

BY THE COMPTROLLER GENERAL
OF THE UNITED STATES
Report To The Congress

**Ineffective Management Of
GSA's Multiple Award Schedule
Program--A Costly, Serious,
And Longstanding Problem**

The Government is buying commercial products of a higher quality than needed and is paying more for them than it should because of GSA's poor management of its multiple award schedule program.

Price competition--a method of conserving public funds--is noticeably absent from the program. Most of the 4 million items on the schedules do not belong there. Instead, they should be purchased through competitive methods.

The problems are long standing. GSA's management has not made substantive improvements and legislation mandating action is needed.



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

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To the President of the Senate and the
Speaker of the House of Representatives

RM 1129

At the request of Congressman John L. Burton, Chairman
of the House Subcommittee on Government Activities and Trans-
portation, Committee on Government Operations, we have re-
viewed the management of the General Services Administration's
(GSA's) multiple award schedule program. Our review dis-
closed that the program has not been effectively managed. As
a result, the Government is paying higher prices for items
than it should be. This report contains recommendations to
the Congress, as well as several recommendations to GSA.

We are recommending legislation to strengthen the
posture of GSA as a primary supplier of products to Federal
agencies. GSA agrees with this recommendation, and we are
working with it in drafting such legislation.

We have discussed these matters with GSA officials and
included their comments where appropriate.

Copies of this report are being sent to the Director,
Office of Management and Budget; the Administrator, Office
of Federal Procurement Policy; the House and Senate Commit-
tees on Appropriations; the Senate Committee on Governmental
Affairs; and the House Committee on Government Operations.

James R. Smith
Comptroller General
of the United States

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

INEFFECTIVE MANAGEMENT OF
GSA'S MULTIPLE AWARD SCHEDULE
PROGRAM--A COSTLY, SERIOUS,
AND LONGSTANDING PROBLEM

D I G E S T

The General Services Administration's (GSA's) multiple award schedule program cannot be effectively managed in its present form. It is intended to make a wide variety of commercial products available to Federal agencies but

--there are too many items on the schedules,

--there are too many suppliers of similar items, and

--GSA does not have the capability to make sure that the Government's interests are protected.

In addition, there is little or no price competition in the negotiations, or monitoring of the items ordered by the agencies, and little or no assurance that suppliers offer items at prices that reflect the Government's volume purchases.

Under the program, noncompetitive contracts are awarded to multiple suppliers of similar items. The users order directly from the suppliers at prices that are supposed to be favorable to the Government. In fiscal year 1978 over 4 million products were listed, 8,000 contracts were negotiated, and total purchases were about \$2 billion.

GAO found that the U.S. Government sometimes pays more for identical items--and gets less favorable warranty and payment terms--than other purchasers. In some instances, items are sold to the general public at lower prices than those available to the Government. GAO also noted that there are many questionable items listed on the schedules, ranging from sauna baths to toys.

--Develop criteria for use of multiple award schedules. Such criteria should be designed to restrict their use to cases where competitive single awards are not feasible, sales

--Reconsider GSA's service-oriented approach of trying to satisfy the unique needs of Federal agencies. Without a fundamental change in its philosophy, GSA management will be unable to correct the current situation.

GAO recommended that the Administrator of GSA take the following actions:

RECOMMENDATIONS TO GSA

GSA agrees that legislation is needed to strengthen its posture as a primary supplier of products to the agencies. GAO is working with GSA in drafting such legislation.

--Strengthen the posture of GSA as a primary supplier of products to Federal agencies.
--Put GSA under a mandatory time frame for accomplishing management improvements and

The Congress should enact legislation which would:

RECOMMENDATIONS TO THE CONGRESS

The problems with this program are not new. GSA internal studies, GAO reports, and outside consultant studies have focused on the problems since at least 1971. However, GSA management has not taken any substantive corrective actions. GAO believes this inaction has been due to (1) GSA's traditional view that it is only a service organization to provide what the users want, (2) GSA management's reluctance to become involved in controversy with industry and trade associations, and (3) Federal agencies who want to maintain the existing noncompetitive process of awarding contracts, as well as the numerous products offered through the program.)

GSA concurs with our recommendations, and its management has pledged its total support to improve the program. The Office of Federal Procurement Policy also concurs with our recommendations.

AGENCY COMMENTS

- Review all multiple award items and eliminate those not meeting the established criteria. For those items meeting the criteria, improvements should be made in present contracting procedures.
 - Intensify efforts to identify products which can be competed and develop commercial item descriptions for these products, and apply market research techniques to determine the acquisition strategy.
 - Define overall management responsibility for the multiple award schedule program.
 - Improve training of contracting officers.
 - Refine existing management information systems to provide better data by product.
 - Increase the emphasis on GSA's audits of vendors.
- Volume justifies centralized procurement, and a valid need exists for functionally similar items with different prices and features.

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		ABBREVIATIONS
		Blanket Purchase Agreement
	CID	commercial item description
	FPR	Federal Procurement Regulation
	FSS	Federal Supply Service
	GAO	General Accounting Office
	GSA	General Services Administration
	MOL	maximum order limitation
	SCIP	Schedule Contract Improvement Program

There are two separate schedule programs--the multiple award and the single award. The multiple award program is the largest FSS program, with sales for fiscal year 1978 of \$1.8 billion, or 57 percent of total FSS sales. The much smaller single award program accounted for \$200 million in sales. Under this program, a single contract is awarded to the lowest responsive bidder for each product. Under the multiple award program a number of commercial firms are awarded indefinite quantity contracts for a particular product category. Prices are based on a negotiated minimum discount off the vendors commercial prices. Agencies select the particular product that best meets their needs and order directly from the vendor.

Under the Federal Supply Schedules program, FSS contracts with commercial firms to provide supplies and services at stated prices for a given period of time. User agencies place orders with the contractors for direct shipment and are billed by the vendor.

Under the stores program, FSS purchases common-use items and stocks them in regional distribution facilities. These items are distributed as agencies order from the Federal Supply Catalog and GSA self-service stores. The nonstores program generally involves contracts for a definite quantity of items to be delivered directly from suppliers to users. Nonstores contracts are for items not available through the stores program.

The Federal Property and Administrative Services Act of 1949 created the General Services Administration (GSA) to give the government an efficient and economical system for procuring and supplying personal property and non-personal services. GSA, through its Federal Supply Service (FSS), makes common-use items available to Federal agencies through three basic buying programs: (1) stores, (2) non-stores, and (3) Federal Supply Schedules. These programs accounted for approximately \$3.38 billion in government procurements in fiscal year 1978.

BACKGROUND

CHAPTER 1
THE MULTIPLE AWARD SCHEDULE
PROGRAM IN PERSPECTIVE

The purpose of the multiple award program is to (1) decrease agency open market purchases by offering a wide selection of commercial products at prices lower than available through open market purchases and (2) make commercial items available when it is impractical to draft adequate specifications for bids.

The multiple award schedule program is consistent with the Commission on Government Procurement's recommendations and the Office of Federal Procurement Policy's directives that the Government make greater use of available commercial products and distribution channels. We support this policy.

FACTORS CONTRIBUTING TO HIGHER PRICES UNDER THE MULTIPLE AWARD SCHEDULE PROGRAM

Centralized contracting through GSA's stores and schedules program generally results in prices lower than obtainable through agency open market purchases. GSA estimates these savings to be 25 percent for competitively purchased store and single award schedule items and 5 to 15 percent for the multiple award items. However, stock item savings are largely offset by the high cost of preparing detailed Government-unique specifications and inspecting, testing, handling, warehousing, and distributing the items. However, the schedule program avoids most of these costs by providing commercially proven products and using commercial distribution channels. A comparison of operating costs shows the schedules program, while accounting for over twice the sales, cost \$85 million less than the stores program. This breaks down to \$12.31 cost per \$100 in sales for store items compared to \$.50 for schedule items.

The stores program accounts for about 82 percent of FSS's total operating budget and 25 percent of its sales. The schedules program accounts for 8 percent of the operating budget and 60 percent of the sales.

Although the multiple award program generally provides each agency the opportunity to buy the item best meeting its needs at a price lower than available through open market purchases, it does not result in the lowest possible price. Competition, through the use of formally advertised bids, is generally recognized as the means to achieve the lowest possible price. Such competition under the multiple award program is virtually nonexistent. A multiple award contract

is given to any vendor that offers price discounts comparable to other vendors. Some proponents of multiple awards argue that such prices reflect the intense competition of the commercial marketplace.

In addition to the lack of competition in awarding multiple award contracts, the advantages of volume buying are lost. Since each agency using the schedule is treated as a separate customer, the total annual volume of all agencies is not consolidated nor are the annual requirements of each agency. As a result, multiple award schedule discounts are negotiated on an indefinite quantity basis for a particular product. These discounts are not proportionate with the high-aggregated volume of sales realized by vendors.

A further disadvantage of the multiple award program is the lack of acceptable performance standards. Every agency wanting a product from the schedule must make its own evaluation of product performance, price, and value from among several competing functionally similar products.

VIEWS OF INDUSTRY AND FEDERAL AGENCIES

Many vendors, especially those with well established sales forces, and Federal agencies favor the present multiple award schedule program. Vendors favor the program because everyone offering an acceptable discount is awarded a contract, thus enabling them to go out to the using agencies and directly sell their products. Agencies favor the program because they are able to choose from a wide selection of products offered.

In the chapters that follow we address these aspects of the program and will show:

- The best possible prices are not being obtained under the program primarily because of a lack of competition. (See chs. 3 and 5.)
- The program has too many products and vendors which hamper effective management of the program. (See ch. 2.)
- Federal agencies are not buying the lowest priced products from the program. (See ch. 4.)
- Several initiatives for improvement of the program have been thwarted because of diffused management responsibilities. (See ch. 6.)

