

094069

Expire

B-168450



REPORT TO THE CONGRESS

Ways For The
Department Of Defense
To Reduce Its Administrative
Costs Of Awarding Negotiated
Contracts

B-168450

*BY THE COMPTROLLER GENERAL
OF THE UNITED STATES*

~~711025~~

094069

SEPT. 17, 1973



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON DC 20548

B-168450

C To the President of the Senate and the
Speaker of the House of Representatives

1 We have studied ways for the Department of Defense to reduce
its administrative costs of awarding negotiated contracts 5

We made our study 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 Director, Office of Management and Budget, the Secretary of Defense, the Secretaries of the Army, Navy, and Air Force, and the Director, Defense Supply Agency

A handwritten signature in black ink that reads "James B. Stacks".

Comptroller General
of the United States

C o n t e n t s

	<u>Page</u>
DIGEST	1
CHAPTER	
1 DOD AND INDUSTRY BUYING	3
What DOD buying is	3
Use of items	3
Market environment	3
DOD and industry buying compared	4
Seeking competition	5
Evaluating price	6
DOD expects more from its suppliers than does industry	6
2 HOW DOD CAN REDUCE ADMINISTRATIVE COSTS	8
Solicitation documents can be shortened	8
Using master solicitations	8
Referencing more clauses	9
Conclusion	10
Recommendations to the Secretary of Defense	10
Agency comments	10
Number of copies of solicitation documents can be reduced	11
Conclusion	11
Recommendation to the Secretary of Defense	11
Agency comments	12
3 RECOMMENDED LEGISLATIVE CHANGES TO REDUCE ADMINISTRATIVE COSTS	13
Soliciting proposals on negotiated procurements	13
Conclusions	16
Recommendation to the Congress	17
Use of simplified procurement techniques	17
Estimated administrative cost to process procurements	19
Recommendations to the Congress	20
Agency comments	20

	<u>Page</u>
D&Fs on certain negotiated procurements	21
Recommendation to the Congress	22
Agency comments	22
4 SCOPE OF STUDY	24
APPENDIX	
I Letter dated March 23, 1973, from the Acting Assistant Secretary of Defense (Installations and Logistics)	25
II DOD activities contacted	31
III Business firms contacted	32
IV Principal officials responsible for administration of activities discussed in this report	34

ABBREVIATIONS

ASPR	Armed Services Procurement Regulation
D&F	determination and finding
DOD	Department of Defense
DSA	Defense Supply Agency
GAO	General Accounting Office
SBA	Small Business Administration

D I G E S T

WHY THE STUDY WAS MADE

The Department of Defense (DOD) spent \$35 billion under negotiated contracts in fiscal year 1972 for millions of different goods and services. Individuals in and out of Government frequently have expressed the view that DOD can improve its negotiated buying without weakening numerous laws, rules, and regulations designed to safeguard the taxpayer's dollar.

Therefore GAO examined DOD's policies and practices for buying parts and components by negotiation, to identify opportunities for DOD to improve its procurement methods. To gain further insight into and perspective on this complex subject, GAO inquired into how business firms bought parts and components similar to those DOD bought.

Except for the limitation on simplified procurement procedures discussed on pages 17 to 21, this report does not pertain to procurement by formal advertising. It should be noted that industry does not award contracts using a formal advertising procedure.

FINDINGS AND CONCLUSIONS

DOD can reduce the administrative costs of its negotiated procurements without sacrificing adequate competition, reasonable prices, or the nonprocurement goals of the Congress.

These goals are reflected in such laws and programs as the small business programs, the labor surplus area program, the Buy American Act, the equal employment opportunity programs, and the procurement-related labor laws, such as the Walsh-Healey Public Contracts Act and the Service Contract Act.

Millions of dollars in administrative cost could be saved annually. DOD can make some improvements (see pp 8 to 12), but others will require congressional action (see pp 13 to 23). For example:

--DOD can save about \$900,000 annually by shortening its solicitation documents and by requiring the Navy and the Defense Supply Agency to use only two copies of the solicitation document in each solicitation package. (See pp 8 to 11.)

--DOD can realize substantial annual savings by preparing fewer solicitation packages. (See pp 13 to 17.)

--DOD's ceiling for simplified procurement procedures is limited to procurements under \$2,500. If the ceiling were raised to \$10,000 for negotiated and formally advertised procurements, administrative costs up to \$30 million annually might be avoided at procurement centers. (See pp 17 to 20.)

--DOD could save about \$150,000 annually if the requirement for preparing certain determinations and findings were repealed (See pp 21 and 22)

DOD also said that it was considering whether procurement centers should include only two copies of the solicitation document in each solicitation package (See p 12)

RECOMMENDATIONS

To reduce administrative costs to buy parts and components, DOD should

--Encourage greater use of master solicitations throughout DOD and, where it is not feasible, give centers greater latitude to incorporate clauses by reference when this action would benefit the Government (See p 10)

--Require procurement centers to include only two copies of the solicitation document in each solicitation package (See p 11)

AGENCY ACTIONS AND UNRESOLVED ISSUES

DOD pointed out it had already granted the services permission to use master solicitations on a trial basis and to incorporate many clauses in contracts by reference DOD said that it was considering changes permitting incorporation, by reference, of additional clauses, solicitation provisions, and notices (See p 10)

MATTERS FOR CONSIDERATION BY THE CONGRESS

Because DOD's buying system is tied to legislation, certain administrative costs to buy cannot be reduced without congressional action The Commission on Government Procurement has recognized that changes are needed and has recommended appropriate legislation to the Congress Since GAO's study also indicates a need for the changes recommended by the Commission, GAO recommends that the Congress enact legislation

--Authorizing agencies to solicit proposals from a competitive, rather than a maximum, number of sources (See p 17)

--Raising the ceiling price of procurements subject to simplified procurement procedures (See p 20)

--Repealing the requirement that contracting officers prepare determinations and findings for certain procurements (See p 22)

