



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

JAN 28 2005

ACQUISITION
TECHNOLOGY
AND LOGISTICS

MEMORANDUM FOR ASSISTANT SECRETARY OF THE ARMY (ACQUISITION,
LOGISTICS AND TECHNOLOGY)
ASSISTANT SECRETARY OF THE NAVY (RESEARCH,
DEVELOPMENT AND ACQUISITION)
ASSISTANT SECRETARY OF THE AIR FORCE
(ACQUISITION)
DIRECTORS OF DEFENSE AGENCIES

SUBJECT: Use of Federal Supply Schedules and Market Research

The Department of Defense utilizes the Federal Supply Schedules of the General Services Administration to meet a significant number of our requirements. The "Use of Federal Supply Schedules" is governed by the requirements in FAR 8.404. FAR 8.404 says in part, "by placing an order against a schedule contract using the procedures in FAR 8.405 – "Ordering Procedures for Federal Supply Schedules" the ordering activity has concluded that the order represents the best value (as defined in FAR 2.101) and results in the lowest overall cost alternative (considering price, special features, administrative costs, etc.) to meet the Government's needs." In response to recent recommendations of the Department of Defense Inspector General (DoDIG) and in support of the recently released policy on the "Proper Use of Non-DoD Contracts" (29 October 2004) the following guidance and clarification is provided when utilizing Federal Supply Schedules:

- Although GSA has already determined rates for services offered at hourly rates under schedule contracts to be fair and reasonable (FAR 8.404(d)), Contracting Officers must not only consider labor rates but also labor hours and labor mixes when establishing a fair and reasonable price for an order.
- Contracting Officers are required to consider the proposed prices for both the services and products when awarding orders for a combination of products and services.
- Contracting Officers are reminded to seek discounts for orders exceeding the maximum order threshold. In cases where a discount is not obtained, explain why in the contract file. When discounts are obtained, explain in the contract file how the discount was determined to be fair and reasonable.

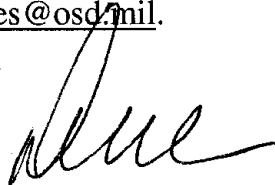


- Contracting Officers are encouraged to solicit as many contractors as practicable when using Federal Supply Schedules. On those occasions where this is not possible, explain why in the contract file.

For all procurements above the simplified acquisition threshold, Military Departments and Defense Agencies are reminded that “Market Research” (FAR Part 10) plays a key role in identifying potential sources of supply and helps identify the best acquisition approach to meet our requirements. Contracting Officers should document the contract file on the market research efforts conducted in support of each acquisition.

As part of the recommendations included in audit report title, the DoDIG recommended that the nine contracting activities visited during their audit (attached) should be “monitored”. I agree with the DoDIG recommendation that greater management attention be focused on the quality of price reasonableness determinations and request that you ensure that the adequacy of contracting officer price reasonableness determinations be made a part of Procurement Management Reviews (PMRs) or any other relevant internal review. For the activities listed on the attached, please provide me a list of all completed or planned PMRs, or other internal reviews, that have been completed since March 21, 2002, and identify whether or not the quality of price reasonableness determinations were addressed in the review. This information should be provided to Michael Canales of my staff by March 15, 2005. Please ensure that this requirement is addressed in all future PMRs.

Questions or comments may be referred to Mr. Michael Canales, DPAP/Policy, (703) 695-8571 or e-mail: Michael.Canales@osd.mil.



Deidre A. Lee
Director, Defense Procurement
and Acquisition Policy

Attachment:
As stated

Additional Contracting Activities for Monitoring

DoD Component	Contracting Activity
Army	
	U.S. Army Tank-Automotive and Armaments Command, Rock Island, Illinois
	Garrison, Fort Huachuca, Arizona
Navy	
	Fleet and Industrial Supply Center, Norfolk Detachment, Washington D.C.
	Fleet and Industrial Supply Center, San Diego, California
	Space and Naval Warfare Systems Center, Charleston, South Carolina
	Space and Naval Warfare Systems Center, San Diego, California
Air Force	
	Ogden-Air Logistics Command, Hill Air Force Base, Ogden, Utah
	12th Contracting Squadron, Randolph Air Force Base, Texas
Defense Logistics Agency	
	Defense Logistics Agency Support Services, Fort Belvoir, Virginia