SCOPE OF REVIEW

The review was conducted from September 1978 to March 1979 and was performed at the Federal Supply Service Headquarters, Arlington, Virginia; GSA regional offices in Fort Worth, Texas, and San Francisco, California; 4 civilian agencies; 2 military installations; and State procurement offices in 12 States. We also visited selected vendors under contract with California and GSA. The review included discussions with officials and examination of procurement files, management studies, and other documents. Specifically, the review was performed at the following Federal procurement activities:

--Department of Labor, Region 7, Dallas, Texas;

--Department of Health, Education, and Welfare, Region 7, Dallas, Texas;

--San Antonio Procurement Center, Air Force, San Antonio, Texas;

--McClellan Air Force Base, Sacramento, California;

--National Park Service, Region 9, San Francisco, California; and

--National Aeronautics and Space Administration, Ames Research Center, Mountain View, California.

With respect to the State procurement offices, we reviewed those of California in detail. The other 11 States were recommended by the National Institute of Governmental Purchasing as being representative of State procurement practices. The other States visited were Arizona, Colorado, Florida, Illinois, Louisiana, Michigan, North Carolina, Pennsylvania, Utah, Texas, and Wisconsin.

The dramatic increase in the multiple award program reflects a shift in the program's use. Initially, the program was used primarily to supply commercial items when it was impractical to draft adequate specifications or purchase descriptions for competitive single awards. However, recently it has been used to increase sales to Federal agencies by offering a wide selection and variety of products with little development of commercial specifications for competitive awards. Currently, only 10 percent of the schedule program's \$2 billion in sales are competitive single awards.

NEED TO DEVELOP COMMERCIAL SPECIFICATIONS

--The proliferation of products to the point that effective management and use of the program is seriously hampered.

--Inclusion of many products in the program which either lack sufficient demand or are so specialized that centralized procurement is not justified.

--Too many vendors supplying similar items.

--FSS's failure to develop commercial item descriptions for items suitable for competition.

--This service-oriented attitude has caused the following program conditions:

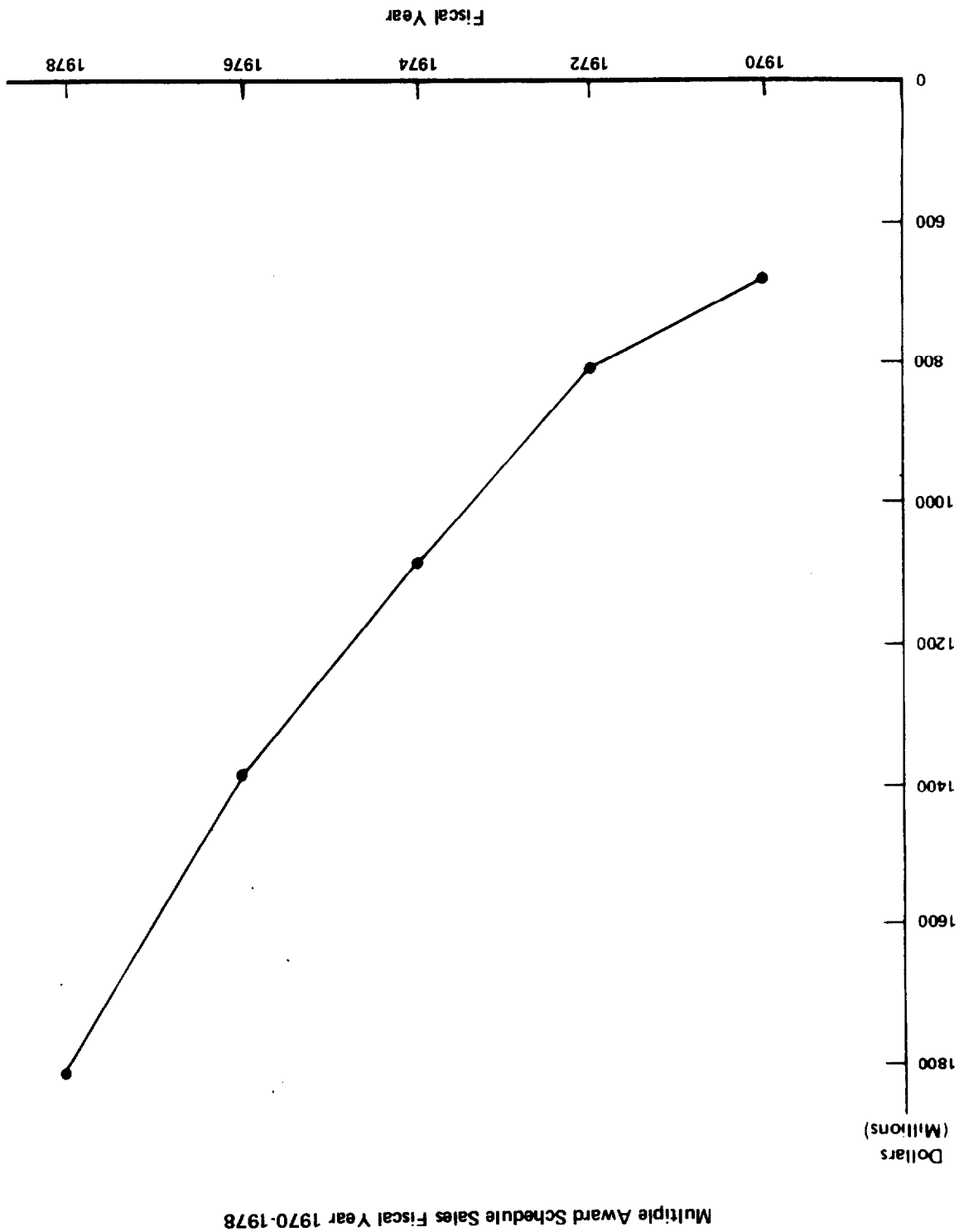
GSA officials contend that their role as a service agency is to supply whatever agencies want. Although single award procedures result in lower prices, the multiple award program enables each agency to choose the make, model, or type of product it prefers. GSA officials further stated that service and program expansion have been the driving forces behind GSA's procurement philosophy--procurement cost and program credibility have been secondary.

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The multiple award schedule program has grown dramatically over the last several years. In 1970, sales under the program were about \$600 million. In 1978, sales increased to \$1.8 billion, or by 200 percent. (See p. 6.) Currently, more than 4 million items are offered through the program requiring over 8,000 contracts annually.

UNRESTRICTED GROWTH OF MULTIPLE AWARD PROGRAM

CHAPTER 2



The Federal Procurement Regulations (FPRs) require competitive procurements whenever possible. Multiple award contracts are negotiated under the FPR exception that it is impossible to draft adequate specifications to obtain competition. Our review disclosed that this exception has been grossly misused by FSS in justifying the addition of products to the multiple award program. Products are often added without being reviewed to determine if development of commercial specifications is feasible. In other cases, items placed on a multiple award schedule pending development of a purchase description or specification remain because specifications are not developed.

Officials responsible for preparing specifications stated that developing of purchase descriptions or specifications for competitive single awards is often resisted by FSS procurement officials, customer agencies, and vendors. For example, a GSA study conducted in January 1978 that evaluated overhead projectors purchased from a multiple award schedule determined that there were no significant differences in operational or performance features of the lowest and highest price models. However, agencies were primarily buying the highest price model, even though a lower price product performed the same function. The study concluded that \$180,000 could be saved annually by developing performance specifications and purchasing overhead projectors competitively. Although developing a purchase description was shown practical and feasible, GSA has deferred competing overhead projectors because of resistance from audiovisual equipment vendors, Federal users, and expressed congressional interest.

INCLUDING LOW-DEMAND AND LUXURY PRODUCTS IN THE MULTIPLE AWARD PROGRAM

Many products in the multiple award program either lack sufficient demand to justify centralized procurement or are of such a luxury or sensitive nature that GSA schedule contracts are inappropriate. However, the lack of adequate demand criteria and GSA's service orientation has precluded eliminating such items from the program.

Low-demand items

GSA's Procurement Regulations established a minimum annual demand of \$2,000 to justify the cost of retaining an item on schedule. Items such as accessories, parts, components to a basic item, and military support items are exempt. However, there are many items that are not exempt and have sales below \$2,000 being retained in the program.

The lack of GSA limitations on the number of vendors offering their products under a multiple award schedule has resulted in too many vendors supplying similar items.

SIMILAR ITEMS
TOO MANY VENDORS SUPPLYING

The availability of such luxury and special use-type items through GSA's multiple award catalogs connotes governmental approval for purchase and enables local purchasing officials to order such items with little or no justification of actual need.

The multiple award program offers agencies a number of luxury or special use-type items that are or appear inappropriate for schedule coverage. For example, a multiple award schedule for early American and eighteenth century style household furniture contains \$8,000 mahogany bookcases and china cabinets. Examples of special use items include saunas, trailbikes, powerboats, console color televisions, and party favors. (See pp. 10 to 14.)

Luxury and sensitive items

FSS officials agree the schedule retention requirement is too low, but there is no other guideline or procedure for determining the appropriate demand levels to justify schedule coverage. A FSS procurement official for household furniture said 35 contracts covering numerous furniture items could be eliminated by raising the schedule retention demand level to \$10,000. Our review of multiple award sales data showed that 12 percent of the item categories could be eliminated by raising the demand level to \$10,000. Also, many item categories above \$10,000 include a variety of dissimilar items of low demand that, when grouped together, meet the retention requirement. The use of more refined item categories would identify many more low demand items.

Since the demand requirement applies to all items regardless of unit cost, many items are retained in the program even though demand is low. For example, the sale of four \$500 sofas each year would permit retaining the item on the schedule.

For example, the schedule for food service equipment has 35 item categories with sales under \$2,000 for fiscal year 1978. About 25 of these showed no sales at all. Our review of all 4,023 multiple award item categories showed approximately 7 percent, which included thousands of items, had sales below the \$2,000 minimum requirement.

The minimum goal in negotiating discounts from commercial prices.

Customer agencies complain that it is difficult, if not impossible, to evaluate the many similar schedule items and vendor's prices to determine which item meets their requirements for the lowest cost. Sorting through numerous vendor catalogs and price lists can be costly, time consuming, and demoralizing to the buyer.