CHAPTER 1

DOD AND INDUSTRY BUYING

Negotiated buying by the Department of Defense (DOD) is big business. In fiscal year 1972 DOD spent \$35 billion for goods and services at 27 buying commands and 6,600 posts, camps, stations, and ships. Thousands of people were involved in the buying process, and millions of different items were bought

WHAT DOD BUYING IS

DOD buying is a series of complex processes influenced by item use, market environment, and buying method

Use of items

Basically, DOD buys at one of two levels--procurement centers or service installations. Procurement centers buy items for reissue to using installations. Installations buy, on the open market or through contracts awarded by the General Services Administration, items not procured for them by the procurement centers--generally inexpensive, commercial-type items used in day-to-day operations

Distinct organizational arrangements have evolved for items bought by procurement centers, depending on whether the items are in common use among the services or are used by the individual services. Generally Defense Supply Agency (DSA) procurement centers buy common-use items (electrical switches, etc) for all services, however, one service, and generally one procurement center within that service, buys certain other items used by more than one service. Ships, trucks, tanks, missiles, and their replacement parts are bought by service procurement centers

Market environment

Procurement centers usually buy items competitively if there are two or more known sources of supply. But for some items there is only one source or only one interested source. These items are bought noncompetitively, and the terms and prices must be negotiated.

As shown in the following table, many buys are noncompetitive

DOD-Negotiated Procurements
Fiscal Year 1972

	<u>Actions</u>	<u>Per-</u> <u>cent</u>	<u>Dollars</u>	<u>Per-</u> <u>cent</u>
	(000 omitted)		(000,000 omitted)	
Competitive	2,666	30	\$11,114	35
Noncompetitive	<u>6,211</u>	<u>70</u>	<u>20,958</u>	<u>65</u>
	8,877	<u>100</u>	32,072	<u>100</u>
Intra- governmental	<u>704</u>	-	<u>2,525</u>	-
Total	<u>9,581</u>	<u>100</u>	<u>\$34,597</u>	<u>100</u>

DOD AND INDUSTRY BUYING COMPARED

Seeking additional knowledge and a broader perspective on today's procurement concepts and practices, we turned to the business community. We contacted 38 large and small business firms. (See app III.) Our primary area of concern was the buying of parts and components similar to those bought by the five DOD procurement centers included in our review (See app. II) With the cooperation of these firms, we studied the philosophies and policies governing both industry and Government buying and compared selected procurements of similar items

We found that DOD buying was in many ways similar to industry buying Both DOD and industry attempt to buy parts and components of the right quality, in the right quantity, at the right time, at the right price, from the right supplier

To achieve these objectives, both DOD and industry attempt to obtain adequate competition, reasonable prices, and quality material, to contract with qualified suppliers, to provide fair profits to efficient suppliers, and to promote healthy buyer-seller relationships. Further, both exercise more control over the larger dollar actions than over the smaller ones. For low-dollar procurements--the majority of

the procurements but a small portion of the dollars--both have established simple, flexible ways to buy

The main difference between DOD and industry buying is that, in addition to securing materials and services, DOD--in response to congressional desires--attempts to get maximum competition and to meet certain nonprocurement objectives. These objectives are reflected in such laws and programs as the small business programs, the labor surplus area program, the Buy American Act, the equal employment opportunity programs, and the procurement-related labor laws, such as the Walsh-Healey Public Contracts Act and the Service Contract Act. Because DOD seeks to meet these objectives and industry does not, there are differences in their respective practices for obtaining competition and evaluating prices and in what they expect from potential suppliers.

Seeking competition

When seeking competition, industry generally solicits proposals from a limited number of firms. Because these firms play a vital role in the smooth functioning of industry operations, industry exercises care in selecting firms, including screening potential suppliers in advance to ensure that those solicited are able to meet the buying firm's requirements in terms of quality, service, and price. Industry generally does not solicit firms which previously failed to meet its requirements.

Industry believes that its buying method results in reasonable prices and minimum administrative costs because only a small number of firms are selected to furnish its needs. When only a few firms are involved, less paperwork is required and fewer people are needed. Further, industry may not seek competition on each and every buy. When reliable suppliers are willing to continue supplying goods and services at current prices, industry can place purchase orders with them without seeking competition. Such orders are simple and inexpensive to process.

On the other hand, DOD generally solicits many firms in an attempt to achieve maximum competition and to avoid favoritism. However, competition is not always achieved. This approach--required by law--is based on the assumption that the greater the competition the less the chance of

favoritism and the better assurance that DOD pays the lowest possible price

DOD believes that its method--seeking maximum competition--probably results in more administrative costs than does industry's method. DOD believes also that industry's method may ensure better quality and service than does DOD's method, because it allows industry to reject firms that perform poorly. DOD points out, however, that its method avoids charges of favoritism and collusion, whereas industry's method is vulnerable to such charges. Such charges in industry are handled internally with little, if any, publicity but in DOD result in loss of the taxpayer's confidence in DOD's procurement methods

Evaluating price

Industry generally gives its business to the lowest bidder but makes exceptions when it is to its advantage to do so. For example, when faced with the possibility of changing suppliers, industry weighs the advantages of dealing with a proven supplier against the merits of changing to obtain a lower price. Also industry uses contracts to reward firms--other than low bidders--for innovations that improve its products or manufacturing processes.

DOD must generally buy from the firm that offers the lowest price. This is required by law to preclude charges of favoritism and to maintain the integrity of DOD procurement

DOD expects more from its suppliers than does industry

When soliciting firms, DOD is interested in more than just receiving price proposals. It wants the firms to know the terms and conditions under which it will consider proposals. Moreover, DOD wants the firms to know that the winning firm will be expected to perform in such a manner that DOD procurement dollars will be used to achieve certain national objectives, e g , equal employment opportunity, procurement from domestic sources, and fair labor standards, as established by the Congress. To do this requires a solicitation document usually in excess of 30 pages. Industry, on

the other hand, merely expects the firms solicited to bid in accordance with the product specifications and the desired delivery schedules. Its solicitation document usually is two pages.

