



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

21339

March 24, 1982

GENERAL GOVERNMENT  
DIVISION

Mr. Joseph T. Davis  
Associate Commissioner  
(Policy and Management)  
Internal Revenue Service

Dear Mr. Davis:

Subject: Excessive Specifications Are Limiting  
Competition for IRS Special Design Tax  
Return Folders (GGD-82-61)

This report, originating from our review of restrictive conditions and specifications in solicitations and contracts, concerns the Internal Revenue Service's (IRS's) formally advertised, fixed-price contracts numbered TIR 81-63, -64, and -65. These contracts total \$440,480.61 for the procurement of 6,338,000 Special Design Tax Return Folders. However, IRS is achieving only limited competition for the procurement of these folders because of certain contract specifications. Our evaluation of IRS's actual needs indicate these contract specifications may be excessive.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of this review was to identify restrictive specifications and conditions in large, recurring procurements. We reviewed the IRS tax return folder contracts for 1981 and 1982. Our work was primarily done at the IRS headquarters located in Washington, D.C. We discussed the contracts with IRS program and procurement personnel familiar with the folder procurements. In addition, we also interviewed other Government personnel involved with similar acquisitions, file folder manufacturers, and a trade association representative for paper manufacturers. This review was performed in accordance with the principles outlined in the current "Standards For Audits of Governmental Organizations, Programs, Activities, and Functions."

IRS IS ACHIEVING LIMITED COMPETITION

IRS's solicitation and resulting contracts for tax return folders contain specifications which limit the number of bidders on this procurement.

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To meet each IRS Regional Service Center's estimated folder needs, IRS's Office of Procurement awards multiple contracts on the basis of the lowest cost for each delivery zone. File folder manufacturers, who bid on supplying the necessary folders to IRS, buy the paper required to produce these folders from paper mills.

Very few companies have been bidding on and receiving contracts for IRS folder procurements. The folder solicitation has been sent to about 30 companies each of the last 2 years. However, IRS received only three responsive bids for the 1982 procurement and only four responsive bids for the 1981 procurement. For 1982, three contracts were awarded to American Fibre-Velope Manufacturing Company, Superior Paper Box Company and Red Rope Industries. These are the same three companies which were awarded contracts for IRS's 1981 folder procurement.

#### IRS Folder Specifications May Exceed Its Minimum Needs

IRS buys significant amounts of paper folders annually to hold individual and business tax returns. The folder specifications, requiring manufacturers to use 14 point kraft paper with a minimum tear resistance of 920 grams and folding of the gussets inward, are more than necessary to fulfill IRS's needs. (The gussets are the creases along the edges of a folder that allow its expansion.)

General Services Administration (GSA) specifications for "standard duty" folders are 11 point kraft paper with a tear resistance of 620 grams and for "heavy duty" folders it is 18 point kraft paper with a tear resistance of 880 grams. GSA specifications conform to the standards developed by the Joint Committee on Printing (JCP), a congressional oversight committee established to develop and implement, among other things, paper quality specification standards. The paper industry works on a continuous basis with the JCP to establish specifications in such a way so as to maximize competition on Federal paper procurements.

IRS's paper weight requirement is between the GSA specifications for "standard duty" and "heavy duty" folders; however, the requirement for tear resistance is much higher than both. Production of folder paper with IRS's specifications requires a special production run and the high tear resistance requirement deters most companies from bidding.

IRS believes that the current folder specifications are satisfying its needs. Program officials stated that the 14 point paper is necessary to ensure folder longevity during the tax filing season and subsequent storage. They stated they had tried an 11 point manila paper several years ago with unsatisfactory results. They added that 11 point kraft paper, however, has not been tried. IRS officials also believe that a folder with an

inward gusset is necessary because an inward gusset pops open naturally when removed from the shipping carton. This facilitates document insertion because the folder has a tendency to remain open. These officials agreed that the need for an inward folding gusset was certainly an issue worth reevaluating along with determining if 11 point kraft paper could be used for the tax return folders.

Government personnel familiar with paper and related product acquisition, file folder manufacturers, and the paper manufacturers trade association representative with whom we spoke believe that IRS's current folder specifications are excessive. They stated that the unique paper required and gusset design are precluding some manufacturers from bidding.

Government and industry officials stated that the unique paper requirement contained in the folder specifications is unnecessary. The paper weight specification is unusual and requires paper mills to make special production runs. Several folder manufacturers stated it is not always possible to get a special paper run in time to meet the contract delivery date requirements. They believe that standard 11 point kraft paper could be used as effectively and would eliminate the need for special production runs, thus reducing costs and enabling them to meet delivery requirements.

All three of the current suppliers of these folders agreed that standard 11 point kraft paper could be used. One of these suppliers is also the company IRS relied on to develop the current specifications which are about 9 years old.

These officials also believe the current gusset design is unnecessary and costly. The specifications call for a folder with the gusset folded inward. Some manufacturers stated this specification precluded them from bidding because they use equipment which produces folders with gussets that fold outward. Several manufacturers also stated that a folder with an outward gusset would cost less.

#### CONCLUSIONS AND RECOMMENDATIONS

IRS Special Design Tax Return Folder contracts contain specifications which were developed 9 years ago, are costly, and may exceed IRS's minimum needs. This view is shared by cognizant Government officials, file folder manufacturers and a representative of a paper manufacturers trade association. The unique, more costly paper and gusset design requirements have precluded some manufacturers from bidding on this solicitation, thus denying IRS the benefits of maximum competition.

To obtain tax return folders which will have the least possible cost, we recommend that IRS:

- Evaluate its tax return folder specifications with a view toward using the less costly, standard 11 point kraft paper, which conforms to GSA and the JCP guidelines. Using this paper will increase the number of bidders and enhance competition.
- On a test basis, buy tax return folders with an outward folding gusset and subject these to actual work conditions to determine usability.

AGENCY COMMENTS

In commenting on a draft of this report, IRS stated that it is conducting a survey of its regions and the National Archives and Records Service to determine the feasibility of changing the folder specifications. IRS expects to make a decision on our recommendations by mid-May 1982.

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Please convey my thanks to the officials within the offices of the Internal Revenue Service, who have been most cooperative in providing information on this matter. We would appreciate being informed of further actions taken in response to our recommendations.

Sincerely yours,



Jack Wild  
Group Director