



July 2015

# FEDERAL SUPPLY SCHEDULES

More Attention  
Needed to  
Competition and  
Prices

## Why GAO Did This Study

The FSS program provides agencies a simplified method of purchasing commercial products and services at prices associated with volume buying. In 2011, the FAR was amended to enhance competition on FSS orders. Competition helps agencies get lower prices on products and services and get the best value for taxpayers.

GAO was asked to examine competition and pricing for FSS orders. This report addresses (1) how and to what extent the government is using the FSS program, (2) factors influencing the degree of competition for FSS orders, and (3) the extent to which agencies examine prices to be paid for FSS orders.

GAO analyzed data from the Federal Procurement Data System-Next Generation on obligations through the FSS program for fiscal years 2010-2014 and reviewed a non-generalizable sample of 60 FSS orders awarded in fiscal year 2013 by DOD, HHS and GSA, the agencies with the highest use of the FSS program. GAO also interviewed officials from these agencies and FSS vendors.

## What GAO Recommends

GAO recommends that DOD, HHS and GSA issue guidance and assess training to focus attention on rules related to pricing. DOD, HHS and GSA concurred. GAO also recommends HHS assess reasons contributing to its higher rate of orders with only one or two quotes. HHS concurred.

# FEDERAL SUPPLY SCHEDULES

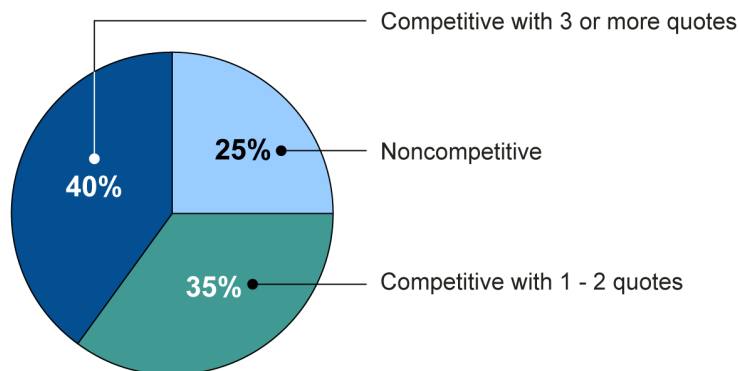
## More Attention Needed to Competition and Prices

## What GAO Found

According to the General Services Administration (GSA), total sales through the Federal Supply Schedules (FSS) program in fiscal year 2014 were \$33.1 billion. This includes purchases by federal, state, and local agencies, including federal intelligence agencies which do not report their FSS spending publicly. GAO's analysis of publicly reported federal procurement data shows that federal use of the FSS program has declined from \$31.8 billion in 2010 to \$25.7 billion in 2014—a 19 percent inflation-adjusted decrease. This is consistent with the decline in overall federal contracting obligations. The FSS portion of total federal contracting obligations remained steady—between 5 and 6 percent.

Most FSS obligations were competed in fiscal year 2014, but only 40 percent of obligations were on orders for which the government received three or more quotes—a number frequently mentioned in the Federal Acquisition Regulation (FAR). These results are influenced by various factors. One factor identified in the orders from the agencies GAO reviewed—the Departments of Defense (DOD) and Health and Human Services (HHS) and GSA—involves situations where few vendors can fulfill agencies' specific needs.

Extent of Competition for Fiscal Year 2014 Federal Supply Schedule Orders



Source: GAO analysis of Federal Procurement Data System - Next Generation fiscal year 2014 data. | GAO-15-590

HHS had a significantly higher percentage of FSS obligations in fiscal year 2014 on orders that were competed but the agency received only one or two quotes—51 percent—compared to DOD and GSA, which received one or two quotes for 35 and 32 percent of their FSS obligations, respectively. HHS's practice of targeting solicitations to fewer vendors may be contributing to this higher rate.

Agencies are paying insufficient attention to prices when using FSS. Ordering agencies did not consistently seek discounts from schedule prices, even when required by the FAR. In addition, GAO found cases in which officials did not assess prices for certain items, as required, or had insufficient information to assess prices. Contracting officials were not always aware of the requirement to seek discounts and told GAO that the need to assess prices was not emphasized in training and guidance. When contracting officials are not aware of these regulations, agencies may be missing opportunities for cost savings.

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## Abbreviations

DOD	Department of Defense
FAR	Federal Acquisition Regulation
FPDS-NG	Federal Procurement Data System–Next Generation
FSS	Federal Supply Schedules
GSA	General Services Administration
HHS	Department of Health and Human Services
NIH	National Institutes of Health
SAT	simplified acquisition threshold

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July 9, 2015

The Honorable Ron Johnson  
Chairman  
The Honorable Thomas R. Carper  
Ranking Member  
Committee on Homeland Security and Governmental Affairs  
United States Senate

The Honorable Claire McCaskill  
Ranking Member  
Permanent Subcommittee on Investigations  
Committee on Homeland Security and Governmental Affairs  
United States Senate

The Federal Supply Schedules (FSS) program, managed by the General Services Administration (GSA), provides federal agencies a simplified method of purchasing commercial products and services at prices associated with volume buying. A schedule is a set of contracts awarded to multiple vendors that provide similar products and services. Transactions conducted through the FSS program represent significant spending: in 2014, GSA reported total program sales of \$33.1 billion. Orders placed through the FSS program generally must follow competitive procedures laid out in the Federal Acquisition Regulation (FAR), though agencies can award noncompetitive orders under certain circumstances. In 2011, the FAR was revised to enhance competition for orders placed under FSS contracts. Specifically, agencies now must either give all contractors under the relevant schedule an opportunity to submit a quote or take steps to reasonably ensure that the government receives at least three quotes for orders valued over \$150,000. Increased competition among FSS contractors helps ordering agencies compare the features and prices of comparable products and services to determine the best value.

You asked us to examine competition and pricing for orders under the FSS program. This report addresses (1) how and to what extent the government is using the FSS program to order goods and services, (2) factors influencing the extent of competition for FSS orders, and (3) the extent to which agencies examine prices to be paid for FSS orders.

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To determine how the government is using the FSS program, we analyzed data in the Federal Procurement Data System-Next Generation (FPDS-NG), which is the government's procurement database, to identify obligations through the FSS program for fiscal years 2010 through 2014, the most recent data available at the time of our review. We compared FPDS-NG data to contract file documentation for a nongeneralizable sample of orders and, based on this comparison, determined that the FPDS-NG data were sufficiently reliable for our purposes.

To assess the factors influencing competition and the extent to which agencies examined prices to be paid for FSS orders, we selected a nongeneralizable sample of 60 FSS orders under GSA schedules.<sup>1</sup> We identified the three agencies that made the most use of the GSA schedules based on obligations reported in FPDS-NG: the Department of Defense (DOD), GSA, and the Department of Health and Human Services (HHS). We further identified the components of these agencies that obligated the most money through FSS: the Department of the Army (Army) at DOD, the Federal Acquisition Service at GSA, and the Centers for Medicaid and Medicare Services and National Institutes of Health (NIH) at HHS. We selected orders to obtain a mix of products and services purchased off a variety of schedules, including the most frequently used schedules. Because different ordering procedures for competition apply depending on the dollar value of orders, we chose our sample based on four competition categories, with 15 orders selected in each category: (1) noncompetitive awards above \$150,000, which is generally the simplified acquisition threshold (SAT); (2) competitive awards above the SAT coded as the government having only received one or two quotes; (3) competitive awards above the SAT coded as the government having received three or more quotes; and (4) competitive awards below the SAT regardless of number of quotes reported.<sup>2</sup>

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<sup>1</sup>The Department of Veterans Affairs manages selected schedules in the FSS program. This report focuses on use of GSA schedules and we did not include Department of Veterans Affairs schedule orders in our contract sample.

<sup>2</sup>For the purposes of this report, the simplified acquisition threshold is \$150,000 and the micro-purchase threshold is \$3,000. These thresholds can be higher when acquisitions are used to support a contingency operation or to facilitate defense against or recovery from nuclear, biological, chemical or radiological attack. FAR Section 2.101. We did not include any awards valued below \$3,000 in our sample.

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For each of the 60 orders in our sample, we reviewed contract file documentation to assess whether required ordering procedures were followed, the facts and circumstances of competition decisions, whether discounts were sought, and how prices were assessed in making best value determinations. We also reviewed the FAR, agency policies, and Standards for Internal Control in the Federal Government.<sup>3</sup> We interviewed contracting officials at the selected agencies when necessary to obtain additional information not documented in contract files. We also interviewed FSS contractors for some of the orders. A more detailed description of our scope and methodology is presented in appendix I.

We conducted this performance audit from June 2014 to July 2015 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on audit objectives.

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## Background

The FSS program consists of 40 schedules providing access to almost 20,000 vendors offering a wide range of goods and services. GSA operates the FSS program under authority contained in the Federal Property and Administrative Services Act of 1949.<sup>4</sup> For pharmaceuticals and a wide range of medical supplies, GSA has delegated to the Department of Veterans Affairs the authority to solicit, negotiate, award, and administer contracts for selected schedules. Figure 1 provides additional information about the 40 schedules maintained by GSA and the Department of Veterans Affairs.

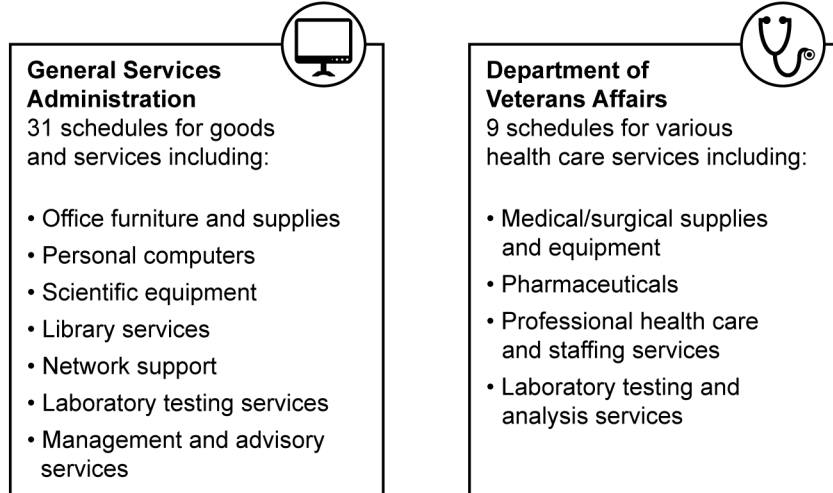
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<sup>3</sup>GAO, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: November 1999).

<sup>4</sup>40 U.S.C. § 501 (as amended). See also 41 U.S.C. § 152(3).



