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AUG 23 1973

RELEASED

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The Honorable James C. Corman
Chairman, Subcommittee on Government Procurement
Select Committee on Small Business
House of Representatives

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Dear Mr. Corman:

Your letter of November 1, 1972, requested that we implement the recommendations on pages 83 and 84 of House Report No. 92-1609, "The Position and Problems of Small Business in Government Procurement." Your Subcommittee recommended that we analyze the reporting methods, internal practices, and controls of the Department of Defense (DOD) and the military departments regarding (1) small business low bids for contract awards of \$10,000 or more which are not accepted for miscellaneous reasons and (2) contract awards of under \$10,000 made to large businesses instead of small businesses for reasons unknown. We were also requested to recommend changes in the current DOD reporting methods that would readily disclose and identify why small business bids were not accepted under each of these reasons and to develop other statistical data, information, and methods to better manage and improve DOD's small business procurement program.

We directed our review to DOD data on fiscal year 1972 procurements of 12 DOD procurement centers in the United States. (See enc. I.) We discussed with the Subcommittee staff our preliminary findings and conclusions.

For contract awards over \$10,000, procurement offices were incorrectly reporting awards not made to small business for miscellaneous reasons. For awards under \$10,000, DOD incorrectly assumed in its statistical reports that all awards to large business were offered to small business.

We have concluded that DOD can provide more accurate and complete data on awards not made to small business. In addition, we have identified several other changes which vary in cost that DOD could make in its reporting systems.

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DEPARTMENT OF DEFENSE SYSTEM FOR
COLLECTING PROCUREMENT DATA

DOD collects and consolidates information on its procurement actions through two types of reports submitted by procurement centers. These are:

- DD form 350, Individual Procurement Action Report and
- DD form 1057, Monthly Procurement Summary of Actions under \$10,000 by Purchasing Office.

With certain exceptions, procurement centers are to prepare the form 350 for each procurement of \$10,000 or more and a form 1057 to summarize on a monthly basis all procurements under \$10,000 each. Procurements reported on a form 350 include data on the contract and contractor and some data on the extent to which small business was solicited and competed for the awards. Procurements reported on a form 1057, however, do not identify the contracts and contractors involved and do not supply any information on the extent that small business was solicited and competed for the awards made to large business.

The form 350s are the source of the data DOD compiles on awards not made to small business for miscellaneous reasons. Similarly, the form 1057s are the source of the data compiled on awards under \$10,000 not made to small business for reasons unknown.

For fiscal year 1972, DOD reported the following: (note a)

	<u>Amount</u>
	(millions)
Awards over \$10,000:	
Large business	\$26,254
Small business	<u>4,500</u>
	<u>30,754</u>
Awards under \$10,000:	
Large business	1,665
Small business	<u>1,628</u>
	<u>3,293</u>
Total	<u>\$34,047</u>

^a Complete statistics on the number of actions were not available.

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DOD reported that small business did not get the awards for amounts over \$10,000 awarded to large business for the following reasons.

	<u>Amount</u>
	(millions)
Small business not solicited	\$21,214
Small business solicited but did not bid	2,173
Small business did not bid low	2,215
Miscellaneous	<u>652</u>
Total	<u>\$26,254</u>

REPORTS OF SMALL BUSINESS BIDS
NOT ACCEPTED FOR MISCELLANEOUS REASONS

For fiscal year 1972, DOD procurement offices reported that 3,780 procurement actions of \$10,000 or more totaling \$652 million were not awarded to small business for miscellaneous reasons. We analyzed the data on 2,194 actions totaling \$399 million and found 1,992 actions totaling \$340 million--85 percent of the dollars examined--had been incorrectly reported and 202 valued at \$58 million had been correctly reported. Only 21 actions correctly reported and valued at \$2 million were awarded to large business where small business submitted a low bid.

Incorrect reporting of procurement
actions on the form 350

The 1,992 actions valued at \$340 million were incorrectly reported under the code "not awarded to small business for miscellaneous reasons." In most instances the actions should have been listed as awards made to large business because small business (1) was not solicited, (2) was solicited but did not bid, (3) did not bid low, or (4) did not offer sufficient quantities but received an award for the portion offered.