- - - -

Understandably, some laws, rules, and regulations are necessary to safeguard the taxpayer's dollar and to ensure that DOD procurement dollars are used to meet the nonprocurement objectives established by the Congress. Because DOD must try to meet these objectives but industry does not, they will continue to use different methods to buy parts and components. It is important that the Congress and DOD become aware of ways to reduce administrative costs and to meet nonprocurement objectives without sacrificing adequate competition and impairing established safeguards.

To this end we concentrated our efforts on those policies and practices associated with soliciting sources, preparing solicitation documents, documenting procurement actions and decisions, and using simplified procedures for low-dollar procurements. Although we compare DOD and industry buying throughout this report, we do not consider industry policies and practices to be those which DOD should follow. However, we did use industry methods as guides in identifying the best methods for DOD, considering the environment in which DOD must operate.

To achieve savings in these areas, action by both DOD and the Congress will be required. Chapter 2 discusses those actions that DOD can initiate. Chapter 3 discusses matters that require congressional consideration.

CHAPTER 2

HOW DOD CAN REDUCE ADMINISTRATIVE COSTS

Without sacrificing adequate competition, reasonable prices, or the nonprocurement objectives of the Congress, DOD can save an estimated \$900,000 annually on procurements over \$10,000 by shortening its solicitation documents and by requiring the Navy and DSA, like the Army and the Air Force, to include only two copies of a solicitation document in each solicitation package. A solicitation document contains all the requirements, terms, and conditions necessary for preparing a proposal and usually serves as the contract.

We based our savings estimate on a 50-percent reduction in the number of pages in solicitation documents and on a reduction in the number of solicitation packages prepared by the Navy and DSA from three to two. If these changes were made to contracts of \$10,000 and over, we estimate that about 90 million fewer pages annually would need to be included in solicitation packages. On the basis of our work at various procurement centers, we estimated that paper and printing cost about 1 cent a page.

SOLICITATION DOCUMENTS CAN BE SHORTENED

Our study at five procurement centers showed that solicitation documents usually were more than 30 pages. For example, the solicitation documents at one Army center generally were about 40 pages and at one Air Force center were about 51 pages. Industry generally uses a two-page solicitation document and a two-page purchase order.

There are perhaps many ways of significantly shortening solicitation documents. DOD is currently using two of the more promising ways--master solicitations and incorporation of contract clauses by reference--but only to a limited extent. By increasing their use, DOD could greatly shorten solicitation documents.

Using master solicitations

The most promising way DOD can shorten solicitation documents is by using master solicitations, under which one solicitation document--containing terms and conditions repetitively used--is distributed to firms only once.

This is in contrast to the current system in which various certifications and items of information are required to be furnished by contractors in response to solicitation after solicitation. These certifications and items of information pertain to such things as their status as regular dealers or manufacturers, statements of contingent fees, types of business organizations, and business affiliations and identifying data. Using master solicitations, this data could be obtained once and updated or confirmed periodically. Some DSA procurement centers are using master solicitations. In May 1971 a DSA management review team recommended using master solicitations DOD-wide, to significantly reduce administrative costs. The team estimated, and our tests at the centers we visited confirmed, that the documents could be shortened by 50 percent.

Master solicitations are well accepted by DSA centers which have used them and by industry. Those firms that have used master solicitations like them, many of those that have not used them have said that they would try them

Some DOD officials oppose master solicitations on the basis that the costs to update them--due to numerous and frequent changes to the Armed Services Procurement Regulation (ASPR)--would offset potential savings. Other DOD officials stated that master solicitations would not appreciably shorten solicitation documents.

We believe that these arguments stem from a lack of experience with master solicitations. At one Army center that opposed using master solicitations because of the supposedly numerous and frequent changes to ASPR, we analyzed solicitation documents and found that changes had been simple and infrequent. Thus updating costs should be negligible. As for the effect that master solicitations will have on the length of solicitation documents, our tests at various centers showed that as much as a 50-percent reduction was possible. We have assumed a 50-percent reduction in estimating potential savings.

Referencing more clauses

Another way DOD can shorten solicitation documents is to permit procurement centers greater latitude in incorporating clauses by reference instead of requiring that they be

repeated in their entirety in each solicitation ASPR currently requires that information in solicitations be set forth in full, except for standard contract forms consisting of general provisions and clauses in ASPR section VII, which may be included by reference.

With few exceptions, centers reference the maximum number of provisions and/or clauses permitted by section VII of ASPR. There are, however, clauses from other ASPR sections printed in solicitations in their entirety that could be incorporated by reference According to an August 1971 DSA study, 2,600 additional lines of ASPR provisions, notices, and clauses could be referenced The study points out that, if contractors can reference section VII of ASPR for part of the solicitation requirements, there is no valid reason for generally prohibiting referencing other ASPR provisions Some centers we visited advised us that they would use additional referencing if that option were available to them.

Conclusion

We believe that master solicitations and referencing of clauses can substantially reduce DOD's administrative cost to buy. Many DOD officials favor using master solicitations and many potential suppliers have said that they would try them.

Recommendations to the Secretary of Defense

We recommend that the Secretary encourage greater use of master solicitations throughout DOD and, where it is not feasible, give centers greater latitude to incorporate clauses by reference when this action would benefit the Government.

Agency comments

DOD advised us (see app I) that it had already granted the services permission to use master solicitations on a trial basis and to incorporate most of the clauses in section VII of ASPR by reference It stated further that it was considering changes permitting incorporation of additional clauses, solicitation provisions, and notices by reference.

Since the services generally are not using master solicitations, we believe that the Secretary should actively encourage greater use of this technique rather than merely permit its use.

We recognized that our proposals would interest the small business community, therefore, we asked the Small Business Administration (SBA) for its informal comments.

SBA believed that master solicitations might be satisfactory for some purposes, however, it urged that it be allowed to participate in preparing master solicitation documents. We believe that SBA's position is reasonable and that its participation would be helpful.

NUMBER OF COPIES OF SOLICITATION DOCUMENTS CAN BE REDUCED

Currently, Navy and DSA procurement centers include three copies of the solicitation document in each solicitation package. The Air Force and Army include two copies.

