



UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

088948

CIVIL DIVISION

GAO 00451



JAN 6 1971

Dear Mr. Washington;

The General Accounting Office has made a review of small open market purchases made by the District of Columbia Government. We reviewed the District-wide policies and procedures that are to be used for such purchases and tested the extent to which such policies and procedures were being followed by examining selected procurement transactions.

In 1953 a procurement office--now designated the Bureau of Procurement, Department of General Services--was established for the expressed purpose of obtaining the maximum advantages of centralized purchasing. However, to accelerate major procurement and to minimize the volume of minor procurement transactions in the Bureau, the heads of all District departments and offices (agencies) are authorized to make purchases directly from vendors for supplies and services within certain limitations. These officials may delegate this authority to other officials within their respective agencies. Information provided by the Bureau of Procurement in September 1970, showed that there were 61 agencies in the District and that the authority was delegated to over 300 District employees.

Bureau of Procurement statistics show that small open market purchases increased from \$2.1 million in fiscal year 1965 to \$5.6 million in fiscal year 1969. The statistics show that during fiscal year 1968, District agencies issued 38,675 purchase orders, totaling about \$4.6 million, under the authority to purchase supplies and services on the open market. For our review, we examined about 5,300 of the fiscal year 1968 purchase orders totaling \$555,000. These purchase orders were classified by the District in commodity groups 53 - hardware and abrasives; 75 - office supplies and devices; 79 - cleaning equipment and supplies; and 80 - brushes, paints, sealers, and adhesives.

Our review showed that District agencies do not always adhere to the established policies and procedures for small open market purchases as discussed below.

914306
088948

OPEN MARKET PURCHASES OF ITEMS
AVAILABLE THROUGH FEDERAL OR
DISTRICT SUPPLY SOURCES

The D.C. Procurement Manual states that all items that are available through established Federal or District supply sources must be purchased from those sources except (1) when the required delivery time cannot be met by those sources, or (2) when the amount of the purchase is not sufficient to justify placing the order with such sources, or (3) when the available item will not effectively meet the need. In all such cases, however, the agencies are required to obtain a waiver from the District's procurement officer before purchasing the item from an open market source.

In our review of the 5,300 purchase orders we found that, generally, the information recorded by the agencies was not sufficient to fully identify the items purchased. For example, items were described as (1) office supplies, (2) maintenance items, and (3) miscellaneous hardware supplies. However, in instances in which the items were fully identified, we compared selected items purchased on the open market with those available from Federal or District sources such as GSA stock catalogs and D.C. term contracts.

We identified 45 line items that had been purchased on the open market at a cost of about \$22,185 that were identical or similar to items available from Federal or District supply sources at a cost of \$10,105, or at an increased cost of 119.6 percent. For example, one agency purchased 300 dozen ball point pens on the open market at \$1.44 a dozen, or a total cost of \$432. The GSA stock catalog listed ball point pens at 57 cents a dozen, or a total cost of \$171. Had the agency purchased the ball point pens through the General Services Administration, it would have saved \$261.

We found no evidence that the agencies had obtained required waivers from the procurement officer for any of the above items. We queried persons responsible for procurement activities in several District agencies as to the reasons certain items were purchased on the open market. They gave various reasons such as (1) items available from GSA were inferior in quality, (2) needed items sooner than they could be obtained from contract source, and (3) items available from established sources did not meet their requirements. Since required waivers were not prepared, we could not fully evaluate the reasons given.

PURCHASES EXCEEDED DOLLAR LIMITATIONS

Under the small purchase procedure the agencies' authority to purchase on the open market is limited to \$500 (\$1,000 for repair parts) in any one day from any one vendor. We found 21 instances where the agencies made open market purchases which exceeded the dollar limitations. The amounts of these purchase orders ranged from \$508 to \$3,992 and totaled \$23,255.

In addition, we found 14 instances where purchases from a single vendor were split apparently in order to stay under the applicable dollar limitation. These purchases resulted in the issuance of 33 purchase orders totaling \$17,171. For example, one agency within a three day period, issued five purchase orders ranging from \$183 to \$492 to the same vendor for like items.

POSSIBLE SAVINGS AVAILABLE THROUGH INCREASED CENTRALIZED PROCUREMENT

The Bureau of Procurement estimates that the cost of items purchased on the open market in small quantities is generally from 20 to 60 percent higher than when the same items are purchased centrally through bulk procurement contracts. The D.C. Procurement Manual states that the small purchase procedures will not be used when (1) the total annual usage of the items involved would justify their inclusion in a planned procurement and (2) when the total annual requirements of an agency for the item to be purchased, either by itself or in combination with other items available from the same sources of supply, are more than \$2,500.

We found that of the \$555,000 of small open market purchases reviewed, items costing \$143,000, or about 26 percent, were purchased from 18 vendors. The extent to which these purchases might have been consolidated could only have been determined through a detailed analysis of the items purchased. While we did not make such an analysis, we believe that the large amount purchased from only 18 vendors indicates a potential for consolidated procurement, thereby resulting in savings to the District.

The District's procurement officer informed us that substantial improvements have been made in this area in recent years. He agreed with us, however, that there is room for further improvements.

- - - -

Certain actions have been taken by the District to improve its supply management system, of which small open market purchases is an integral part. In June 1969, a contract was awarded to the National Institute of Governmental Purchasing, Inc., to study, among other things, the feasibility and desirability of establishing a centralized supply management system within the District. Also, in July 1970, a contract was awarded to Booz, Allen, and Hamilton, Inc., to develop an inventory control system for the Department of Sanitary Engineering which may be used as a model system for other District agencies.

As a result of the recommendations from these groups, we were informed that the District plans to move toward an optimal District-wide inventory control system. The initial steps planned for implementing such a system include: (1) developing an effective manual inventory control system in each agency, augmented by computer programs to provide management reports and to continuously update reorder points and quantities; (2) developing a District-wide cataloging system which would increase unification of purchasing; and (3) developing centralized control of purchasing and supply for certain supply categories.

Since a District-wide inventory control system, if properly implemented, should greatly reduce the need for small open market purchases, we are making no recommendations concerning changing the procedures that have been established for control of such purchases. We were informed, however, that the District was several years away from full implementation of this system. Meanwhile, we recommend that you make the findings in this report available to all agency heads and request that they take the action necessary to assure compliance with District-wide procedures dealing with small open market purchases.

We believe that the large number of officials involved in making open market purchases increases the possibility of not following District-wide procedures in making such purchases. Accordingly, we suggest that you have each agency review the number of officials to whom authority for making small open market purchases has been delegated with a view to reducing this number.

We wish to express our appreciation for the cooperation which District personnel gave to our representatives during the review. We shall appreciate being advised of the future actions taken on our recommendations and other action taken to improve the supply system.

Copies of this report are being sent to the Director, Department of General Services, and to the Associate Director, Office of Municipal Audits.

Sincerely yours,

Willard L. Russ
Willard L. Russ
Assistant Director

The Honorable Walter E. Washington
Commissioner of the District of
Columbia

CNG 00052