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ALLEGATIONS OF UNETHICAL BIDDING PRACTICES ON FEDERAL CONSTRUCT--ETC(U)
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UNCLASSIFIED GAO/PLRD-81-64 NL

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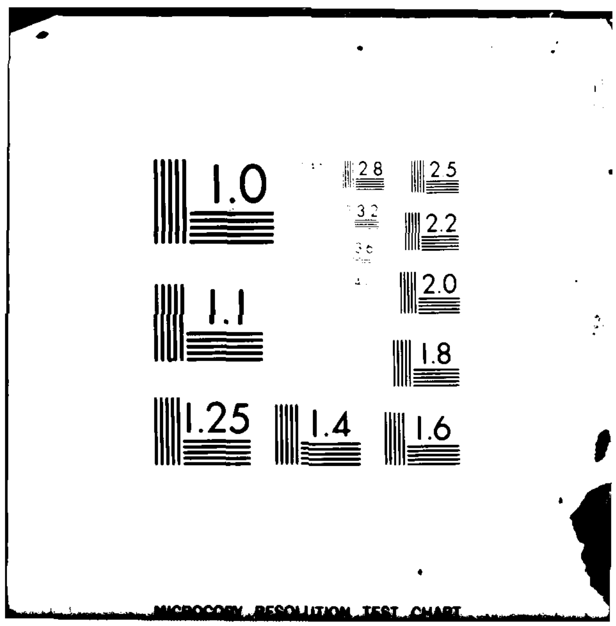
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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

PROCUREMENT, LOGISTICS, AND READINESS DIVISION

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The Honorable Leon E. Panetta (10)
House of Representatives

Dear Mr. Panetta:

Subject: Allegations of Unethical Bidding Practices on Federal Construction Contracts. ~~(PLRD-81-64)~~

~~In your~~ In a May 21, 1981, letter, ~~you~~ asked ~~us~~ GAO to investigate a constituent's complaint concerning unethical bidding practices by construction contractors bidding on Federal projects. This report provides some background on the bidding controversy and our views on the solutions proposed by your constituent.

The unethical bidding practices referred to are commonly known as "bid shopping" and have been a longstanding, recurrent complaint by subcontractors. As described by your constituent, the potential prime contractor solicits proposals from prospective subcontractors as a basis for its bid on a construction project. Once the prime contractor has won the award, it again solicits subcontractors seeking lower prices than initially obtained.

Your constituent's assumption that the prime contractor retains, as profit, the difference between the subcontract prices obtained on the first subcontractor solicitation and the second would likely be correct if a noncompetitive prime contract were being awarded. However, the situation described by the constituent appears to be competitive. Opponents of a ban on bid shopping state that the prime contractor applies a reduction factor to its first round subcontractor offers and this reduction is reflected in the price to the Government, thereby allowing the prime contractor to offer a lower price and win an award.

We cannot determine what really happens when formally advertised prime contracts are involved, since we do not have access to contractor's records for contracts awarded in this manner.

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As indicated earlier, subcontractors' complaints about bid shopping have been recurring over a long period of time. To prevent bid shopping, the General Services Administration requires that a subcontractor listing be included in bids by prime contractors. However, the Government does not have a general policy against bid shopping and other agencies generally do not prohibit the practice.

Your constituent suggested that general or prime contractors be required to perform a percentage of the job with their own crews as an alternative means of preventing bid shopping. This suggestion appears much less likely to prevent bid shopping. It may curtail competition and increase prices since we understand that it is not uncommon for general construction contractors, in both Government and private projects, to limit their participation to marshalling subcontractors and administering and supervising subcontractors' work.

We plan to bring this situation to the attention of the Office of Federal Procurement Policy for its consideration in developing a Federal procurement system applicable to all Federal agencies.

Sincerely yours,

Donald J. Horan
Director

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