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**CONTRACT MANAGEMENT: OPPORTUNITIES TO IMPROVE PRICING OF
GSA MULTIPLE AWARD SCHEDULES CONTRACTS**

U.S. Government Accountability Office*

ABSTRACT. Federal agencies can directly purchase more than 8 million commercial products and services through the General Services Administration's (GSA) multiple award schedules (MAS) contracts. Over the past 10 years, MAS contract sales have increased dramatically—with sales jumping from \$4 billion to \$32 billion. In addition to simplifying the procurement process, the MAS program is designed to take advantage of the government's significant aggregate buying power. While GSA seeks to negotiate best pricing for its MAS contracts by analyzing vendor-provided information—such as discounts given to other customers and recent sales data for the same or similar items—past reports have found that GSA has not always used pricing tools effectively and that management controls for better ensuring fair and reasonable pricing had been reduced. This report discusses GSA's process for negotiating most favored customer prices for MAS contracts and its efforts to improve the overall quality of negotiations.

Contract negotiators at the four MAS acquisition centers that GAO reviewed use a variety of tools for obtaining most favored customer pricing—that is, the prices vendors offer their best customers. However, the GAO analysis of GSA's review of selected fiscal year 2004 MAS contract files found that nearly 60 percent lacked the documentation needed to establish clearly that the prices were effectively negotiated. Specifically, the contract documentation did not establish that negotiated prices were based on accurate, complete, and current vendor information; adequate price

* Reprinted from the U. S. General Accountability Office (2005, February). "Contract Management: Opportunities to Improve Pricing of GSA Multiple Award Schedules Contracts" (GAO-05-229). Washington, DC. Several modifications are made, including endnotes and exclusion of its Administrator's transmittal memorandum.

analyses; and reasonable price negotiations. GSA's efforts to ensure most favored customer pricing have been hindered by the significant decline in the use of pre-award and postaward audits of pre-award pricing information, two independent pricing tools that have helped GSA avoid or recover hundreds of millions of dollars in excessive pricing. In fiscal year 1995, GSA conducted 154 pre-award audits; by 2004 the number of pre-award audits fell to 40. Postaward audits—which resulted in an average annual recovery of \$18 million in the early 1990s—were discontinued in 1997 when GSA revised its MAS contract audit policies to increase the use of pre-award audits—an increase that has not materialized. In March 2003, GSA established the Acquisition Quality Measurement and Improvement Program, initiating the use of prenegotiation panels and postaward quality reviews of contracts. However, the effectiveness of these initiatives has been limited due to insufficient oversight. For example, three of the MAS acquisition centers that GAO visited had not reported the results of their 2003 prenegotiation panels—information needed by management to identify problems and make needed improvements. Moreover, the fourth acquisition center—which accounted for about 56 percent of the fiscal year 2004 MAS sales—has yet to hold a panel. While the postaward quality reviews—the second program initiative—have identified deficiencies in contract file documentation, they did not determine the underlying causes of these deficiencies or prescribe actions needed to address them. As a result of these weaknesses, GSA cannot be assured that fair and reasonable prices have been negotiated for its MAS contracts.

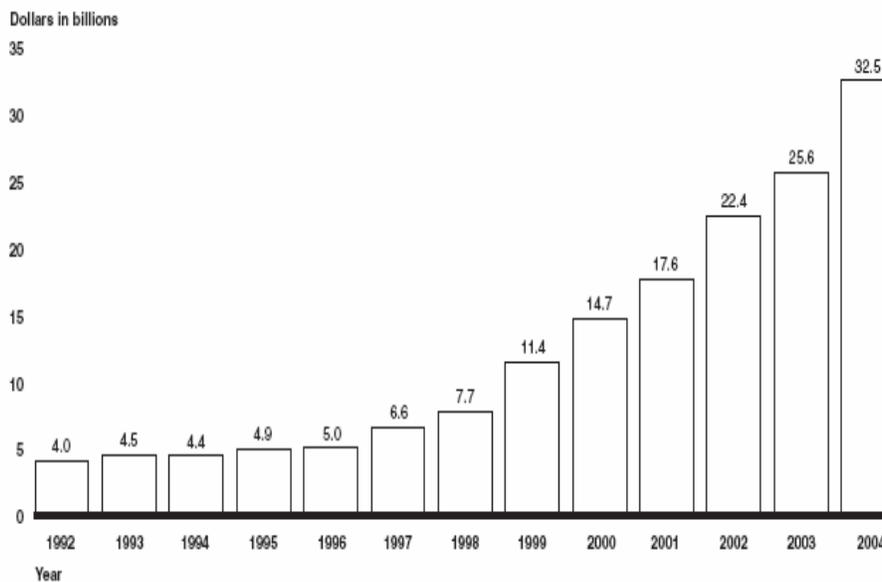
BACKGROUND

GSA, through its Federal Supply Schedule (FSS) program, makes commonly used commercial items and services available to federal agencies. MAS, the largest FSS program, is designed to provide federal agencies with a simplified method for acquiring varying quantities of a wide range of commercially available goods and services, such as office furniture and supplies, personal computers, scientific equipment, library services, network support, and laboratory testing services. The MAS program provides several advantages to both federal agencies and vendors. Agencies can use a simplified method of acquisition and avoid other procurement methods to purchase these items, which can be time-consuming and administratively costly. Vendors can receive wider exposure of their commercial products and expend less effort to sell their products.

In administering the MAS program, GSA is responsible for ensuring that all procurement regulations are followed and MAS prices reflect

the government's aggregate buying power. GSA awards indefinite-quantity contracts to multiple vendors supplying comparable commercial goods and services and provides the contracts categorized under various schedules to federal agencies. MAS contract awards are based on the results of price negotiations between contract negotiators and individual vendors. GSA negotiators seek to obtain discounts from a vendor's commercial price list, which are equal to or greater than the vendor's most favored customer's discounts. The most favored customer is a customer or category of customers that receives the best discounts from the vendor's commercial price list when purchasing quantities comparable to the government's under similar terms and conditions.¹ Vendors provide catalogs and price lists to federal agencies, which in turn order the particular goods or services directly from the vendors that best meet their needs.