We discussed with DSA and Navy procurement officials the feasibility of including two, rather than three, copies. They agreed it was feasible if the finance centers would no longer require the original of the solicitation document completed by the winning contractor. The Air Force and Army have overcome this problem by sending the finance centers the original of the winning contractor's solicitation document after reproducing the copies they need for their files.

Conclusion

We believe that DOD can reduce its administrative costs to buy if the Navy and DSA include only two copies of the solicitation document in each solicitation package.

Recommendation to the Secretary of Defense

We recommend that the Secretary direct procurement centers to include only two copies of the solicitation document in each solicitation package.

Agency comments

DOD advised us (see app. I) that it was currently reviewing this matter.

CHAPTER 3

RECOMMENDED LEGISLATIVE CHANGES

TO REDUCE ADMINISTRATIVE COSTS

Because DOD's buying system is closely tied to legislation, it cannot reduce certain administrative costs to buy without congressional action. Legislation would be required for

- Authorizing agencies to solicit proposals from a competitive, rather than a maximum, number of sources.
- Raising the ceiling price of procurements subject to simplified procurement procedures
- Repealing the requirement that contracting officers prepare determinations and findings (D&Fs) for certain procurements.

The Commission on Government Procurement has already recommended these legislative changes to the Congress

SOLICITING PROPOSALS ON NEGOTIATED PROCUREMENTS

DOD could save money if it stopped furnishing solicitation packages to firms which cannot satisfy the conditions of negotiated purchases. This practice increases administrative costs but does not significantly increase competition.

On negotiated buys where one firm or a few firms can satisfy the conditions of the procurement, DOD procurement centers--like their counterparts in industry--generally limit initial solicitations to such a firm or firms. However, procurement centers also try to create or increase competition by publicizing planned procurements through various media and by furnishing solicitation packages to firms requesting them, industry does not

DOD's policy for preparing and distributing solicitation packages to firms responding to publicity is outlined in Armed Services Procurement Regulation 1-1002 1, as follows

"A reasonable number of copies of * * * requests for proposals * * * including specifications and other pertinent information, shall be maintained at the contracting office Upon request, prospective contractors not initially solicited may be mailed or otherwise provided copies * * * to the extent they are available When * * * only a specified firm or firms possess the capability to meet the requirements of a procurement, requests for proposals shall be mailed or otherwise provided upon request to firms not solicited, but only after advice has been given to the firm making the request as to the reasons for the limited solicitation and the unlikelihood of any other firm being able to qualify for a contract award under the circumstances, * * * In determining the 'reasonable number' of copies to be maintained, the contracting officer shall consider * * * the extent of initial solicitation, reproduction costs, the nature of the procurement, whether access to classified matter is involved, the anticipated requests for copies based upon responses to synopses and other means of publication in previous similar situations * * *." (Underscoring supplied)

To comply with the above policy, procurement centers prepare varying numbers of solicitation packages for firms that may request them. Regardless of the number prepared, the result is usually the same--requesting firms are not awarded the contract.

At 1 procurement center, for example, we reviewed 12 negotiated buys. In addition to making the initial solicitations, the center prepared about 410 solicitation packages and furnished 126 to requesting firms, 284 packages were unused. Only 4 of the 126 firms requesting packages submitted offers. None were awarded contracts because they could not supply engineering-approved items or could not get their items tested without unduly delaying the buys. We contacted several firms that had requested packages and found that they had not bid because they could not meet the requirements of the buys.

The above situation is typical of what we found at other centers we visited. Procurement officials at these centers confirmed that the requirements of the buys were such that few firms could meet them. These officials stated that few firms submitted proposals and that those submitted usually did not meet the requirements, consequently, competition was not increased

Preparing and distributing solicitation packages to requesting firms is costly. For example, an Army center prepared about 54,000 solicitation packages for over 1,300 buys in fiscal year 1971 at a cost of about \$136,000. Officials at that center said that, although they agreed that many of those firms probably should not have been furnished packages, the continued demand for such packages, coupled with ASPR 1-1002.1 requirements, compelled them to continue to furnish the packages. They did agree, however, that the quantity being prepared was excessive and stated that they would reduce the quantity. Such action will save the center about \$50,000 annually.

Similar practices existed at the other service procurement centers, except at the DSA center we visited. That center was not furnishing packages to requesting firms on procurements under \$10,000. The center estimated that, if it had furnished packages on those procurements, the additional administrative cost would have been over \$111,000 in fiscal year 1972. Officials of that center also said that limiting solicitations permits shorter leadtimes and reduces inventory levels. These officials said that, if the center had furnished packages on buys under \$10,000, its inventory levels would have been about \$820,000 higher during fiscal year 1972. For procurements over \$10,000, the center furnishes packages to requesting firms.

Because centers prepare varying numbers of solicitation packages for requesting firms, we were unable to identify the DOD-wide costs of preparing and distributing such packages, however, we believe that they are substantial.

The Commission on Government Procurement has recommended a statutory requirement that proposals be solicited from only a "competitive" number of sources. The Armed Services Procurement Act (10 U S C 2304(g)) requires that proposals

be solicited "from the maximum number of qualified sources consistent with the nature and requirements" of a procurement. The Commission's report stated that

"Providing in the statute for the solicitation of a 'competitive' rather than a 'maximum' number of sources in negotiated procurements should convey the intent that the desirable number of sources depends on the conditions which prevail in the market at the time the purchase is made "

The Commission also recommended a legal requirement that "agencies honor all reasonable requests by uninvited offerors to compete " (Underscoring supplied) We concur with the Commission's recommendations

SBA believed that a procurement policy permitting procurement officials to refuse requests for solicitation packages would represent a threat to small business. It believed that such a policy would (1) result in a product prequalification system to the disadvantage of small business which could not afford the cost of prequalifying, (2) hinder SBA in suggesting potential sources to Government procurement activities, and (3) encourage favoritism in selecting sources to which solicitation packages would be sent

We recognize SBA's responsibility to bring new sources of supply to procurement officials' attention, and we believe that solicitation packages should continue to be made available to firms suggested by SBA

Conclusions

DOD is preparing unneeded solicitation packages because, under current legislation, DOD must seek maximum competition. DOD has interpreted the current legislation to require that it attempt to provide packages to all firms requesting them, regardless of the firms' ability to compete. We concluded that contracting officers should be permitted latitude to prepare a quantity of solicitation packages on the basis of the number of firms they believe to be reasonably capable of competing and on a reasonable allowance for other requirements rather than on the number of firms expected to request packages. Legislation permitting this procedure would be required

In the meantime, procurement officials could reduce administrative costs by determining the number of packages needed on the basis of past requests under similar procurements. The Secretary of Defense should emphasize this to contracting officers.

