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WASHINGTON, D.C. 20548

INTERNATIONAL DIVISION

August 21, 1980



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B-199954

The Honorable Charles H. Percy
United States Senate

Dear Senator Percy:

Subject: Sole-Source Passport Office Lamination Contract
(ID-80-56)

This is in response to your letter of July 22, 1980, ^{AGC00032} requesting our assistance in obtaining answers from the State Department to five questions posed by the General Binding Corporation of Illinois concerning a sole-source contract to provide lamination materials for U.S. passports. While the State Department complied with the applicable statutory and regulatory requirements for the award of a sole-source contract, the State Department tests which led to the decision for a sole-source contract were not documented. The testing performed was not broad enough to separately determine the suitability of the laminates for Polaroid instant photographs which have become increasingly popular since 1975. <sup>1926
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BACKGROUND SUMMARY

The State Department currently issues about 3 million passports annually through 14 domestic issuing agencies (including 1 in Honolulu), 4 agencies in U.S.-insular possessions, and U.S. consular offices abroad. About 15 million passports are currently outstanding.

The State Department does not now issue laminated passports. It expects to begin issuing a new laminated passport in the fall of 1980 as a result of the implementation of a new computerized passport issuance system called the Travel Document Issuance System. The State Department plans to install the system in the 13 mainland passport issuing agencies over the next 4 or 5 years. The system will replace outmoded equipment currently used in the passport issuing agencies in an

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effort to increase efficiency. According to State Department officials, present equipment can no longer be procured on the open market. The system will provide a new passport issuance system, the new equipment necessary for operation of that system, and the training of agency personnel. To the extent possible, the equipment was to be chosen from currently available commercial items.

The State Department solicited competitive bids for the system contract on June 4, 1979, but excluded from competitive bidding four items used in the production of passports under the Travel Document Issuance System: passport books, applications, mailing envelopes, and lamination material. The State Department obtains passport books and applications from the U.S. Government Printing Office, while the General Services Administration procures the envelopes for the State Department. On July 26, 1979, the Department awarded a sole-source contract to the 3M Company for the initial purchase of a glass-bead lamination material called Data Guard to secure the information of the new passport.

Question 1 Why was the contract for laminate not open to competitive bidding and awarded on a sole-source basis?

The contract for the laminate was a sole-source contract because the State Department determined that 3M Company's Data Guard laminate best satisfied the Department's passport security and production requirements under the Travel Document Issuance System, and was cost-effective. The State Department noted in a memo dated June 4, 1979, the following characteristics of Data Guard which influenced its decision to request a sole-source contract:

- Its adhesion was superior to other laminates tested because of its permanent bonding (thermosetting) qualities.
- It has a custom-designed pattern comprised of minute glass-beads which is visible under a viewing light.
- Its unauthorized manufacture is virtually impossible because of the complexity and high cost of production.
- These combined features were available only in 3M's Data Guard.

A review of the State Department's procedures indicates compliance with the requirements of applicable laws and regulations for awarding a sole-source contract. The Contracting Office issued a sole-source contract under provisions of 41 U.S.C. 252 (c)(10) which allows purchases for property or services to be negotiated without advertising if it is impracticable to secure competition. In accordance with Title 41 of the Code of Federal Regulations, Subpart 1-3.210 (b), the Contracting Officer issued a determination and findings on July 24, 1979, to award a contract to the 3M Company on the basis that 3M was the only company which manufactured the type of laminate meeting the State Department's requirements.

The Department awarded a 1-year, sole-source contract to the 3M Company on July 26, 1979. Under the contract the Department made an initial purchase of 20,000 sheets for testing and training under the Travel Document Issuance System. The Department also exercised its option to purchase an additional 500,000 sheets in August 1979 since funding for the additional order would not be available in the following fiscal year. The Department did not exercise its option to renew the contract for a one-year period. The Department stated that it allowed the contract to lapse because its supply of laminates was sufficient to meet its current needs and because the laminate has a one-year shelf life. The contract expired on July 26, 1980.

No decision has been made whether a sole-source or competitive contract will be used to satisfy future lamination requirements. The State Department Contracting Office has stated that any future requests for a sole-source contract for lamination material would have to be justified on the basis of a review of currently available products.

Question 2 What test results or research led the State Department to choose Data Guard laminate? Are test results and documentation available for inspection?

In 1974 there were uncertainties about the suitability of available laminates. As a result, the State Department conducted about 4 years of trial and error testing on laminate products. However, there are no formal records of the test plan, the tests, or test results. The State Department conducted tests on laminates of the General Binding Corporation, 3M Company, and an estimated 2 other vendors. Testing included use of a variety of laminating devices, and examination of the effects of heat, water, and freezing conditions on laminated passports. As a result of these efforts,

the State Department determined that glass-bead lamination material would be the most effective and secure laminate for use on the new type passport.