The error rate of 7 of the 12 procurement offices visited ranged from 2 to 100 percent. All the reports at two of the procurement offices might more properly have been coded under the categories "small business was not solicited" or "small business did not bid." At one of these offices, procurement

officials were aware of the undesirability of reporting large dollar amounts of procurements under "miscellaneous reasons" but believed that none of the other categories adequately described the circumstances involved in the awards. They stated that the "miscellaneous reasons" category would no longer be used in reporting these procurements.

We found no evidence of any ongoing programs at the procurement offices to review the accuracy of the information recorded on form 350s.

Why small business did not get
the awards correctly
reported as miscellaneous reasons

Small business did not get the awards for the 202 actions correctly reported and valued at \$58 million for the following reasons.

	<u>Number</u>	<u>Amount</u> (millions)
Not awarded on price alone:		
Small business technical proposal unacceptable or not the best technical offer	174	\$34.58
Small business received similar award	<u>a 7</u>	<u>21.56</u>
Total	<u>181</u>	<u>56.14</u>
Awards based on price (small business had low bid):		
Small business bid nonresponsive	16	1.66
Small business not responsible bidder	<u>5</u>	<u>.65</u>
Total	<u>21</u>	<u>2.31</u>
	<u>202</u>	<u>\$58.45</u>

^aIn each of these instances, both a large business and a small business were funded for separate research and development efforts on the same project.

Two of the above categories, nonresponsive bid and nonresponsible bidder, were included in the DOD procurement reporting system before 1965. There is no apparent technical or economical reason why they could not be reincorporated into the reporting system or why other new categories could not also be added.

Conclusions

To minimize incorrect reporting of procurement data and to provide a means for obtaining more detailed data, DOD should

- stress to procurement centers the importance of correctly reporting procurement actions and implement a system of test checks to detect and correct erroneous reporting; and
- reincorporate into the reporting system the categories, nonresponsive bid and nonresponsible bidder, and add a new category to report instances in which the small business bid was rejected for technical reasons.

DOD officials agreed to establish a program to correct and prevent erroneous reporting of procurement data. They were not prepared to say in what manner they would do this.

They did not agree that additional categories are needed to explain the reason the small business bid was not accepted, but they stated that additional categories could be added without significantly increasing the cost of reporting procurement statistics. One DOD official suggested that, considering the preponderant number of awards not going to small business because of unacceptable technical proposals, the category "miscellaneous reasons" might more aptly be changed to "small business technical proposal not acceptable and other miscellaneous reasons."

DOD's suggestion to rename this category would not provide the complete information needed to correct the cause of small business' not receiving an award.

AWARDS UNDER \$10,000 NOT MADE TO SMALL BUSINESS FOR REASONS UNKNOWN

For fiscal year 1972 the procurement data DOD compiled shows that 2.7 million procurement awards under \$10,000 each totaling \$1.665 billion were made to large business. These actions appear in DOD reports to the Subcommittee as awards made to large business instead of small business for "reasons

unknown" and are included in awards that were "offered to small business." For fiscal year 1972, this \$1.665 billion represented about 13 percent of the total \$12.833 billion reported as "offered to small business."

DOD cannot state why small business did not receive the awards under \$10,000 that went to large business because the present reporting system does not require this information.

We reviewed 523 actions valued at \$1.07 million and found that 368 actions valued at \$595 thousand--56 percent of the dollars examined--were not offered to small business. The remaining 155 actions valued at \$478 thousand were offered but were not awarded to small business because small business did not bid (\$185,000), small business did not bid low (\$260,000), and unknown reasons (\$32,000).

Some of the reasons procurement officials gave for not offering procurements to small business were (1) large business was the sole source of supply, (2) emergency procurement, and (3) procedures do not require that competition be obtained for purchases under \$250.

