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Opportunities For Decreasing  
Procurement Costs Through  
Increased Use Of Competition  
And Federal Supply Service

Department of the Army

Procurement officials at Fort Leonard Wood and Fort Riley have purchased local base supplies without obtaining competitive quotations although competitive sources were available. In addition, other supplies could have been acquired through the Federal Supply Service at less cost.

A more diligent effort to use competition would not only reduce costs considerably but also implement the general policy of the Congress that qualified suppliers have an equal opportunity to compete for the Government's business.

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

PROCUREMENT AND SYSTEMS  
ACQUISITION DIVISION

B-114807

The Honorable  
The Secretary of the Army

Dear Mr. Secretary:

This report summarizes our examination of local procurement practices at Fort Leonard Wood, Missouri, and at Fort Riley, Kansas. It discusses the need for increasing the use of competition and the Federal Supply Service.

Officials at local installations and at Army headquarters have been made aware of the report contents. We shall appreciate receiving your comments on actions you have taken.

We made the review as part of our overall responsibility to examine procurement practices of selected Government agencies. It was made pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

We are sending copies of this report to the House and Senate Committees on Government Operations and on Appropriations. As you know, section 236 of the Legislative Reorganization Act of 1970 requires that you submit, within specified periods, written statements to those congressional committees on actions taken on the recommendations included in this report.

Sincerely yours,

*R. W. Gutmann*

R. W. Gutmann  
Director

CI-CA

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ABBREVIATIONS

FORSCOM	Forces Command
GAO	General Accounting Office
GSA	General Services Administration
TRADOC	Training and Doctrine Command

GENERAL ACCOUNTING OFFICE  
REPORT TO THE  
SECRETARY OF THE ARMY

OPPORTUNITIES FOR DECREASING  
PROCUREMENT COSTS THROUGH  
INCREASED USE OF COMPETITION  
AND FEDERAL SUPPLY SERVICE  
Department of the Army

D I G E S T

The General Accounting Office recommends that the Secretary of the Army direct top procurement officials at Fort Leonard Wood, Missouri, and at Fort Riley, Kansas, to increase (1) competition for supplies and services and (2) use of Federal Supply Service, by systematically monitoring purchasing transactions of buyers at those forts. GAO recommends also that reviews be made at other Army installations to determine whether such monitoring systems are needed. (See p. 12.)

During the first 9 months of fiscal year 1975, Fort Leonard Wood buyers classified procurements as:

Competitive	\$5,825,000
Noncompetitive	2,414,000

GAO estimates that the noncompetitive procurements include \$579,000 for which the buyers could easily have obtained competition. Excluding directed purchase of liquid petroleum, alternate sources were available in 43 percent of procurements classified as noncompetitive. (See p. 4.)

A Department of Defense estimate that competition can result in a 25-percent reduction in costs would indicate potential savings of up to \$145,000 during 9 months at one base. Although GAO recognizes that the 25-percent savings is an average for all types of procurement and is not based on current and precise statistical data, GAO used the factor only to illustrate the potential for savings. (See p. 3.) Competition also gives qualified suppliers an equal opportunity to compete for the Government's business.

A limited test at Fort Riley identified similar procurements. (See pp. 7 and 8.)

In some instances buyers were only contacting sources requested by users, and in others they were buying from previous suppliers without trying to obtain competition. (See pp. 4, 5, and 8.)

Both forts were buying items on the open market, even though the items could have been acquired at less cost through the Federal Supply Service. (See pp. 8, 9, and 10.) In one case about \$24,000 more was spent on a brand name lawn mower when mowers were available from the Federal Supply Service.

In May 1973 the Army Audit Agency reported similar findings based on its review at nine Army installations. (See p. 11.)

In view of GAO's and the Army Audit Agency's findings, GAO believes the types of purchases described in this report may be occurring at other Army installations. (See p. 12.)

CHAPTER 1  
INTRODUCTION

We have reviewed local purchases at Fort Leonard Wood, Missouri, and at Fort Riley, Kansas. Local procurement offices at these and other Army installations buy supplies, services, and equipment that are not available from Army depots. The supplies and services are of a wide variety, such as plumbing supplies, X-ray film, collection of trash, and repair of electric transformers. Army-wide purchases for fiscal year 1975 totaled \$8,817 million, excluding intragovernmental transactions. Of this amount, \$3,684 million was for competitive purchases and \$5,133 million was for noncompetitive purchases. The breakout for Fort Leonard Wood and Fort Riley along with their respective commands, the Training and Doctrine Command (TRADOC) and the Forces Command (FORSCOM), is shown below for competitive and noncompetitive purchases.

