The Honorable Cora P. Beebe  
Assistant Secretary for Administration  
Department of the Treasury

Dear Ms. Beebe:

Subject: Improvements In Small Purchasing Activities Can Save Money, Increase Competition, and Achieve Required Goals (GAO/GGD-82-44)

We have reviewed small purchasing operations at the New York and Los Angeles offices of the Internal Revenue Service (IRS) and the Customs Service. At all four locations our sample transactions showed (1) many purchases were made without competition, (2) purchases often were directed from program offices rather than controlled by procurement officials, (3) various set-aside and "sheltered" procurement programs were not implemented, and (4) many transactions were for less than $500 but were paid using costly purchase order procedures. These low cost transactions are now payable by cash under the newly raised imprest fund level. We estimate that by increasing competition, implementing required procurement preference programs, and using more cash payments, Treasury will save over $2 million in its small purchasing activities.

Most Federal procurement actions fall into the small purchase category (less than $10,000). In fiscal year 1981 the Federal Government recorded about 18.1 million procurement transactions totaling about $134 billion. Small purchases accounted for 97 percent of these transactions (17.6 million) and 8 percent of expenditures ($11.1 billion). Comparable fiscal year 1981 totals were recorded at Treasury, with small purchases accounting for about 104,000 transactions and $87 million (99 and 25 percent, respectively, of Treasury procurement totals).

Federal procurement regulations are based on over 4,000 separate legal provisions and total over 64,000 pages. Annually, over 21,000 pages are either replaced or modified. This makes it difficult to keep up with "proper" procurement procedures. The introduction of various socioeconomic objectives (such as preferences for small and minority businesses) into the procurement process also serves to further complicate its administration.
In addition to the governmentwide procedures and requirements, Treasury, IRS, and Customs have added their own unique procedures, controls, and paperwork. Recognizing the need to process the many small purchase transactions with some reasonable speed, these regulations all provide "simplified" procedures for these low value purchases. These simplified procedures are designed to decrease the administrative and paperwork burdens, lower costs, speed transactions, make them more responsive to requestor needs, and increase small business participation. However, at the IRS and Customs offices we reviewed these goals are not being met.

SCOPE AND METHODOLOGY

This assignment was done in accordance with GAO's "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions." To analyze small purchase operations, we reviewed Federal, Treasury, IRS, and Customs procurement regulations and numerous studies, reports, and recommendations on small purchasing from the Commissions on Federal Paperwork and Government Procurement. We also interviewed procurement and financial officials at Treasury, IRS, Customs, the Office of Federal Procurement Policy (OFPP), the General Services Administration, and the private sector.

We reviewed two random samples of transactions from the New York and Los Angeles offices of IRS and Customs (two Customs and an IRS regional office and IRS's district office in Los Angeles). These two samples were composed of 120 transactions from fiscal year 1980 (less than $10,000) and 163 transactions from fiscal year 1981 ($500 to $10,000). These samples gave us the basis for determining whether any fundamental problems were present in small purchasing activities at these locations.

As we did not sample all of IRS or Customs' small purchasing activities, our findings are not statistically projectable to these services' total operations. However, because our findings were consistent at all sampled locations and indicated some fundamental problems, we believe they warrant your attention.

OPPORTUNITIES TO BENEFIT FROM INCREASED COMPETITION ARE BEING LOST

Federal procurement regulations specify the use of competition as a preferred method to purchase goods and services. When opportunities to use competition are overlooked, additional costs of up to 25 percent may be incurred. At both IRS and Customs, noncompetitive procurements were numerous, even where regulations clearly required them to be competitive.
Requestor pressure reduces competition

For those transactions in our sample where competition was the preferred method (transactions for more than $500), 75 percent were not awarded competitively. For half of these, no reason was given for awarding them noncompetitively. Even where reasons—such as only one source available—were given, they were not always appropriate. For example, we found two sole-source procurements for two brands of dog food having a specific chemical composition that were each justified by an "only source" statement. Competition should have been obtained on these procurements, since both had the same required composition. We also found another procurement for selecting a service station to provide minor auto repairs, justified as the only nearby source. However, the same repairs were available at many other nearby establishments. Therefore, this procurement also should have been competed.

The influence of the requesting program office on the resulting procurement was common throughout these noncompetitive actions. For example, the requestor specified a brand name item in 35 percent of the sampled cases, and, in all but one procurement, the exact item requested was received. Also, in 65 percent of the requests, a specific source of supply was suggested, and, again, in all but one case, this requested source was used. Procurement officials at both IRS and Customs agreed that this requestor pressure was a major factor in limiting competition. However, these officials also felt that the requesting offices' technical expertise was greater than that of the procurement personnel and thus made such directed purchases reasonable.

