions regarding the comments contained in this response, and on this topic in general, may be directed to Paula Moskowitz, Chair, Federal/State Relations Committee (518-474-6710), or Pat Kohler, Co-Chair for GSA Supply Schedule Extension Issues, Federal/State Relations Committee (360-902-7404).

Sincerely,



Paula Moskowitz, Chair
NASPO Federal/State Relations Committee



Pat Kohler, Co-Chair
GSA Supply Schedule Extension Issues
NASPO Federal/State Relations Committee

cc: Donald G. Buffum, CPPO
President, NASPO

Major Contributors to This Report

**General Government
Division, Washington,
D.C.**

Mr. James M. McDermott, Assistant Director
Mr. Martin H. DeAlteriis, Senior Social Science Analyst
Ms. Vasiliki Theodoropoulus, Senior Evaluator /Communications Analyst

**Office of the Chief
Economist**

Mr. Loren Yager, Assistant Director

**Office of General
Counsel**

Mr. Alan N. Belkin, Assistant General Counsel
Mr. John G. Brosnan, Assistant General Counsel
Mr. Victor B. Goddard, Senior Attorney

Dallas Field Office

Ms. Marcia B. McWreath, Evaluator-in-Charge
Mr. Vijaykumar J. Barnabas, Senior Evaluator
Ms. Mary K. Muse, Senior Evaluator
Ms. Rita F. Oliver, Senior Evaluator
Mr. James L. Rose, Evaluator
Mr. James W. Turkett, Senior Evaluator
Mr. Cleofas Zapata, Jr., Senior Evaluator

Ordering Information

The first copy of each GAO report and testimony is free. Additional copies are \$2 each. Orders should be sent to the following address, accompanied by a check or money order made out to the Superintendent of Documents, when necessary. VISA and MasterCard credit cards are accepted, also. Orders for 100 or more copies to be mailed to a single address are discounted 25 percent.

Orders by mail:

U.S. General Accounting Office
P.O. Box 6015
Gaithersburg, MD 20884-6015

or visit:

Room 1100
700 4th St. NW (corner of 4th and G Sts. NW)
U.S. General Accounting Office
Washington, DC

Orders may also be placed by calling (202) 512-6000
or by using fax number (301) 258-4066, or TDD (301) 413-0006.

Each day, GAO issues a list of newly available reports and testimony. To receive facsimile copies of the daily list or any list from the past 30 days, please call (202) 512-6000 using a touchtone phone. A recorded menu will provide information on how to obtain these lists.

For information on how to access GAO reports on the INTERNET, send an e-mail message with "info" in the body to:

info@www.gao.gov

or visit GAO's World Wide Web Home Page at:

<http://www.gao.gov>

**United States
General Accounting Office
Washington, D.C. 20548-0001**

**Bulk Rate
Postage & Fees Paid
GAO
Permit No. G100**

**Official Business
Penalty for Private Use \$300**

Address Correction Requested

