

RESTRICTED — Not to be released outside the General Accounting Office except on the basis of specific approval by the Office of Congressional Relations, a record of which is kept by the Distribution Section, Publications Branch, OAS

090624



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

RELEASED

~~74-0142-19~~

B-164151

February 8, 1974

clt
R

The Honorable Charles J. Carney
House of Representatives

74-0142

Dear Mr. Carney:

On March 26, 1973, you requested that we provide you with certain information on the amount of foreign-made medical equipment purchased for use in U.S. Government hospitals. This information was furnished to us by the agencies involved and was informally provided to you on July 12, 1973. You then requested that we also review some of the significant procurements of foreign-made medical supplies and equipment the Veterans Administration (VA) made during fiscal year 1972, to determine why it purchased foreign instead of domestic products.

16

2
1

We requested that the VA Marketing Center (VAMC), in Hines, Illinois, which purchases the major equipment and supplies for VA's 170 hospitals, provide us with a copy of every purchase order issued during fiscal year 1972 for foreign-made medical, dental, and scientific supplies; medical equipment; administrative medical supplies and equipment; and X-ray supplies and equipment. VAMC provided us with 159 orders totaling \$6,891,894.64. This amount is \$64,115 more than the amount we provided on July 12, 1973, regarding VA purchases. In reconciling the difference, we found that the information VA furnished us was incorrectly compiled by VAMC officials. (Enc. I categorizes the supplies and equipment purchased, including the number of orders and total dollar amount.)

D.571

Of the 159 orders, we reviewed 40 orders totaling \$3,938,996, or about 57 percent of VA's total foreign procurements in these categories. We selected the orders on the basis of the significant dollar amount in each category. (See enc. I.)

~~904417~~ 090624

The purchases reviewed were from 14 corporations, all of which were chartered in the United States. None of the purchases was made directly from a foreign corporation.

Medical, dental, and scientific supplies

VA awarded 35 orders totaling \$354,310 for foreign-made medical, dental, and scientific supplies. We examined the abstract of bids for five of these orders totaling \$226,989, or about 64 percent of the foreign supplies purchased in this category. The five orders were for syringes, nail nippers, scissors, and forceps.

VA solicited bids for the orders and applied a 6- or 12-percent factor to the price of the foreign-made item as required by Federal Procurement Regulations.¹ The awards were made to the lowest bidder after the applicable percentage factor was added. (See enc. II for individual justifications and related information.)

Medical equipment

VA issued 16 orders totaling \$592,740 for foreign-made medical equipment. We examined five of the orders totaling \$425,769, or about 72 percent of VA's foreign purchases in this category: four for electron microscopes and one for medical drycleaning equipment.

VA awarded the four orders for electron microscopes under the Federal Procurement Regulation 1-3.210(a)(1), which states that certain purchases may be negotiated without formal advertising if the property can be obtained from only one person or firm--sole source of supply.

¹Federal Procurement Regulation 1-6.104-4 requires that each foreign bid be adjusted by adding to the foreign bid 6 percent of that bid, except that a 12-percent factor is to be used if the firm submitting the low acceptable domestic bid is a small business concern or a labor surplus area concern.

A VAMC official told us VA purchased foreign-made electron microscopes because the type needed was not manufactured domestically.

The medical drycleaning equipment was purchased on an advertised-bid basis--two firms submitted bids for foreign-made equipment. Therefore, it was not necessary for VA to add a percentage factor to either bid, and the award was made to the low bidder. (See enc. III for justifications and related information.)

Administrative medical supplies
and equipment

VA awarded 33 orders totaling \$464,861 for foreign-made administrative medical supplies and equipment. All 33 orders were for hearing aids. We examined VA's justifications for making 11 of these purchases totaling \$243,168, or about 52 percent of the purchases in this category.

VA did not use the advertised-bid method for these purchases. They were negotiated under 38 U.S.C. 5013, whereby the Administrator of Veterans Affairs may procure prosthetic appliances and necessary services required in fitting, supplying, training, and using prosthetic appliances by purchase, manufacture, or contract or in such other manner as he may determine to be proper, without regard to any other provision of law.

We also determined the procedures VA used to select certain models of hearing aids for purchase from among the wide variety of domestic and foreign models available.

VA has developed a program for measuring and evaluating the performance of hearing aids. Each year all interested manufacturers or their agents are invited to participate in the program by submitting their aids for a series of performance tests conducted by the National Bureau of Standards. The results are transmitted to the VA Auditory Research Laboratory for comparative analysis. Several manufacturers also submit

special-purpose aids which the VA Auditory Research Laboratory evaluates separately. VA publishes the results of the testing program annually. This information is available to the manufacturers.