**Figure 1: Overview of 40 Federal Supply Schedules**



Source: GAO analysis of General Services Administration documents. | GAO-15-590

In administering the FSS program, GSA is responsible for ensuring that FSS contract prices reflect the government's aggregate buying power. GSA awards indefinite-delivery contracts to multiple vendors supplying comparable commercial goods and services. These contracts do not guarantee business with the government until federal agencies place orders. The prices established under FSS contracts are the result of negotiations between GSA and individual vendors. GSA negotiators seek to obtain discounts from a vendor's commercial pricelist that are equal to or greater than the discounts offered to the vendor's most favored customer. The most favored customer is a customer or category of customers that receives the best discounts from the vendor's commercial pricelist when purchasing quantities comparable to the government's under similar terms and conditions.<sup>5</sup> GSA receives a 0.75 percent fee on all FSS orders, which is built into the prices paid to vendors by ordering agencies.

Federal agencies must follow certain procedures when ordering goods or services using FSS contracts. When these procedures are followed, the orders are considered to have been issued using full and open competition. Procedures under the FSS program vary according to the

<sup>5</sup>Terms and conditions can include factors such as delivery and warranty requirements.

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dollar value of the individual order, but generally involve competition for orders above \$3,000. For example, to meet the requirements for certain orders exceeding the micro-purchase threshold but not exceeding the SAT, agencies must survey, review pricelists of, or request quotes from at least three schedule contractors.<sup>6</sup> For proposed orders exceeding the SAT, agencies must post a request for quotations on GSA's solicitation website known as eBuy or provide it to as many schedule contractors as practicable to reasonably ensure that agencies receive at least three quotes from contractors that can fulfill the requirement.<sup>7</sup> If requests for quotations are not posted to eBuy, and fewer than three quotes are received, agencies must document the efforts made to obtain at least three quotes, among other things.<sup>8</sup> Appendixes II and III depict the ordering procedures in the FAR for orders above and below the SAT.

Although the ordering procedures generally require competition to procure goods or services above the SAT under the FSS program, orders may also be awarded noncompetitively under certain circumstances.<sup>9</sup> For orders issued noncompetitively above the SAT, the ordering agency must justify in writing the need to restrict competition. The FAR allows for non-competed FSS orders in three circumstances: when an urgent and compelling need exists; only one source is capable of providing the supplies or services; or the new work is a logical follow-on to an original FSS order that was competed.

In negotiating FSS contracts with vendors, GSA determines that schedule prices are fair and reasonable; therefore, ordering activities generally are not required to make a separate determination of fair and reasonable

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<sup>6</sup>See, e.g., FAR Subsection 8.405-1(c)(1).

<sup>7</sup>eBuy is an online system that allows ordering activities to post solicitations, obtain quotes and issue orders electronically. Posting on eBuy satisfies FSS requirements for notifying potential vendors, even if fewer than three quotes are received. While an ordering activity may choose to notify a select population of FSS contractors of their requirement through eBuy (who receive an email notice of the posting), it is available for review on eBuy by all FSS contractors approved within the specified category of goods or services. FSS contractors not notified of the posting by email may still submit a quote for any solicitation posted within their specified areas.

<sup>8</sup>See e.g., FAR Subsections 8.405-1(d) and 8.405-2(c)(3).

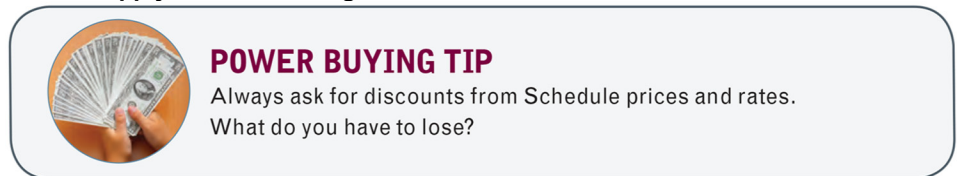
<sup>9</sup>FAR Subsection 8.405-6. For the purposes of this report, "awarded noncompetitively" means limiting sources by not following the procedures laid out in FAR Subsections 8.405-1 and 8.405-2.

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prices.<sup>10</sup> Before placing an order against a schedule contract using the procedures specified in the FAR, the ordering activity has to conclude that the order represents the best value and the lowest overall cost alternative to meet the government's needs. Contractors are not required to offer discounts from their FSS prices. However, ordering activities are required to seek discounts when placing orders with values over the SAT, and may seek discounts for all orders.<sup>11</sup> Figure 2 illustrates the emphasis on seeking discounts from GSA's guidance on using FSS contracts.

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**Figure 2: Excerpt from General Services Administration Guidance on Use of the Federal Supply Schedules Program**



Source: General Services Administration. | GAO-15-590

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## Use of Federal Supply Schedules Has Declined at Roughly the Same Rate as Overall Procurement Spending

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### Use of Federal Supply Schedules Is Declining

In fiscal year 2014, GSA reported its total FSS program sales as \$33.1 billion, which, according to GSA officials, includes data not reported in FPDS-NG such as awards under the \$3,000 micro-purchase threshold and those made by federal intelligence agencies and state and local governments. According to data we reviewed from FPDS-NG, the federal

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<sup>10</sup>FAR Section 8.404(d).

<sup>11</sup>FAR Subsection 8.405-4.

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government obligated \$25.7 billion through the FSS program in 2014—a decrease of 19 percent or \$6 billion since 2010.<sup>12</sup> This is consistent with overall federal obligations that have declined at roughly the same rate.<sup>13</sup> Since 2010, the proportion of total federal contracting obligations awarded under the FSS program has remained approximately the same—between 5 and 6 percent. While spending on both products and services has decreased under the FSS program, products have declined more than services—30 percent compared to 14 percent—with services making up an increasing proportion of obligations. Services comprised 73 percent of obligations in 2014, up from 69 percent in 2010. Figure 3 depicts the proportion of product and service obligations in relation to overall FSS obligations from fiscal years 2010 through 2014.

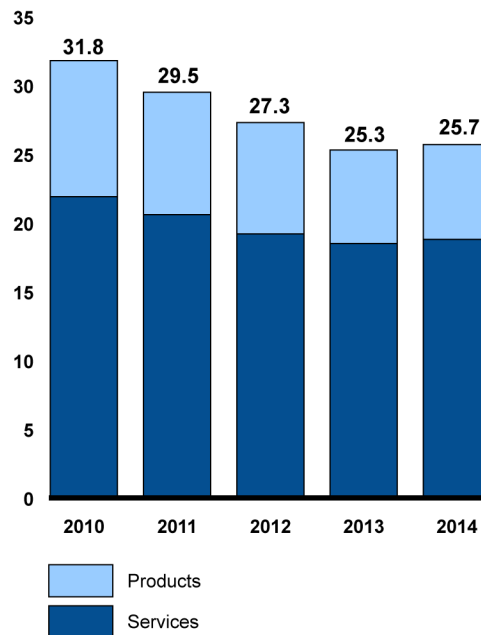
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<sup>12</sup>All FPDS-NG data have been adjusted to represent fiscal year 2014 dollars, and thus include the effects of inflation or escalation. We adjusted for inflation using the Gross Domestic Product price index. FPDS-NG data include obligations made on orders on Department of Veterans Affairs schedule contracts.

<sup>13</sup>Between 2013 and 2014, however, FSS obligations increased by 2 percent or \$464 million.

**Figure 3: Obligations through the Federal Supply Schedules Program for Products and Services**

Dollars (in billions)



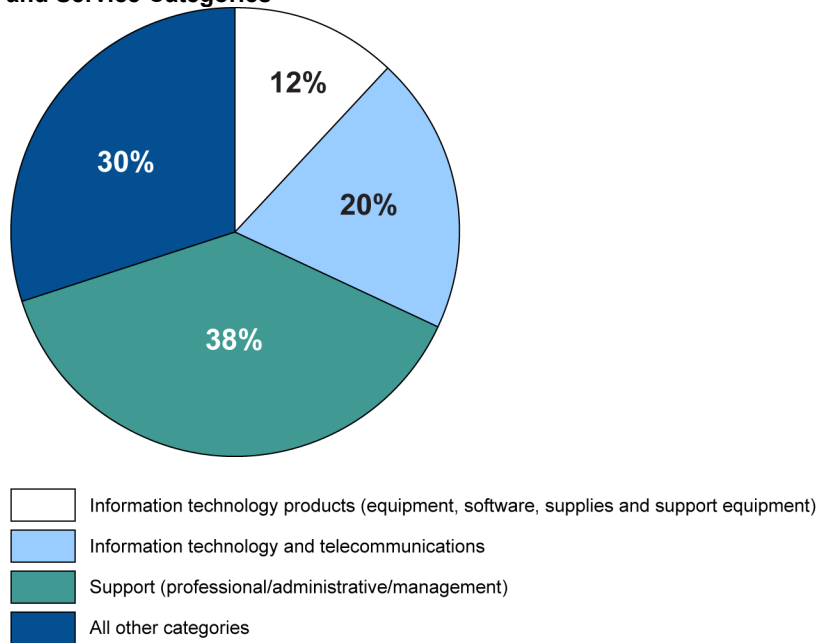
Source: GAO Analysis of Federal Procurement Data System – Next Generation data for fiscal years 2010 to 2014. | GAO-15-590

Note: All dollars are adjusted for inflation to fiscal year 2014 dollars.

The FSS program can be used to meet a broad variety of government requirements. Agencies can procure relatively simple items—for example, the sample of orders we reviewed included musical instruments, sleeping bags, foam cups, and copier and printer maintenance. However, our sample also included large and complex procurements—for example, a \$123 million order for development of a human resources information system, a \$91 million order for in-person consumer support services, and a \$66 million order for enterprise-level technology support.

In fiscal year 2014, three product or service categories accounted for 70 percent of all FSS obligations: 38 percent (\$9.8 billion) were spent on professional, management, and administrative support services; 20 percent (\$5.1 billion) on information technology and telecommunications services; 12 percent (\$3.1 billion) on information technology products—equipment, software, and supplies. (See figure 4.) The “other” category includes, for example, office supplies, which account for only 0.5 percent (\$129 million) of FSS obligations.