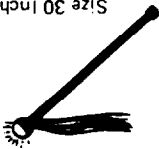
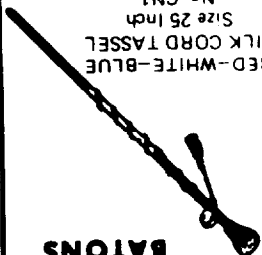

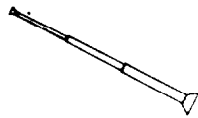



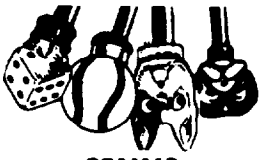

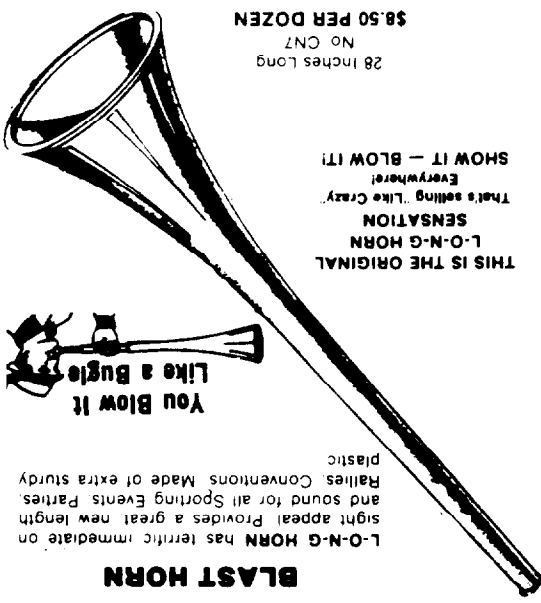

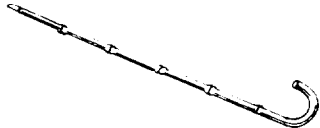


Also, the workload of the contracting officers has impeded their effectiveness in reviewing the schedules, monitoring contractor's price lists, and negotiating better discount rates.




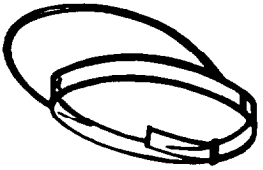
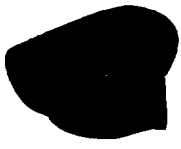
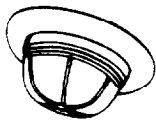
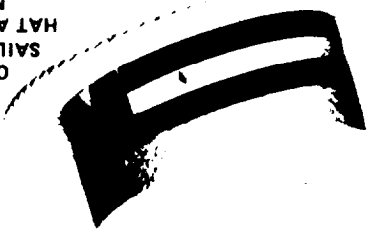

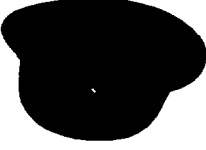
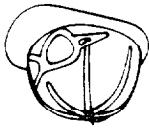






The sheer size of the program has been used as an excuse by GSA to frustrate several management improvement initiatives. A program to obtain better visibility over what Federal agencies were buying from the schedule program was scrapped--primarily because of the staggering number of items. The program size has also impeded efforts to estimate agency requirements for items as well as stifle the development of commercial item descriptions for competitive awards.

GSA's practice of (1) offering a large assortment of makes, models, and styles for each schedule item, (2) retaining low demand items, (3) offering luxury and specialized goods, and (4) not limiting the number of vendors per item has resulted in such a mass proliferation of multiple award items that effective program management is hampered.

MULTIPLE AWARD PROGRAM SIZE HAMPERS EFFECTIVE MANAGEMENT AND USE

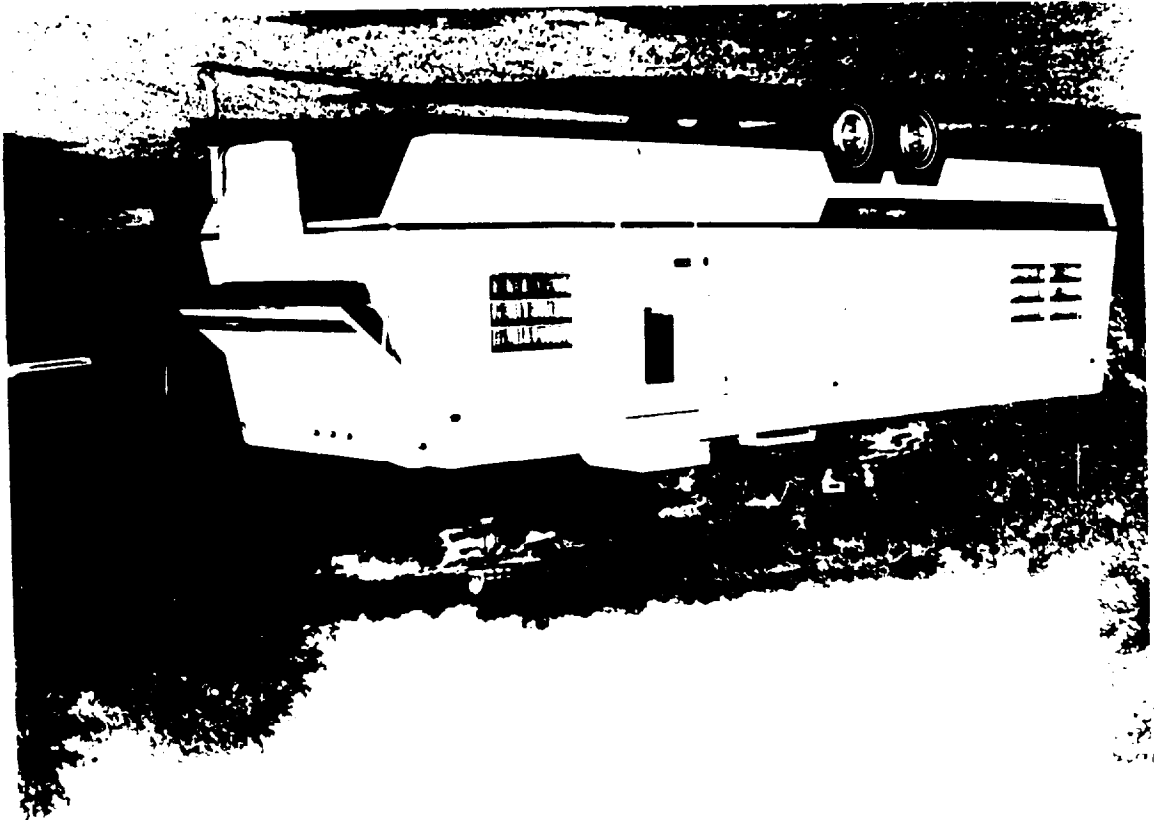
Generally, any qualified vendor who offers to sell at a discount at least equal to the established benchmark 1/ is awarded a schedule contract. A GSA review of schedule vendors showed over 330 item categories with 10 or more vendors offering similar items and 65 categories with 20 or more vendors. For example, there were 72 vendors offering contemporary design occasional tables; 61 offering contemporary design, fully upholstered sofa and chair groupings; and 27 offering baseball clothing and footwear.

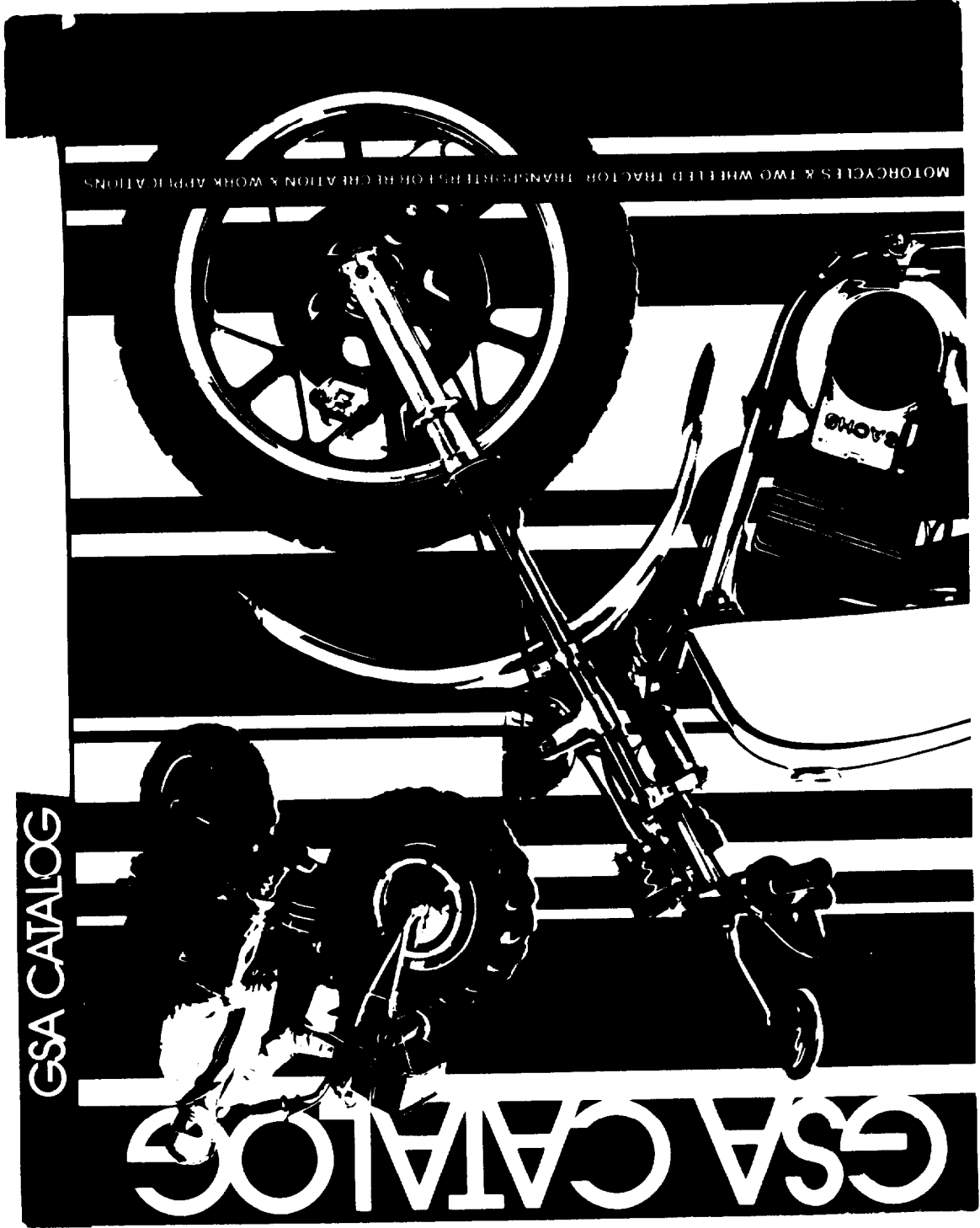
<p>BATON AND CANE SQUEAKER Size 30 Inch No. CN2 \$6.00 PER DOZEN</p> 	<p>CANES SPEARS HORNS BATONS</p>	<p>BATONS RED-WHITE-BLUE SILK CORD TASSEL Size 25 Inch No. CN1 \$8.50 PER DOZEN</p> 
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<p>CARNIVAL SWAGGER CANES Size 35 Inch No. CN8 \$2.50 PER DOZEN \$27.00 PER 144</p> 	<p>BLAST HORN L-O-N-G HORN has terrific immediate on sight appeal. Provides a great new length and sound for all Sporting Events. Parties, Rallies, Conventions. Made of extra sturdy plastic. You Blow It Like a Bugle</p> 	<p>HEAD SWAGGER CANES Size 33 Inch No. CN3 \$2.50 PER DOZEN \$27.00 PER 144</p> 
<p>FUR MONKEY Size 18 Inch No. CN12 \$2.00 EACH</p> 	<p>L-O-N-G HORN THIS IS THE ORIGINAL L-O-N-G HORN SENSATION That's selling Like Crazy Everywhere! SHOW IT - BLOW IT! 28 Inches Long No. CN7 \$8.50 PER DOZEN</p> 	<p>PARADE CANES Size 36 Inch No. CN5 \$1.75 PER DOZEN \$17.00 PER 144</p> 
<p>BAMBOO PENNANT CANES Size 10 Inch No. CN13 \$1.00 EACH</p>	<p>BAMBOO PENNANT CANES SOLD IN 100'S ONLY Size 34 Inch No. CN11 \$9.50 PER HUNDRED</p> 	<p>CANE RACK RINGS INSIDE MEASUREMENT Size 1 1/2 Inch No. CN10 \$2.00 PER DOZEN</p> 
		<p>WHIPS BEAUTIFUL CORD Size 26 Inch No. CN9 \$4.00 PER DOZEN \$40.00 PER 144</p> 