For the 1972 program, 18 manufacturers offered 110 models; VA selected 36 (26 manufactured domestically and 10 foreign-made) to be placed on general schedule-type contracts, on the basis of such factors as performance, clinical need, and cost. VA's Central Office compiled a list of selected models and instructed VAMC to purchase only those models.

Of the 11 orders we reviewed, we found that the hearing aids were on the list. VA purchased these aids because of their performance score in the testing program and/or because of a special need for a particular type aid. (See enc. IV for individual justifications and related information.)

X-ray supplies and equipment

VA awarded 75 orders totaling \$5,479,983 for foreign-made X-ray supplies and equipment. We examined the procurement methods and determinations and findings for 19 orders totaling \$3,043,070, or about 56 percent of VA's total foreign procurement of X-ray equipment. The 19 orders were for various types of specialized and general-purpose X-ray equipment which allow VA to perform diagnostic procedures, such as radiographic, fluroscopic, tomographic, neurological, and heart catheterization studies.

The orders examined were negotiated under Federal Procurement Regulation 1-3.207, which gives VA the authority to negotiate contracts for X-ray and other special-purpose equipment without formal advertising. Even though VA was permitted to negotiate the contracts, the Federal Procurement Regulation 1-3.101(d) required it to procure the orders on a competitive basis to the extent practical.

A VA Central Office official told us VA requests major manufacturers of X-ray equipment to submit detailed bids and specifications for their equipment each year. From this

information VA awards general schedule-type contracts to each company for the items VA believes it will need during the next year. These contracts do not require VA to purchase any amount of equipment. However, they do guarantee VA certain prices for 1 year.

An official from the VA's Central Office said that, several years ago, VA awarded contracts only to the low bidder on each item or system. A hospital needing equipment was forced to accept one brand of equipment--the low bidder's--even if the company did not have any service representatives within 300 miles of the hospital or if the hospital had had bad experience with that brand of equipment. VA changed this procurement method to allow the hospital to have some choice in the brand of equipment purchased.

Under VA's current procedures, a hospital submits to the Radiology Service, VA Central Office, a detailed list of technical requirements the new equipment must meet. These requirements are usually determined by the hospital's radiology service and other hospital officials. After the Central Office approves the requirements, technical personnel at VAMC match them with equipment available on contract and advise the hospitals which manufacturers can supply the equipment and their prices.

VA requires a hospital to accept the lowest priced equipment unless the hospital can justify why the equipment--which does meet its technical requirements--will not meet its overall needs. (See enc. V for individual justifications and related information.) Following are three of the types of justifications VA used for making its 19 purchases.

1. The selected vendor was the only manufacturer whose components constituted a specialized unit which met all the hospital's requirements.
2. The same brand of equipment was purchased to insure its compatibility with existing equipment, although that brand might not be the lowest priced equipment available.

3. The hospitals determined that the manufacturer of the lowest priced equipment did not maintain adequate service facilities near them. In some cases--where patients' lives are concerned--it is often necessary, according to VA, to have service representatives only minutes away from the hospital.

- - - -

We did not examine the validity of each hospital's justification. This would require a separate study of specifications and technical requirements for each purchase.

Our review of the 40 purchase orders showed that the purchases of foreign-made supplies and equipment were permitted under existing regulations. Also, we did not find a single instance when a domestic manufacturer filed a bid protest with us concerning VA's application of the Buy American Act (41 U.S.C. 10a to 10d) in purchasing foreign-made medical supplies and equipment.

As your office requested, we did not obtain formal comments on the report from VA. However, we discussed its contents with representatives of VA's General Counsel and they had no objections.

We are sending a copy of this report to the Administrator of Veterans Affairs. We plan no further distribution unless you agree or publicly announce its contents.

We trust that the information obtained responds to your request.