**Figure 4: Percentage of Federal Supply Schedule Obligations by Selected Product and Service Categories**



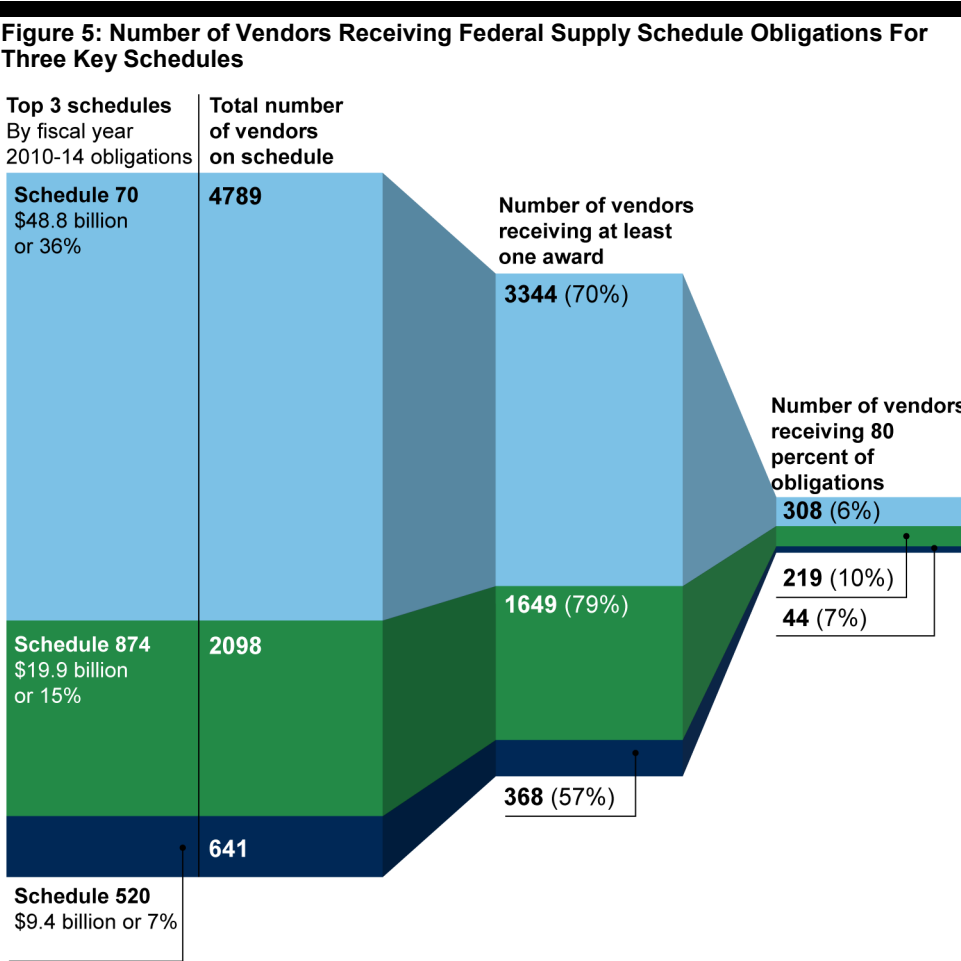
Source: : GAO analysis of Federal Procurement Data System – Next Generation fiscal year 2014 data. | GAO-15-590

## Small Number of Vendors Receive Most FSS Obligations

Part of the appeal of the FSS program is that it provides access to a large pool of potential contractors, but the number of vendors varies significantly by schedule. For instance, in 2014, Schedule 751 (Leasing of Automobiles and Light Trucks) had 8 vendors while Schedule 70 (General Purpose Commercial Information Technology Equipment, Software, and Services) had 4,789 vendors. Each schedule is composed of categories, called special item numbers, that group similar products, services, and solutions together. A vendor with a schedule contract does not necessarily offer all of these categories of goods and services available within that schedule. Therefore, there may be fewer vendors within one schedule depending on the specific category of goods or services being purchased. For instance, while the schedule for human resources and equal employment opportunity services has 276 vendors, only 4 vendors provide the specific category of private shared service centers for core human resources services.

We found that, although some schedules have a large pool of vendors, most of the obligations on orders through those schedules go to a smaller subset of vendors. For instance, 308 of the 4,789 vendors under

Schedule 70—or 6 percent—received 80 percent of all obligations between fiscal years 2010 through 2014. Figure 5 shows the concentration of work received for the three schedules with the highest obligations in fiscal years 2010 through 2014.



Source: GAO Analysis of Federal Procurement Data System – Next Generation data for fiscal years 2010 to 2014. | GAO-15-590

Note: Schedule 70 is for general purpose commercial information technology equipment, software, and services. Schedule 874 is for mission oriented business integrated services, otherwise known as MOBIS. Schedule 520 is for financial and business solutions, otherwise known as FABS.

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## Various Factors Influence the Extent of Competition for FSS Orders

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### Agencies Government- Wide Did Not Receive Three or More Quotes for Most Fiscal Year 2014 FSS Obligations

According to FPDS-NG data, 75 percent of FSS obligations were coded as competitive in fiscal year 2014.<sup>14</sup> However, only 40 percent of these obligations were on orders for which the government received three or more quotes while 35 percent of obligations were on orders with only one or two quotes. FAR procedures generally emphasize reviewing three pricelists, soliciting three quotes, or attempting to obtain at least three quotes from vendors, and orders placed that follow these procedures are considered to be issued using full and open competition.<sup>15</sup> The FAR also describes steps to take when awarding noncompetitive orders. Twenty-five percent of obligations were coded as noncompetitive of which 49 percent were coded as orders where only one source could perform the work (see figure 6).

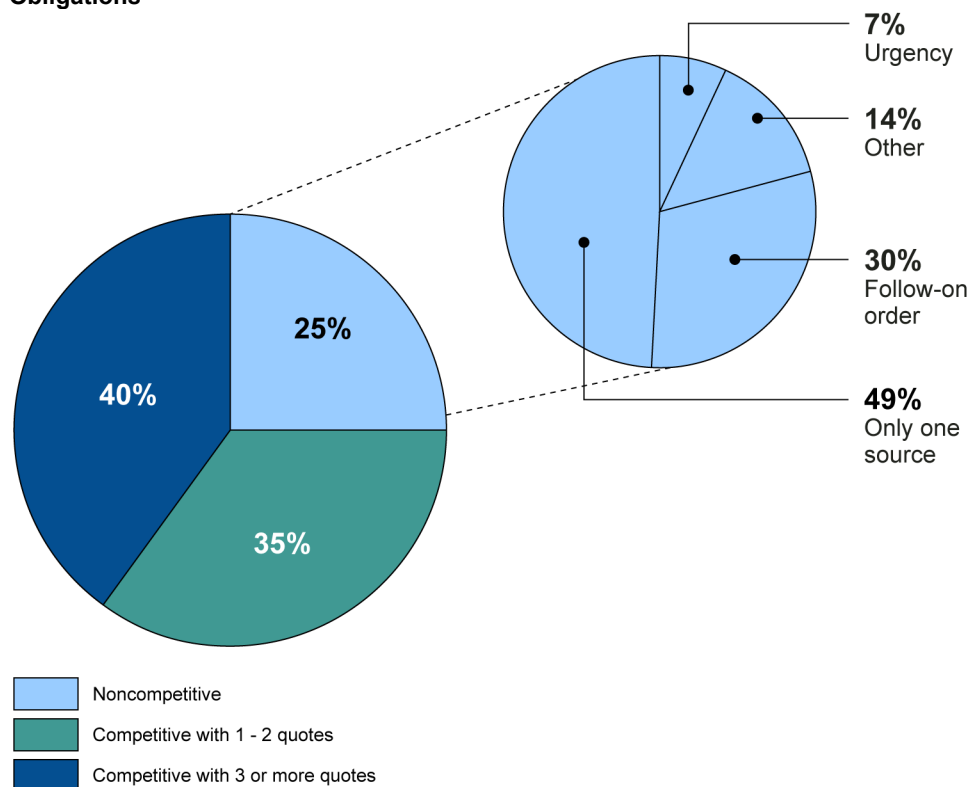
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<sup>14</sup>Our analysis of FPDS-NG competition data excludes obligations made through blanket purchase agreements, which follow different competition procedures than task and delivery orders. In fiscal year 2014, the government obligated \$19.4 billion through FSS orders and \$6.3 billion through FSS blanket purchase agreements.

<sup>15</sup>For orders above the SAT, agencies can also maximize competition by posting on eBuy. When solicitations are not posted on eBuy, the FAR also describes steps to take when fewer than three quotes are received. See FAR 8.405-1(d)(3) and 8.405-2(c)(3)(iii). For procedures required below the SAT, see FAR 8.405-1(c) and 8.405-2(c)(2).



**Figure 6: Extent of Competition for Fiscal Year 2014 Federal Supply Schedule (FSS) Obligations**



Source: GAO analysis of Federal Procurement Data System - Next Generation fiscal year 2014 data. | GAO-15-590

Note: The "other" category includes noncompetitive obligations that were coded under competition exceptions that are not applicable for FSS orders.

### Three or More Quotes Received for FSS Orders Using Various Methods

Our selected sample of 60 FSS orders included 23 competed orders—8 below and 15 above the SAT—for which agencies received three or more quotes or reviewed three pricelists—a number frequently mentioned in the FAR. The agencies obtained three or more quotes from vendors using a variety of approaches. For proposed orders below the SAT, according to the FAR, the contracting officer must either review pricelists

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from, request quotes from, or provide the solicitation to at least three schedule contractors.<sup>16</sup> For instance, we found:

- A GSA contracting officer awarded a \$10,000 order on behalf of the Air Force for office file equipment by reviewing prices listed on GSA's website, requesting—and receiving—quotes from four vendors, and then comparing the prices they offered to select the vendor with the lowest price.<sup>17</sup>
- The Army placed a \$23,000 order for steamers and fryers by posting a solicitation on eBuy for 5 days. The contracting officer, who received four quotes in response, selected the lowest-priced quote that was technically acceptable.

Contracting officers used similar methods to obtain three or more quotes above the SAT. For these orders, the government must either post a request for quotation on eBuy—which provides all eligible vendors access to the solicitation—or take measures to reasonably ensure that agencies receive at least three quotes from contractors that can fulfill the requirement—such as sending the solicitation directly to a subset of vendors via email. Contracting officials posted solicitations on eBuy for 12 of the 15 orders in our sample where three or more quotes were received and directly solicited vendors via email for only 3 orders. Examples from our sample that illustrate these methods include:

- The Army used eBuy to compete a \$19.9 million order for communications support and infrastructure in Kuwait and Afghanistan. Nine vendors submitted quotes and the vendor with the lowest-priced quote that was technically acceptable won the award.
- To compete a \$19.9 million order for technical and professional information technology services at NIH, the contracting officer emailed the solicitation to 22 potential vendors, 12 of which submitted quotes.

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<sup>16</sup>Below the SAT, if an order does not require a statement of work, the FAR requires that the contracting officer either survey, review catalogs or pricelists of, or request quotes from at least three schedule contractors. If an order below the SAT does require a statement of work, the FAR requires that the contracting officer provide the request for quotation to at least three schedule contractors that offer services that will meet the agency's need. FAR Subsections 8.405-1(c)(1) and 8.405-2(c)(2).

<sup>17</sup>For the purposes of this report, we have rounded all order values to the nearest thousand or million dollars.

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NIH found 4 of these technically acceptable, but 1 of these 4 did not comply with the terms of the solicitation, leaving 3 competitors. Competitors were evaluated on past performance, technical capability, and price.

In some cases, although three or more quotes were received, after preliminary evaluation, agencies actually considered fewer than three quotes either because some of the quotes were not technically acceptable or because they did not comply with the terms of the solicitation. For example, GSA, on the behalf of the Army, received 10 quotes in response to a solicitation for a \$66 million award for information technology support. However, 9 quotes were deemed not technically acceptable and only 1 quote was considered eligible for award.

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### Various Factors Influenced Why Agencies Received Only One or Two Quotes for Selected Orders

Agencies received only one or two quotes for 23 of the 60 FSS orders in our sample. We identified various factors that may have influenced why agencies received fewer quotes.