Our finding that 56 percent of the dollar value of actions under \$10,000 were not offered to small business is further supported by limited studies by the individual services made in 1972 which show:

	<u>Activities surveyed</u>	<u>Value examined</u>	<u>Value not offered small business</u>	<u>Percent</u>
		(millions)		
Army	2	\$26.8	\$24.3	90
Navy	11	6.4	4.2	66
Air Force	1	<u>5.7</u>	<u>5.0</u>	88
		<u>\$38.9</u>	<u>\$33.5</u>	86

Although these findings cannot be projected since a scientific sample was not made, it seems reasonable that a large number of procurement actions under \$10,000 were not offered to small business. Consequently, DOD is not justified in assuming that all awards under \$10,000 to large business were offered to small business.

Conclusions

Since the data compiled in DOD's reporting system does not verify that all awards under \$10,000 to large business were offered to small business, that category should not be included in reports to the Subcommittee of procurements that were "offered to small business" unless full disclosure is made of the inclusion and its effect is analyzed.

DOD officials stated that, beginning with fiscal year 1971 data, they had deleted the phrase "assumed to have been offered to small business" in the data furnished to the Subcommittee of awards under \$10,000 made to large business but had overlooked the fact that the amount remained in the total of awards "offered to small business." They agreed to removing the amount from future reports of awards "offered to small business."

OTHER USEFUL STATISTICAL DATA

We have developed a list of additional statistical data which may be useful to the Subcommittee in overseeing small business participation in Government procurement. Accumulating this data will require changes in reporting, some of which may be costly while others may not. These changes and their usefulness are discussed below.

Reporting awards not made to small business by broad commodity program

The form 350s for actions over \$10,000 include data on awards by broad commodity program not made to small business. The information is available to DOD and will not require any significant additional cost for reporting. Data is available which shows the total actions and dollar value of awards to large business where small business was not solicited. Furnishing this data would be a good start toward identifying small business potential for award by industrial areas.

DOD officials and officials of the various military services informed us that they would be willing to furnish this data.

Reporting reasons small business was not solicited

The form 350 system uses alphabetic codes for reporting seven broad categories to describe the extent to which small

business was solicited and competed for the award. By adding the remaining alphabetic codes not used, DOD could report the specific reasons why small business was not solicited. For example, DOD could add a category showing "no known small business source." In fact, DOD had such codes in the reporting system before 1965. We see no economic or technical reason why these codes cannot be reinstated or new codes developed.

Defense officials advised us that they stopped reporting specific reasons why small business was not solicited because they believed the information was of little or no value, but they agreed that such reporting would be technically feasible and could be done at nominal cost.

Revising the reporting
system for actions under \$10,000

The procurement offices record each procurement action under \$10,000 on a ledger sheet. At the end of each month, these actions are summarized, totaled, and reported to DOD. As a result, information is not accumulated by individual actions. The additional data needed to provide better visibility on awards to large business instead of small business will involve added cost for reporting. Although we could not determine the amount of the added costs for each suggested change, we are presenting them below, starting with changes that we believe to be the least costly.

1. All procurement actions under \$10,000 for the same product or service ordered under the same contract could be consolidated monthly into one form 350 where more than \$10,000 is expected in monthly orders. For example, at one procurement office, 18 orders under \$10,000--totaling about \$70,000--against the same contract were made during 1 month. We believe this change in reporting will provide significant additional procurement information available under the form 350 system.

2. The format of the form 1057s could be revised to correct DOD's assumption that all procurement actions under \$10,000 awarded to large business have been offered to small business. Formal advertised procurements could be considered as offered to small business. We suggest, however, that the form 1057s show whether negotiated actions awarded to large business have been offered to small business and, if not, why. The form should also show why small business did not receive an award when small business was solicited. The reasons small business was not solicited or small business did not receive an award could be similar to those developed for use in the form 350 system.

Regardless of whether changes to the form 1057 are made, DOD prepares an annual summary of all procurement actions under \$10,000 which shows the awards under \$10,000 to large and small business. (See enc. II.) DOD agreed to furnish this summary to the Subcommittee.

3. All DOD procurement actions over \$2,500 could be reported on the form 350 reporting system. Based on fiscal year 1972 data, this would add about 4 million actions valued at \$2.4 billion to the form 350 system which are under the form 1057 system. This would add a significant cost to DOD's reporting system but would provide more complete visibility on the small business procurement participation programs.