Slow payment also reduces competition

IRS and Customs are slow in paying for small purchases. In our sample of invoices for less than $500, more than 50 percent were not paid within 30 days and 16 percent within 60 days. Similarly, for invoices between $500 and $10,000—substantial cash outlays for small businesses—49 percent were not paid within 30 days and 23 percent within 60 days. These delays in paying for supplies and services discourage many businesses—especially small ones—from doing business with IRS and Customs. This further reduces the competition received on or available for future awards. Increased use of cash payments made possible by the recently raised imprest fund level should resolve this problem.

FAILURE TO MAKE SET ASIDES

The Small Business Act was amended in 1978 to provide for the set aside of certain small purchases to small businesses. There are also other laws and corresponding Treasury regulations which provide preferred treatment for awarding contracts to minority or women owned businesses and for businesses located in high unemployment (labor surplus) areas. These programs were
established to insure that a fair share of procurements are placed with small businesses owned or controlled by the socially or economically disadvantaged. The following table shows the awards made for our sample transactions.

<table>
<thead>
<tr>
<th>Business type</th>
<th>Percentage of awards</th>
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<tbody>
<tr>
<td></td>
<td>FY 1980</td>
</tr>
<tr>
<td>Small</td>
<td>55.0</td>
</tr>
<tr>
<td>Minority owned</td>
<td>1.7</td>
</tr>
</tbody>
</table>

Procurement officials at all four sampled locations said that any awards to small businesses were simply a matter of chance because nothing was being done to insure small business set aside. Likewise, these offices do not have programs which provide preferences for awards to minority or women owned and labor surplus area businesses. In our sample we found no awards to women owned businesses and no records on labor surplus area awards.

RAISING CASH PAYMENT LEVEL WILL SAVE OVER $2 MILLION

Under its own Fiscal Service regulations Treasury was limiting its Bureaus' use of cash transactions through imprest funds to $150, or $300 on an emergency basis. In our fiscal year 1980 sample, 75 percent of the purchase orders processed were for $500 or less. Thus, raising the imprest fund to $500 could allow more cash purchases to be made, thereby reducing administrative costs on most bills ranging from $150 to $500.

During our review we discussed with Treasury officials the feasibility of raising the imprest fund to this level. The Director, Office of Procurement, later requested such a raise for all Treasury Bureaus. This request was approved, and in October 1981 all Bureaus were authorized to use the $500 imprest fund level. We estimate that over $2 million will be saved in fiscal year 1982 administrative costs, as the many transactions previously required to be processed on purchase orders are paid with cash.

PROPOSED NEW FEDERAL PROCUREMENT SYSTEM CAN REDUCE SMALL PURCHASING COSTS

Many small purchasing problems identified at IRS and Customs involved regulatory requirements. We discussed these problems with OFPP staff. These problems are addressed by OFPP's proposed
new Uniform Federal Procurement System in a subsystem for simplifying small purchase procedures.

OFPP is proposing many changes in current procurement law and procedures which will affect small purchase operations. The proposed changes with the greatest effect on the problems we identified are as follows:

--Removing many socioeconomic requirements and resulting additional paperwork from small purchase procedures.

--Raising the dollar value on transaction levels for small purchases and cash payments.

--Developing and implementing procedures for speeding up payments to suppliers.

--Allowing bank check or money order payments for imprest fund transactions.

CONCLUSIONS

The IRS and Customs offices we reviewed are losing opportunities to significantly reduce costs and improve private sector relationships because they restrict competition for goods and services without adequate justification, take too long to pay for what they buy, and use expensive purchase order procedures to pay for low value transactions. In all instances actions can be taken to correct these conditions.

These IRS and Customs offices also do not have programs which provide set asides for small businesses and preferences for minority and women owned businesses. Since no records exist, we were unable to determine if awards were being directed to labor surplus area businesses. The failure to provide procurement preferences is caused by the absence of any active programs in these offices. All awards in these areas are by chance alone.

RECOMMENDATIONS

To obtain the savings from increased competition and use of less expensive cash payment procedures, and to increase participation by small and disadvantaged businesses, we recommend that the Assistant Secretary for Administration direct IRS and Customs to:

--Increase supervisory reviews on any proposed non-competitive purchasing to insure it is justified.

--Maximize the use of cash transactions under the new, higher imprest fund level, including the use of cash-on-delivery or other procedures which are less expensive and
quicker than using purchase orders. Another alternative, proposed by OFPP, would be to establish the procedures and controls necessary to allow bank check or money order payments on bills for less than $500.

---Implement procurement preference programs for small, minority or women owned, and labor surplus area businesses.

Procurement officials from Treasury, IRS, and Customs have reviewed a draft of this report. Their comments have been incorporated in this final report.

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Please convey my thanks to Treasury, IRS, and Customs officials for their cooperation and assistance during this assignment. We would appreciate being informed of actions taken in response to our recommendations.

If you wish to discuss these matters further, please call me or Roy Karadbil on 245-5397.

Sincerely yours,

Jack Wild
Group Director