#### HHS Practice of Targeting Solicitations to Fewer Vendors May Result in Fewer Quotes

According to FPDS-NG data, in fiscal year 2014, HHS received only one or two quotes for orders accounting for 51 percent of its total FSS obligations. This compares with 35 percent government-wide. DOD and GSA received one or two quotes for 35 and 32 percent of total FSS obligations, respectively. The higher percentage of FSS obligations where HHS received only one or two quotes suggests that HHS may be missing opportunities to maximize competition, as specified in the FAR. Our sample included nine orders for which HHS received only one or two quotes.

For eight of these nine HHS orders, we found HHS officials narrowed the pool of competitors by soliciting six or fewer selected vendors, in contrast to the other agencies in our review that favored eBuy.<sup>18</sup> For example, to award a \$2.4 million order for logistical and administrative support, contracting officials conducted market research to identify five vendors

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<sup>18</sup>Some of these orders were below the SAT. The ninth HHS order was valued above the SAT and solicited via eBuy. However, HHS officials only anticipated that a limited number of vendors would submit quotes because only a few could supply the goods being purchased.

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that were capable of performing the work and emailed the solicitation only to these vendors rather than releasing it to over 100 potential vendors via eBay. The officials explained they could have potentially received hundreds of responses which they would not have been able to adequately review in a timely manner and they were fairly confident that all five vendors would submit quotes. However, only one quote was received in response to this solicitation. Other HHS officials told us that narrowing the number of vendors solicited is a practice that they use to compete common items or services. Although this practice is consistent with FAR procedures, the relatively higher percentage of HHS obligations on orders for which the government received only one or two quotes in fiscal year 2014 suggests that HHS contracting officers may not be putting enough emphasis on ensuring that three or more quotes are received when competing orders.

Further, in two of these cases, officials missed an opportunity to evaluate whether this practice of limiting the number of vendors solicited was a reasonable approach before proceeding to award the orders. For proposed orders above the SAT, if requests for quotations are not posted to eBay, agencies must write a determination explaining the efforts made to obtain at least three quotes from contractors and that no additional contractors capable of providing the necessary goods and services could be identified despite reasonable efforts to do so. In two cases at HHS, contracting officials did not prepare these determinations and told us they were not aware of this requirement. Although this issue was not widespread within HHS, it suggests that HHS officials may not be fully aware of their responsibilities with respect to FSS ordering procedures.

#### Small Number of Potential Vendors and Other Factors Influenced Number of Quotes Received

Our sample also included another 14 orders for which agencies received only one or two quotes, 8 awarded by the Army and 6 awarded by GSA. In almost half of these cases, we found that one reason the government received fewer quotes was because the goods and services needed by the agency were only provided by a small number of vendors. For example:

- A \$446,000 Army order to replace portions of a targeting system was solicited on a brand name or equal basis—meaning that the agency sought either a specific brand or items with the same features as the brand name. According to a contracting official, typically only the vendor that provided the system could perform repairs. However, because in this instance larger portions were being replaced—rather than just repaired—officials thought there was a possibility of obtaining more than one quote. Therefore, they competed the order

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rather than awarding it noncompetitively, but only the incumbent submitted a quote.

- In another case, GSA awarded a \$123 million order to provide a web-based human resources solution. According to the acquisition plan, only four vendors offered this category of goods and services under their schedule contracts, so at most four vendors could have responded to the solicitation, which was posted for 45 days. However, ultimately only two vendors responded. The contracting officials selected the winning vendor based on technical approach, management approach, past performance, and price, in accordance with the solicitation.

We also found one example where the Army made errors in the solicitation process, which may have limited competition. In this case, we reviewed a \$23,000 Army order for a filing system where the Army issued the solicitation using a reverse auction process that did not solicit any vendors that sold the type of item being purchased.<sup>19</sup> The Army mistakenly specified a brand name item only sold by one vendor that was not included among the small businesses notified of the reverse auction. Contracting officials stated this should not have been limited to the brand name as they are aware of other vendors on the GSA schedule that sell similar products. The Army received no bids in the reverse auction and ultimately placed the order with the brand name manufacturer under the vendor's FSS contract.

In some cases, contracting officials told us that they did not know why more vendors did not submit quotes. In 2014, we recommended that DOD establish guidance for contracting officers to assess and document the reasons only one offer was received on competitive solicitations to enhance competition.<sup>20</sup> DOD implemented this recommendation by

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<sup>19</sup>A reverse auction is a tool in which sellers compete against each other to sell products or services. Reverse auctions are similar to traditional auctions, except that sellers compete against one another to provide the lowest price or highest value quote. For more information on reverse auctions, see GAO, *Reverse Auctions: Guidance Is Needed to Maximize Competition and Achieve Cost Savings*, [GAO-14-108](#) (Washington, D.C.: Dec. 9, 2013).

<sup>20</sup>GAO, *Defense Contracting: Early Attention in the Acquisition Process Needed to Enhance Competition*, [GAO-14-395](#) (Washington, D.C.: May 5, 2014).

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Length of Solicitation Period  
Had Varied Effect on Number  
of Quotes Received

requiring contracting officials to ask vendors who had expressed an interest in the solicitation why they did not submit an offer.<sup>21</sup>

In the 60 FSS orders we reviewed, we found that the relationship between the length of time vendors had to respond to competitive solicitations and the number of quotes received varied depending on the individual circumstances of each award. We identified examples where three or more quotes were received even though only a short time was allowed for responses. For example, an Army solicitation for a \$367,000 order for dining facilities equipment was open for 3 days and five technically acceptable quotes were received. Conversely, for a \$90 million order associated with the Affordable Care Act, HHS sent a solicitation to five vendors, initially giving them 19 days to submit quotes. One vendor requested an extension to the solicitation period, which the agency declined. Most of the vendors informed HHS they did not plan to submit quotes, with three noting the short solicitation time period as a reason. Near the end of the solicitation period, HHS extended the solicitation by 17 days. Ultimately, two vendors submitted quotes, but the vendor that had initially requested more time did not and informed HHS that the extension was granted too late in the process to allow them adequate time to prepare a quote.

To maximize savings that are obtained through competition, in 2010, DOD directed that when only one offer is received in response to a competitive solicitation that was open for fewer than 30 days, generally contracting officials should take additional steps to promote competition. These steps include readvertising solicitations for at least 30 additional days. We found one Army solicitation that was open for fewer than 30 days but not resolicited, contrary to DOD regulation. Army contracting officials attributed this lapse in proper procedure to customer pressure to place the awards rather than resolicit and also to inexperienced staff. In May 2014, we reported that contracting officers with whom we spoke generally did not believe that the length of time a solicitation was open was a factor in receiving only one offer, particularly because all of the contracts we reviewed for that report were open for 30 days.<sup>22</sup> In that

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<sup>21</sup>DOD Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics memorandum, "Actions to Improve Department of Defense Competition", August 21, 2014.

<sup>22</sup>[GAO-14-395](#).

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report, we found that acquisition planning activities could help encourage multiple offers and we recommended that DOD ensure that existing acquisition planning guidance promotes early vendor engagement and allows both the government and vendors adequate time to complete their respective processes to prepare for competition.

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### Most Justifications for Noncompetitive Orders Had a Variety of Errors

We reviewed 14 orders—5 each at Army and GSA and 4 at HHS—that were awarded noncompetitively. We found that each of these noncompetitive orders was based on reasons allowed by the FAR—only one source is capable of meeting the need, urgency, or follow-on. For example:

- GSA awarded a \$32.1 million award for the renewal of licenses for imaging applications used in Air Force platforms on the basis of there being only one source capable of meeting the need. According to the justification, only one vendor makes the software and the pursuit of alternatives would cause delays associated with testing and training, as well as duplication in costs.
- The Army awarded a \$317,000 order on the basis of an urgent and compelling need to provide support to soldiers deployed in Hurricane Sandy relief efforts because the vendor was already on-site and competitive procedures would have resulted in unacceptable delays.
- GSA awarded an \$18.6 million order on behalf of the Army as a follow-on to a previously competed order to provide testing and engineering support services. The Army intended to compete this work but, after the competition was delayed, GSA awarded the order noncompetitively to prevent a lapse in service.

For noncompetitive orders above the SAT, the FAR requires that agencies prepare a written justification that includes specific content, including an explanation of why the government could not compete the award, and make the justification publicly available.<sup>23</sup> We reviewed 13 noncompetitive orders above the SAT. In one case—a \$505,000 HHS

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<sup>23</sup>The FAR requires that justifications be publically posted, but not that documentation of the posting be included in the file. FAR Subsection 8.405-6(a)(2)(B). We have previously recommended that documentation be retained for posting justifications for urgency. GAO, *Federal Contracting: Noncompetitive Contracts Based on Urgency Need Additional Oversight*, [GAO-14-304](#) (Washington, D.C.: Mar. 26, 2014).

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order for maintenance of biological specimens—HHS officials did not prepare the required justification. HHS officials told us this was an oversight because they had prepared a justification for a related procurement that they mistakenly applied to this order as well.

For the 12 remaining noncompetitive orders above the SAT, agencies prepared justifications as required, yet we identified a variety of issues with most of these justifications. Issues included: late approval, no evidence that justifications were made publicly available, and citing of incorrect FAR authorities. For example, the justification for a \$360,000 Army noncompetitive order for a proprietary closed-circuit television security system used the format for justifications for open market procurements rather than for FSS orders and therefore did not use the correct FAR citation and included a fair and reasonable price determination instead of a best value determination. Further, officials confirmed it was never made publicly available as required. When interviewed, officials expressed confusion about the requirements for noncompetitive schedule orders and stated that they are in the process of developing new training to address this problem. The variety of issues we found suggests that agency officials may not be fully familiar with the ordering procedures for noncompetitive orders, which points to the need for more training and guidance on the current regulations.

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## Agencies Are Paying Insufficient Attention to the Prices Paid under FSS Orders

Our analysis of how agencies assessed prices for the 60 orders in our sample showed that agencies are not paying sufficient attention to prices for goods and services under FSS orders. Although GSA makes a determination that the prices established on FSS contracts are fair and reasonable, prices for the same item or service can vary widely from one schedule contract to the next, making it important that agencies effectively assess prices when the orders are awarded. However, we found that ordering agencies are not always paying sufficient attention. For example, contracting officers did not consistently seek discounts from schedule prices, even in situations when it was required. Although vendors frequently offered discounts for competitive orders, they were less likely to do so when contracting officers did not seek discounts for



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noncompetitive orders.<sup>24</sup> In other instances, agencies purchased items not on the schedule contract without performing a separate price or cost analysis, as required by the FAR, or did not obtain sufficient information to determine whether the item was on the schedule. Agency officials we spoke with noted that some of these problems stem from inexperienced staff who are unfamiliar with the schedule ordering procedures. GSA has recognized that more needs to be done and is taking steps to increase the information available on prices paid by proposing changes to the data vendors are required to report.