<p>COWBOY</p>  <p>No. H-93 \$1.00 EACH \$10.00 PER DOZEN</p>	<p>PLASTIC HATS</p>		<p>ALPINE</p>  <p>No. H-89 \$6.00 PER DOZEN</p>
<p>ASSORTED MINIATURE HATS</p>  <p>No. H-16 \$.90 PER DOZEN</p>	<p>GREEN VISOR (SHADED)</p>  <p>No. H-88 GREEN ONLY \$7.50 PER DOZEN</p>	<p>TRICORNE</p>  <p>No. H-80 \$1.00 EACH \$10.00 PER DOZEN</p>	
<p>STYROFOAM PITH HELMET</p>  <p>No. H-50 \$7.50 PER DOZEN</p>	<p>STYROFOAM SKIRMER</p>  <p>CLASSIC SAILOR STRAW HAT ADJUSTMENT No. H-80 \$7.00 PER DOZEN</p>		<p>CONSTRUCTION</p>  <p>No. H-91 \$7.50 PER DOZEN</p>
<p>GREEN DERBY</p>  <p>GREEN ONLY No. H-82 \$5.00 PER DOZEN</p>	<p>CRASH HELMET</p>  <p>No. H-61 \$6.00 PER DOZEN</p>	<p>FIREMAN HAT</p>  <p>RED ONLY No. H-15 \$4.50 PER DOZEN</p>	<p>NORSEMAN</p>  <p>No. H-92 \$1.00 EACH \$10.00 PER DOZEN</p>
<p>SAFARI HAT</p>  <p>No. H-63 \$5.00 PER DOZEN</p>	<p>FIREMAN HAT MINIATURE</p>  <p>No. H-57 \$.90 PER DOZEN</p>	<p>SKIRMER</p>  <p>No. H-38 \$6.00 PER DOZEN</p>	<p>DERBY</p>  <p>No. H-62 \$5.00 PER DOZEN</p>



When you know what you want.





MOTORCYCLES & TWO WHEELED TRACTOR TRANSPORTERS OF RECREATION & WORK APPLICATIONS

GSA CATALOG

GSA CATALOG

GSA multiple award contracting officers appear to be motivated more toward getting contracts awarded rather than negotiating the lowest prices. This practice, coupled with severe time constraints and pressures, often results in the award of as many contracts as possible with little time and attention given to negotiating the lowest possible price. For example, the average hours spent on a schedule contract was 41, compared to 110 for the stores program.

INADEQUATE TIME FOR NEGOTIATION

- Unreliable information used in negotiations.
- The practice of accepting late offers.
- The absence of price visibility.
- Failure of the benchmark technique (as applied) to foster competition and aid the contract negotiator in achieving the best price.
- Inadequate time available for effective negotiations.

We reviewed the contract files for 22 schedules with total estimated sales of \$886 million in fiscal year 1977. (See app. I.) As a result of this review and discussions with GSA procurement officials, we found many weaknesses in how FSS evaluates offers and awards contracts under the multiple award schedules program. These weaknesses are major reasons why better prices are not being obtained. Specifically, the weaknesses are:

The multiple award schedule program could be significantly improved. Although the best prices are achieved through competitively awarded contracts, improvements in the current negotiating methods could result in better multiple award prices.

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We believe that many of the items now listed on the multiple awards schedules can be procured competitively (see ch. 5) by using performance specifications. For some items, however, retention of multiple awards schedules may be advantageous.

MULTIPLE AWARD SCHEDULE PROGRAM

OPPORTUNITIES FOR IMPROVING

CHAPTER 3

Procurement officials said that factors other than the highest discount are considered in determining the benchmark. For example, considerable weight is given to the amount of past Government and commercial sales. Some contracting officers said the decision to establish certain vendors as the benchmark was based on their personal knowledge of the vendor's reputation, while others said that higher discounts were not selected because they were just "too high." The underlying reason given as to why lower discounts were selected was the concern that selecting a higher discount would eliminate certain products. This

Our detailed review of 81 discount comparisons relating to 17 schedules showed the discount selected for the benchmark was generally not the highest discount offered.

The benchmark discount technique is used to establish the minimum goal in negotiating discounts from commercial price lists. Once the benchmark is established, only those vendors offering a discount that is equal to or greater than the benchmark should be awarded a contract.

THE BENCHMARK TECHNIQUE DOES NOT ASSURE REASONABLE PRICES

GSA officials stated that the time-consuming process of soliciting and negotiating over 8,000 multiple award schedule contracts covering over 4 million items limits the contracting officers' time for conducting schedule reviews, learning about their commodity, and negotiating better discount rates. For example, the contracting workload for 2 office equipment schedules involves awarding 242 contracts covering 813 item categories--an average of 58 contracts for 175 item categories per contracting officer. Also, they are overburdened with clerical and administrative duties. The contracting officers interviewed during this review generally agreed that a better job of negotiating prices and initiating program improvements is possible if more time were available.

Contracting officers say they feel pressured to award many contracts offering product selectivity because failing to do so results in complaints from vendors and customer agencies, and congressional interest on behalf of constituents. To meet contract award production plans imposed on the contracting officers, nearly all vendor bids are accepted. For example, of 1,473 offers we examined, only 30 were rejected for not meeting the established benchmark.

Discounts offered to the Government are compared to determine which are most advantageous. There are three methods of comparing the discounts. One is to simply compare the percentages discounts directly. The other two are comparisons of ratios and differences between discounts offered to the Government and the discounts manufacturers offer to their dealers and distributors.

Variances in contracting procedures used by FSS branches and individual contracting officers produce different end results. Different techniques are used to evaluate and compare offers, establish maximum order limitations, and select and divide marketing categories.

Lack of uniformity in contracting

The basis for selecting the benchmark vendors was generally not adequately documented. Although some documentation did exist in most files reviewed, it was not in sufficient detail to make an informed judgment as to the reasonableness for the selection. The problem of documentation was the subject of a letter report of ours in 1977. In response to this report, GSA issued Procurement Letter Number 234 detailing the documentation required. However, the problem has not been solved.

Product category	Benchmark discount selected	Highest discount offered
Electrostatic copy machines	16.60	46.50
Single element typewriters	17	23
Electronic counters	3.30	11
Blood chemistry analysis system	8	12
Automatic facsimile equipment	5	20
Fixed-message-type signs	15	57.75
Portable display systems	14	36
Heat pumps	61	71
Industrial incinerators	13	31
Portable water purifiers	44	59
Ultrasonic cleaning systems	6.50	21

Examples of discounts offered and those selected for the benchmark within selected marketing categories follow.

might result in complaints from agencies and vendors, as well as congressional interest. Also GSA could lose sales if the agencies purchased the product on the open market.

We have noted that selecting one technique over another can have a dramatic effect on the results of the discount comparison. For example, in a particular comparison of offers for a class of calculators, there were 12 offers to be evaluated. The vendor selected as the benchmark was the one that had the most sales in the previous year. The discount comparison was based on the relationship of discounts given to dealers versus discounts offered the Government, and as a result, all 12 vendors met the benchmark and were awarded contracts. However, if the comparison had been simply on the basis of the percentage discounts offered, only two contracts would have been awarded.