Recommendation to the Congress

Since many packages are requested by firms which agency officials believe cannot meet the needs of the procurements, the Congress should enact legislation to authorize agencies to solicit proposals from a competitive, rather than a maximum, number of sources. This would permit agencies to limit the number of solicitation packages needed and to reduce administrative costs.

USE OF SIMPLIFIED PROCUREMENT TECHNIQUES

We estimate that, if the simplified procurement techniques were used in procurements under \$10,000, rather than limited to those under \$2,500, DOD could save several million dollars annually in administrative costs. Although our review was concerned primarily with negotiated procurements, the following discussion of the simplified procurement limitation pertains to both negotiated and formally advertised procurements between \$2,500 and \$10,000, since we believe that simplified procurement techniques should continue to be used for all procurements under the specified ceiling. Increased use of simplified procurement techniques would also reduce procurement leadtimes which, in turn, would permit smaller inventories.

The present limit of \$2,500 was established almost 15 years ago when it was increased from \$1,000. The reason for that increase, according to a Senate report dated August 5, 1958, was that

"Negotiated procurement contemplates suitable competition. In some instances greater competition may be engendered than by formal advertising, as where paperwork costs or lack of understanding of formal bid procedures may deter prospective contractors, particularly small business concerns, from submitting bids on small dollar amount procurements. Increased competition and lower prices

would flow from the simplification, speed, and similarity to commercial practice * * * Administrative savings to the Government also would result from the lesser cost in such cases of negotiated procurements as compared with formally advertised procurements "

We believe that the reason for that increase is just as valid today as it was then. Since 1958 there have been significant increases in the Consumer Price Index and in the salaries of Government employees. These factors alone seem to justify a fresh look at the reasonableness of the \$2,500 limitation. DOD procurement officials generally agree that the dollar limitation should be raised.

Potential savings from increasing the ceiling are best illustrated by actual results. Under authority of the Armed Services Procurement Act (10 U S C 2304(a)(2)), the Army Materiel Command, during the Vietnam crisis, used simplified procurement techniques for procurements up to \$10,000 for high-priority items. These techniques included oral solicitations and one-page purchase orders, which are less expensive and quicker than formal advertising or more formal competitive negotiations.

At the Army Materiel Command's request, centers evaluated the increased use of simplified techniques. As a result, the centers recommended extending simplified techniques to other procurements up to \$10,000 and gave some convincing statistics. For example:

- Administrative leadtime was reduced by as much as 48 days
- Procurement backlogs were reduced by as much as 45 percent
- Average man-hours required to process these buys were reduced by as much as 75 percent
- Paperwork was greatly reduced. For example, one installation generated a stack of paper 22 feet high. Had that installation used normal methods, the stack would have been 581 feet high--26 feet higher than the Washington Monument.

Estimated administrative cost
to process procurements

We estimate that, if the limitation for using simplified procurement techniques had been \$10,000 in fiscal year 1971, DOD procurement centers could have processed 176,000 additional procurements using these procedures. Various estimates have been developed as to the administrative cost to process procurements under \$2,500 and over \$2,500. Defense Electronics Supply Center and Air Force estimates for procurements under \$2,500 ranged from \$30 to \$127, respectively, and for procurements over \$2,500 ranged from \$153 to \$379, respectively.

We estimate that the centers incurred \$43.4 million in administrative costs for procurements between \$2,500 and \$10,000. As shown in the following table, the difference between using the present techniques and the simplified techniques for procurements between \$2,500 and \$10,000 could be about \$30 million.

<u>Procurement centers</u>	<u>Administrative costs</u>		
	<u>Present techniques</u>	<u>Simplified techniques</u>	<u>Difference</u>
	(millions)		
Air Force	\$ 6.6	\$ 2.2	\$ 4.4
Army	16.0	6.1	9.9
DSA	13.5	2.6	10.8
Navy	<u>7.3</u>	<u>2.8</u>	<u>4.6</u>
Total	<u>\$43.4</u>	<u>\$13.7</u>	<u>\$29.7</u>

DOD posts, camps, and stations processed about 1 million procurements in fiscal year 1971 valued between \$2,500 and \$10,000. We did not make reviews at such installations, however, if their administrative costs were similar to those incurred by the centers, their potential for savings is also significant.

DOD believed that the savings we suggested could not be achieved, because presumably they were primarily in personnel costs where such savings were not feasible.

The estimates of differences in administrative costs to process procurements under \$2,500 and over \$2,500 should not be equated with potential cost savings. Actual out-of-pocket cost savings that would be realized if the simplified procurement limitation were raised to \$10,000 would probably be less than the estimated cost differences, because of certain fixed or semifixed costs, including personnel costs, incurred by procurement organizations. To the extent that raising the limitation would reduce procurement workloads, however, resources would be freed for additional uses. This would permit the organizations to acquire fewer procurement resources, including personnel, in the future.

The Commission on Government Procurement has recommended that the ceiling for using simplified procurement techniques be raised to \$10,000 and that this ceiling be administratively reviewed at least every 3 years and changed when costs of labor and materials have changed by 10 percent or more.

Recommendations to the Congress

In view of the potential savings, the Congress should enact legislation raising the ceiling price for procurements subject to simplified techniques. The legislation should provide for periodic review of the limitation and for administrative changes if the cost of labor and materials change by specified percentages.

