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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D C 20548

GENERAL GOVERNMENT
DIVISION

September 29, 1976

Mr Sam D Starobin, Director
Department of General Services
District of Columbia Government
Washington, D C 20004

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Dear Mr Starobin:

The General Accounting Office (GAO) has been studying the District's procurement system to determine (1) if benefits would accrue from a more centrally managed procurement system and (2) how effectively and economically goods and services are acquired for city agencies. We are studying the policies, procedures, records, and management controls used by the Department of General Services (DGS) in its purchasing operation, specifically by the Bureau of Materiel Management. Our survey has been limited to studying how goods were procured. We are surveying other departments and intend to issue a report on each department. We also intend to issue a report on the District's procurement system.

During the course of our survey, we identified the following matters which warrant attention. Your comments and those of your staff have been considered in preparing this report.

LONGSTANDING PROBLEMS IN ESTABLISHING
AN EFFECTIVE CITY-WIDE PROCUREMENT
AND SUPPLY PROGRAM

In 1959, GAO recommended that the District centralize responsibility for service functions, including procurement and supply. GAO noted that the procurement and warehousing of common materials and supplies on a decentralized basis was uneconomical and hindered the adoption of uniform policies and procedures.

In 1969, GAO again suggested greater centralization of staff in a single purchasing office to effectively monitor decentralized purchasing activities. Improvement was recognized as being contingent upon development of a District-wide supply management program, including requirements

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planning, cataloging, minimizing product lines (standardization), and inventory control, as well as effective use of term contracts for supplies and services. As we stated in reports issued in February 1976 to major District departments, an effective supply management program has not been established. The absence of such a program continues to be a major obstacle in setting up an effective procurement system.

In 1972, the Nelsen Commission also recommended centralization of the procurement and supply function in DGS. The Commission report stated centralization would result in substantial savings by making possible reductions in departmental personnel, warehouse space, and office space. Further, the Commission stated centralization would make it administratively easier to standardize products, consolidate purchases, assure greater use of Federal supply sources, and ensure greater managerial control over procurement and supply operations.

DGS is responsible for developing and implementing effective contract procedures and assuring that the procedures are followed. DGS officials agreed that centralization would provide an efficient and effective District-wide procurement and supply program. However, DGS officials told us that in reality they have no authority for implementing such a system.

They stated that due to the lack of funding and departmental cooperation, programs to improve purchasing and supply activities never got off the ground. You stated that although many other departments have more than enough procurement and supply personnel, DGS is understaffed. You also said that department program considerations are typically given higher priority than DGS efforts to establish an economical and effective procurement and supply system.

Further, you stated that DGS will lose a significant portion of its present procurement authority. DGS is currently the principal purchasing agent for supplies, equipment and nonprofessional services except for specific delegations of authority made either by law, the Mayor, or DGS for small purchases. However, by law, full contract authority is being given to the public school system and institutions of higher learning. The Mayor delegated full purchase authority (up to \$5 million) to the Department of Human Resources in December 1975. DGS has also delegated small purchase authority to all departments up to \$2,000 for open market purchases and \$7,500 for established supply sources (D.C. term contracts and Federal supply sources).

We intend to issue a separate report later on the city-wide procurement system, in which we will comment on steps we believe should be taken.

to implement the earlier recommendations of GAO and the Nelsen Commission. This letter outlines steps we believe are within your authority and you can take now to improve the city's procurement system.

IMPROVEMENTS IN DEPARTMENT OF
GENERAL SERVICES (DGS) CONTRACTING
POLICIES AND PROCEDURES NEEDED

More reliable quantitative estimates
should result in lower prices

In fiscal year 1976, DGS awarded 519 term contracts for \$31.9 million, designed to obtain lower prices by consolidating departmental requirements for similar items and services. Prices obtained under these contracts are then made available to all city agencies for a stated period of time, usually 1 year.

DGS solicitations for term contracts give a description of the item or service desired and estimates of the volumes to be ordered during the period of the contract by all city agencies. Because bidders are not guaranteed a minimum purchase volume, reliable volume estimates are essential in obtaining the lowest price. Usually there is a direct relationship between unit price and volume.