We reviewed 28 cases of discount comparisons where the contracting officers had the option of choosing different benchmark selection techniques. In 21 of these cases, the results of the comparison would have been different had another method been used.

Another area in which there is a lack of uniformity is in establishing the maximum order limitation (MOL). MOL is the maximum dollar amount that can be purchased by a customer agency in a single purchase. The purpose of MOL is to enable the Government to explore the possibility of securing lower prices for quantities exceeding the limitation. We found that there is no uniform system for establishing reasonable MOL levels. Although some contracting officers attempt to use MOL to get better prices for large quantity purchases, others simply leave MOL at whatever level it has been in the past.

The effectiveness of MOL varies with the ability and motivation of each contracting officer. GSA's procurement regulations require that MOL be examined prior to each new solicitation of offers and that a record of the justification for the MOL selected be made part of the contract file. We did not find adequate written justification in the files we reviewed.

The primary element of an offer in multiple award schedule contracting is a discount in the form of a percentage off commercial list price. Although the commercial price lists are available, it is the discount that is evaluated and compared with other offers. Two items being offered to the Government may be virtually identical and the

In most Government contracting, particularly in formal advertising, price visibility is the central element and the measure of competition. The prices of similar products are compared to determine the contracting action most advantageous to the Government. In multiple award schedule contracting, there is a lack of such price visibility.

PRICE VISIBILITY IS LACKING

At times, a vendor can use an unoccupied marketing category to eliminate competition. One vendor was awarded a contract at a 10-percent discount as the only vendor in the manufacturer with dealers not participating category. All other offers were in a different category where the lowest discount was 15 percent. In 23 of the 81 bid comparisons we reviewed, there was a marketing category with only one vendor, and thus, no competitively established benchmark for the vendor to meet.

Offers are compared only with other offers in the same marketing category. This practice of subdividing the offers dilutes competition and results in higher prices to the Government. In four cases we found instances where contracting officers subdivided the offers even further by creating additional marketing categories.

- Dealers selling direct.
- Manufacturers with dealers not participating.
- Manufacturers with participating dealers.
- Manufacturers with no dealers.

Offers received from vendors are grouped into four marketing categories, depending on the vendor's marketing structure. These categories are:

Dividing offers into marketing categories dilutes competition

discounts may be very close, but the actual price the Government will be paying may be very different. Since discounts rather than prices are being compared, the contracting officer may be aware of the discount relationship but unaware of the price relationship of the products. We found one case where a vendor, when informed he did not meet the benchmark discount, merely revised his price list and then raised his discount. He was subsequently awarded a contract.

An example of the problems resulting from the loss of price visibility is found in a GSA defective pricing review. Two vendors were each selling a line of trophies at different prices on a multiple award schedule. The audit revealed that the lines were identical and made by the same manufacturer. Some customer agencies were paying higher prices for the same product.

A similar problem has occurred in the contracting for typewriter ribbon. Dealers were repackaging ribbons they purchased from manufacturers and selling them to the Government through the multiple award schedules at various prices. The result was that identical typewriter ribbons, manufactured by the same companies, were being bought at different prices. The contracting officers are now attempting to correct this by directly comparing the prices that result after the discounts are applied to commercial list prices and requiring that the manufacturers be identified.

LATE OFFERS HAMPER COMPETITION

Offers are compared with one another to establish the benchmark. For the comparison to be effective and for competition to exist, all the offers should be evaluated simultaneously.

Offers were frequently received from vendors after the benchmark had already been established and recommended for award; thus precluding further negotiation even though the later offers were better than the established benchmark discounts. In one case, two offers were received a week after the benchmark vendor was established with a 13-percent discount from list price. One of the later offers exceeded the benchmark by 18 percent. In our opinion, the vendor met the criteria for establishing the benchmark.

Offers are being accepted almost up to the time the applicable contract expires. For example, on one

schedule we noted that offers were received beginning February 25, 1977, with the last being received on November 3, 1977--almost 8 months later.

On one schedule we found that 35 of the 94 offers received were late, 17 were over 4 months late, and 28 contracts were awarded after the effective date of the schedule. The following is a summary of selected schedules reviewed.

Schedule	Offers received	Number received on or before stated bid opening date	Number received after stated bid opening date
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35 IV	69	52	17
36 II A&B	84	45	39
58 II	84	26	58
58 III B	142	54	88
65 II B	125	107	18
66 II H	148	30	118
67 II B	42	8	34
67 IV B	59	23	36
68 VIII	85	29	56
74 I	94	59	35
74 II & III	101	41	60
Total	1,033	474	559

The acceptance of bids after the stated bid closing dates (1) does not assure that the benchmark discount selected is the most reasonable, (2) adds to the enormous volume of schedule modifications each time a subsequent contract is awarded, and (3) places the vendors who submit late bids at a competitive advantage because they are given an opportunity to learn what their competitors are offering prior to submitting a bid.

FSS NEGOTIATES ON THE BASIS OF UNRELIABLE INFORMATION

Reliable information is essential to the negotiating process. FSS contracting officers need to know a number of facts about the vendors they are dealing with to assure effective and fair negotiations. Information on such things as past sales, classes of customers, average order quantities, other discounts offered, and commercial pricing structure have a direct impact on the prices the Government ultimately pays.

We analyzed the data in this report and found numerous errors that affected the overall reliability of the data reported. FSS officials said that they have reservations as to the report's accuracy. For this reason, it is not heavily relied upon. They also said that the primary users of the report are vendors who check on sales of their competitors.

The only management report in use by the contracting officers is the Contractor's Report of Orders Received. This monthly report shows sales figures reported by vendors, by contract number, within special item number categories. These are broad categories and can include several functionally similar products. The report does not break out sales by specific model number.

In addition to unreliable vendor data, FSS does not have an adequate information system to provide the contracting officers better data for negotiations. For example, there is little visibility over (1) sales of specific makes or models of a given product, (2) which Federal agencies are doing the buying and how much, and (3) the average order size for customer agencies. This information would be extremely useful in estimating requirements, determining the degree of agencies' use of the schedule program, and making informed decisions about the size of MOL.

FSS apparently is not receiving reliable data from many vendors. Although the extent is not known, some indication can be seen from GSA's internal audits of vendors. Only 11 such audits have been conducted during the period July 1976 through September 30, 1978, and in all but two, defective pricing or inaccurate and/or incomplete discount information was found. During this review we have received allegations similar to the findings of the audit reports.

CHAPTER 4

PROCUREMENT PRACTICES OF

FEDERAL AGENCIES

The multiple award schedule program was created to make it easier and less costly for Federal agencies to buy a wide variety of commercial products to meet their everyday operating needs. However, the program has not achieved its purpose. Federal agencies find it difficult and confusing to effectively use the program and rather than purchase lower priced products which could meet their minimum needs, agencies are buying the more expensive products offered through the program. Also, several agencies are spending time making better deals with contractors in the program--a job GSA should have done in the first place. On top of all this, GSA has little or no idea of what is going on, because it does not monitor or audit agency procurement practices.

The foregoing conclusion is based on our review at four Federal civilian agencies and two military activities. The total estimated procurement expenditures for goods and services at these activities in fiscal year 1978 were \$291 million (excludes major acquisitions). Of this total, about \$24 million was spent on products from GSA supply sources--primarily the multiple award schedule program.

At these agencies, we reviewed a total of 931 purchase transactions. Our sample of transactions was taken from procurement records for eight major commodity groups offered through the multiple award schedule program. These commodity groups and the number of transactions reviewed within each are:

Commodity group	Number of transactions reviewed
Calculators	401
Dictating/transcribing equipment	45
Typewriters	157
Lamps	20
Copy equipment	17
Photo supplies	132
Lab (test) equipment	4
Lawn and garden equipment	155
Total	931

LOWEST COST PRODUCTS NOT PURCHASED

Most officials of the activities visited expressed a general satisfaction with the concept of the multiple award schedule program--primarily the idea of a wide variety of products from which to choose, the perceived savings which accrued, and the relative administrative ease of ordering from schedule vendors.

Our review disclosed that the agencies' view of the benefits of the schedule program were based more on how they actually used the program, rather than on how the program should be used. With respect to the wide variety of products, the agencies have generally purchased the more costly product makes and models. The agencies' failure to evaluate all makes and models of a given product line has made ordering from the schedule contracts administrative much easier than it would otherwise be if agencies were selecting the lowest priced product which would meet their needs.

Of the 931 transactions reviewed, only 64, or about 7 percent, were made at the lowest prices available. The failure of the agencies to purchase the lowest priced product is a costly practice. This is illustrated by the following examples:

Item purchased	Price of item purchased	Price of item which might have met needs	Difference
Miniscope	\$1,471	\$1,305	\$ 166
Oscilloscope	992	674	318
Electrostatic photo-copying machine	6,394	4,745	1,649
Basic four function nonprogrammable calculator	272	163	109
Desk-top calculators	477	262	215
Nonprogrammable calculator with multiple registers/memories	213	180	33

Agency procurement officials could not tell us whether or not the lower priced product would meet the needs of the user, because they had not attempted to find out. With respect to the calculators, however, the features of the lower priced models were the same on those of the higher priced ones.

In addition to the foregoing, we found instances where, although price information was available, the buyer purchased the more costly product, even though the requisitioner expressly stated that a less costly product would be acceptable. For example, a field office expressed a need for two cameras and identified two acceptable models--one priced at \$139.99 and the other at \$68.47. The purchasing office ordered the more expensive model even though the less expensive one was deemed acceptable by the requisitioner.

Procurement officials at the agencies said that making adequate price comparisons among several functionally similar products was too time consuming and difficult. Also, the lack of adequate resources was cited as a reason for not ensuring that user activities requisitioned the lowest priced items. According to the officials, some of the factors which accounted for the length of time and difficulty were the complexity of the schedules, the large number of functionally similar products available on the schedules, special item number categories which are too broad, and inadequate distribution of the schedules and vendor price lists. As a result, the agencies have made only a limited attempt to make comparative price evaluations to insure that the lowest priced items meeting the agency's needs are purchased.