FIGURE 1
MAS Sales, Fiscal Years 1992 through 2004

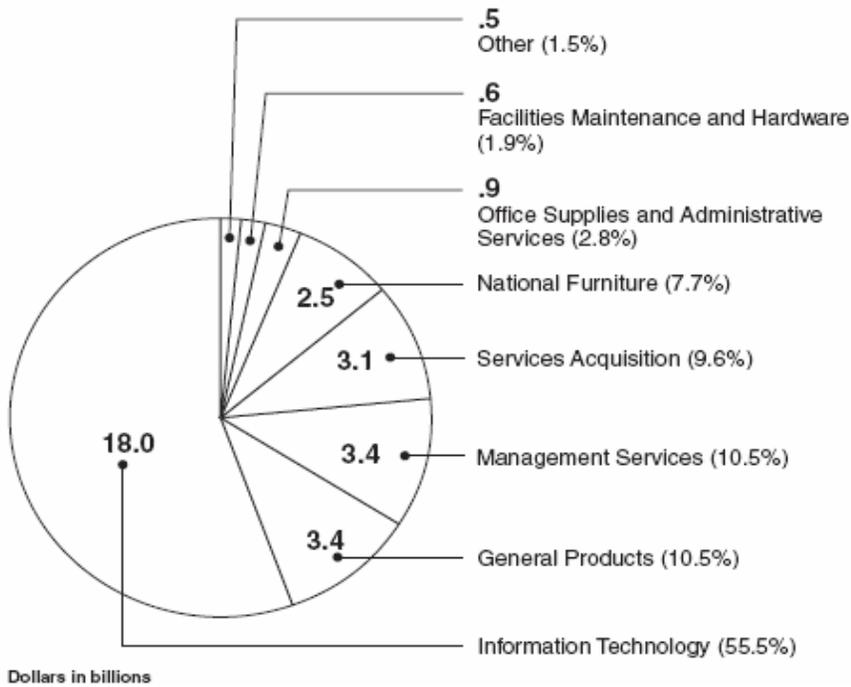


Note: MAS sales amounts include single award sales for each year of less than \$1 million.

MAS Program Changes

In August 1997, GSA revised its acquisition regulations to expand access to commercial products and services and to implement greater use of commercial buying practices and streamline purchasing for customers.² GSA believed that these changes would lead to more participation in the MAS program by both large and small businesses—procedures more consistent with commercial practice would increase competition and thereby provide federal agencies a wider range of goods and services at competitive prices. Beginning in the late 1990s, MAS program sales increased significantly (see Figure 1, previous page).

FIGURE 2
Fiscal Year 2004 MAS Sales by Center

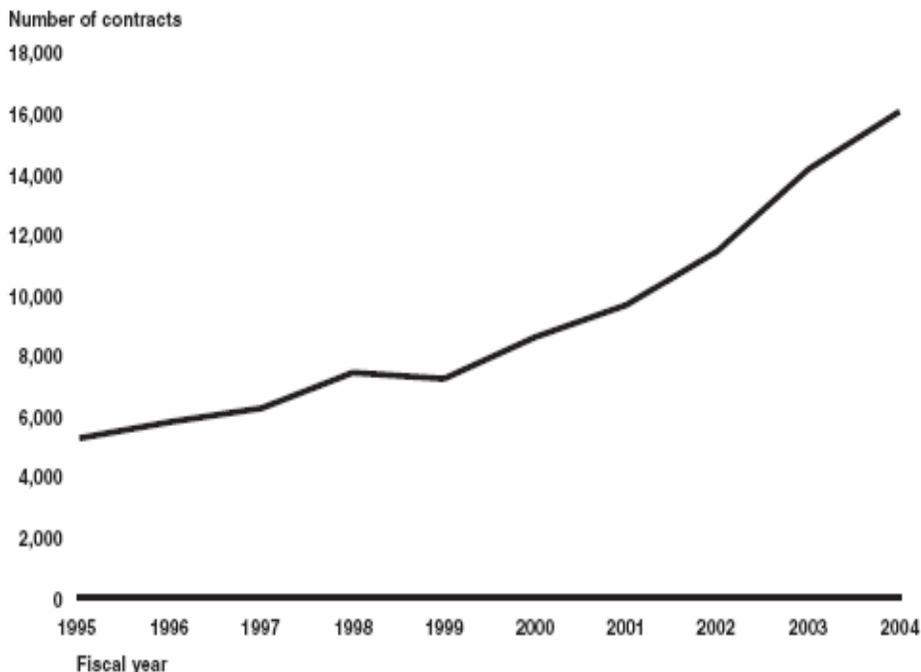


Note: The Other category includes MAS contracts administered by GSA centers other than MAS acquisition centers.

In fiscal year 2004, the Information Technology Acquisition Center had the largest MAS sales volume with more than \$18 billion (about 56 percent) of total MAS sales. Figure 2 shows the MAS sales for fiscal year 2004 by GSA acquisition center. (See Appendix II for a description of the products and services offered through each of the acquisition centers).

As MAS sales volume skyrocketed over the last decade, the number of contracts offering goods and services to federal agencies also increased. For example, in the mid-1990s, GSA had about 5,200 MAS contracts. By fiscal year 2004, this number had increased to over 16,000 MAS contracts (see Figure 3).