Sincerely yours,



Deputy Comptroller General
of the United States

Enclosures - 5

VA PURCHASE ORDERS ISSUED FOR FOREIGN-MADE PRODUCTS
DURING FISCAL YEAR 1972 AND
INFORMATION ON REVIEW SAMPLE

<u>Category</u>	<u>Total purchases</u>		<u>Purchases reviewed</u>		
	<u>Number of purchase orders</u>	<u>Amount</u>	<u>Number of purchase orders</u>	<u>Amount</u>	<u>Percent of total amount of purchases</u>
Medical, dental, and scientific supplies	35	\$ 354,310.45	5	\$ 226,989.04	64.1
Medical equipment	16	592,740.03	5	425,769.00	71.8
Administrative medical supplies and equipment	33	464,861.16	11	243,168.19	52.3
X-ray supplies and equipment	<u>75</u>	<u>5,479,983.00</u>	<u>19</u>	<u>3,043,070.00</u>	<u>55.5</u>
Total	<u>159</u>	<u>\$6,891,894.64</u>	<u>40</u>	<u>\$3,938,996.23</u>	<u>57.2</u>

ENCLOSURE II

REVIEW SAMPLE OF VA PURCHASE ORDERS FOR FOREIGN-MADEMEDICAL, DENTAL, AND SCIENTIFIC SUPPLIES

<u>Purchase order number</u>	<u>Vendor</u>	<u>Amount</u>	<u>Items purchased</u>	<u>Items purchased for</u>	<u>Justifi- cation for award</u>
72-MC-10279	Hypo Surgical Supply Corp., Yonkers, N.Y.	\$ 6,969.60	Syringes	VA supply depots	Low bidder
72-MC-10387	American Medical Instrument Corp., Flushing, N.Y.	36,682.56	Nail nippers	do.	Low bidder (no domestic bidders)
72-MC-10776	Holco Instrument Corp., New York, N.Y.	35,968.32	General sur- gical and bandage scissors	do.	Low bidder
72-MC-10777	E. Miltenberg, Inc., New York, N.Y.	42,425.28	General surgi- cal, suture, and bandage scissors	do.	Do.
72-MC-10798	American Medical Instrument Corp., Flushing, N.Y.	104,943.28	Forceps towels and forceps (various types)	do.	Do.
Total		<u>\$226,989.04</u>			

REVIEW SAMPLE OF VA PURCHASE ORDERS FOR
FOREIGN-MADE MEDICAL EQUIPMENT

<u>Purchase order number</u>	<u>Vendor</u>	<u>Amount</u>	<u>Items purchased</u>	<u>Items purchased for</u>	<u>Justification for award</u>
72-MC-20028	Philips Electronic Instruments, Mt. Vernon, N.Y.	\$129,129	Two electron microscopes with accessories	VA Hospital, Columbia, Mo. Kansas City, Mo.	Vendor's product has several advantages over other available products. Other vendor's products were found unsatisfactory.
72-MC-20193	Siemens Corporation, Isclin, N.J.	76,000	Electron microscope	VA Hospital, Little Rock, Ark.	First vendor selected was declared in default because it could not deliver. Selected vendor's product has unique and advanced features over other available models.
72-MC-20264	Philips Electronic Instruments, Mt. Vernon, N.Y.	71,023	Electron microscope with accessories	VA Hospital, Gainesville, Fla.	Vendor was selected because of the high quality of the product and service and a reduction in yearly service costs.
72-MC-20296	Perkin-Elmer Corp., Downers Grove, Ill.	125,017	Two electron microscopes with accessories	VA Research Hospital, Chicago, Ill. VA Hospital, Northport, N.Y.	Vendor's product was selected because no other product was acceptable for the type of work to be performed
72-MC-20439	Pinnacle Products Corporation, Blauvelt, N.Y.	24,600	Drycleaning machine	VA Hospital, Denver, Colo.	Low bidder.
Total		<u>\$425,769</u>			

ENCLOSURE IV

REVIEW SAMPLE OF VA PURCHASE ORDERS FOR FOREIGN-MADEADMINISTRATIVE MEDICAL SUPPLIES AND EQUIPMENT

<u>Purchase order number</u>	<u>Vendor</u>	<u>Amount</u>	<u>Items purchased</u>	<u>Items purchased for</u>	<u>Justification for award</u>
72-MC-30019	Siemens Corporation Iselin, N.J.	\$ 18,050.40	Hearing aids	VA supply depots	Special need.
72-MC-30026	North American Philips Corporation, New York, N.Y.	30,068.75	do.	do.	Performance score.
72-MC-30054	Siemens Corporation Iselin, N.J.	29,430.00	do.	do.	Special need.
72-MC-30062	Lehr Instrument Corp., Huntington Station, N.Y.	7,988.42	do.	do.	Do.
72-MC-30072	North American Philips Corporation, New York, N.Y.	26,086.50	do.	do.	Performance score.
72-MC-30101	Oticon Corporation, Union, N.J.	20,544.75	do.	do.	Special need.
72-MC-30113	North American Philips Corporation, New York, N.Y.	29,295.00	do.	do.	Do.
72-MC-30117	Widex Hearing Aid Co., Inc., Long Island City, N.Y.	29,925.00	do.	do.	Performance score.
72-MC-30123	Siemens Corporation, Iselin, N.J.	29,430.00	do.	do.	Special need.
72-MC-30177	Fidelity Electron- ics, Ltd., Chicago, Ill.	6,284.37	Hearing aids	VA supply depots	Performance score.
72-MC-30197	North American Philips Corporation, New York, N.Y.	<u>16,065.00</u>	do.	do.	Performance score and special need.
Total		<u>\$243,168.19</u>			

