February 25, 2009

FAS INSTRUCTIONAL LETTER 2009-01

MEMORANDUM FOR ALL FAS AND VA ACQUISITION ACTIVITIES

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SUBJECT: Applying the Industrial Funding Fee (IFF) to Schedule Pricing

1. Purpose. The purpose of this Instructional Letter (IL) is to clarify the policy on incorporating the Industrial Funding Fee (IFF) into the Federal Supply Schedule (FSS) contract awarded price and calculating the amount of IFF to be remitted to the Federal Acquisition Service (FAS) or the U.S. Department of Veteran Affairs (VA).

2. Background. Differences in how the IFF rate is applied exist among Acquisition Centers implementing the FSS Program. Consistency across the Program is necessary to properly implement the Industrial Funding Fee processes in accordance with GSAR 552.238-74, "Industrial Funding Fee and Sales Reporting" and support a positive experience for both customers and contractors.

The IFF reimburses the GSA and VA for the costs of operating the FSS Program by allowing these agencies to recoup their operating costs from ordering activities. The fee is added to the negotiated price, and the IFF is reflected in the final Schedule contract award price charged to ordering activities. The Contractor reports the dollar value of all sales under the contract by calendar quarter. The reported contract sales value shall include the IFF. (GSAR 552.238074(a)(1)). The Contractor remits the IFF at the rate set by GSA. The IFF represents a percentage of the total quarterly sales reported. (GSAR 552.238-74(b)(1) & (2)).

3. Effective Date. Date of signature.

4. Termination Date. This IL expires one year from the effective date unless cancelled, extended, or incorporated into a handbook.

5. Applicability. This IL applies to all FAS and VA activities awarding and administering Federal Supply Schedule (FSS) contracts. In unique cases where the IFF is a fixed transaction fee or is based on a percentage fee/recovery fee pricing structure, the contents of this IL may not be applicable.

6. Reference Regulations. GSAR 538.273(b)(1) prescribes the inclusion of GSAR Clause 552.238-74, Industrial Funding Fee and Sales Reporting in all FSS solicitations and contracts.

7. Instructions/Procedures. This IL takes precedence over and clarifies the intent of Attachment C **-** Sample Calculations of Acquisition Letter FX-03-04, Industrial Funding of the Federal Supply Schedule Program.

Although all future contract awards should adhere to the calculations herein, there is no requirement to modify existing contracts where the IFF may have been applied differently. The contractor should continue to remit the IFF based on their Schedule contract awarded prices. However, it is at the discretion of PCO to modify individual contracts on a case by case basis.

A. Calculation of the Schedule Price and Determining the Total Amount of IFF Remitted to GSA

Correctly incorporating the IFF into Schedule prices is a critical aspect of operating and maintaining the FSS Program. On occasion, it is pointed out that using the "correct" calculation or "incorrect" calculation below results in the same price. This is only true when dealing with individual items of a nominal dollar value as a result of rounding. When the IFF is calculated on large sales amounts or on a Program-wide level, the total amount of IFF to be remitted is substantial, and differences in what were once pennies are significant.

Please note that the calculations below include how to calculate the IFF remitted to GSA by the Contractor. This calculation is the Contractor's responsibility and is also automatically calculated when the Contractor reports quarterly sales at the Vendor Support Center (VSC). The purpose of including the calculation here is to illustrate how correctly/incorrectly incorporating the IFF rate into the negotiated price directly affects the correct/incorrect calculation that the Contractor performs when determining how much IFF should be remitted to GSA or the VA.

i. Correct Calculation

The final Schedule contract award price is calculated as follows:

Negotiated price divided by (1 minus the IFF rate)

If the IFF rate is 0.75%, then 1 **-** 0.75% = 1 - 0.0075 = 0.9925. The Schedule contract award price is calculated as the negotiated price divided by 0.9925.

For example, if the negotiated price is $100,000, the proper way to calculate the Schedule contract award price (assuming an IFF rate of 0.75%) is:

($100,000 / 0.9925) = $100,**755.67**

The IFF remitted to GSA is the Schedule sales price times the IFF rate:

$100,755.67 x .0075 = **$755.67**

The $755.67 that is added to the negotiated price is the same amount that the Contractor remits to GSA or VA.

ii. Incorrect Calculation

It is incorrect to calculate the Schedule contract award price by multiplying the negotiated price by the IFF rate, then adding it back into the negotiated price. Using this method, the IFF paid by the Contractor would be greater than the IFF included in the Schedule contract award price.

(100,000 x .0075) + $100,000 = $100,**750.00**

The IFF remitted to GSA is the Schedule price times the IFF rate:

($100,750.00 x .0075) = **$755.63**

The $750.00 that is added to the negotiated price **does not** match the $755.63 to be remitted to GSA.

The reason for this difference is that the IFF rate is not based on the negotiated price. The IFF is always calculated as a percentage of total reported sales, i.e. Schedule sales price. (See GSAR Clause 552.238-74, Industrial Funding Fee and Sales Reporting).

B. The IFF Rate is Not Negotiable

The IFF is not subject to negotiation. It is a fixed percentage fee that is remitted to FAS and the VA by the contractor. Contracting Officers should choose to develop negotiation objectives based upon Most Favored Customer (MFC), commercial discounts, or competitor's prices, but the IFF is not to be used as a negotiation technique, nor can it be negotiated to be different than the regulation dictates.

Optimally, the total Schedule contract award price should be equal to or less than the Most Favored Customer (MFC)/market rate, but negotiations and discounting are calculated exclusive of IFF. Therefore, the negotiation objective may include leaving room for the later addition of the IFF without exceeding the MFC price.

C. Contractors Do Not Absorb the IFF

Contractors shall never be expected to absorb the IFF as a negotiation technique or otherwise. The IFF is a fee charged to the customer agency, not a fee charged to a contractor for doing business with the Federal Government. If a contractor offers a 5% discount off of commercial pricing, then that 5% shall be taken off of the commercial price to arrive at the negotiated price, and then the IFF shall be added to the negotiated price to establish the Schedule contract award price.