Agency comments

DOD agreed with this proposal and advised us that it had included in its current legislative program a proposal to raise the authorization for negotiations under 10 U S C 2304(a)(3) from \$2,500 to \$10,000 (See app I)

SBA believed that raising the dollar ceiling for using simplified procurement techniques would be acceptable only if all procurements made under these techniques were set aside for small business. SBA stated that, if this were not done, a large segment of Government procurement, in a dollar range with particular susceptibility to small business set-asides, would be removed from SBA review.

We recognize that simplified procurement techniques may complicate SBA efforts to ensure that small businesses

receive a fair share of Government contracts; however, we believe that administrative procedures for small procurements could be developed jointly by DOD and SBA for deciding whether specific procurements or item classes could and should be reserved for small business and for ensuring that such decisions would be honored.

D&Fs ON CERTAIN NEGOTIATED PROCUREMENTS

D&Fs prepared under certain procurement conditions duplicate information in other procurement documents. We believe that, if the requirement for these D&Fs were eliminated, about \$150,000 could be saved annually on contracts over \$10,000.

Authority to negotiate procurements under any of 17 exceptions to the use of formal advertising has existed since enactment of the Armed Services Procurement Act in 1947. The initial act required that D&Fs be prepared by the agency head for exceptions 11 through 16. In 1962, however, Public Law 87-653 added the requirement that the contracting officer prepare D&Fs for exceptions 2, 7, 8, and 10. D&Fs for these four exceptions represent 86 percent of the D&Fs prepared for all exceptions. These four exceptions are for procurements

- When public exigency will not permit delay incident to advertising
- Of medicine or medical supplies
- Of property for authorized resale
- Of property or services for which it is impracticable to obtain competition

Requiring D&Fs for these four exceptions resulted from congressional concern about the failure of DOD commands to provide appropriate explanations of why formal advertising could not be used.

DOD officials and those at Navy, DSA, and Air Force procurement centers we visited said that these D&Fs were no longer needed as they merely repeated information concisely explained in other documents. For example, a memorandum

attached to engineering drawings and technical data advises the buyer as to the procurement method, explaining why advertising is not possible. Other documents, such as the Procurement Plan and Summary of Negotiations, explain actions taken on the procurement.

Our review of procurement files at various procurement centers confirmed that D&Fs duplicate information already in the file. In addition, preparing D&Fs is time consuming and costly. At one center, preparing a D&F, on the average, takes half an hour of a GS-9's time and may take as long as 4 hours. In fiscal year 1971 this center prepared at least 9,334 D&Fs, which took an estimated 4,667 man-hours (2 2 man-years).

In fiscal year 1971 procurement centers awarded approximately 29,500 negotiated contracts over \$10,000 that were justified under the 4 exceptions discussed above. Assuming that each procurement center averaged half an hour at a total cost (labor and overhead) of \$5 for each D&F, the cost for the 29,500 contracts could have been almost \$150,000.

The Commission on Government Procurement made various recommendations favoring fewer encumbrances to the use of competitive negotiation. One of these recommendations was that D&Fs be eliminated for contracts negotiated competitively.

Recommendation to the Congress

The Congress should enact legislation repealing the requirement that contracting officers prepare D&Fs under the four specified conditions.

Agency comments

DOD stated that it generally concurred with this recommendation. (See app. I.)

SBA disagreed with this recommendation and stated that it was based on the assumptions that engineering and technical staffs were always correct in their rationales for using the negotiated method of procurement and that approval tended to be automatic. SBA stated that, although the latter assumption was true, the former assumption was not

necessarily true and that the policies of competition in Government procurement would be better served by stressing proper review of D&Fs rather than by eliminating the procedure because it was improperly used

We agree that procurement officials should review all information bearing on decisions to award contracts by negotiation, however, we believe that this information is available in procurement documents besides D&Fs. Our review showed that D&Fs concerning the four exceptions to formal advertising discussed in this report merely documented decisions already made

CHAPTER 4

SCOPE OF STUDY

We evaluated DOD's negotiated-buying policies and practices at procurement centers that buy parts and components for inventory. We also inquired into how business firms bought parts and components and compared their buying policies and practices with DOD's.

We inquired into legislation and business policies and into DOD's and industry's buying techniques. We examined current DOD regulations and implementing instructions used by the Air Force, Army, and Navy and by DSA as well as the historical development of the DOD procurement system. We also studied DOD's buying practices and procurement documentation. We inquired into industry's buying system and surveyed its buying policy and procurement processes.

We made our study primarily at five DOD procurement centers that buy aircraft, automotive, or electrical parts and components and at four business firms that buy comparable items. We interviewed officials of several other DOD activities and 34 other business firms. DOD activities and business firms contacted are listed in appendixes II and III, respectively.



ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, D C 20301

23 MAR 1973

INSTALLATIONS AND LOGISTICS

Mr. James H. Hammond
Deputy Director Procurement and
Systems Acquisition Division
United States General Accounting Office
Washington, D. C. 20548

Dear Mr. Hammond.

This is in response to your letter of January 18, 1973 transmitting for comment a GAO draft report titled, "The High Cost of Buying. A Study On Ways to Reduce Some of DoD's Administrative Costs of Awarding Negotiated Contracts", (OSD Case #3571).

GAO has made a study of how DoD buys parts and components by negotiation with the view of identifying opportunities for improvement. In making the study GAO inquired into how business firms buy parts and components. The detailed study effort was concentrated at five DoD procurement activities and four business firms. As a result of the study, opportunities for savings in negotiated procurement were identified as follows. (1) issuing the solicitation package to only those firms reasonably capable of competing, (2) reducing the number of pages in the solicitation, (3) reducing the number of copies of each solicitation to each prospective bidder, (4) reducing DoD review and documentation procedures and (5) increasing the use of simplified purchase procedures by raising the small purchase limitation from \$2,500 to \$10,000.