JUSTIFICATIONS LACKING

The Federal Property Management Regulations (Chapter 101-26.408-2) state that for each purchase of more than \$500 per line item made from a multiple award schedule, agencies shall make the purchase at the lowest delivered price available under the schedule, unless the agency fully justifies the purchase of a higher priced item. In most cases, the agencies did not adhere to this regulation. Of a total of 380 transactions over \$500 reviewed to identify lower priced alternatives, we found 371 or about 97 percent, were for items of a higher price and/or quality than might have been needed to meet the agency's needs.

Of the 371 transactions reviewed, we found 333 instances, or about 90 percent, where no or inadequate justification existed for purchasing the higher priced item. The Federal Property Management Regulations (Chapter 101-26.408-3) require that justifying purchases made at prices other than the lowest delivered price available should be based on specific or definitive needs which are clearly associated with the achievement of program objectives. Mere personal preference cannot be regarded as an appropriate basis for justification. However, we found that the requisitioner's personal preference for a particular product generally went unquestioned.

However, the agencies did make extensive use of Blanket Purchase Agreements (BPAs). These agreements were usually entered into at the headquarters level and were made available to regional offices for use. Each multiple award schedule contract is required to include a clause for BPAs. The clause is to take advantage of discounts which otherwise

Procurement officials at the agencies we visited said that little effort is made to estimate requirements at the field level because (1) most purchases of commercial products are for replacement purposes and needs fluctuate throughout a year and (2) the various field offices have different fund availability, which dictates when purchases can be made.

REQUIREMENTS DETERMINATION AT AGENCY LEVEL

Procurement officials at several agencies said they were convinced that vendor sales representatives had an influence in shaping the specified requirements for products--especially those of a technical nature. Officials at all agencies visited said that they rely on the individual field offices or the using activity to select the lowest priced product which will meet their needs, since these offices control their own funds and know their needs. As a result, stated requirements are rarely questioned.

In another instance, one activity stated that its operation required a typewriter with a fixed carriage. The reason given for this was that the typewriter was to be used in a hallway and that the movable carriage common to other brands would be a hazard to passers-by.

"The typewriter presently in use is a borrowed one."

"This typewriter will allow the secretary to produce correspondence that is perfect, distinctive, and dignified."

"In the line of work for which these machines will be used, absolute accuracy in typing is required."

"This machine provides flexibility in typing."

In those few cases where written justification did exist for purchasing higher priced products, they were generally not adequate. Some were frivolous. Examples taken from requisitions for electric typewriters follow.

It is GSA's position that it is not responsible for monitoring or enforcing agency compliance with Federal procurement regulations. The GSA Headquarters, as well as its regional offices rely on the customer agencies to assure that the multiple award schedules are used properly. However, we found that none of the agencies visited conducted such reviews. Also, GSA has made no effort to determine whether agencies are purchasing products of a higher price and quality than needed to meet their requirements. GSA officials said that such an effort would not be possible without substantial increases in resources.

LACK OF MONITORING

GSA has maintained that it cannot enter into definite quantity contracts because there is no feasible way to estimate the requirements of Federal agencies. Since many BPAs are negotiated at the headquarters level, we believe that if GSA would solicit the major agencies, it could obtain a rough approximation of the quantity level at which the agencies are negotiating. This data could provide the basis for GSA to centrally negotiate definite quantity contracts at more favorable prices than any individual agency might obtain.

In our opinion, it makes little sense for agencies to pay different prices for the same product. GSA was created to perform a centralized procurement function for the Federal Government. Through such centralized contracting GSA should be getting the best price, combining the requirements of Federal agencies and contracting on a definite quantity basis.

The use of BPAs can result in different discounts being offered to the various Federal agencies for the same product. Agencies which guarantee the greater quantities receive better multiple award schedule discount terms. For example, in another recent review we noted that one vendor had BPAs with 18 different agencies for the same product. Ten agencies received prices based on quantity discounts of 1 to 100 units, another on the basis of 101 to 200 units, and 7 on the basis of 201 and up. Also, there were several other agencies which did not have BPAs and only received the minimum discount negotiated by GSA on the multiple award schedule.

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could not be obtained on an individual order basis. Agencies can enter into BPAs with vendors who already have a contract under the multiple award schedule program. The agencies obtain a specified discount for quantity levels that are anticipated to be purchased agencywide. This discount is greater than that offered for small quantity purchases in the multiple award schedule.

Our review has revealed serious problems with the procurement practices of Federal agencies. Although the current regulations are adequate, we believe legislation is needed to reinforce the fact that GSA is the Federal Government's procurement arm and Federal agencies will use contractors which are awarded contracts by GSA. We believe such action is necessary to provide GSA with sufficient authority to effectively deal with and bring agencies into compliance with Federal procurement regulations and to promote efficient, economical, and effective procurement practices.

Review and monitoring alone will not be effective. It must be coupled with a commitment by the Federal agencies to effectively use GSA as a source of supply. In order for GSA to be in the best position to obtain the lowest possible price, assurance is needed that the agencies will buy their requirements from vendors with whom GSA has awarded contracts. Such assurance will provide GSA a more reliable basis to enter into definite quantity contracts.

The Federal Property and Administrative Services Act of 1949 authorizes GSA to monitor and review the procurement practices of Federal agencies. With respect to a need for more resources, we believe that this function should be performed by the Market Research and Marketing Division within FSS. The top priority of this division should be to gather information on agency needs and procurement practices.

THE POTENTIAL FOR SAVINGS THROUGH COMPETITION

CHAPTER 5

Significant savings could be realized through competitive award of many products currently in the multiple award program. GSA recognized such a potential in 1971, but it has not been realized. Competitive procedures are used extensively at the state level for commercial products. These procedures have enabled many states to obtain significantly better prices than FSS for many products. FSS has justified adding products to the multiple award program on the basis of impossibility to draft adequate specifications. Also, FSS believes that using commercial item descriptions (CID) will result in bid protests and inferior products and will conflict with FFRs. However, we believe that it is practical and feasible to effectively use commercial item descriptions without the adverse consequences as envisioned by FSS; particularly if the CID's are developed through effective market research and analysis.

POTENTIAL RECOGNIZED IN 1971

Although the potential for significant savings by using competitive procedures has been known for several years, GSA has not aggressively sought to use them. In 1971, GSA's internal auditors estimated that \$100 million annually could be saved if the entire multiple award schedule program was converted to competitive bidding. The estimated annual dollar savings was based on an average 20-percent savings applied to total program sales. While actual savings is difficult to estimate, 20 percent is probably a reasonable approximation as to potential savings. We are uncertain as to what a more realistic average savings percentage might be because of the numerous variables which must be considered, such as the nature of the item, quantities purchased, terms of the contract, and agency buying practices.

FSS estimates that an average savings of 10 percent rather than 20 percent results from competitive procurements, as compared to procurements under the multiple award program. However, for some items converted from multiple to competitive award, savings have increased by over 200 percent. Examples of items converted and the related savings reported by GSA follow.

The States reviewed and/or visited had procurements of approximately \$1 billion in 1978. In most of the States, a central office of procurement entered into competitive annual contracts for common-use items and services. State agencies ordered directly from the vendors with a contract. For items and services not under annual contracts, the agencies forwarded requisitions to the central procurement office for approval. In most cases, the central procurement office

We found that competitive procurement is extensively used in all States visited. Through its use, the States have been able to obtain significantly lower prices than GSA for identical products. One of the primary reasons for the success of competitive procurement at the State level is the latitude that States have in selecting the lowest bidder and the products which meet acceptable quality standards.

WHAT THE STATES ARE DOING

10	\$ 893	\$ 670	\$ 447	\$223
15	1,340	1,005	670	335
20	1,786	1,339	893	447
25	2,233	1,674	1,116	559
	<u>100%</u>	<u>75%</u>	<u>50%</u>	<u>25%</u>

------(millions)-----

Assumed percent of savings realizable through competitive awards
 Estimates of savings realizable with assumptions as to percent of conversion of the multiple award schedule program

Total Estimated Savings 1970-78

In recognition of the uncertainties in the percentage of savings and the extent to which the program can be converted, we have developed estimates of savings using various assumptions. The estimated savings represent cumulative yearly savings for the 9-year period 1970 through 1978. The assumptions and related savings are:

Item	Percent saved	Dollar amount saved annually
Tape reel bands	276	\$ 630,000
Electric lamps	101	1,100,000
Typewriter ribbons	40 to 50	500,000

Five annual State advertised contracts were selected for product price comparisons with multiple award schedules. The price of products under four of the five State contracts were an average 20-percent to 57-percent lower for the same products. Had FSS obtained discounted prices comparable to the State, we estimate \$5.8 million would have been saved in fiscal year 1978 on purchases of calculators, dictating/transcribing equipment, typewriters, and lamps from the same manufacturers whose products are covered by the four State advertised annual contracts. The following table summarizes the results of our comparison.

A comparison of product prices and sale terms under California's advertised annual contracts and multiple award schedule annual contracts shows the State not only obtains lower prices but also equal or better terms on delivery, prompt payment, and warranty. Whereas FSS contracts are awarded to numerous suppliers based on negotiated discounts off the suppliers' commercial list price, the State awards a contract to a sole supplier competitively based on the lowest offered price.

Our review of procurements by several States has demonstrated that many commercial products presently purchased by the Federal Government through the multiple award schedule program can be bought at significantly lower prices through competitive procurement.

Lower prices and better terms available under State contracts

The central procurement office in most States visited had relatively strong controls over agencies' procurement. Most agencies had delegated purchase authority for small purchases. Procurements in excess of this authority were processed by the central procurement office when an annual contract did not exist. In contrast, FSS has no visibility or control over the buying practices of the Federal agencies. Lower prices and better terms

would then advertise the specific requirements, and the award would be made to the lowest bidder. State laws generally provided that the awards be made to the lowest bidder unless the requisitioning agency showed adequate justification.

The following table demonstrates some of the more significant differences in the State and multiple award schedule prices for the same product models.