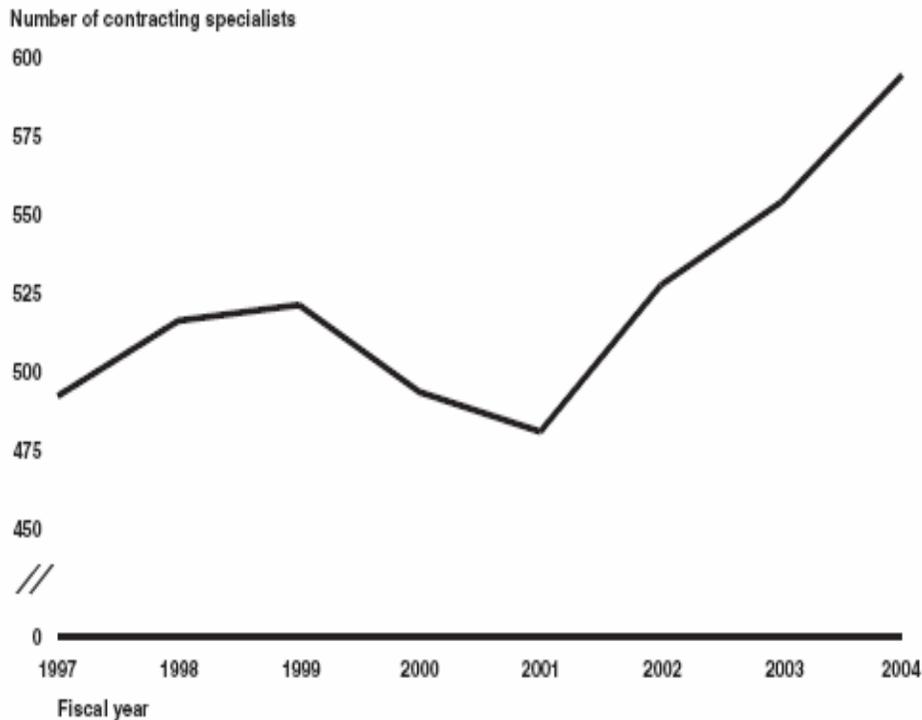
FIGURE 3
Increase in the Number of MAS Contracts,
Fiscal Years 1995 through 2004



Source: GAO analysis of GSA data.

As the number of MAS contracts managed increased, the number of FSS contract specialists³ remained relatively stable, ranging from 512 in fiscal year 1997 to 503 in fiscal year 2001. In the last 3 years, however, the number of contracting specialists has risen from 540 in fiscal year 2002 to 593 in fiscal year 2004 (see Figure 4). As a result, more contract negotiators are available to negotiate and administer an increasing workload. Additionally, GSA has initiated some technology and process improvements, such as E-Buy⁴ and E-Offer,⁵ to help contract negotiators better manage the increasing workload.

FIGURE 4
Number of FSS Contract Specialists,
Fiscal Years 1997 through 2004



Source: GAO analysis of GSA data.

Negotiating Fair and Reasonable Prices

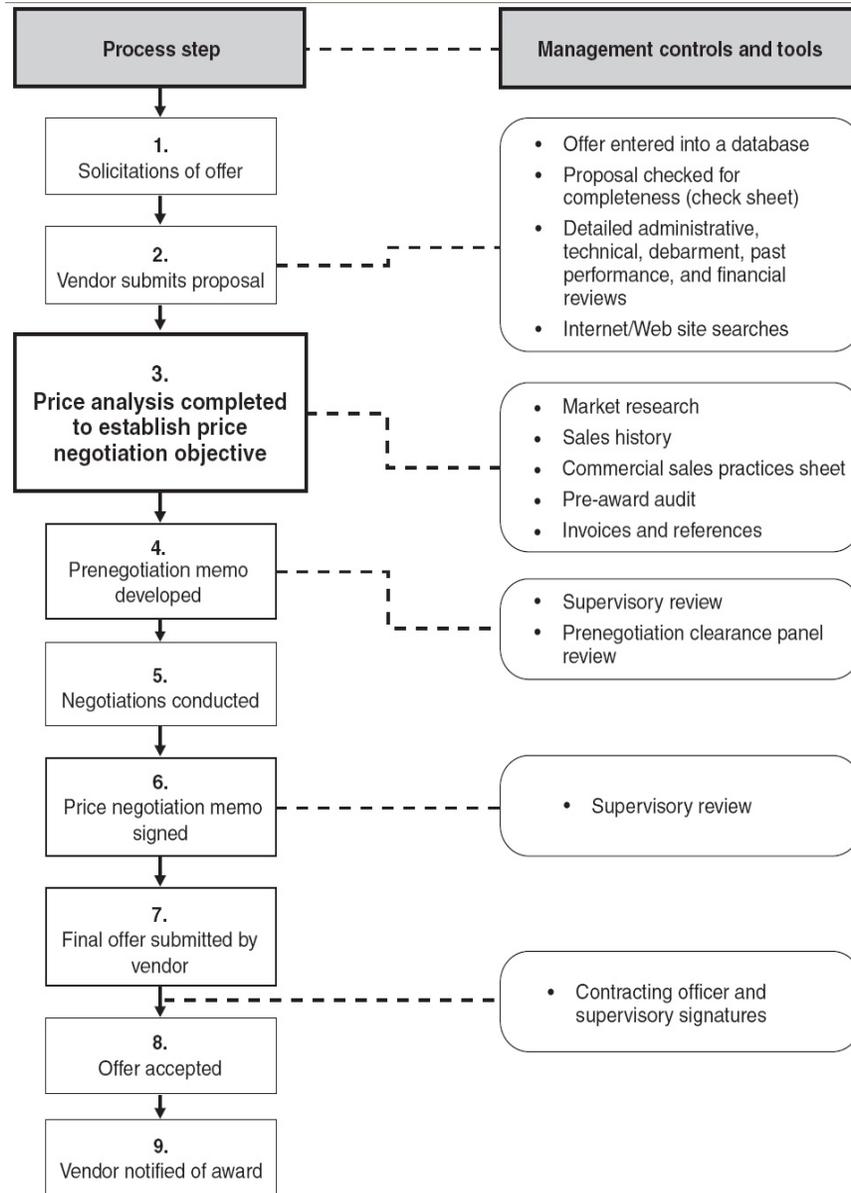
GSA's goal is to obtain the offeror's best price (the best price given to the most favored customer). However, the regulations recognize that there may be legitimate reasons why the best price is not achieved. Thus, the regulation permits an award at prices greater than the most favored customer price so long as the award is in the best interest of the United States and the price is fair and reasonable. To prepare for negotiations, contract specialists conduct price analyses by comparing each vendor's proposed prices to (1) other vendors' prices; (2) vendors' commercial customer prices; (3) competitor price lists, discount terms, or rebates; and (4) market prices. In performing a price analysis, the contracting officer or an authorized representative (the GSA Office of Inspector General) also has the right to conduct a pre-award pricing audit, in which the vendor's books, records, documents, papers, and other records are reviewed to verify the pricing, sales, and other vendor-submitted data. Figure 5 shows some of the tools that can be used by GSA during the MAS contract price negotiation process.