ENCLOSURE V

REVIEW SAMPLE OF VA PURCHASE ORDERS FOR
FOREIGN-MADE X-RAY SUPPLIES AND EQUIPMENT

<u>Purchase order number</u>	<u>Vendor</u>	<u>Amount</u>	<u>Items purchased</u>	<u>Items purchased for</u>	<u>Justification for award</u>
72-MC-60030	Siemens Corporation, Iselin, N.J.	\$ 242,629	X-ray equipment and accessories	VA Hospital, Univ. of Kentucky Division Lexington, Ky.	(a), (b)
72-MC-60034	do.	156,874	do.	do.	(a), (b)
72-MC-60109	do.	2,013	X-ray accessories	do.	(c)
72-MC-60128	Philips Medical Systems, Inc., Arlington, Va.	324,424	X-ray equipment and accessories	do.	(b), (d), (e), (f), (g)
72-MC-60257	do.	231,300	do.	VA Hospital, Salt Lake City, Utah	(b), (f), (g), (h)
72-MC-60304	do.	187,351	do.	VA Hospital, St. Louis, Mo.	(b), (f), (i)
72-MC-60307	do.	27,218	do.	VA Hospital, Buffalo, N.Y.	(c)
72-MC-60319	do.	150,507	do.	U.S. Air Force Hospital, Wiesbaden, Germany	(b), (d), (e)
72-MC-60345	do.	179,736	do.	VA Hospital, New Orleans, La.	(b), (e)
72-MC-60350	do.	78,477	do.	VA Hospital, Boston, Mass.	(b), (j)
72-MC-60351	do.	255,153	do.	VA Hospital, Allen Park, Mich.	(b), (e)
72-MC-60397	do.	147,582	do.	VA Hospital, Martinez, Calif.	(d), (e), (j)
72-MC-60444	do.	62,162	do.	VA Hospital, Louisville, Kv.	(a), (b)
72-MC-60464	Siemens Corporation, Iselin, N.J.	113,828	do.	National Institutes of Health, Bethesda, Md.	(a), (f)
72-MC-60551	Philips Medical Systems, Inc., Arlington, Va.	81,085	do.	Brooke Army Medical Center, Fort Sam Houston, Tex.	(k)
72-MC-60595	do.	172,524	do.	VA Hospital, Louisville, Ky.	(b)
72-MC-60632	do.	186,219	do.	VA Hospital, Memphis, Tenn.	(a), (b), (j)
72-MC-60669	do.	190,998	do.	VA Hospital, Jackson, Miss.	(b), (d), (e)
72-MC-60660	do.	252,990	do.	VA Hospital, St. Louis, Mo.	(b), (e), (j)
Total		<u>\$3,043,070</u>			

^a Selected vendor is only manufacturer whose components constitute a specialized unit which meets all of the hospital's requirements (similar to sole-source award).

^b Professional preference for selected vendor based on present and/or past experience.

^c Selected vendor manufactures basic equipment to which the unit is to be attached. The same vendor should be used to insure compatibility of the system and continuity of service.

^d Hospital certifies that lower offerors do not maintain adequate local facilities to properly service the equipment.

^e Selected vendor is offeror who can provide required system and insure reliable service.

^f Hospital construction service has made necessary changes in electrical conduits to accommodate vendor's equipment. A change of vendor would result in additional construction costs.

^g Selected vendor was recommended and approved by VA Central Office Radiology Service at the time request was made by the hospital.

^h Professional personnel using the equipment insisted this vendor be chosen.

ⁱ Selected vendor can meet planned delivery schedule.

^j Additional training of hospital staff and/or residents would be necessary if another vendor was selected.

^k Vendor's equipment was selected for 90-day testing and evaluation program.