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## FSS Contract Prices for Similar Items Vary

When establishing a FSS contract with a vendor, GSA must make a determination that the prices under the contract are fair and reasonable, but FSS prices can vary widely—as they do on the open market—for certain products. For example, schedule prices for one brand of 8-ounce foam cups we examined varied from \$17.54 per box of 1000 cups to \$50.72 per box of 1000 cups. In the open market, we identified sources selling this brand for \$17.34 to \$38.99 per box of 1000 cups, although these prices did not account for shipping costs. This amount of variation in prices, particularly for the schedule prices, underscores the need for agencies to ensure that they are obtaining the best value when placing orders under FSS contracts. In the case of the foam cups, which were purchased through an order in our sample, GSA competed a purchase of 610 boxes of cups and received a low quote of \$16.10 per box of 1000 cups, which included a discount from the vendor's FSS price.

We also found that vendor practices vary when establishing FSS pricing and discounts, enough so that one vendor may offer a larger percentage discount than another, but the deeper discount does not always lead to the lowest price. Contracting officers told us that some vendors set their FSS price as a ceiling and routinely discount prices for orders, while others offer their best price upfront on the FSS contract and do not offer subsequent discounts. For one order in our sample, GSA issued a solicitation for 200 brand name telephones which elicited two viable quotes. While one vendor offered a higher percentage discount from its

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<sup>24</sup>This is a longstanding issue. For example, in a 2009 review of blanket purchase agreements under the FSS program, we found no evidence that agencies sought discounts when almost half of the blanket purchase agreements reviewed were established. Further, when agencies asked for a discount, they frequently received them. See GAO, *Contract Management: Agencies Are Not Maximizing Opportunities for Competition or Savings under Blanket Purchase Agreements despite Significant Increase in Usage*, [GAO-09-792](#) (Washington, D.C.: Sept. 9, 2009).

FSS contract price than the other—35 percent versus 5 percent—the heavily discounted price was still much higher than the less discounted price. The vendor’s quote with only a 5 percent discount was lower by approximately \$100 per telephone.

Ordering Agencies Did Not Consistently Seek Discounts from Schedule Prices When Required

In our sample of FSS orders that were over the SAT, we found a significant number of cases—16 out of 45 orders—in which contracting officers did not seek discounts from FSS prices, as required per the FAR.<sup>25</sup> In all 16 cases the ordering activities may have missed opportunities for savings. Contracting officers sought discounts for 26 orders, and we could not confirm whether discounts were sought in 3 cases.<sup>26</sup> Whether or not the government followed its own procedures, vendors offered a discount off the schedule prices for most orders in our sample. (See table 1.)

**Table 1: Discounts Sought and Offered for Orders above the Simplified Acquisition Threshold in GAO’s Sample of Federal Supply Schedule Orders**

	Discount Not Sought by Government	Discount Sought by Government	Unclear if Discount Sought by Government	Total
Discount Not Offered by Vendor	6	4	1	11
Discount Offered by Vendor	9	21	1	31
Unclear if Discount Offered by Vendor	1	1	1	3
Total	16	26	3	45

Source: GAO analysis of documentation for selected Federal Supply Schedule orders and information obtained from cognizant contracting officials. | GAO-15-590

<sup>25</sup>FAR Subsection 8.405-4.

<sup>26</sup>The primary reasons we could not determine whether a discount was sought or offered was due to limited documentation available and turnover among the cognizant contracting officials.

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For 16 orders in our sample, the contracting officer did not comply with the FAR requirement to seek a discount when the order is valued over \$150,000. For 6 of these 16 orders—with values ranging from \$348,000 to \$1.4 million—contracting officers did not seek and did not receive discounts. In 9 cases, contracting officers did not seek discounts, but vendors offered discounts which ranged from a 5 percent discount for a \$530,000 order to a 51 percent discount on a \$6.5 million order. Further, 4 of the 16 orders were not competed, and thus did not have the benefits of competition to provide incentives to vendors to offer their best prices. Vendors offered discounts for only 1 of these 4 orders.

Contracting officers described to us several reasons why they did not seek discounts. Some, including senior officials, were not aware of the requirement to seek a discount or did not consistently adhere to the requirement. At the Army, a contracting supervisor said that a contracting officer did not seek a discount for a \$446,000 order for target equipment where only one quote was received because he was newly hired and inexperienced. Some did not think they had to seek a discount if the vendor had already offered one. For example, Army contracting officials told us they did not seek a discount because they thought the vendor had offered a 5 percent discount off its FSS price when purchasing \$348,000 worth of thermometers. When we compared the order prices to the vendor's schedule pricelist, however, we found that the contracting officer did not receive any discount and was paying the full FSS price. Other contracting officials told us they believed that by competing the order they met the requirement to seek a discount. For example, in a \$664,000 HHS order for cloud computing software, contracting officials told us competition would drive competitors to offer their best price, which would include discounts. The FAR requirement to seek a discount, however, must be met regardless of whether the vendor offers a discount without asking for one and is separate and distinct from the required procedures related to competition. When contracting officials do not consistently ask for discounts, the agency is missing an opportunity to save taxpayer dollars.

When contracting officers sought discounts, vendors generally offered them. Of the 26 orders above the SAT in our sample where discounts were sought, vendors offered discounts in all but 5 instances. The discounts ranged from 2 percent for a \$799,000 order to 57 percent for a \$19.9 million order. Often, contracting officers sought discounts by mentioning in the request for quotations that any discounts should be included in vendor quotes. Other contracting officers went further to seek additional discounts. For example, in a \$37.8 million noncompetitive Army

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order for specialized fasteners for technical equipment, the vendor offered an initial 13 percent discount. Army officials then asked for an additional 1 percent discount and received further savings of \$380,000. Contracting officials told us that they asked for an additional discount because there was no harm in asking a second time. In 6 of the 7 noncompetitive orders where officials sought discounts, vendors offered discounts ranging from 4 percent for a \$1.1 million order to 27 percent for a \$32.1 million order. In one case, Army contracting officials sought a discount in an urgent noncompetitive order for Hurricane Sandy relief services worth \$317,000, and received a discount of 21.5 percent off the GSA schedule price.

Although not required to seek discounts below the SAT, ordering agencies can and did obtain additional savings when asking for discounts in these cases. In 3 of the 15 orders in our sample below the SAT, contracting officers sought discounts, and in all cases received them—21 percent for a \$10,000 order, 16 percent for a \$148,000 order, and 13.5 percent for a \$150,000 order.

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## Agencies' Attention to Price Assessments Varied

Among the 60 FSS orders we reviewed, we found significant variation in how contracting officials assessed prices. Of greatest concern are a number of instances—9 out of 60—where agency officials paid insufficient attention to pricing by not following procedures to assess the prices for open market items or by not having sufficient information to ensure they were paying schedule prices. Open market items are goods and services that are not on the schedule. For administrative convenience, a contracting officer may include open market items on a schedule order; however, he or she must follow all applicable acquisition regulations, including determining that the price for the open market items is fair and reasonable, and items must be clearly labeled on the order as not on the schedule.<sup>27</sup> When prices for open market items are not assessed, the government is at risk of paying more than it should, in part because GSA has not made a fair and reasonable price determination for these items. Some of the instances in our sample when open market items were not assessed include the following:

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<sup>27</sup>In addition, all clauses applicable to items not on the schedule must be included in the order. FSS orders that include open market items that do not follow the applicable regulations are at risk of violating various statutory and regulatory requirements, such as the requirement for full and open competition. For the purposes of this report, we are focusing on how this impacts pricing assessments.

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- In an HHS order for \$409,000 in laboratory equipment, the contracting officer bought \$47,000 worth of open market items without conducting a price analysis. The contracting officer was not aware that she had purchased open market items because the first item listed in the quote was marked as an FSS item so she assumed everything in the order was under the FSS contract. The contracting officer told us she did not compare the vendor's quote to the vendor's schedule contract for this order. The vendor told us that they were not aware this order would be awarded under their schedule contract which is why they proposed some open market items.
  - For a \$358,000 order for a security system, the Army purchased over \$80,000 in open market items without conducting a price analysis even though the vendor clearly marked which items were open market in its quote. Contracting officials stated that they should have conducted more analysis including checking for open market items. Due to a lack of training on procedures for open market items, contracting officials assumed that every item offered was an FSS item.
  - For a \$388,000 order for firing range bleacher enclosures, the Army did not assess prices for \$114,000 of open market items because the Army accepted a lump sum quote with no breakdown of the FSS and open market components. The Army did not require the vendor to provide sufficient information to identify which items were and were not on the schedule so could not have known that they were purchasing open market items.

Standards for Internal Control in the Federal Government state that management needs to identify appropriate knowledge and skills needed for various jobs, and provide needed training, as part of a commitment to competence. Internal control activities—such as policies and procedures—also help ensure that management directives are carried out.<sup>28</sup>

Further, the government is at risk of paying more than it should when contracting officers do not ensure they are paying the prices established by GSA. In a \$150,000 HHS order to conduct a disease study abroad, the vendor offered and the government accepted labor rates that were not on

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<sup>28</sup> [GAO/AIMD-00-21.3.1](#)

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the vendor's FSS contract. The vendor told us that the solicitation did not mention use of FSS, so its quote was not based on its FSS contract. Seven months after the order was awarded, the vendor noticed the work was issued under FSS and requested that HHS use the labor rates established in its FSS contract, which were less expensive than the rates offered previously.

In many of the orders we reviewed, contracting officers largely depended on GSA's previous determination that the prices on the vendor's schedule contract were fair and reasonable, as is described in the FAR. In one instance—a \$13.9 million Army award for testing a weapon system—contracting officials compared the one quote received to the vendor's schedule and noticed that the vendor did not use its schedule pricing. The contracting official asked the vendor to revise and resubmit its quote using schedule prices.

We also found instances where contracting officials conducted additional price analysis beyond comparing offered prices to the schedule prices to ensure they were getting the best value. Some contracting officials stated that they conducted additional price analysis because they obtained only one quote and did not have the benefit of multiple competitive quotes for comparison. For example:

- In a \$408,000 GSA order for a docking system, the contracting officer compared the quote to the schedule and found an item's price was \$7,500 greater than the listed schedule price. The contracting officer requested and was granted an adjustment to the price to reflect the lower schedule price. After receiving only one quote, the contracting officer conducted additional price analysis of the vendor's quote by requesting historical pricing information from previous government contracts, and confirmed that the vendor's quote was in line with its historical pricing.
- In a \$1.1 million noncompetitive order for office furniture and installation services, GSA contracting officials compared the vendor's rates against its FSS contract, and identified inclusion of work not listed in the solicitation. At the request of GSA, the vendor corrected this error. To determine whether the vendor's prices were fair and reasonable, the contracting officers conducted additional price analysis by comparing prices from other FSS vendors for similar or same products as the bidding vendor.

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When only one offer is received for competitive solicitations, DOD generally requires additional steps to establish that the prices of supplies and services are fair and reasonable. In 2014, DOD established a new requirement for contracting officers to make their own price reasonableness determination for all FSS orders which DOD officials told us was intended to encourage contracting officers to seek better prices. DOD ordering activities may no longer rely only on GSA's price reasonableness determinations.