Federal Acquisition Regulation (FAR) specifies that the complexity and circumstances of each acquisition determine the level of analysis required.⁶ For example, determining a fair and reasonable price for professional services can be complex and would likely involve analyzing labor rates for a variety of skill levels. Conversely, analyzing the price of a ballpoint pen that is similar to many other pens already on a schedule would, in most circumstances, be straightforward and require the use of different tools such as catalogs. In addition, federal government sales and performance histories are available to help evaluate prices when contract extensions are considered.

USE OF PRICE NEGOTIATION TOOLS MAY NOT ENSURE BEST PRICING ON MAS CONTRACTS

According to negotiators at the four acquisition centers we visited, a variety of tools are used to analyze vendor-supplied information and negotiate contract prices that nearly always were at least equal to the vendor's most favored customer prices. However, our analysis of a recent GSA review of product and service contract files found that most lacked sufficient and reliable documentation to establish clearly

**FIGURE 5
MAS Contract Price Negotiation Process and Common Tools**



that prices were effectively negotiated. In addition, we found that the use of pre-award and postaward audits of pricing information—two key price negotiation tools that, in the past, have helped GSA avoid or recover hundreds of millions of dollars in excessive pricing—have declined dramatically.

Reviews Showed Effectiveness of Tools Used Is Unclear

The MAS contract negotiators at the four acquisition centers we visited used a variety of tools, including checklists, invoices, sales histories, and pre-award audits to help them analyze and negotiate prices. While their selection of tools was generally determined by the type of product or service being purchased and the type of proposal, other factors—such as GSA policies and procedures, resource availability, and performance metrics—also affected the use of certain pricing tools. For example, contract negotiators at the Services Acquisition Center were required to use numerous standardized tools such as checklists, letters, prenegotiation memorandums, and price negotiation memorandums to help them evaluate proposals, while contract negotiators at the National Furniture Center had more flexibility in selecting pricing tools.

Regardless of the pricing tools used, all of the contract negotiators whom we spoke with stated that their negotiations nearly always resulted in prices that were at least equal to vendors' most favored customer prices. However, GSA's June 2004 file review of 62 MAS contracts awarded or extended during 2003 at GSA's seven MAS acquisition centers found that 37 of the contracts—nearly 60 percent—lacked sufficient documentation to clearly establish that the contracts were effectively negotiated. Roughly 40 percent of the contracts lacked adequate price analyses or price negotiation documentation. We analyzed GSA's review of the 62 contracts and developed a profile of the types of documentation weaknesses identified in the review (see Table 1).

While GSA's June 2004 file review revealed weaknesses in the MAS contract negotiation process, it often did not identify the specific causes for the weaknesses. For example, for some contracts, the reviewers reported that the contract file documentation of the price analysis was unacceptable, but did not report what made the documentation unacceptable.

TABLE 1
Contract Documentation Weaknesses of MAS Contracts by Acquisition Center

Acquisition center	Contracts reviewed	Contracts that did not meet pricing documentation requirements ^a	Contracts with inadequate price analysis	Contracts that did not fully document price negotiations	Contracts that did not identify most favored customer price
Center for FMH	2	2	0	0	0
GPA Center	10	5	5	0	0
IT Center	10	8	5	7	4
MS Center	10	10	9	9	4
NF Center	10	2	1	2	1
OSASACenter	10	9	6	6	2
SA Center	10	1	0	0	1
Total ^b	62	37	26	24	12

Legends: Center for FMH = Center for Facilities Maintenance and Hardware; GPA Center = General Products Acquisition Center; IT Center = Information Technology Center; MS Center = Management Services Center; NF Center = National Furniture Center; OSASA Center = Office Supplies and Administrative Services Acquisition Center; SA Center = Services Acquisition Center.

Notes:

- ^a Contract file documentation is to clearly establish that the vendor-supplied pricing information was accurate, complete, and current; that the vendor information was relied upon during the negotiations; adequate price analysis was conducted; reasonable negotiation objectives were established; the leverage of the total government's requirements was considered in negotiating prices; and the prices awarded were determined fair and reasonable as required in GSA Manual 538.270. [FSS Acquisition Letter FC-03-1: Acquisition Quality Measurement and Improvement Program; Mar. 25, 2003 and FSS Acquisition Letter FX-03-1, Supplement 1; Acquisition Quality Measurement and Improvement Program; March 2004.]
- ^b Each contract could have all, some, or none of the weaknesses listed in each of the columns.

Source: GAO analysis of GSA data.

In September 2004, GSA completed a review of 28 additional MAS contracts. These contracts were awarded or extended between November 2003 and June 2004 at the seven MAS acquisition centers. Again, the preliminary results found that the documentation for 27 of the 28 contracts was insufficient to clearly establish that the most favored customer price objective was used for contract negotiations. As of January 21, 2005, GSA had not issued a final report on its fiscal year 2004 quality reviews.

Use of Pre-Award and Postaward Audits of Negotiation Information Has Declined Dramatically

In addition to the pricing tools available to contract negotiators, re-award and postaward audits of negotiation information conducted by the GSA Inspector General have been valuable tools for ensuring the government is not overpaying for items purchased under MAS contracts. However, the use of these audits has dramatically declined in recent years. As the number of pre-award and postaward audits performed decreased, so too did the amount of negotiated cost savings and recoveries reported from these audits.

