



MAR 16 1984

PRL 84-7

Reply to
Attn of :

Office of Space Management - PR

Subject:

Full Analysis of Sole Source CPI Cost Bases
(PBS P 1600.1A, Ch. 2)

To :

Regional Administrators
WA, 1A, 2A, 3A, 4A, 5A, 6A, 7A, 8A, 9A, 10A

Enclosed are new audit procedures relating to the full analysis
of sole source Consumer Price Index base cost proposals.



L. E. MITCHELL
Commissioner

Enclosure

cc: Assistant Regional Administrators for Public Buildings &
Real Property
WP, 1P, 2P, 3P, 4P, 5P, 6P, 7P, 8P, 9P, 10P
Regional Directors, RED
WPE, 1PE, 2PE, 3PE, 4PE, 5PE, 6PE, 7PE, 8PE, 9PE, 10PE
Associate Administrator for Operations - AR

NEGOTIATING SOLE SOURCE CPI COST ESCALATION

- a. **BACKGROUND:** In a General Accounting Office Report entitled "Escalation Provisions in Leases of Real Property", it was recommended that contracting officers be required to ensure that operating cost bases subject to Consumer Price Index (CPI) escalation are reasonable when leases are negotiated on a sole source basis. The report suggested the use of more audits or analyses to satisfy that recommendation. Subsequent recommendations made by the Office of Acquisition Policy, GAO, the Office of the Inspector General, and the Real Property Management Council have advocated the use of audits as a valuable and accurate method of evaluating CPI base costs.
- b. **GENERAL:** In competitive acquisitions the CPI cost base is one of several factors used in determining the lowest responsive offer. However, in sole source leases this base is not subject to price competition. For such cases, it is incumbent upon the realty specialist and the contracting officer to ensure that CPI cost bases are reasonable in order to preclude payment of unwarranted escalation over the term of the contract. All sole source lease acquisitions should contain a thorough analysis and justification of the operating cost base in the price negotiation memorandum.
- c. **LEASES WITH LESSOR COSTS ESTIMATED UNDER \$500,000**
 - (1) At this level, sole source CPI operating cost base proposals should be analyzed and evaluated in accordance with the general guidelines set forth in paragraph 9b.(3) (a-d) of Chapter 2 of the leasing handbook, PBS P 1600.1A.
 - (2) At the discretion of the contracting officer, an audit may be requested. Such action would be appropriate in complex or unique cases where other methods of evaluation are considered to be less reliable.
- d. **LEASES WITH LESSOR COSTS ESTIMATED OVER \$500,000**
 - (1) For succeeding leases, the Regional Inspector General (IG) for Auditing will be notified by the contracting officer at least 90 days prior to the anticipated date for submission of the lessor's proposal. An advisory audit to determine actual costs will be performed within that time frame. In those cases when the IG determines not to audit the submission will be returned to the operating office within 10 working days.

(2) For new actions which generate only one offer for an existing location, the contracting officer will establish an audit deadline compatible with the time frame scheduled for conducting negotiations and request an advisory audit of the CPI cost base from the Regional Field Audit Office of the IG. If the IG determines not to audit within the time available, the submission will be returned within 10 working days and the contracting officer will proceed as in c. above.

e. IMPLEMENTATION:

These procedures should be implemented immediately for any sole source proposals whose receipt is anticipated more than 90 days from the date of these instructions. Close coordination with regional audit staff will be necessary to assist them in developing a plan which is compatible with the Leasing Division's expiring lease workload.

Questions or comments concerning these procedures should be directed to John Knight of the Leasing Division on FTS 566-0638.