Defense officials were opposed to the foregoing possibilities because they would increase the costs of reporting procurements to an unacceptable degree and would not produce sufficient additional information to warrant their adoption.

One DOD official stated that DOD was also concerned with the lack of visibility in procurements under \$10,000 and suggested that DOD, instead of more detailed reporting, might use statistical sampling about every 2 years to obtain the information desired by the Subcommittee and DOD.

Statistical sampling is an economical way of obtaining information from a large number of actions. But, to assure the Subcommittee of its accuracy, DOD would need to resolve several potential problems, such as the criteria for selecting the sample transactions, the purchasing offices to be included, and the time covered. Any of these items could, without adequate planning, result in misleading conclusions.

Enclosure III summarizes the possible improvements, the degree of relative additional cost to DOD, and the anticipated benefits.

We trust that the information furnished will be useful. We shall be pleased to meet with you or with members of your staff if you wish to discuss this further. We will not distribute this report further unless you agree or publicly announce its contents.

Sincerely yours,


Comptroller General
of the United States

PROCUREMENT CENTERS WHERE
REVIEWS OF PROCUREMENT
REPORTS WERE MADE

Headquarters, Military District of Washington

Fort Monroe, Virginia

U.S. Army Electronics Command, Fort Monmouth, New Jersey

Ships Systems Command, Navy Department, Washington, D.C.