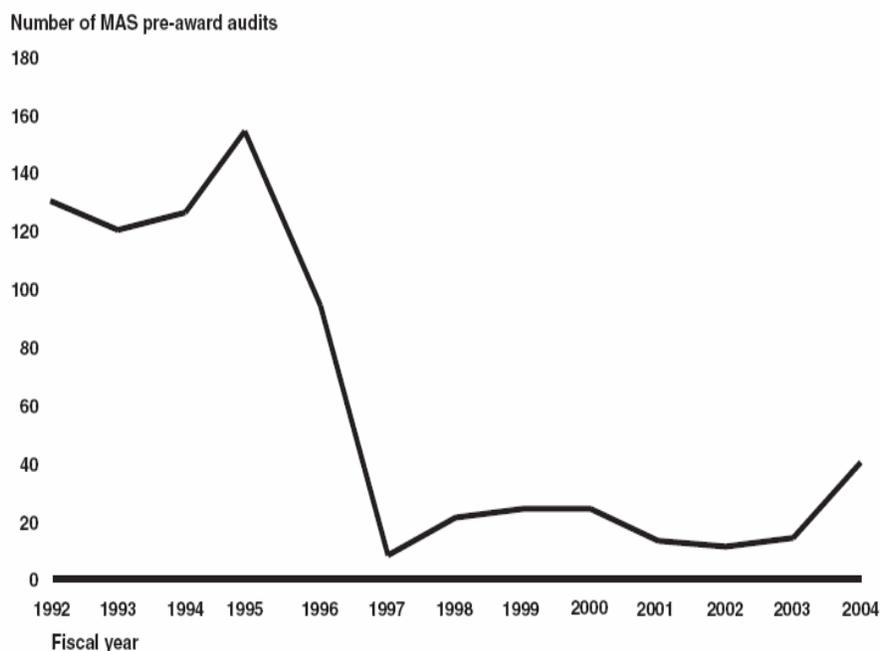
Pre-Award Audits

Pre-award audits enable contract negotiators to verify that vendor-supplied pricing information is accurate, complete, and current before the contract is awarded. Historically, pre-award audits have allowed GSA to identify and avoid hundreds of millions of dollars in overpricing. For example, in August 2001, the GSA Inspector General reported that a photocopier vendor offered state and local governments a price that was \$5,582 less than its price to GSA for the same type copier; the Inspector General estimated that the higher price paid by GSA customers could cost them nearly \$4 million more in just one year. In another example, the Inspector General found that a major distributor of information technology products sold its top 10 GSA-selling computer models to commercial customers at an average price that was 6 percent less than the price offered under the MAS contract. The Inspector General projected that over the contract's term, GSA customers would pay nearly \$40 million more for these products than they should have.

Despite the cost avoidance realized through pre-award audits, the number of these audits decreased dramatically between fiscal years

1992 and 2003—from 130 to 14. Between fiscal years 1992 and 1996, the average number of pre-award audits conducted annually was about 125; for fiscal year 1998 through 2003, the average number of pre-award audits conducted annually fell to 18. In 2004, pre-award audits rose slightly to 40 (see Figure 6).

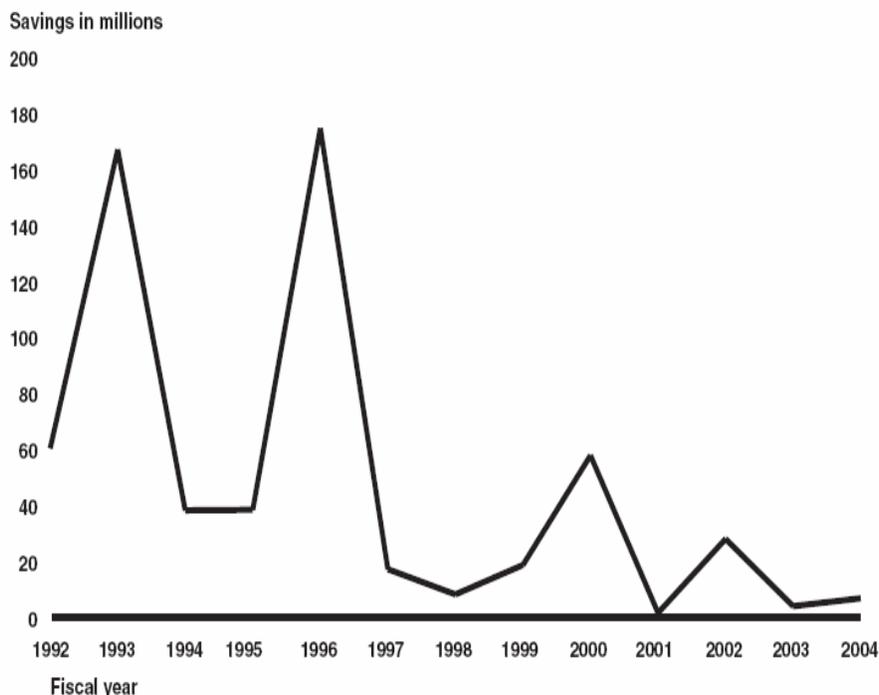
FIGURE 6
MAS Pre-Award Audits, Fiscal Years 1992 through 2004



Source: GSA Inspector General data.

As the number of pre-award audits performed decreased, so did the amount of the negotiated cost savings. Between fiscal years 1992 and 1997, the GSA Inspector General reported a total of nearly \$496 million in savings—an average of nearly \$83 million per year. Between fiscal years 1998 through 2004, the total savings reported had dropped to about \$125.9 million—an average of nearly \$18 million per year (see Figure 7).

FIGURE 7
Negotiated Cost Savings from Pre-Award Audits,
Fiscal Years 1992 through 2004



Source: GSA Inspector General data.

According to Inspector General and MAS contracting officials, the decline in pre-award audits was largely due to an organizational culture that stressed making awards quickly and because pre-award audits were not emphasized institutionally in GSA. For example, the performance goal for negotiating and awarding MAS contracts for the Office Supply and Administrative Services Acquisition Center is 79 days—a goal that would be difficult to meet if pre-award audits, which take on average 90 or more days to complete, were to be conducted. GSA management officials also noted that extending the contract performance period from one year—the contract period in the mid-1990s—to 5 years has reduced the number of opportunities for conducting pre-award audits.