Primarily the study identifies areas where there may be some opportunity to reduce paperwork. The reduction of paperwork is a long standing and continuing DoD objective. We are therefore in general agreement with the thrust of this study. However, we do question whether savings in the amount estimated in the study are feasible. The estimated savings projected in a number of places in your study are in most instances highly conjectural. For example, in the matter of utilizing simplified purchase procedures in actions up to \$10,000, it is our view that savings of the magnitude (See GAO note, p 29) suggested by your study would not be possible. Presumably

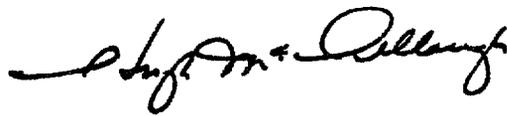
APPENDIX I

the estimated savings in this area would be primarily in personnel costs. It is simply not feasible to expect that personnel costs could be reduced by such amounts.

Specific comments on the study recommendations are provided in the enclosure. In addition, several of the suggestions made in the study are very similar to suggestions made in an earlier draft GAO report titled, "Study of the Formal Advertising Method of Procurement," (OSD Case #3521). In this regard reference should be made to our comments of 10 November 1972 on this latter report for additional views.

Your review of this matter is appreciated.

Sincerely,

A handwritten signature in cursive script, appearing to read "Hugh McCullough".

HUGH McCULLOUGH
Acting Assistant Secretary of Defense
(Installations and Logistics)

Enclosure
a/s

DOD COMMENTS ON
RECOMMENDATIONS
GAO DRAFT REPORT

"THE HIGH COST OF BUYING A
STUDY ON WAYS TO REDUCE
SOME OF DOD'S ADMINISTRATIVE
COSTS OF AWARDING NEGOTIATED
CONTRACTS"

(OSD CASE #3571)

[See GAO note, p 29]

Recommendation

Consider using master solicitations where feasible throughout DoD and where it is not feasible consider giving centers sufficient latitude to incorporate clauses by reference when this action would benefit the Government

DoD Comment

The ASPR Committee has authorized the use of the master solicitation technique for all departments through June 1974 and the majority of clauses contained in Section VII of the ASPR may be incorporated by reference Also further consideration is being given to incorporating additional clauses as well as solicitation provisions and notices by reference

Recommendation

Require purchasing centers to use only two copies when preparing solicitation packages for distribution to firms

DoD Comment

The ASPR Committee is reviewing this matter under Case 72-63

[See GAO note]

Recommendations to Congress

Congress revise present legislation that

limits use of simplified purchase techniques
to purchases under \$2,500, and

GAO note Deleted comments relate to matters which were
discussed in the draft report but omitted from
this final report

APPENDIX I

requires the preparation of certain D&F's justifying the use of negotiation

DoD Comment

We concur with both these recommendations. As to the first recommendation, a legislative proposal to raise the authorization for negotiation under 10 U S C 2304(a)(3) from \$2,500 to \$10,000 has been approved for inclusion in the current DoD Legislative Program. In addition, Recommendation 7 of Volume 1, Part A of the Report of the Commission on Government Procurement contains a similar recommendation.

As to the second recommendation we generally concur. This recommendation is corollary to Recommendation 3, Volume 1, Part A of the Report of the Commission on Government Procurement. We will be most interested in the Congressional reaction to this recommendation.

DOD ACTIVITIES CONTACTED

Office of Deputy Assistant Secretary of Defense (Procurement)	Washington, D C
Office of Assistant Secretary of the Army (Installations and Logistics)	Washington, D C
Headquarters, U S. Air Force Directorate of Procurement Policy	Washington, D C
Air Force Logistics Command	Wright-Patterson Air Force Base, Ohio
Air Force Systems Command, Aeronautical Systems Division	Wright-Patterson Air Force Base, Ohio
Army Aviation Systems Command	Saint Louis, Mo.
Army Electronics Command	Philadelphia, Pa.
Army Materiel Command	Arlington, Va
Army Tank-Automotive Command (note a)	Warren, Mich
Defense Contract Administration, Services Region	Detroit, Mich
Defense Electronics Supply Center (note a)	Dayton, Ohio
Navy Aviation Supply Office (note a)	Philadelphia, Pa
Naval Materiel Command	Arlington, Va
Oklahoma City Air Materiel Area (note a)	Oklahoma City, Okla
Sacramento Air Materiel Area (note a)	Sacramento, Calif

^aProcurement centers where we concentrated our study

APPENDIX III

BUSINESS FIRMS CONTACTED

Bendix Corporation	Southfield, Mich
Chromalloy American Corporation	Midwest City, Okla.
Chrysler Corporation	Highland Park, Mich
Clipper International Corporation	Detroit, Mich
Control Mechanisms, Inc	Philadelphia, Pa
Crown Controls, Inc.	New Bremen, Ohio
Duellman Electric Co.	Dayton, Ohio
Eastern Specialty Company	Philadelphia, Pa
Electro-Physics Company	Folsom, Calif
Esco, Inc	Dayton, Ohio
Ford Motor Company (note a)	Dearborn, Mich
General Electric Company	Evendale, Ohio
General Motors Corporation	Detroit, Mich
G-Z Products, Inc	Rancho Cordova, Calif.
Industrial Gasket & Packaging Co., Inc	Oklahoma City, Okla
J & B Tool and Engineering, Inc	Utica, Mich
Lanzen Fabricating, Inc.	Roseville, Mich
Lindor Electronics	Royal Oak, Mich
McDonnell-Douglas Corporation	Saint Louis, Mo
Mercury Tool and Machine Co	Chester, Pa
Minowitz Manufacturing Company	Roseville, Mich

Mid Monmouth Industries	Freehold, N.J.
Monmouth Industries, Inc.	Neptune, N.J.
NAPCO	Oak Park, Mich.
Philco-Ford Corporation	Philadelphia, Pa.
Pioneer Electronics, Inc.	Dayton, Ohio
Projects Unlimited, Inc	Dayton, Ohio
Pruett Manufacturing Company	Rancho Cordova, Calif.
RCA	Camden, N.J.
Sigma, Inc.	Oklahoma City, Okla.
Summit Industries	Dayton, Ohio
Tayko Industries	Sacramento, Calif.
The Leece-Neville Company	Cleveland, Ohio
The National Cash Register Company (note a)	Dayton, Ohio
Toth Inc	Cherry Hill, N J
Trans World Airlines (note a)	Kansas City, Mo.
United Air Lines (note a)	San Francisco, Calif
Wall Colmonoy Corp	Oklahoma City, Okla

^aCompanies where we concentrated our study.