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### GSA Has Started to Take Steps to Increase Information Available on Prices Paid

Currently, ordering agencies generally do not have insight into prices previously paid by other federal agencies for a similar product or service under similar terms and conditions. This limits the government's ability to fully leverage its buying power. To address this problem, some agencies have tools that provide pricing data for items they purchased previously. For example, an Army contracting officer used the Federal Logistics Information System as a source of information for prices previously paid. However, this information is limited to certain agencies. Without greater insights into past purchasing, agencies risk paying higher prices and missing opportunities to obtain discounts.

GSA does not have access to prices being paid for schedule orders because vendors do not currently report this information. Currently, contracting officers must ensure that FSS contracts require vendors to submit quarterly reports to GSA providing their FSS sales totals and the associated fee that GSA is owed. In addition, the price reductions clause requires vendors to provide the government the same price reductions given to their most favored customer. In place of the quarterly reports and the price reductions clause, GSA is proposing revisions to its regulations that will include clauses that would require vendors to provide data on the prices paid at the order level and plans to have agencies use this data to compare prices for similar goods and services. GSA anticipates that the data on prices paid would reduce the risk of agencies paying higher prices; reduce price variation for similar products and services on FSS; and allow agencies to conduct meaningful price analysis and more effectively validate fair and reasonable pricing. For FSS vehicles, the new data reporting requirement would be introduced in phases, beginning with a pilot for select products and commoditized services. GSA officials told us that creating comparable data for services will be challenging and is part of their longer-term initiative. In April 2015, at a public meeting to discuss the proposed regulation change, industry and some government representatives expressed significant concerns about the feasibility of GSA's proposal and the impact of it on both vendors and the

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government's ability to manage risk. Other government representatives expressed support for GSA's proposed changes.

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## Conclusions

The FSS program is an important tool for agencies to obtain goods and services through a simplified procurement method, but it must be used properly to ensure that the government is obtaining a good price and competition to the maximum extent possible. At the individual order level, some contracting officers are using effective strategies to increase competition or seek discounted prices. However, the extent of issues we found as a result of contracting staff that are not aware of the requirements—from errors in justifications for noncompetitive orders on the schedule, to discounts not being sought when required, to open market items purchased without assessing prices—suggests that more guidance and training are necessary to ensure proper use of the program. When contracting officers do not seek discounts for FSS orders, the government may be missing opportunities for cost savings. When contracting officers do not evaluate prices for open market items, the government cannot be sure that items are being purchased at a fair and reasonable price. Further, the high percentage of obligations on orders for which HHS received only one or two quotes suggests more attention is needed to ensure that the practice of narrowing the pool of vendors at HHS is not limiting the agency's ability to receive the full benefits of competition.

## Recommendations for Executive Action

To help ensure contracting officers follow ordering procedures when using FSS, and to enhance internal controls, we recommend that the Secretaries of DOD and HHS and the Administrator of GSA take the following three actions:

- Issue guidance emphasizing the requirement to seek discounts and outlining effective strategies for negotiating discounts when using the FSS program;
- Issue guidance reminding contracting officials of the procedures they must follow with respect to purchasing open market items through the FSS program, including the requirement to perform a separate determination that the prices of these items are fair and reasonable; and
- Assess existing training programs to determine whether they are adequate to ensure that contracting officials are aware of the ordering procedures of the FSS program, including requirements to 1) properly



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prepare justifications for noncompetitive awards, 2) seek discounts, and 3) assess prices for open market items included in FSS orders.

To help foster competition for FSS orders consistent with the FAR, we recommend that the Secretary of HHS take the following action:

- Assess reasons that may be contributing to the high percentage of orders with one or two quotes—including the practice of narrowing the pool of potential vendors—and if necessary, depending on the results of the assessment, provide guidance to help ensure contracting officials are taking reasonable steps to obtain three or more quotes above the SAT.

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## Agency Comments and our Evaluation

We provided a draft of this report to DOD, GSA and HHS. All three agencies provided written comments and concurred with our recommendations to issue guidance emphasizing the requirement to seek discounts, issue guidance reminding contracting officials of procedures for open market items, and assess the adequacy of training programs related to FSS ordering procedures. In addition, HHS concurred with our recommendation to assess the reasons contributing to the agency's high percentage of orders with one or two quotes. The agency comments are discussed below and reproduced in appendixes IV, V, and VI. HHS also provided technical comments, which we incorporated as appropriate.

In its written response, DOD stated that it will issue guidance by the end of July 2015 emphasizing the requirement to seek discounts and reminding contracting officials of the procedures to follow when purchasing open market items. In addition, the agency said it will assess existing training programs to determine whether they are adequate to ensure awareness of FSS ordering procedures by October 2015. GSA stated that it is developing a comprehensive plan to address our recommendations. In addition, the agency described its recent and planned efforts to reduce price variability of FSS contract prices for similar or identical items.

Regarding our first two recommendations, HHS stated that it will issue acquisition alerts emphasizing the requirement to seek discounts and the procedures required when purchasing open market items. The agency noted that information from available GSA guides, training and tools will also be included in the alerts and that this information will be integrated into its ePortal, which houses internal policies, guidance and instructions. Regarding our recommendation to assess existing training programs, HHS stated it will issue an acquisition alert reminding contracting officers

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of the required procedures to comply with federal guidance. In response to our fourth recommendation, HHS stated that it had already begun to assess the reasons contributing to a high percentage of orders for which the agency received two or fewer quotes and the practice of narrowing the pool of vendors. Once the assessment is complete, the agency said it will issue an acquisition alert providing guidance to ensure that contracting officials are taking reasonable steps to obtain three or more quotes.

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As agreed with your offices, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from the report date. At that time, we will send copies to the Secretaries of Defense and Health and Human Services and the Administrator of General Services. In addition, the report is available at no charge on the GAO website at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact William T. Woods at (202) 512-4841 or [woodsw@gao.gov](mailto:woodsw@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix VII.



William T. Woods  
Director, Acquisition and Sourcing Management

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# Appendix I: Objectives, Scope and Methodology

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The objectives of this review were to address (1) how and to what extent the government is using Federal Supply Schedule (FSS) contracts to order goods and services; (2) factors influencing the degree of competition for FSS orders; and (3) the extent to which agencies examine prices to be paid for FSS orders.

To determine how the government is using the FSS program, we analyzed data in the Federal Procurement Data System-Next Generation (FPDS-NG), which is the government's procurement database, to identify total obligations through the FSS program for fiscal years 2010 through 2014, the most recent data available at the time of our review. We adjusted all obligations for inflation using the Gross Domestic Product price index and reported all data in fiscal year 2014 dollars. We included orders off contracts coded as "FSS" and blanket purchase agreement orders coded as FSS blanket purchase agreements to identify those that were awarded through FSS. We compared FPDS-NG's data on FSS obligations to a list of FSS contracts, including contract numbers, from the General Services Administration's (GSA) eLibrary. In addition, we compared FPDS-NG data to contract file documentation for a nongeneralizable sample of orders and, based on this comparison, determined that the FPDS-NG data were sufficiently reliable for our purposes.

We analyzed data on total federal contracting obligations as well as obligations awarded under the FSS program. Additionally, we reviewed the obligations awarded under the FSS program to assess the obligations on products compared with obligations on services. We did not independently assess whether orders were correctly coded as either product or service obligations. We also analyzed the product and service obligations to determine which product and service categories accounted for the most obligations in fiscal year 2014. We used GSA's list of FSS schedules and contracts as of April 2014 to determine the corresponding schedule for each contract where possible. However, we were not able to match all orders and calls to a particular schedule. Within each of the three schedules that received the highest overall obligations in 2010 through 2014, we used FPDS-NG data to analyze the overall number of vendors on the schedule, as well as how many vendors received at least one award in the 5-year period and how many vendors received 80 percent of obligations. To assess the extent of competition for FSS orders, we analyzed FPDS-NG data using the field titled "Fair Opportunity/Limited Sources" to categorize obligations by competition status. Competitive orders include those coded in FPDS-NG under "competitive set aside" or "fair opportunity given"; and noncompetitive

orders include those coded under “urgency”, “only one source – other”, and “follow-on action following competitive initial action”. In addition, we categorized as noncompetitive orders coded under “minimum guarantee”, “other statutory authority”, and “sole source”.

To assess the factors influencing competition and the extent to which agencies examined prices to be paid for FSS orders, we selected a nongeneralizable sample of 60 FSS orders under GSA schedules awarded in fiscal year 2013, the most recent complete year of data when we began our review. In order to allow comparability and price analysis across our sample, we did not include orders under schedules awarded by the Department of Veterans Affairs, which primarily offer medical and health-related items. We also excluded blanket purchase agreements, which do not obligate funding, and the calls upon them, which do not follow the same ordering procedures as FSS orders. Using FPDS-NG data, we identified the three agencies with the highest obligations on FSS orders under GSA schedule contracts in fiscal year 2013: the Department of Defense (DOD), GSA, and the Department of Health and Human Services (HHS). We further identified the components within each of these departments with the highest fiscal year 2013 obligations through FSS orders: the Army at the DOD, the Federal Acquisition Service at GSA, and the Centers for Medicaid and Medicare Services and the National Institutes of Health (NIH) at HHS. Together, the Centers for Medicaid and Medicare Services and NIH obligated approximately the same amount as the Army or the Federal Acquisition Service in fiscal year 2013, so we included both and selected an equal number of orders at each. For logistical convenience and to obtain a variety of products and services in our sample, within the Army, we selected orders at Army Material Command and National Guard Bureau, which are two of the largest Army users of the FSS program.

To assess the ordering practices for different types of orders, we selected orders from four categories based on competition status and dollar value, using coding in FPDS-NG. The four competition categories are: (1) orders above \$150,000, which is generally the simplified acquisition threshold (SAT), that were competed and for which three or more quotes were received; (2) those above the SAT that were competed and for which one or two quotes were received; (3) those above the SAT that were noncompetitive; and (4) competed orders below the SAT. We did not include awards coded as noncompetitive with values below the SAT

because many of the requirements for noncompetitive awards do not apply below the SAT, particularly the requirement for a justification and approval document.<sup>1</sup> We then selected our nongeneralizable sample of 60 contracts by using a combination of cluster and convenience sampling to select 20 orders from each of the three agencies—with 5 orders in each of the four competition categories. To do so, in each category, we selected the two largest orders, using the “base and all options” field in FPDS-NG, and three orders from the middle of the dollar value range by dividing the list of orders into thirds and selecting from the middle third. We selected orders to obtain a mix of product and service categories purchased off a variety of schedules and to include the most heavily used schedules, measured by number of orders and dollars obligated.

When reviews of contract files revealed miscodings, we included the order under review in the appropriate category. However, our initial selection included five awards that were blanket purchase agreement calls, but not coded as such in FPDS-NG, and one that was a requisition for which there was no contract file to review. We replaced these six awards with new selections. While we selected 15 orders coded as belonging to each competition category, upon review of contract file documentation, our sample included totals as show in table 2.