Recently, MAS program and Inspector General officials formed a work group to address the decline in pre-award audits. In June 2003, GSA issued guidance that recognized the importance of preaward audits to the evaluation of MAS price proposals and a clear determination regarding fair and reasonable pricing.⁷ The guidance instructs contract negotiators to request audit assistance for new contract offers and extensions when the dollar value for estimated sales exceeds \$25 million for the 5-year contract period. We applied the \$25 million threshold to MAS contracts awarded or extended in fiscal year 2003 and identified about 34 new contracts and 37 contract extensions that were subject to pre-award audits. However, only 14 pre-award audits—which identified about \$4.1 million in negotiated savings—were completed in fiscal year 2003. For fiscal year 2004, GSA management and GSA Inspector General officials collaboratively selected about 55 MAS contracts for pre-award audits; by the end of fiscal year, the Inspector General had completed 40. For fiscal year 2005, the officials set a goal of completing 70 pre-award audits. To help achieve this goal, the FSS program has provided the Inspector General \$2 million to hire more auditors.

Postaward Audits

From fiscal year 1990 through fiscal year 1994, the GSA Inspector General reported that it recovered an average of \$18 million each year in vendor overcharges through postaward audits. Most of these recoveries were the result of vendor failure to provide accurate, complete, or current information in the negotiation of their MAS contracts and the vendors' failure to report and offer price reductions. Inspector General officials told us that they believe postaward audits of negotiation information are a key pricing tool and a deterrent to vendor pricing abuse.⁸

Despite the significant recoveries, postaward audits of pre-award pricing information have not been conducted since 1997—when GSA issued a final rule, changing its policy. Specifically, GSA removed language from the examination of records clause that automatically granted postaward audit rights for pre-award pricing information in every MAS contract.⁹ GSA expected the reduction in these postaward audits to be offset by an increase in the number of pre-award audits. However, the anticipated increased use of pre-award audits has not materialized.

While the policy changes greatly limited the use of postaward audits of pre-award pricing information, we found that it did not expressly eliminate its use. Under GSA's revised regulations, the contracting officer can modify the examination of records clause to provide for access to pre-award pricing information for 2 years after contract award or modification. To modify the examination of records clause, the contracting officer must, first, determine that there is a likelihood of significant harm to the government without access to verify the information. Such determination must be made on a schedule-by-schedule basis. Secondly, the contracting officer must obtain the senior procurement executive's approval to modify the examination of records clause of the contract. However, according to GSA management and GSA Inspector General officials, no contract clause modification requests have been sought or approved since the policy changes were made. These officials said that GSA has not issued guidance to help contracting officers determine the likelihood of significant harm to the government.

OPPORTUNITIES EXIST TO IMPROVE MANAGEMENT OVERSIGHT OF MAS PRICE NEGOTIATIONS

In March 2003, GSA established the Acquisition Quality Measurement and Improvement Program, a management control process for assessing and improving the quality of contract negotiations. The program consists of two initiatives—prenegotiation clearance panels¹⁰ and quality reviews of contract files¹¹] While these initiatives are a good first step toward establishing management controls for assessing the quality of MAS contract price negotiations, opportunities exist to increase their effectiveness.

Use of Prenegotiation Clearance Panels Has Been Limited

GSA established prenegotiation clearance panels to help MAS acquisition center management ensure the quality of its most significant contract negotiations. Prior to initiating discussions with a vendor for a contract award or modification that reaches a center's dollar threshold,¹² the contract negotiators are required to seek advice and concurrence from the clearance panel. Panel procedures may also be applied to sensitive actions such as the first contract negotiations under new programs and contract extensions with problematic performance or sales reporting histories. However, since

the initiative was implemented, few panels had been conducted at the acquisition centers we visited, and those that had been conducted had not been assessed at the agency level.

The Information Technology Center—which administered contracts with more than \$18 billion, or 56 percent, of fiscal year 2004 MAS sales—has yet to conduct a clearance panel. According to center management officials, no panels have been held because no contract's estimated annual sales had exceeded the center's \$80 million threshold for conducting a panel. However, we found five contracts that exceeded the threshold and, therefore, were subject to a clearance panel. Specifically, in fiscal year 2003, GSA awarded four contracts with total estimated sales values ranging from \$102.5 million to \$700 million and extended one contract with an estimated sales value of \$20.3 billion. Each of these met the threshold for a panel.

Each of the remaining three centers—which, combined, administered \$6.5 billion, or about 20.1 percent, of fiscal year 2004 MAS sales—had conducted a small number of panels in the past year. The Office Supplies and Administrative Services Center held 10 panels, the Services Acquisition Center held 9 panels, and the National Furniture Center held 6 panels. According to the management officials and contract negotiators at these centers, the panels helped prepare them to successfully negotiate most significant MAS contracts. For example, officials at the Office Supplies and Administrative Services Center stated that the panels helped contract negotiators learn how to better negotiate large, sensitive, and controversial contracts. The officials at all three centers also stated that clearance panels helped in identifying inconsistencies in the documentation and analyses used to develop their negotiation objectives. The officials further noted that because these reviews have been a valuable prenegotiation technique, they lowered the dollar threshold required for a panel review to increase the number of panel reviews. For example, the Office Supplies and Administrative Services Center officials reduced the center's threshold from \$5 million to \$2 million so that more contracts would qualify for panel review.

While these efforts helped centers prepare for negotiating their most significant MAS contracts, GSA officials responsible for overseeing the MAS program were unaware of the effectiveness of

the panels. GSA officials acknowledged that they neither collected nor analyzed information on the implementation of the panel initiative and did not require the acquisition centers to report panel outcomes to MAS program management. However, they stated that they would implement a procedure to collect panel information by the end of calendar year 2004.

Scope of Quality Reviews Limited Their Effectiveness

In the first 2 years of its quality reviews, GSA identified a number of deficiencies in the documentation supporting price negotiations and price reasonableness determinations. However, the scope of these reviews was limited, minimizing their effectiveness. Moreover, GSA did not identify the underlying causes of the deficiencies found or the specific actions to address the causes—despite actions taken to improve the quality review initiative.