Andrews Air Force Base, Maryland

Rome Air Development Center, Griffiss Air Force Base, New York

Military Airlift Command, Scott Air Force Base, Illinois

Air Systems Division, Wright-Patterson Air Force Base, Ohio

2750th Air Base Wing, Wright-Patterson Air Force Base

4950th Test Wing, Wright-Patterson Air Force Base

Defense Construction Supply Center, Defense Supply Agency,
Columbus, Ohio

Defense Industrial Supply Center, Defense Supply Agency,
Philadelphia

MONTHLY PROCUREMENT SUMMARY OF ACTIONS UNDER \$10,000 BY PURCHASING OFFICE					REPORT CONTROL SYMBOL		
PURCHASING OFFICE AND MAILING ADDRESS DEPARTMENT OF DEFENSE Fiscal Year 1972					MONTH ENDING		
					REPORTING OFFICE CODE		
SECTION A - ALL PROCUREMENT ACTIONS			SECTION B - NEGOTIATED ACTIONS				
CATEGORY	NUMBER OF ACTIONS	DOLLAR VALUE	NEGOTIATION AUTHORITY 10 U.S.C.	NUMBER OF ACTIONS	DOLLAR VALUE		
1. WITH LARGE BUSINESS FIRMS	TOTAL	2,742,600	\$1,665,134	1. SECTION 2304(a) (1)			
a. ADVERTISED		158,055	106,488	a. LABOR SURPLUS AREA OR INDUSTRY SET-ASIDE	1,684	\$ 2,369	
b. NEGOTIATED		2,584,545	1,558,646	b. SMALL BUSINESS SET-ASIDE (Unitary)	416,682	157,788	
2. WITH SMALL BUSINESS FIRMS	TOTAL	6,500,141	1,628,099	c. DISASTER AREA SET-ASIDE	255	113	
a. ADVERTISED		639,395	152,913	d. BALANCE OF PAYMENTS PROGRAM	2,227	1,893	
b. NEGOTIATED		5,860,746	1,475,186	2. SECTION 2304(a) (2)	27,230	89,942	
3. WITH EDUCATIONAL AND NON-PROFIT INSTITUTIONS	TOTAL	63,627	33,027	3. SECTION 2304 (a) (3)	6,739,215	1,531,734	
a. ADVERTISED		696	146	4. SECTION 2304 (a) (4)	15,120	15,072	
b. NEGOTIATED		62,931	32,881	5. SECTION 2304 (a) (5)	15,838	13,418	
4. FOR WORK OUTSIDE U.S.	TOTAL	595,298	195,158	6. SECTION 2304 (a) (6)	583,922	182,345	
a. ADVERTISED		2,264	5,316	7. SECTION 2304 (a) (7)	5,087	10,061	
b. NEGOTIATED		593,034	189,842	8. SECTION 2304 (a) (8)	189,364	213,128	
5. INTRA GOVERNMENTAL	TOTAL	717,311	423,577	9. SECTION 2304 (a) (9)	760,260	684,441	
a. GSA FEDERAL SUPPLY SCHEDULES		614,085	356,441	10. SECTION 2304 (a) (10)	241,504	313,744	
b. OTHER		103,226	67,136	11. SECTION 2304 (a) (11)	5,566	14,900	
6. TOTAL (Lines 1 + 2 + 3 + 4 + 5)		10,618,977	3,944,995	12. SECTION 2304 (a) (12)	1,037	4,674	
SECTION C - RESEARCH, DEVELOPMENT, TEST AND EVALUATION ACTIONS				13. SECTION 2304 (a) (13)	595	379	
CATEGORY	NUMBER OF ACTIONS	DOLLAR VALUE		14. SECTION 2304 (a) (14)	386	1,030	
1. LARGE BUSINESS FIRMS	9,264	\$ 9,986		15. SECTION 2304 (a) (15)	86	361	
2. SMALL BUSINESS FIRMS	3,354	10,184		16. SECTION 2304 (a) (16)	676	2,803	
3. EDUCATIONAL AND NON-PROFIT INSTITUTIONS	1,106	1,589		17. SECTION 2304 (a) (17)			
4. TOTAL (Lines 1 + 2 + 3)	33,704	21,755		a. OTHER	19,731	6,592	
SECTION E - RESERVED				18. TOTAL (Lines 1 thru 17)	9,101,256	3,256,555	
CATEGORY	NUMBER OF ACTIONS	DOLLAR VALUE	SECTION D - COMPETITION IN NEGOTIATED ACTIONS				
1.			CATEGORY	NUMBER OF ACTIONS	DOLLAR VALUE		
2.			1. SECTION 2304 (a) (3) PRICE COMPETITION - OVER \$200	1,591,143	\$ 666,773		
3.			2. SECTION 2304 (a) (4) USING SMALL PURCHASE PROCEDURES PRICE COMPETITION - OVER \$200	191,471	52,193		
4.			3. PRICE COMPETITION OTHER THAN 1 + 2	872,428	566,415		
REMARKS			4. OTHER NEGOTIATED	6,446,214	1,971,174		
			5. TOTAL (Lines 1 + 2 + 3 + 4)	9,101,256	3,256,555		
DATE SUBMITTED	TYPED NAME AND SIGNATURE					TEL. EXTEN.	

GAO CONCLUSIONS AND SUGGESTIONS FOR
IMPROVEMENTS IN DOD REPORTING OF SMALL BUSINESS
PARTICIPATION IN GOVERNMENT PROCUREMENT

<u>Conclusions</u>	<u>Report section</u>	<u>Additional cost to DOD</u>	<u>Benefits</u>
Form 350 system:			
Accuracy in reporting needs to be improved	p. 5	Low	Provides accurate reporting of existing data
Specific reasons that small business did not receive award should be expanded	p. 5	Low	Provides information why small business is not receiving awards
Form 1057 system:			
Awards under \$10,000 to large business should not be reported as procurements offered to small business	p. 7	Low	Corrects inaccurate assumptions in DOD's reports
 <u>Additional suggestions for improvements</u> 			
Form 350 system:			
Furnish reasons, by claimant program, that small business did not receive award	p. 7	Low	Provides information on small business participation by industry
Add reporting codes on form 350 showing why small business not solicited	p. 7	Low	Provides visibility on why small business was not solicited
Form 1057 system:			
Consolidate repetitive actions under same contract and report monthly on form 350	p. 8	Low	Provides visibility of many actions under \$10,000
Furnish summarized form 1057	p. 9	Low	Provides a means of analyzing all actions under \$10,000
Revise form 1057 to show why small business not solicited	p. 8	High	Provides information on whether small business solicitation is low and why
Revise form 1057 to show why small business did not receive an award	p. 8	High	Provides added visibility on \$1.6 billion in actions under \$10,000
Report all procurement actions over \$2,500 on the form 350	p. 9	High	Provides added visibility on \$2.4 billion in actions under \$10,000