Table 2: Number of Contracts in GAO’s Sample Selection by Competition Category

Agency	Above the Simplified Acquisition Threshold (SAT)			Below the SAT	Total Number
	Competed, Received 3 Or More Quotes	Competed, Received 1-2 Quotes	Noncompetitive		
Department of Defense	5	5	5	5	20
General Services Administration	4	6	5	5	20
Health and Human Services	7	5	3	5 <sup>a</sup>	20
Total Number	16	16	13	15	60

Source: GAO analysis based on contract file documentation. | GAO-15-590

<sup>a</sup> One of the Health and Human Services awards below the SAT was not competed. The other 14 were competed.

<sup>1</sup>One order below the SAT in our sample was incorrectly coded in FPDS-NG as competitive; however, upon review of the documentation it was a noncompetitive award. However, we decided to keep it in our sample because at award it was valued just below the SAT (\$149,996) and later, through modifications, exceeded the threshold.

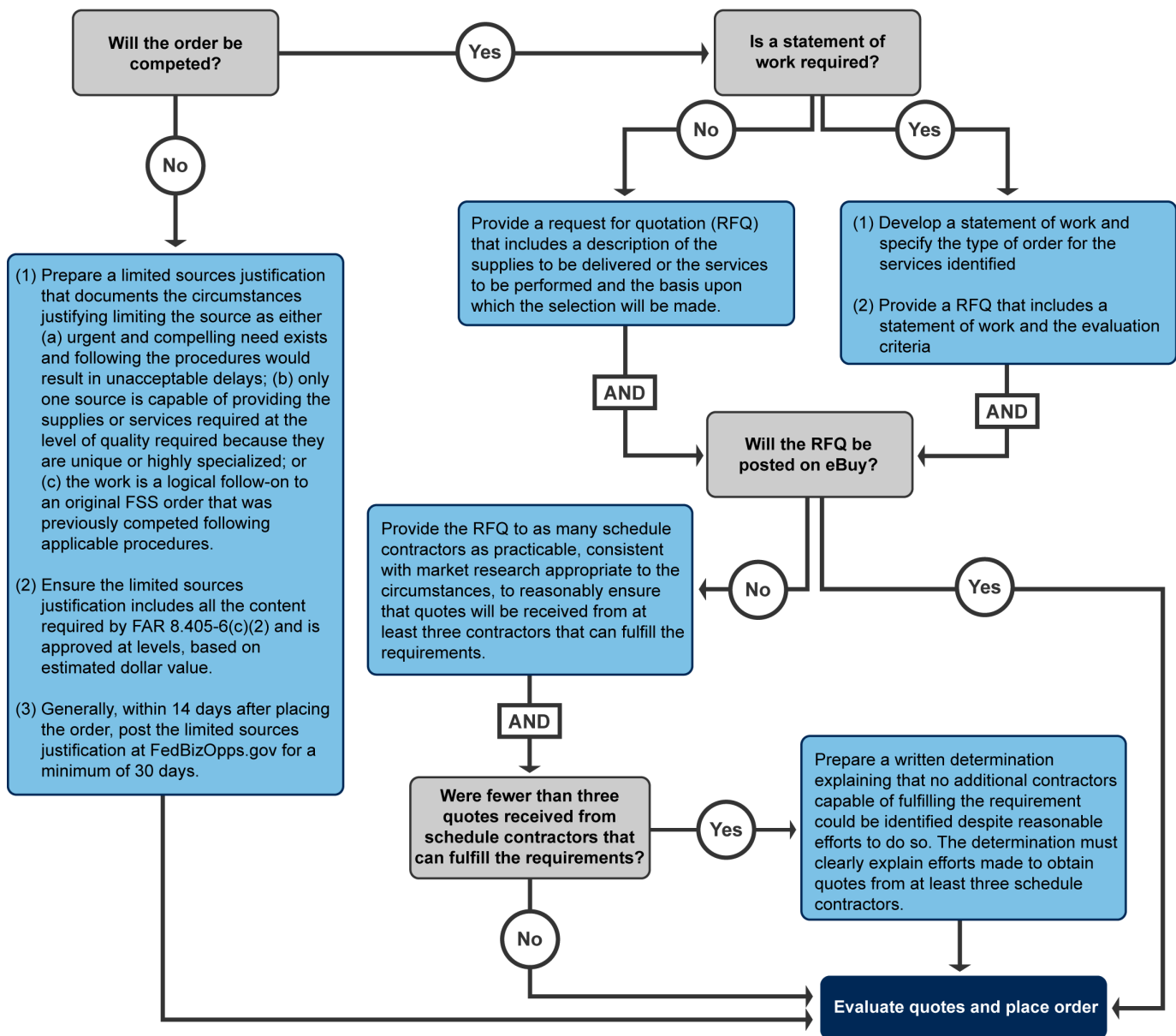
To assess factors influencing competition for FSS orders, we reviewed contract file documentation for the 60 selected orders and, in some cases, interviewed contracting officials. We reviewed documentation including acquisition plans, market research, award decision and price negotiation memorandums and, where relevant, limited source justification documentation. We also reviewed relevant sections of Federal Acquisition Regulation, Department of Defense Federal Acquisition Regulation Supplement, Department of Health and Human Services Acquisition Regulation, General Services Acquisition Regulation, FSS program guidance, and Standards for Internal Control in the Federal Government to establish criteria for whether agencies took required steps to achieve competition. We also interviewed contracting officials and vendors to obtain perspectives on the degree of competition for the orders, and whether officials had sufficient familiarity with FSS program requirements and procedures to carry out their duties.

To determine the extent to which agencies examined prices to be paid for FSS orders, we reviewed contract file documentation for the 60 selected FSS orders, specifically: best value determinations, independent government cost estimates, and award decision memorandums to assess how best value determinations were made. In five cases, where the items were readily available on the open market, we compared the FSS prices paid to the cost of the items on the open market. For all 60 orders, we obtained the GSA schedules that were in effect at the time of award. When documentation allowed us to do so, we calculated the schedule price and compared the established schedule prices to the prices paid for the goods and services in our sample. Additionally, we reviewed documentation on discounts sought and received and, as necessary, interviewed contracting officials and vendors to determine whether the government sought discounts as required by Federal Acquisition Regulation for orders above the SAT. Finally, we interviewed officials at DOD about its new requirement for contracting officers to independently determine price reasonableness for items purchased on the schedule, and at GSA about efforts to obtain new data on prices paid for items purchased on the schedule.

We conducted this performance audit from June 2014 to July 2015 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on audit objectives.

# Appendix II: Ordering Procedures for Federal Supply Schedule Orders Valued at \$150,000 or Above

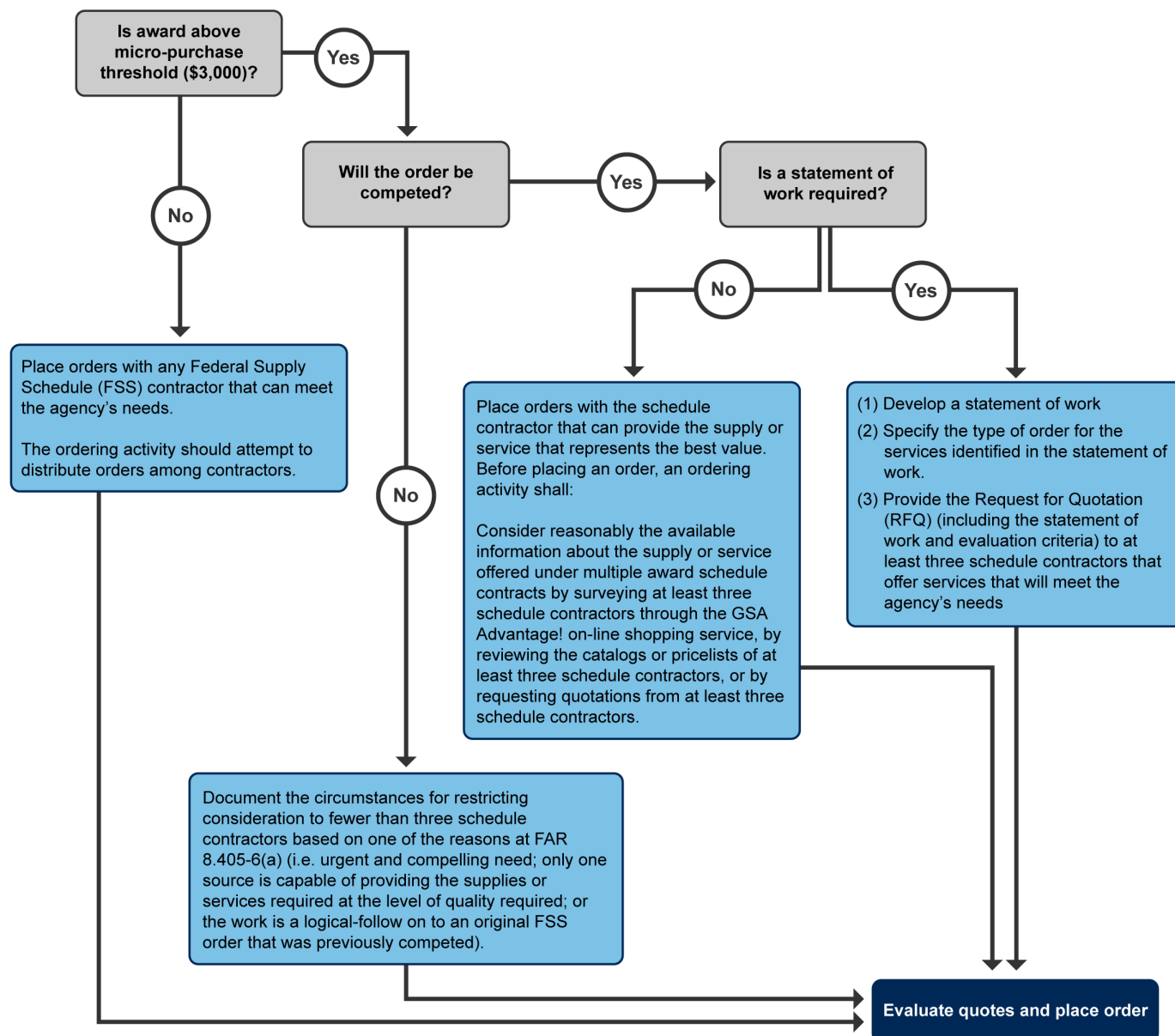
Figure 7: Ordering Procedures for Federal Supply Schedule Orders Valued at \$150,000 or Above



Source: GAO analysis of Federal Acquisition Regulation documentation. | GAO-15-590

# Appendix III: Ordering Procedures for Federal Supply Schedule Orders Valued Below \$150,000

Figure 8: Ordering Procedures for Federal Supply Schedule Orders Valued below \$150,000



Source: GAO analysis of Federal Acquisition Regulation documentation. | GAO-15-590



# Appendix IV: Department of Defense Comments



OFFICE OF THE UNDER SECRETARY OF DEFENSE  
3000 DEFENSE PENTAGON  
WASHINGTON, DC 20301-3000

ACQUISITION,  
TECHNOLOGY  
AND LOGISTICS

JUL 02 2015

Mr. William T. Woods  
Director  
Acquisition and Sourcing Management  
U.S. Government Accountability Office  
441 G Street, N.W.  
Washington, DC 20548

Dear Mr. Woods:

This is the Department of Defense (DoD) response to the Government Accountability Office (GAO) Draft Report, GAO Draft Report, GAO-15-590, "FEDERAL SUPPLY SCHEDULES: More Attention Needed to Competition and Prices" dated June 3, 2015 (GAO Code 121221). Detailed comments on the report recommendations are enclosed.