<u>Purchases</u>	<u>Fort Leonard Wood</u>	<u>TRADOC</u>	<u>Fort Riley</u>	<u>FORSCOM</u>
	----- (millions) -----			
Competitive	\$22.4	\$247.2	\$11.8	\$220.8
Noncompetitive	<u>8.5</u>	<u>334.9</u>	<u>19.1</u>	<u>353.5</u>
Total	<u>\$30.9</u>	<u>\$582.1</u>	<u>\$30.9</u>	<u>\$574.3</u>

Our review covered purchases negotiated under both small purchases procedures and formal contracting procedures. We wanted to find out whether local procurement offices were assuring themselves that the negotiated prices were reasonable by obtaining competition when practicable and were acquiring items from the General Services Administration (GSA) when available. We examined a random sample of fiscal year 1975 transactions at Fort Leonard Wood but limited our review at Fort Riley to relatively few selected transactions.

The Department of Defense procurement policy requires that competition be used to the maximum practicable extent, whereas the mandatory use of GSA as a source of supply is limited to only certain classes of items. However, the Armed Services Procurement Regulation encourages the use of GSA whenever practicable and feasible.

On July 25, 1974, the President signed Public Law 93-356 which increased, from \$2,500 to \$10,000, the maximum amount that could be negotiated under small purchase procedures.

The Armed Services Procurement Regulation states that small purchases not exceeding \$250 1/ may be made without obtaining competitive quotations if the prices are considered to be reasonable, but for purchases between \$250 1/ and \$10,000, the following applies:

"Solicitation of quotations from a reasonable number of qualified sources of supply shall be made to assure that the procurement is to the advantage of the Government, price and other factors considered, including the administrative cost of the purchase. Generally, solicitation shall be limited to three suppliers, and to the maximum extent possible, shall be restricted to the local trade area of either the purchasing or the receiving activity. If practicable, two sources not included in the previous solicitation should be requested to furnish quotations. Quotations should generally be solicited orally. Written solicitations should be used when (i) the suppliers are located outside the local area, (ii) special specifications are involved, (iii) a large number of line items are included in a single proposed procurement, or (iv) obtaining oral quotations is not considered economical or possible.

"Reasonableness of a proposed price should be based on competitive quotations."

In addition to the above criteria, the procurement regulation also recognizes situations where competition would not be in the best interest of the Government. An example would be procurements of technical equipment requiring standardization and interchangeability of parts. In such circumstances, procurement officials are allowed a degree of flexibility and judgment in their actions.

1/Effective June 30, 1975, the \$250 limitation was changed to \$500.

## CHAPTER 2

### NEED FOR INCREASING USE OF COMPETITION

#### AND FEDERAL SUPPLY SERVICE

Procurement officials at both forts purchased many items without obtaining competitive quotations although competitive sources were available. We estimated that purchases totaling about \$2.4 million which Fort Leonard Wood classified as non-competitive during the first 9 months of fiscal year 1975 included about \$579,000 for which competition was readily available. Based on a Department of Defense estimate that competitive procurements can reduce costs by about 25 percent, competition could have produced savings of up to \$145,000. Although we recognize that the 25-percent savings is an average for all types of procurement and is not based on current and precise statistical data, we used the factor only to illustrate the potential for savings. Our limited test at Fort Riley identified similar procurements. A more diligent effort to use competition would not only reduce costs considerably but also implement the general policy of the Congress that qualified suppliers have an equal opportunity to compete for the Government's business.

Both forts were also buying items on the open market which could have been acquired through GSA's Federal Supply Service at less cost.

#### INCREASING COMPETITION

##### Fort Leonard Wood

Purchase records showed the following for the 9 months ended March 31, 1975, exclusive of subsistence, contracts for educational purposes, and small purchases of less than \$250 each.

	<u>Competitive</u>		<u>Noncompetitive</u>	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
Contracts	83	\$5,054,000	30	\$ 483,000
Small purchases	<u>823</u>	<u>771,000</u>	<u>1,407</u>	<u>1,931,000</u>
Total	<u>906</u>	<u>\$5,825,000</u>	<u>1,437</u>	<u>\$2,414,000</u>

We examined 361 of the purchases classified as noncompetitive. The sample included 30 contracts, all 152 small purchases of liquid petroleum, and 179 purchases selected at random from the remaining 1,255 small purchases.



To determine whether competition could have been obtained for the items included in the sample, we identified potential sources by consulting the yellow pages of telephone directories, a register of vendors by product type, and Army personnel. We confirmed the potential sources by talking with the vendor or by examining earlier Army purchases.

Based on the sample results, our projection of the amount of competition for the total universe of 1,437 items follows. (The approximate statistical accuracy of our estimates is also shown.)

	<u>Number of purchases</u>			<u>Accuracy (plus or minus)</u>
	<u>Con- tracts</u>	<u>Small purchases</u>	<u>Total</u>	
Actually competitive	4	210	214	65
Only one source readily available	15	657	672	86
Other sources readily available	<u>11</u>	<u>540</u>	<u>551</u>	86
Total	<u>30</u>	<u>1,407</u>	<u>1,437</u>	

On the basis of these results, we estimated that the \$2,414,000 included about \$579,000 for which competition was readily available as shown below.