On one contract compared for photographic supplies, we found that the State was paying an average of 22-percent more than GSA. State procurement officials were unable to explain why their prices were higher than those under the FSS schedule contract. However, we noted that unlike the other awards reviewed, the State's solicitation did not contain quantity estimates for each item in the solicitation for vendors to consider when submitting unit price bids. The State merely provided an estimated dollar amount for the total contract. We believe the lower State prices on four of the five contracts examined demonstrate the potential for lower prices using advertised competitive annual contracts in place of multiple award contracts.

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Commodity	Number of products/models compared	Average percentage of savings of State prices compared to FSS price (note a)	Potential savings (note b)
Calculators	6	20	\$ 463,000
Dictating/transcribing equipment	3	57	3,585,000
Typewriters	5	27	486,000
Lamps	15	42	1,261,000
Total	29		\$5,795,000

a/Maximum quantity price discount under FSS contract used in the comparison. This results in a conservative estimate of savings.

Commodity	Product model	Multiple award schedule unit price	State unit price	Difference
Calculator	Sharp CS-4263	\$319.20	\$231.50	\$ 87.70
Dictation	Sharp CS-4163	279.20	226.26	52.94
equipment	Lanier ED-D	346.26	a/148.50	197.76
	Lanier ED-W	346.26	a/148.50	197.76
	Lanier ED-C	385.41	a/172.50	212.91
Typewriters	Olympia	495.04	342.73	152.31
	GSNFR-13	518.06	352.24	165.82
	Olympia	518.06	359.80	158.26
Lamps	GSNDR-15	541.09	374.75	166.34
	Olympia	518.06	359.80	158.26
	GSNDR-13	518.06	352.24	165.82
	Olympia	518.06	352.24	165.82
	GSNDR-15	541.09	374.75	166.34
	Sylvania 1500-99-XL	7.09	4.14	2.95
Sylvania	3.96	2.35	1.61	
<p>a/The vendor for the State said that a "bid machine" was furnished to the State. This machine is not the same one as on the multiple award schedule. Shortly into the contract period with the State, the vendor began supplying the same equipment as on the multiple award schedule, because production of the bid machine was halted. The State received the same prices for this comparable equipment. We believe that the approximate 50-percent price differential is representative, based on our review of bids of other vendors for identical equipment as on the multiple award schedule.</p>				
<p>Contract terms for delivery, prompt payment, warranty, and minimum order under the five State contracts are mostly comparable or slightly better than terms under FSS multiple award contracts for the same products. The following table summarizes the results of our comparison.</p>				
Term	State	FSS	Terms identical	
Delivery	-	-	5	
Prompt payment	3	2	-	
Delivery time	5	-	-	
Warranty	3	-	2	
Minimum order	1	1	3	

We compared GSA prices for selected items purchased by several other States. Although GSA was able to get better prices in some cases, the States were usually able to get the same or lower prices than GSA. The following table demonstrates some of the more significant differences found between prices for the same product model.

Commodity	Product model	State	Multiple award schedule unit price	State unit price	Price difference
Dictation equipment	Lanier Regent RD	North Carolina	\$ 445.55	\$ 345.00	\$ 100.55
		North Carolina	445.55	300.00	145.55
Copy machines	Sharp #810 Pitney Bowes #4500	Arizona	5,575.00	4,090.00	1,485.00
		Arizona	4,745.00	3,880.00	865.00
	Savin 755	Arizona	3,887.00	2,995.00	892.00
		Arizona	6,310.00	4,995.00	1,315.00
Lamps	Sylvania ULX360 Sylvania 54A/SS Sylvania 143A/SS Sylvania P96T12/LW/SS	Illinois	27.00	14.94	12.06
		Illinois	.445	.246	.199
		Illinois	.639	.353	.286
		Illinois	2.52	1.394	1.126

Procurement officials in the majority of the States visited considered the multiple award method of contracting undesirable, primarily because it does not foster competition and there is no incentive for vendors to offer their

State comments on multiple award method of contracting

State contracts either guarantee or estimate the quantity that will be purchased. This enables manufacturers to accurately project sales and plan production runs. We were told that sales cannot be forecasted under multiple award schedules, and production runs are less efficient. All vendors contacted stated that the cost of items sold to the Federal Government would decrease if quantities purchased could be estimated or guaranteed.

The vendors said that Federal agencies pay a higher price for items purchased from multiple award schedules because of the high cost of doing business under the program. They said that the Federal Government requires elaborate recordkeeping to report sales on multiple award contracts. Also, vendors must prepare and distribute costly catalogs to all ordering agencies. The cost of selling and servicing multiple award products also significantly increases the price to the Government.

In addition to our discussions with vendors in California, we visited three vendors who have contracts under the multiple award schedule program for the same products.

The vendors said that one major reason is that the State awards its contracts based on estimated annual purchases, plus or minus 20 percent. In effect, this guarantees a given level of sales, which allows for manufacturing and inventory planning. It also eliminates the need for an extensive sales force to sell products to potential Government customers, since the sale is, in effect, made when the contract is awarded. Under the multiple award schedule program, vendors are not guaranteed any sales and, after contract award, must still sell their product to Government customers.

We contacted three vendors who have contracts with California for calculators, typewriters, and dictation equipment to ascertain their views as to why the State of California is able to obtain better prices than the Federal Government.

Vendor comments on reasons for higher prices under the multiple award schedule program

--Maximum product selectivity for agencies.
 --Latest product technology available to Government through multiple award schedules.
 The following was identified by State officials as among the advantages of multiple award contracts:

Advantages

--Less assurance the Government is obtaining a reliable product.
 --Less assurance the Government is obtaining a good price for its volume of purchases.
 --Added difficulty for agencies to readily identify lowest price item under contract that can satisfy a requirement.
 --Less control to insure that agencies purchase the lowest price item available that can adequately satisfy requirements.
 --Added costs to vendors associated with publishing and distributing catalogs and maintaining a sales force to sell to the Government.
 --Added contacts between agency staff and vendors' sales representatives.
 --Higher prices to the Government resulting from a lack of competition.

The State officials identified the following as among the disadvantages inherent in the multiple award process:

Disadvantages

In this respect, the National Association of State Purchasing Officials passed a resolution to achieve maximum use of competitive bid solicitations and competitive awards and to use multiple award-type contracts for similar commodities only when a single competitive award cannot be made. State officials characterized the multiple award schedule program as merely a license for selling to the Federal Government. Although the States recognized certain advantages associated with multiple award contracts, the consensus was that the advantages were more than offset by the disadvantages.

The use of commercial item descriptions and/or functional purchase descriptions is in accordance with the Office of Federal Procurement Policy's statement on the use of commercial products, as shown below.

GSA contends that adequate specifications cannot be drafted to include the diverse requirements of the Federal agencies. Also, it believes that a brief purchase description would not satisfy the FPR requirement that specifications be complete and accurate. If such a specification were used, GSA officials believe that significant numbers of bid protests would be filed, and the likelihood of getting a "shoddy" product would be increased.

POTENTIAL AND IMPACT OF USING
COMMERCIAL ITEM DESCRIPTIONS VERSUS
DETAILED FEDERAL SPECIFICATIONS

In contrast, FSS justifies adding products to the multiple award program because it is deemed impossible to draft adequate specifications to obtain competition. FPRs require competitive procurements whenever possible. However, FPRs provide an exemption from the competitive requirement when specifications cannot be written. GSA has used this exemption extensively.

Several of the States use qualified product lists to insure the quality of products being offered. If a vendor desires to be placed on the list, he is allowed to submit samples for examination and acceptance.

All States visited used functional purchase descriptions and/or brand name equivalent for soliciting bids from potential suppliers. Requirements in terms of performance are emphasized rather than a physical description/design of a specific product. This eliminates the need to develop detailed product specifications and for a vendor to produce a product specifically for the States. It allows the vendor to bid a price on an existing standard off-the-shelf commercial product that will satisfy the user's needs.

State use of functional purchase
descriptions and brand name
equivalents for advertised awards

--Less work for Government because there is no need to develop product functional descriptions and qualified products lists.

--Desirable customer status for Government because of vendors higher profit margin on sale.

The new Federal Acquisition Regulations define established commercial market acceptability as meaning that sales must be to the general public and/or industry in substantial quantities at established market or catalog prices and must predominate over sales to the Government. Such a requirement

Commercial acceptability

The progress in implementing this policy in the Department of Defense has been slow. However, a recent review of implementation of this policy, as it pertains to clothing and textile items, has shown that using commercial item and/or functional purchase descriptions is feasible, given sufficient resources and commitment to the program. For example, for seven items which have been purchased using such descriptions, we estimate about \$1 million has been saved in procurement costs. The only significant problem to have surfaced was in packaging requirements. There have been no appreciable problems with bid protests and quality of the item purchased.

The Department of Defense's experience

GSA has made little progress in determining what the requirements of Federal agencies are. Although the requirements may be diverse, there has been little effort to categorize them. We believe that it is practical to generally categorize requirements on the basis of performance features. Such categorization could then provide the basis for competition within each defined category.

Requirements of Federal agencies

In this regard, the Office of Federal Procurement Policy has recently proposed Federal Acquisition Regulations for acquiring and distributing commercial products. While this policy is intended to minimize the use of detailed Government-unique specifications, it also supports the idea that commercial item descriptions should be developed for the existing practices of procuring commercial products.

"The Government will purchase commercial, off-the-shelf, products when such products will adequately serve the Government's requirements, provided such products have an established commercial market acceptability. The Government will use commercial distribution channels in supplying commercial products to its users."

1/Essex Electro Engineers, Inc., B-191116, Oct. 2, 1978.

In summary, the framework for using commercial item and/or functional purchase descriptions has been created. Although GSA has shown a reluctance to use them in the past, we believe there is no substantive reason for doing so. What is required is a commitment and an allocation of sufficient resources to do it. Using market research and analysis in developing the commercial item and/or functional purchase descriptions should preclude the possibilities of widespread did protests and receipt of an inferior product.

will aid in minimizing the possibilities of receiving a shoddy product because it must meet the test of the commercial marketplace. We believe that such a requirement constitutes a prequalification of products, not vendors. 1/ This would appear to minimize the basis for protests in this area.