APPENDIX IV

PRINCIPAL OFFICIALS RESPONSIBLE
FOR ADMINISTRATION OF ACTIVITIES
DISCUSSED IN THIS REPORT

	<u>Tenure of office</u>			
	<u>From</u>		<u>To</u>	
<u>DEPARTMENT OF DEFENSE</u>				
SECRETARY OF DEFENSE				
Robert S McNamara	Jan	1961	Feb	1968
Clark M Clifford	Mar	1968	Jan	1969
Melvin R Laird	Jan	1969	Jan	1973
Elliot L Richardson	Jan	1973	May	1973
Vacant	May	1973	July	1973
James R Schlesinger	July	1973	Present	
DEPUTY SECRETARY OF DEFENSE				
Roswell L Gilpatric	Jan	1961	Jan	1964
Cyrus R Vance	Jan	1964	June	1967
Paul H Nitze	July	1967	Jan	1969
David M Packard	Jan	1969	Dec	1971
Kenneth Rush	Feb	1971	Jan	1972
William P Clements, Jr	Jan	1972	Present	
ASSISTANT SECRETARY OF DEFENSE (INSTALLATIONS AND LOGISTICS)				
Thomas D Morris	Jan	1961	Dec	1964
Paul R Ignatius	Dec	1964	Aug	1967
Thomas D Morris	Oct	1967	Feb	1969
Barry J Shillito	Feb	1969	Jan	1973
Hugh McCullough (acting)	Feb	1973	June	1973
Paul H Riley	June	1973	Present	
DEPUTY ASSISTANT SECRETARY OF DEFENSE (PROCUREMENT)				
Graeme C Bannerman	Jan	1961	Apr	1965
John M Malloy	Apr	1965	Present	

Tenure of officeFrom ToDEPARTMENT OF THE ARMY

SECRETARY OF THE ARMY

Cyrus R Vance	July 1962	Jan. 1964
Stephen Ailes	Jan 1964	July 1965
Stanley R Resor	July 1965	June 1971
Robert F Froehlke	July 1971	May 1973
Howard H Callaway	May 1973	Present

ASSISTANT SECRETARY OF THE ARMY
(INSTALLATIONS AND LOGISTICS)

Paul R. Ignatius	May 1961	Feb 1964
A Tyler Port (acting)	Mar 1964	June 1964
Daniel M Luevano	July 1964	Oct 1965
Robert A Brooks	Oct 1965	Feb 1969
Vincent P Huggard (acting)	Mar 1969	June 1969
T Ronald Fox	June 1969	Oct 1971
Dudley C. Mecum	Oct 1971	Apr 1973
Vincent P Huggard (acting)	May 1973	Present

DEPARTMENT OF THE AIR FORCE

SECRETARY OF THE AIR FORCE

Eugene M Zuckert	Jan 1961	Sept 1965
Harold Brown	Oct. 1965	Jan 1969
Robert C. Seamans, Jr	Jan. 1969	May 1973
John L McLucas (acting)	May 1973	Present

ASSISTANT SECRETARY OF THE AIR
FORCE (INSTALLATIONS AND
LOGISTICS) (formerly Materiel)

Joseph S Imirie	Apr 1961	Sept 1963
Vacant	Oct. 1963	Nov 1963
Robert H Charles	Nov. 1963	Apr 1969
Philip N Whittaker	May 1969	Oct 1972
Vacant	Oct 1972	Present

DEPARTMENT OF THE NAVY

SECRETARY OF THE NAVY

Paul H Nitze	Nov 1963	June 1967
Robert H B Baldwin (acting)	July 1967	Aug 1967

APPENDIX IV

Tenure of office
From To

DEPARTMENT OF THE NAVY (continued)

Charles F Baird (acting)	Aug 1967	Sept 1967
Paul R Ignatius	Sept 1967	Jan 1969
John H Chafee	Jan 1969	May 1972
John W Warner	May 1972	Present

ASSISTANT SECRETARY OF THE NAVY
(INSTALLATIONS AND LOGISTICS)

Kenneth E BeLieu	Feb 1961	Feb 1965
Graeme C Bannerman	Feb 1965	Feb 1968
Vacant	Feb 1968	Apr 1968
Barry J Shillito	Apr 1968	Jan 1969
Frank Sanders	Feb. 1969	Jan 1971
Charles L Ill	Feb 1971	May 1973
Hugh Witt (acting)	May 1973	June 1973
Jack L Bowers	June 1973	Present

DIRECTOR, DEFENSE SUPPLY AGENCY

Lt Gen A T McNamara	Sept. 1961	June 1964
Vice Admiral Joseph M Lyle	July 1964	June 1967
Lt Gen Early C Hedlund	July 1967	July 1971
Lt Gen Wallace H Robinson, Jr	Aug 1971	Present

Copies of this report are available at a cost of \$1 from the U S General Accounting Office, Room 6417, 441 G Street, N W , Washington, D C 20548 Orders should be accompanied by a check or money order Please do not send cash

When ordering a GAO report please use the B-Number, Date and Title, if available, to expedite filling your order

Copies of GAO reports are provided without charge to Members of Congress, congressional committee staff members, Government officials, news media, college libraries, faculty members and students

AN EQUAL OPPORTUNITY EMPLOYER

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

**OFFICIAL BUSINESS
PENALTY FOR PRIVATE USE \$300**

**POSTAGE AND FEES PAID
U. S. GENERAL ACCOUNTING OFFICE**



**SPECIAL FOURTH-CLASS RATE
BOOK**