Through its quality review initiative, GSA planned to select a representative sample of MAS contracts at each of the acquisition centers¹³ and assess the pre-award documentation—rating it as excellent, satisfactory, marginally acceptable, or unacceptable¹⁴—in the following three pricing areas:¹⁵

- Price negotiation documents are to clearly establish that the pricing information provided by the vendor was accurate, complete, and current; the information was relied upon during negotiations; adequate price analyses were conducted; reasonable negotiation objectives were established; the amount of the total government's requirements was leveraged in negotiating prices; and the prices negotiated were fair and reasonable considering the prices offered by the vendor to their most favored customer.
- Contract modifications documentation should support the conclusion that all contract modifications were adequately reviewed to establish that the terms proposed were in the interest of the government and that prices for newly awarded items were determined fair and reasonable considering the prices offered by the vendor to their most favored customer.
- Contract extension decisions are to be fully documented in compliance with regulations, and the prices for the option

established as fair and reasonable with consideration of the prices offered by the vendor to its most favored customer.

For the fiscal year 2003 quality review, GSA did not meet these criteria—largely because it had significantly reduced the scope of the review. For example, GSA completed its review at only one of its seven centers—the Services Acquisition Center. According to MAS program managers, a lack of resources and reviewers and concerns about the independence of the available reviewers prevented them from conducting more reviews. In addition, in its one review, GSA assessed 19 fiscal year 2003 contracts, which did not make up a representative sample. GSA found that the price negotiation documentation for 4 of the 19 contracts reviewed was "unacceptable."

For fiscal year 2004, GSA planned to review 10 contracts each quarter at each of its seven MAS acquisition centers—a total of 280 MAS contracts—to improve the independence of the review team members, and refine the review criteria and rating categories. However, GSA completed only two quarterly reviews of a total of 90 MAS contracts and eliminated the rating system—instead, contract reviewers identified only strengths and weaknesses of each contract negotiation. Moreover, reviewers did not determine the underlying causes for identified pricing deficiencies or develop plans to address the causes. For example, the negotiation documentation for a contract with a dollar value of \$3.5 million lacked an adequate price analysis and did not identify the vendor's most favored customer price, but the cause of these deficiencies was not determined. Similarly, the documentation of a contract with an estimated value of \$125,000 was insufficient in either the contract extension or the original contract to determine if any of the pricing requirements had been met. Again, however, the causes for these deficiencies were not identified.

In September 2004, GSA completed a review of 28 additional MAS contracts that were awarded or extended between November 2003 and June 2004 at the seven MAS acquisition centers. GSA's preliminary findings of these reviews are inconsistent. For example, GSA reported that all 28 contracts contained sufficient documentation to establish clearly that they met pricing requirements. However, the most favored customer price was not established clearly for 27 of the 28 contracts. In addition, GSA

reported that one contract's negotiation documents clearly showed that reasonable negotiation objectives were established and an adequate price analysis was conducted. However, the review also stated, "While the contract file contains several pages where, for each item offered, the government price and discount is listed, as well as the commercial price, the contract file does not contain a commercial pricelist. Thus, there is no way to substantiate that the commercial prices shown in the tables comparing commercial and government prices are, in fact, the published commercial prices." As of January 21, 2005, GSA had not issued a final report on its fiscal year 2004 quality reviews.

According to GSA officials, several efforts to improve the quality review process are to be implemented during fiscal year 2005. Key efforts include, providing on-line training with a module on price negotiation for contract specialists, making contract quality a performance measure to balance the contract negotiator's focus on quality as well as timeliness, and requiring each acquisition center to develop an individual improvement plan. While these efforts appear to be positive steps, their effectiveness is uncertain.

CONCLUSIONS

The MAS program has provided the government with a more flexible and cost-effective approach to buying commercial items and services, and the MAS's popularity has increased significantly in recent years. However, MAS contract negotiators do not use the full range of tools to ensure that the government is effectively negotiating prices. While GSA has taken steps to establish a program to assess the quality of its MAS contract negotiations, all acquisition centers are not fully participating, and the scope of the program is limited. Moreover, the program has not yet determined why deficiencies it has identified thus far are occurring. Until GSA takes steps to ensure the appropriate use of available pricing and negotiation tools, it will continue to miss opportunities to save the government hundreds of millions of dollars in the procurement of goods and services.

RECOMMENDATIONS FOR EXECUTIVE ACTION

We are making four recommendations aimed at helping GSA ensure that prices are effectively negotiated for MAS contracts. We

recommend that the Administrator of the General Services Administration:

- ensure that pre-award audits are conducted when the threshold is met for both new contract offers and contract extensions,
- develop guidance to help contracting officers determine when postaward audits are needed,
- direct GSA program management to revise the Acquisition Quality Measurement and Improvement Program to measure and report on the performance of the prenegotiation clearance panels, and:
- direct GSA program management to revise the Acquisition Quality Measurement and Improvement Program to broaden the scope of quality review initiative to (1) determine the underlying causes for contract pricing deficiencies and (2) develop appropriate plans to implement corrective actions.

NOTES

1. Terms and conditions of sale can include such factors as delivery requirements, warranty requirements, timing of price increases, and functions performed for the government by the vendor.
2. Final Rule, 62 Fed. Reg. 44,518 (Aug. 21, 1997) to be codified at 48 CFR Part 504, 507, 510, 511, 512, 514, 515, 538, 539, 543, 546, 552, and 570.
3. The Office of Personnel Management defines the contract specialist occupational group as positions that manage, supervise, perform, or develop policies and procedures involving the procurement of supplies, services, construction, or research and development using formal advertising or negotiation procedures; the evaluation of contract price proposals; and the administration or termination and close out of contracts. Office of Personnel Management, Handbook of Occupational Groups and Families; (Washington D.C.: August 2002).
4. E-Buy is an on-line request for quotation tool designed facilitate the request for submission of quotations for commercial

services and products that are offered by schedule contractors. E-Buy was implemented in fiscal year 2001.