However, in the Commissioner's response to the report, he recognized that "multiple award contracting is not conducive to the most economical procurement and some progress has been made in expanding the use of formal advertising." In this respect, 17 commodities were identified as candidates for conversion to formally advertised procurement. As of January 1978, only 8 of the 17 commodities had been converted. For example, electric typewriters were one of those commodities. Today, it still remains to be done.

In May 1971, GSA's Office of Audits and Investigation issued a draft report relating to buying practices under the multiple award schedule program. This report highlighted the significant potential savings--\$100 million annually--if GSA were to competitively award contracts for products in the multiple award program. However, this report was never formally issued because of strong objections to its recommendations by the then Acting Commissioner of FSS. Specifically, the difficulties in eliminating multiple awards as well as the needs of agencies, were the reasons given for rejecting the recommendations.

GSA internal audit report

During the period 1971 through the present time, several initiatives were undertaken by GSA internal audit, FSS management, and us to bring about program improvements. However, all of these initiatives failed to accomplish their intended objectives. The more significant initiatives and the reasons for failure will be discussed in the following sections. Generally, the reasons for failure can be traced to diffused responsibilities or organizational conflict.

PAST INITIATIVES

The problems previously discussed have been known to FSS's managers for several years. However, we found that management has either been unwilling or ineffective in implementing the necessary action to bring about substantive improvement in the program. In many instances, initiatives for improvement were stymied because of apathy or diffused management responsibilities within FSS.

FAILURE OF PAST INITIATIVES

CHAPTER 6

Schedule contract improvement program

In 1976, FSS initiated the Schedule Contract Improvement Program (SCIP). This program included 16 different projects. We found that most of the projects were never completed and that no substantive improvements to the program resulted from SCIP. For example, one of the projects was to develop criteria for determining what products should be included in the multiple award schedule program. This effort was aborted because of the lack of support from the Standards and Quality Control Division in FSS.

The complete failure of SCIP can be directly attributed to a lack of management support. According to officials, SCIP received only token support because (1) priority in FSS was given to the stores operations and (2) improvement of the multiple awards schedule program was given low management emphasis.

Our initiatives thwarted

During the period 1973-77, we issued several reports which contained recommendations for improving the multiple award schedule program. Although GSA concurred with our recommendations, little substantive improvement in the program has resulted. The thrust of our recommendations were:

- Obtain more detailed knowledge on GSA's customers.
- Limit the number of awards to increase competition.
- Better data needed to improve contract negotiating.
- Need for more preaward and postaward audits.

More detailed customer knowledge

In response to our report issued in December 1974, GSA created a Market Research and Marketing Division to plan, develop, and conduct customer research. Today, this Division knows little more about GSA's customers than it did when it was created.

Since its inception in January 1974, this Division has done little to learn more about GSA's customers. It has collected little, if any, information on who GSA's customers

Management of the Federal Supply Service Procurement Program Can be Improved, PSAD-75-32, Dec. 31, 1974.

FSS undertook a test case in which they attempted to determine if it was possible to limit to five the number of contracts awarded for the purchase of copying machines. FSS concluded that due to the diverse requirements for copying machines, it was impossible to limit the number of contracts awarded. An FSS official said that they

In a letter report to GSA issued in December 1973, I/we recommended that GSA consider limiting the number of contracts for similar items to increase competition among suppliers. We do not believe that FSS adequately explored the possibility of limiting the number of contracts for similar items.

Limiting the number of awards

The Division is developing an information system to provide data on customer characteristics, buying patterns, and market potential. However, this system is designed to provide visibility only over GSA's stores program and will not provide visibility concerning the schedules program. We were told that it is too difficult to collect information on the schedules program.

Studies and projects performed by the Division have produced questionable results. We were told that an effort to conduct a census of line items was discontinued after 6 months because no use could be made of the data collected. A study relating to the schedules program was performed, but it was never issued because it was of little value to other divisions. The Director of the Division said that another study costing \$280,000 was contracted for and its recommendations were never implemented.

The Division has not interfaced with other divisions or branches to determine the types of research that could be performed for their benefit. We found that there is a lack of communication and cooperation between the Division and the buying offices, specification writers, and the Director of the schedules program. The Division has initiated projects without the cooperation of other operating units and, as a result, the benefits from these projects are questionable.

are, what they buy, or how much. It has also failed to provide GSA contracting officers with information that would assist them in dealing with vendors.

1/Federal Supply Service Not Buying Goods at Lowest Possible Price, PSAD-77-69, Mar. 4, 1977.

In our report, we noted that during fiscal years 1973 and 1974, there were 25 preaward and 18 postaward audits. Based upon our review of audits performed during fiscal years 1977 and 1978, we found that there was only 1 preaward and 10 postaward audits. In 9 of the 11 audits, inaccurate sales information had been reported by the vendors and/or better discounts available to commercial customers were not disclosed.

In our report issued in March 1977, I/we recommended that GSA increase its independent verification of vendors' proposals and audit coverage of completed contracts. We found that GSA has not taken any positive action to increase the number of audits performed.

Need for more preaward audits

FSS undertook a limited test program to determine if it was feasible to collect information on advertised schedules. FSS officials said that the continued need to update contract data pertaining to these schedules forced the program's cancellation. We were also told that the staggering number of items under multiple award schedules precluded any attempt to acquire visibility over this program.

In response to our report issued in December 1974, FSS implemented an automated delivery order system to acquire visibility over its schedule customers, as well as the volume of procurement for items. Today, FSS knows little more about its schedule customers than when the system was implemented.

Better data needed

A review of the multiple award schedules revealed that numerous opportunities exist to reduce the number of contracts awarded for similar-type items. We found that contracts have been awarded to 10 or more contractors for 332 special item categories. In one instance, we found that 72 contracts had been awarded under the multiple award schedule program for contemporary tables.

do not have the capability to determine agency requirements, and to limit the number of contracts awarded arbitrarily deny the customer the item requested. On this basis, the entire project was scrapped.

In another instance, we found that a proposed procurement letter requiring increased audits of multiple award schedule vendors was sent to the Policy and Procedures Division on July 19, 1978, for action. A program of preaward audits was proposed to improve the quality of multiple award schedule contracting. Action on this matter was still being taken as of February 1979--some 7 months later.

We found one case where the schedule manager forwarded a recommendation on June 6, 1978, to the Policy and Procedures Division for increased training of contracting officers in the area of contract negotiations. The last time similar training was offered was March 1975. This recommendation was delayed because of various administrative actions, and it has subsequently been transferred to the newly created Office of Acquisition Policy.

The schedule program manager can only suggest new policy or recommend changes to the schedule program. These suggestions and recommendations are acted upon by other divisions or branches impacting upon the schedule program. We found numerous examples where the implementation of new policy or recommended changes suggested by the schedule manager were delayed, primarily by administrative actions taken by other divisions.

Management of schedule program is diffused

In 1973, a GSA internal study recommended that a program manager with overall responsibility and authority for direction of the schedule program be named. Even though this was done, we found that he has little or no management responsibility or authority in terms of directing schedule operations or making policy decisions. The operation of the schedule program is fragmented among various organizational units without any single controlling authority. We believe that this has substantially contributed to the lack of direction and control of the schedule program.

FRAGMENTATION OF SCHEDULE MANAGEMENT RESPONSIBILITY, AUTHORITY, AND CONTROL

It is essential that accurate, current, and complete sales and marketing data be reported to enable the Government to negotiate reasonable prices. Unless the number of audits performed increases, it is unlikely that the accuracy of sales information reported by vendors will improve.

For example, we found that no one individual was given the responsibility for selecting items for developing CIDs. The Assistant Commissioner of the Standards and Quality Control Division said that it was not his responsibility to select items for developing CIDs. He said the Director of the schedules program should select the items and provide his office a listing of them. The Director of the schedules program was unaware of this problem and said that the responsibility for selecting these items must have fallen through an organizational crack.

As part of Service Objective 22, the Standards and Quality Control Division was assigned a project to develop 200 commercial item descriptions (CIDs) for high-volume multiple award items. We reviewed the selection of items and found that it was one of confusion and that items were selected without an established criteria. As in the previous efforts to improve the schedule program, we found that there was a lack of cooperation between divisions and unclear management responsibility.

Project to develop 200 commercial item descriptions

GSA initiated another project called Service Objective 22 in December 1978 to make improvements to the schedule program. This project is another attempt to address some of the longstanding problems that management has been unwilling to take, or ineffective in taking, the necessary corrective action. Based on a limited review of the projects contained in this service objective, and given GSA's track record of previous efforts to improve the schedule program, we believe that there is little chance of substantive improvement as a result of this effort.

CURRENT INITIATIVES FOR IMPROVEMENT

The success of initiatives designed to improve the schedule program depend upon the cooperation and participation of the various divisions involved. Several initiatives of SCIP were frustrated because of the lack of cooperation by the Office of Standards and Quality Control. We found the manager of SCIP lacked the position and authority to work effectively to resolve program problems. Also, the continued lack of support by FSS management for the schedules program frustrated most attempts to improve it.

Efforts to improve the schedule program frustrated

The problems that plagued previous efforts to improve the schedule program are also evident in Service Objective 22. We found a lack of cooperation and coordination between divisions involved in the program. Also, we do not believe that this project addresses all of the major problems of the schedule program, as discussed in this report.

An FSS official said that there are many items on multiple award schedules that have not been reviewed for developing CIDs. He said there is confusion as to what division or branch is responsible for initiating action for selecting the items. He also said he believes that the Office of Procurement should suggest items for developing CIDs. He said the Standards and Quality Control Division should be responsible for providing the technical support needed.

After we brought this to the attention of the Director of the schedules program, various categories of items were selected for developing CIDs. These categories were selected based on the experience of the selecting official as to the types of items for which CIDs should be developed. We were told that no criteria had been developed to assist the selecting official in identifying and selecting items for developing CIDs.