According to the State Department, seven months after the contract was awarded to the 3M Company, a security expert confirmed the selection of 3M Company's Data Guard as the most secure laminate available. On February 25, 1980, according to State Department records, the identification security expert reported to the Department that:

- The glass-bead type laminate known as 3M Data Guard was the best laminating material available for security purposes.
- The State Department seal in the glass-bead laminate would compound the difficulty of counterfeiting the laminate.
- The glass-bead laminate would be very difficult and expensive to duplicate and produce.
- Duplication of General Binding Corporation's Polyvinyl Chloride (PVC) laminate is possible and was done.
- PVC's tamper-proof characteristics were easily counterfeited.
- PVC could be removed from an identification document with an ordinary iron and once removed would make a document highly vulnerable to alteration.

Question 3 What specifications were issued by the State Department as to characteristics the laminate must have?

The State Department did not issue specifications for competitive bidding. The contract issued to 3M, however, included the following specifications for the lamination:

- The contractor's product specifications as presented in certain identified company documents.
- The State Department's design for the light-reflecting pattern incorporated into the laminate.

--The packaging, coloring and size requirements.

Question 4 Is present Data Guard laminate meeting requirements for adhering to passport photographs?

Recent indications reveal that Polaroid photos, estimated to comprise 45 percent of passport photographs in use are not effectively adhering to the Data Guard laminate. Polaroid photos, which differ in chemical and optical characteristics from traditional photographs, are causing passport office operational problems including bonding with the Data Guard laminate. According to 3M Company, a film on the surface of the Polaroid photo is preventing the lamination from adhering properly. The State Department gave its permission for applicants to use certain Polaroid photos in 1975. Initial laminate testing prior to 1976, concentrated on perfecting booklet lamination methods and materials. Passport officials were uncertain as to whether their laminate testing during the remaining test period included tests on Polaroid photographs and, if not, why they did not. Officials are uncertain as to the degree to which Polaroid photos were used in passports during the testing period.

According to the State Department, efforts are underway to identify processing or technical changes which would make the 3M Company's Data Guard compatible with all passport photos. 3M has stated it is testing methods of surface cleaning, surface abrasion, and chemical changes in the adhesives. 3M has also contacted the Polaroid Corporation for cooperation in solving the problem. Polaroid has assured the State Department it will work with 3M to solve the bonding problem. Polaroid Corporation also informed the State Department in July 1980, that early test results indicate that their Polaroid secure laminate will bond to Polaroid photos as well as other photo types.

The State Department has identified at least five alternatives under consideration for dealing with the bonding problem:

- Refuse to accept Polaroid instant photos.
- Have the Government perform basic research in finding the appropriate adhesive for glass-bead lamination and/or adding a chemical operation to the production of passports.

- Accept Polaroid photos and change the lamination to Polaroid's Polasecure.
- Use Polasecure lamination with Polaroid photos and Data Guard lamination with all other photos.
- Print the passport photo into the passport as part of the information page, using a technique in use in Sweden.

Question 5 What is the price of Data Guard laminate compared to other products of an equivalent nature?

Records show that the State Department did make some price comparisons in February 1979, but only between General Binding Corporation and 3M. General Binding's lamination would have cost the State Department about 20 cents per sheet including the cost of sewing the laminate into the passport. The contract price for 3M's Data Guard was 37 cents per sheet for the first 20,000 which included a one-time cost for setting the custom-designed pattern and 20.5 cents per sheet subsequently in quantities of 500,000. 3M laminate does not require sewing into the passport.

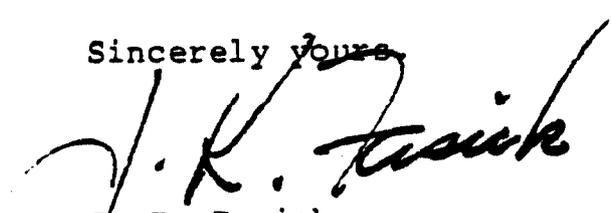
The State Department records dated February 1979 show that a decision was made that if 3M's cost estimates were within 10 percent of the estimate for General Binding's laminate, they would purchase the 3M laminate.

We have discussed the contents of this letter with the Department of State. Department officials believe it to be an accurate representation of the events and circumstances.

As agreed with your office, we plan to make no further distribution of this letter until 5 days after its issuance. At that time we will make it available to the Department of State and other interested parties.

If we can be of any further assistance, please contact our office.

Sincerely yours



J. K. Fasick
Director