	<u>Total</u>	<u>Percent of items examined</u>	<u>Other sources available</u>	<u>Per- cent</u>
Contracts	\$ 483,000	100	\$201,000	42
Small purchases:				
Directed purchases of liquid petro- leum	1,020,000	100	-	-
Other purchases over \$5,000 each	70,000	100	15,000	21
Other purchases less than \$5,000	<u>841,000</u>	14	<u>a/ 363,000</u>	43
Total	<u>\$2,414,000</u>		<u>\$579,000</u>	24

a/Estimated on the basis that 43 percent of the sample items could have been bought competitively and the mean of these items did not vary greatly from the mean of the total sample.

Documents prepared by buyers to justify the noncompetitive procurements usually showed that the vendor was the only, or only known, source of supply or that prices paid

were comparable to those in the local area. Through discussions with the buyers, we learned that in many cases the buyers made little or no effort to identify other sources. Many purchases were made from sources suggested by personnel needing the supplies or services. Buyers inordinately relied on this information without attempting to find other available suppliers. In these cases, the only measure of reasonableness of price was comparison of the vendor's price with a price shown in the purchase request.

Examples of the purchases included in the sample are described below.

#### Key handles

Key handles are used to operate outside water faucets at Fort Leonard Wood. .

In August 1974 Fort Leonard Wood purchased 3,500 key handles noncompetitively from a manufacturer of plumbing supplies at a unit cost of 86 cents. The contracting officer justified contacting only one supply source on the basis that it was the only known source. Previously, in July 1974, 250 key handles had also been purchased noncompetitively from the same manufacturer at a unit cost of 85 cents.

By referring to the yellow pages of a nearby city's telephone directory, we readily located another source of supply for this item. We visited this company and purchased one key handle for 78 cents. A company official said that, if we had purchased 3,500 key handles in August 1974, the cost would have been 50 cents a unit and that the June 1975 price would have been 55 cents. (See photograph on the following page.)

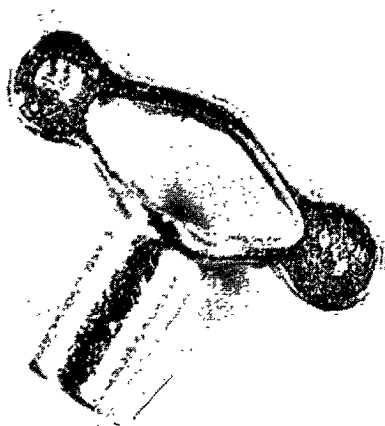
#### Window Screens

In July 1974 Fort Leonard Wood officials awarded a \$32,948 contract for the manufacture of aluminum window screens. Although two quotations were solicited, only one was received. Consequently, the contract was awarded to the sole bidder. The contracting officer said he had solicited only two quotations because he did not know of any other potential sources. He told us that, on the basis of prices paid for screens purchased on another contract, he determined that the price paid was reasonable. But the other contract was negotiated with the same manufacturer.

The yellow pages of a telephone directory showed several other potential sources. Two of the three sources we contacted told us they could make the screens. One of these sources quoted us a price which was lower than the price paid by Fort Leonard Wood.



GAO paid 78 cents each.



Army paid 86 cents each.

Actual size

**WATER FAUCET HANDLES--**The handle on the left was purchased by Fort Leonard Wood and the handle on the right was purchased by GAO.

### Repair of electric transformers

In October 1974 Fort Leonard Wood issued a purchase order totaling \$1,348.30 for repair of four electric transformers without obtaining competition. The justification for soliciting only one source was based on a 1960 memorandum from the post engineer which stated that the contractor "is the only company in this locality offering the aforementioned services." By referring to the yellow pages of a telephone directory, we readily located another potential source. We contacted this source and confirmed that it serviced the Fort Leonard Wood area.

### Recording tape

In July 1974 Fort Leonard Wood purchased noncompetitively 20 reels of recording tape from vendor A at a cost of \$15.31 a reel for a total cost of \$306.20. A comparable product could have been purchased from vendor B at a cost of \$8.75 a reel for a total cost of \$175. In February 1975 Fort Leonard Wood also purchased noncompetitively a different type of recording tape from company B at a cost of \$693. But a comparable product could have been obtained from company A at a cost of \$429. The buyer told us that, for the first item, company A was the source suggested by the requestor and that he knew of no other source. He said the other item had always been purchased from company B.

During telephone conversations with representatives of both companies, we learned that they could readily cross reference to each other's product and that the products were comparable.