5. E-Offer enables a company to become GSA-approved by preparing and submitting its offer and interact with contract specialists electronically. E-Offer was implemented in fiscal year 2004.
6. Analytical techniques and procedures may be used singly or in combination with others to ensure that the final price is fair and reasonable. The complexity and circumstances of each acquisition should determine the level of detail of the analysis required. [FAR 15.404-1(a)(1)]
6. General Services Administration, Procurement Information Bulletin (PIB) 03-4: Audit Assistance--Multiple Award Schedule (MAS) Contracts (Washington, D.C.: June 20, 2003).
7. The GSA Inspector General officials' comments are supported by the Department of Veterans Affairs Inspector General officials who have found postaward audits help protect against overcharging by vendors and often result in recovery of vendor overcharges. See GAO, Contract Management: Further Efforts Needed to Sustain VA's Progress in Purchasing Medical Products and Services, GAO-04-718 (Washington, D.C.: June 22, 2004).
8. GSA, however, retained the right to conduct postaward audits for over billing, billing errors, and compliance with the Price Reduction and Industrial Funding Fee clauses. [GSAR 552.215-71].
9. Prenegotiation clearance review panels provide advice and concurrence to the contract negotiator and ensure that the negotiator is fully prepared to negotiate the most significant contracts.
10. Quality reviews evaluate the overall quality of completed contract negotiations.
11. GSA policy gives acquisition centers the discretion to lower their dollar thresholds for determining when a panel review should occur. In fiscal year 2003, thresholds for each center were as follows: National Furniture Center, \$7 million; Information

Technology Center, \$80 million; Services Acquisition Center, \$9 million; General Products Acquisition Center, \$7 million; Hardware Superstore, \$5 million; Office Supplies & Administration Services Acquisition Center, \$5 million; and the Management Services Acquisition Center, \$9 million. [FSS Acquisition Letter FC-03-1; Acquisition Quality Measurement and Improvement Program, Mar. 25, 2003.]

11. General Services Administration, Acquisition Quality Measurement Improvement Program, Acquisition Letter FC-03-1 (Washington D.C.: Mar. 25, 2003).
12. A contract file that indicated that the negotiator used excellent skill and initiative to resolve problems and establish pricing that fairly represented the full value of the contract would be rated as excellent. A contract that needed significant corrective action to meet regulatory requirements or to establish fair and reasonable pricing, or both, would be rated as unacceptable.
13. In 2003, the quality review included seven critical factors of which only three were directly related to pricing.

APPENDIX I Scope and Methodology

To determine how GSA negotiates most favored customer pricing objectives for MAS program contract awards and extensions, we examined GSA policies and procedures for contract negotiation, including information requirements for price negotiation memorandums, periodic reviews focusing on the quality of MAS price negotiations, specific guidance on contract price negotiations, and training given to contracting officers and contract specialists. We discussed implementation of GSA policies, procedures, and management controls with agency officials at GSA's Office of Acquisition Management in Arlington, Virginia; Office of Performance Improvement and the Office of Government-wide Policy in Washington, D.C.; and the GSA's Office of Inspector General in Washington, D.C. Also, we visited the Office Supplies and Administrative Services Acquisition Center in New York, New York; and the National Furniture Acquisition Center, Services Acquisition Center, and Information Technology Center in Arlington, Virginia. We obtained and analyzed GSA data on MAS contract awards and sales

volume as recorded in the Federal Supply Service Automated Supply System FSS-19 used by GSA to procure and distribute supplies across the federal government. To help ensure reliability of FSS-19 data, we reviewed the results of the GSA Inspector General's audit of the system's internal controls and tests of application controls completed in support of GSA's fiscal year 2003 consolidate and combined financial statements. Also, we reviewed GSA Inspector General reports, analyzed cost avoidance and cost recovery estimates, and discussed these data with GSA Inspector General officials.

Further, we reviewed contract files and discussed price negotiation practices and tool use with management officials and contract negotiators responsible for selected MAS contracts at four of GSA's seven MAS acquisition centers. At these centers, we reviewed the contract files that GSA had randomly selected for review under their Acquisition Quality Measurement and Improvement Program. Based on our review of price negotiation procedures and discussions with acquisition center management officials concerning the GSA selected MAS contracts, we developed a flowchart of the contract price negotiation process identifying tools used and controls over their use.

To determine how GSA assesses the overall effectiveness of MAS contract price negotiations, we reviewed GSA policies, procedures, and efforts to evaluate the quality of MAS contract negotiations and awards, identify and implement needed improvements, and communicate best practices throughout the acquisition community. Also, we discussed management controls established to assess the effectiveness of MAS contract negotiations to obtain the most favored customer price objective with agency officials at GSA's Office of Acquisition Management in Arlington, Virginia; and the Office of Inspector General in Washington, D.C. We reviewed prior GAO and GSA Inspector General findings on GSA's MAS contract price negotiations. Further, we analyzed the 2003 and 2004 results of GSA's Post Award Contract Reviews and for selected contracts, interviewed responsible acquisition center and contract negotiation officials to evaluate the quality of GSA's review, identify underlying cause for unacceptable price negotiations, and document corrective actions taken.

**APPENDIX II
MAS Acquisition Centers' Products and Services**

Acquisition Center	Products and Services
Center for Facilities Maintenance and Hardware	Appliances Coatings Lawn equipment Machining equipment Tools
General Products Acquisition Center	Buildings and building materials Industrial services and supplies Total solutions for law enforcement, security, facilities management, fire, rescue, clothing, marine craft, and emergency disaster response Food service, hospitality, cleaning equipment and supplies, chemicals, and services Sports, promotional, outdoor, recreational, trophies, and signs Temporary administrative and professional staffing Laboratory testing and analysis services Test and measurement equipment, avionics equipment, unmanned aerial vehicles, and related services Chemistry, biochemistry, clinical instruments, general purpose laboratory instruments, and services Geophysical, environmental analysis equipment, and services
Information Technology Center	General purpose commercial information technology equipment, software, and test administration
Management Services Center	Energy services Environmental services and products Language services Logistics worldwide Management, organizational, and business improvement services
National Furniture Center	Office, imaging, and document solution Professional audio/video, telecommunications, and security solutions Office furniture Household and quarters furniture Packaged furniture Comprehensive furniture management services Special use furniture Miscellaneous furniture Floor coverings Furnishings

APPENDIX II (Continued)

Acquisition Center	Products and Services
Office Supplies and Administrative Services Acquisition Center	Training aids and devices Instructor-led training Course development Test administration Office products/supplies and services New products/technology Publication media Shipping, packaging, and packing supplies Human resources and Equal Employment Opportunity services
Services Acquisition Center	Financial and business solutions marketing Media and public information services Professional engineering services

Source: GSA data.