Sincerely,

A handwritten signature in blue ink, reading "Claire M. Grady".

Claire Grady  
Director, Defense Procurement  
and Acquisition Policy

Enclosure:  
As stated

**GAO Draft Report Dated June 3, 2015  
GAO-15-590 (GAO CODE 121221)**

**“FEDERAL SUPPLY SCHEDULES: MORE ATTENTION NEEDED TO  
COMPETITION AND PRICES,”**

**DEPARTMENT OF DEFENSE COMMENTS  
TO THE GAO RECOMMENDATION**

**RECOMMENDATION 1:** To help ensure contracting officers follow ordering procedures when using Federal Supply Schedule (FSS), and to enhance internal controls, the Government Accountability Office (GAO) recommends that the Secretaries of the Department of Defense (DoD) and Department of Health and Human Services (HHS), and the Administrator of General Services Administration (GSA) issue guidance emphasizing the requirement to seek discounts and outlining effective strategies for negotiating discounts when using the FSS Program.

**DoD RESPONSE:** Concur. The Department will issue guidance emphasizing the requirement to seek discounts and outlining effective strategies for negotiating discounts when using the FSS Program. The guidance will be issued by July 31, 2015.

**RECOMMENDATION 2:** To help ensure contracting officers follow ordering procedures when using Federal Supply Schedule (FSS), and to enhance internal controls, the Government Accountability Office (GAO) recommends that the Secretaries of the Department of Defense (DoD) and Department of Health and Human Services (HHS), and the Administrator of General Services Administration (GSA) issue guidance reminding contracting officials of the procedures they must follow with respect to purchasing open market items through the FSS program, including the requirement to perform a separate determination that the prices of these items are fair and reasonable.

**DoD RESPONSE:** Concur. The Department will issue guidance reminding contracting officials of the procedures they must follow with respect to purchasing open market items through the FSS program, including the requirement to perform a separate determination that the prices of these items are fair and reasonable. The guidance will be issued by July 31, 2015.

**RECOMMENDATION 3:** To help ensure contracting officers follow ordering procedures when using Federal Supply Schedule (FSS), and to enhance internal controls, the Government Accountability Office (GAO) recommends that the Secretaries of the Department of Defense (DoD) and Department of Health and Human Services (HHS), and the Administrator of General Services Administration (GSA) assess existing training programs to determine whether they are adequate to ensure that contracting officials are aware of the ordering procedures of the FSS program, including requirements to 1) properly prepare justifications for noncompetitive awards, 2) seek discounts, and 3) assess prices for open market items included in the FSS orders.

**DoD RESPONSE:** Concur. The Department will assess existing training programs to determine whether they are adequate to ensure that contracting officials are aware of the ordering procedures of the FSS program, including requirements to 1) properly prepare justifications for noncompetitive awards, 2) seek discounts, and 3) assess prices for open market items included in the FSS orders. This effort is expected to be completed by October 1, 2015.

# Appendix V: Department of Health and Human Services Comments



DEPARTMENT OF HEALTH & HUMAN SERVICES

OFFICE OF THE SECRETARY

Assistant Secretary for Legislation  
Washington, DC 20201

JUN 29 2015

William Woods  
Director, Acquisition and Sourcing  
Management  
U.S. Government Accountability Office  
441 G Street NW  
Washington, DC 20548

Dear Mr. Woods:

Attached are comments on the U.S. Government Accountability Office's (GAO) report entitled, *"Federal Supply Schedules: More Attention Needed to Competition and Prices"* (GAO-15-590).

The Department appreciates the opportunity to review this report prior to publication.

Sincerely,

A handwritten signature in dark ink, reading "Jim R. Esquea", is positioned above the printed name and title.

Jim R. Esquea  
Assistant Secretary for Legislation

Attachment

**GENERAL COMMENTS OF THE DEPARTMENT OF HEALTH AND HUMAN  
SERVICES (HHS) ON THE GOVERNMENT ACCOUNTABILITY OFFICE'S (GAO)  
DRAFT REPORT ENTITLED: FEDERAL SUPPLY SCHEDULES: MORE ATTENTION  
NEEDED TO COMPETITION AND PRICES (GAO-15-590)**

The U.S. Department of Health and Human Services (HHS) appreciates the opportunity from the Government Accountability Office (GAO) to review and comment on this draft report.

**GAO Recommendation**

GAO recommends that the Secretary of HHS issue guidance emphasizing the requirement to seek discounts and outlining effective strategies for negotiating discounts when using the Federal Supply Schedules (FSS) program.

**HHS Response**

HHS concurs with the GAO recommendation. HHS will issue an Acquisition Alert emphasizing the requirement to seek discounts and outlining effective strategies for negotiating discounts when using the FSS program. HHS has also reviewed several guides, training and tools provided via various electronic forums by the General Service Administration (GSA), HHS will include this information in the Acquisition Alert to ensure comprehensive guidance and training. This same information will also become part of the HHS ePortal, which houses the HHS internal policies, guidance, instructions designed to expound upon ways to properly comply with and apply Federal and HHS regulatory guidance.

**GAO Recommendation**

GAO recommends that the Secretary of HHS issue guidance reminding contracting officials of the procedures they must follow with respect to purchasing open market items through the FSS program, including the requirement to perform a separate determination that the prices of these items are fair and reasonable.

**HHS Response**

HHS concurs with the GAO recommendation. HHS will issue an Acquisition Alert reminding contracting officials of the procedures required to comply with Federal guidance as it relates to purchasing open market items through the FSS program to include a separate determination for documenting a fair and reasonable price. HHS has also reviewed several guides, training, and tools provided via various electronic forums by GSA, HHS will include this information in the Acquisition Alert to ensure comprehensive guidance and training. This same information will also become part of the HHS ePortal.

**GAO Recommendation**

GAO recommends that the Secretary of HHS assess existing training programs to determine whether they are adequate to ensure that contracting officials are aware of the ordering procedures of the FSS program, including requirements to 1) properly prepare justifications for noncompetitive awards, 2) seek discounts, and 3) assess prices for open market items included in FSS orders.

**HHS Response**

HHS concurs with the GAO recommendation. HHS will issue an Acquisition Alert reminding contracting officials of the procedures required to comply with Federal guidance as it relates to FAR Part 8, and making awards using the FSS program to include requirements for preparing

justifications limited competition, seeking discounts, and areas related to open market items. HHS has also reviewed several guides, training, and tools provided via various electronic forums by GSA. HHS will include this information in the Acquisition Alert to ensure comprehensive guidance and training. The information in the Acquisition Alert will also become part of the HHS ePortal.

**GAO Recommendation**

GAO recommends that the Secretary of HHS assess the reasons that may be contributing to the high percentage of orders with one or two quotes – including the practice of narrowing the pool of potential vendors – and if necessary, depending on the results of the assessment, provide guidance to help ensure contracting officials are taking reasonable steps to obtain three or more quotes above the SAT.

**HHS Response**

HHS concurs with the GAO recommendation. HHS has already begun the assessment of reasons contributing to a high percentage of orders receiving two or less quotes, and the practice of narrowing the pool of vendors. Once the assessment is complete, HHS will issue an Acquisition Alert providing guidance to help ensure contracting officials are taking reasonable steps to obtain three or more quotes and fully comply with Federal Acquisition regulatory guidance. This Acquisition Alert will be a comprehensive document reminding contracting officials of the procedures required to comply with Federal guidance as it relates to FAR Part 8, and making awards using the FSS Program. HHS has also reviewed several guides, training, and tools provided via various electronic forums by GSA. HHS will include this information in the Acquisition Alert to ensure comprehensive guidance and training. The Acquisition Alert will also become part of the HHS ePortal.

# Appendix VI: General Services Administration Comments



July 1, 2015

The Honorable Gene L. Dodaro  
Comptroller General of the United States  
U.S. Government Accountability Office  
Washington, DC 20548

Dear Mr. Dodaro:

The U.S. General Services Administration (GSA) appreciates the opportunity to review and comment on the U.S. Government Accountability Office (GAO) draft report entitled, *Federal Supply Schedules: More Attention Needed to Competition and Prices* (GAO-15-590). GAO recommends that GSA take the following three actions:

- Issue guidance emphasizing the requirement to seek discounts and outlining effective strategies for negotiating discounts when using the Federal Supply Schedules (FSS) program.
- Issue guidance reminding contracting officials of the procedures they must follow with respect to purchasing open market items through the FSS program, including the requirement to perform a separate determination that the prices of these items are fair and reasonable.
- Assess existing training programs to determine whether they are adequate to ensure that contracting officials are aware of the ordering procedures of the FSS program, including requirements to:
  - properly prepare justifications for noncompetitive awards;
  - seek discounts; and,
  - assess prices for open market items included in FSS orders.

We have reviewed this report in depth, agree with the recommendations, and are developing a comprehensive plan to address the recommendations made to GSA. In addition, we have started to address the issue of variability of FSS contract prices for similar or identical items under our Competitive Pricing Initiative (CPI). Under this initiative, FAS is closely examining the current FSS prices of identical products and performing competitive price and data analysis to identify outlier pricing. FAS is sharing this data with FSS contractors in order to help them increase their competitive standing within the Federal marketplace while decreasing the variability of pricing offered to Government buyers for identical items.

FAS has piloted this initiative with office supplies under Schedule 75 (Office Products/Supplies and Services and New Products/Technology). In the first 60 days of the initiative, more than 140,000 price reductions were negotiated.

By the end of FY15, efforts to reduce excessive pricing variability will have begun under all product-based Federal Supply Schedules, which will encompass over 45 million products.

U.S. General Services Administration  
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Fax: (202) 219-1243  
[www.gsa.gov](http://www.gsa.gov)

We are confident that these actions will satisfactorily remedy the concerns raised by the GAO. If you have any questions, please contact me at (202) 501-0800, or Ms. Lisa Austin, Associate Administrator, Office of Congressional and Intergovernmental Affairs, at (202) 501-0563.

Sincerely,



Adam Neufeld  
Acting Deputy Administrator

cc: Mr. William T. Woods, Director, Acquisition and Sourcing Management, GAO

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# Appendix VII: GAO Contact and Staff Acknowledgments

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## GAO Contact

William T. Woods, (202) 512-4841 or [woodsw@gao.gov](mailto:woodsw@gao.gov)

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## Staff Acknowledgments

In addition to the individual named above, Tatiana Winger (Assistant Director), Peter Anderson, Jessica Berkholtz, MacKenzie Cooper, Alexandra Dew Silva, Julia Kennon, Jared Sippel, Roxanna Sun, Alyssa Weir, and Carmen Yeung made key contributions to this report.



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