### Steam valves

Four steam valves were purchased noncompetitively by Fort Leonard Wood in October 1974 at a unit cost of \$121.79. The buyer justified the noncompetitive purchase from a New York distributor on the basis that the distributor was the sole source of supply. The buyer said he had not solicited the manufacturer because the requestor had suggested the distributor as the supply source. A manufacturer representative said that the manufacturer would sell direct to the Government at a unit cost of \$60.35.

### Fort Riley

We found that, in a limited survey covering 33 small purchases between \$250 and \$10,000 each, 26 purchases, or 79 percent, were noncompetitive. We inquired into 10 of the noncompetitive purchases and learned from the buyers that

other sources were available for 3 of the items and that the buyers had made no effort to identify other sources for 4 of the items. The buyers said they bought these seven items on a sole-source basis because:

- The requestor had an urgent need for the item.
- The requestor had specified a brand name and the buyer honored the request.
- The buyer's backlog of work was so great he did not have time to identify additional sources.

#### GREATER USE OF FEDERAL SUPPLY SERVICE

##### Fort Leonard Wood

Buyers were paying more for automobile parts and lawn mowers than those available through the Federal Supply Service.

During January through March 1975, the buyers purchased 240 oil filters and 2,000 spark plugs from a local supplier. The average price paid for the filters was \$2.05, compared to an average 66 cents a filter shown by the Federal Supply Schedule. The price paid for the spark plugs was 60 cents each; the Federal Supply Schedule price for similar plugs was 20.8 cents each. The chief of the small purchasing branch said that the user of the spark plugs at one time expressed a dislike for a brand shown on the Federal Supply Schedule and that he did not know the oil filters were shown on the Schedules.

During fiscal year 1975 buyers bought 300 heavy-duty lawn mowers for about \$200 each, although the Federal Supply Service had heavy duty mowers for \$120 each. These mowers are not identical. GSA officials said, however, that the mowers available through the Federal Supply Service were satisfactorily used at many military installations. The total difference in price to the Army was \$24,000.

The official who requested the purchase of the lawn mowers used a brochure of the Goodall mower to prepare specifications containing the features of the Goodall mower. Because of the restrictive specifications, procurement

officials did not consider acquiring the heavy-duty mowers available through the Federal Supply Service. (See photograph below.)



**LAWN MOWER PURCHASED BY FORT LEONARD WOOD**

Fort Riley

The fort was making frequent purchases of automobile parts in small quantities. For example, we noted frequent purchases of oil filters for about \$2.50 each, which were priced at 66 cents in the Federal Supply Schedule.

These purchases were being made by transportation personnel under authority granted by the procurement division. Transportation personnel said they did not acquire such parts through the Federal Supply Service because it took too long.

The examples shown were not necessarily classified as mandatory purchases from GSA. However, in view of the significant price differences and the continuing rising procurement costs, we believe procurement officials should make every effort to use supplies available from GSA whenever feasible and practicable.

## CHAPTER 3

### INTERNAL REVIEWS

The Army Audit Agency reported the results of its audit of nine local installations' procurement offices in May 1973. The audit included Fort Leonard Wood and Fort Riley. Although the report did not specifically address noncompetitive procurement, it showed a lack of assurance that procurements were made at the lowest overall cost to the Government because Army personnel making small purchases did not always follow regulatory guidance. The report also showed that bypassing Federal Supply Schedules was a common weakness at two installations.

Procurement management type of reviews were made at Fort Leonard Wood and at Fort Riley in 1974 by the respective forts' headquarters personnel. The reports did not address noncompetitive procurements but discussed noncompliance with regulatory requirements.

Future internal reviews should sample noncompetitive procurements to determine whether competition is being accomplished to the extent practicable. Continued emphasis should also be placed on using the Federal Supply Service.



## CHAPTER 4

### CONCLUSIONS AND RECOMMENDATIONS

#### CONCLUSIONS

We believe procurement officials at Fort Leonard Wood have increased Government costs by

- purchasing supplies and services without obtaining competition and
- purchasing items on the open market when the Federal Supply Service offered lower prices for the same or similar items.

Although our tests at Fort Riley were too limited to support an estimate of such purchases, they were sufficient to identify the same kinds of purchases.

Many of these purchases were from sources or for brand name items requested by the users. In others, the buyers, for one reason or another, made virtually no effort to identify alternate sources. Most of these were small purchases, and the Department of Defense has issued regulations requiring that such purchases be competitive if feasible.

In view of our findings, and those of the Army Audit Agency described in chapter 3, the types of purchases described in this report may be occurring at other Army installations.

#### RECOMMENDATIONS

We recommend that, to increase competition in Army purchases, the Secretary of the Army direct:

- Top procurement officials at Fort Leonard Wood and at Fort Riley to systematically monitor purchases to ensure that buyers try to obtain competition and obtain supplies through the Federal Supply Service.
- That reviews be made at other Army installations to determine whether such monitoring systems are needed.

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