Detailed historical data (e.g., on what was used) and agency estimates of specific future needs and delivery dates are essential for orderly procurement planning. A management information system could provide historical data on past procurements of an item/service, which could be used to project future buys on term contracts. Key to the establishment of an effective information system is a process for assigning an identification number to all similar or identical products/services (cataloging).

However, the District has neither a uniform catalog numbering system nor a city-wide management information system in operation that could produce data for developing reliable volume estimates for procurement purposes. Each department has its own catalog numbering system. Similar or identical products can be assigned different catalog numbers by different departments. Further, many items are not assigned catalog numbers unless purchased from Federal sources. Because there is no uniform and effective catalog system, DGS is precluded from accumulating a record of past purchases by either item or service needed for bid purposes.

Instead, historical data--used to project estimates for the term contracts--are obtained from either the contractor who has the current contract or city agencies. However, we found that these volume estimates were frequently significantly overstated or understated.

Of a random sample of 15 term contracts, the estimated volumes used for bid purposes on two contracts were from 217 to 1,412 percent below actual purchases made. For example, on a contract for musical instruments, DGS personnel estimated the volume would be about \$25,000 for bid purposes. In fact, over \$350,000 was subsequently spent on instruments during the contract period. It is questionable whether DGS obtained the lowest price on the two contracts, even though they were both competitively awarded. Usually there is a direct relationship between unit price and volume--i.e., the more that is ordered, the lower the unit price vendors are willing to offer.

DGS statistical data showed that for the year ended June 30, 1976, DGS estimates used in solicitations were usually substantially overstated. The estimated total value of all term contracts awarded in fiscal year 1976 was \$31.9 million. Actual purchases made by departments against these contracts totaled about \$19.8 million. Although suppliers may offer their lowest price on the first contract, several vendors told us they would or in fact did raise their unit prices on follow-on contract offers because estimates in District solicitations were so unreliable (overestimated in this case). For example, one vendor offered a 7 percent discount on an initial contract. On a subsequent contract, this same supplier offered no discount because he never realized the sales volume estimated on the first contract.

DGS officials stated that mayoral and departmentally directed supply spending freezes and the submission of unreliable estimates by departments cause quantitative requirements for term contracts to be overstated or understated. They agreed that a management information system, which provides historical data on past procurements, was urgently needed to improve estimates for term contracts.

Limiting the number of comparable items
bid upon should result in lower prices

Standardization is a process to reduce the number of products being bought that perform the same or similar functions. Standardization can result in substantial price savings because the demand for several similar items could be consolidated. Also, savings are possible in reduced inventory, repair and maintenance, and ordering costs.

The District does not have a standardization program. DGS could realize at least one benefit from standardization (lower prices) by limiting the number of comparable or identical items bid upon in term contracts (which are mandatory supply sources for all city agencies). Examples are as follows:

Executive office furniture A term contract was awarded for 18 different brand name lines of office desks, tables and credenzas, 19 lines of office chairs, and 13 lines of bookcases. The District should be able to obtain lower unit prices by consolidating the demand and contracting for one or several lines of furniture instead of 13 to 19.

Auto parts A term contract was awarded for six different brands of oil, air and gas filters and five brands of shock absorbers and spark plugs. The table below shows the wide range of prices for such parts under this multiple-brand term contract to equip a 1975 Ford Torino.

<u>Item description</u>	<u>Unit price</u>	
	<u>High</u>	<u>Low</u>
Oil filters	\$ 2 64	\$1 64
Air filters	3 18	1 84
Gas filters	1.65	96
Standard shock absorbers	9 00	5 50
Heavy duty shock absorbers	13 74	8 95
Regular spark plugs	74	.70
Resistor spark plugs	1 50	82

The District can buy regular and resistor spark plugs for \$0.33 and \$0.36, respectively, from the U S General Services Administration (GSA). A GSA official told us four of the five brands of plugs in the District term contract meet GSA's contract specifications and could be used interchangeably on most automotive vehicles. DGS officials stated that they cannot get immediate delivery from GSA. We suggest that the District consider ordering minimum supplies of spark plugs in advance for stock to meet immediate needs, rather than on an as needed or daily basis, to take advantage of the significant price savings available by buying from GSA.

DGS purchasing agents should be more careful in tabulating bids

District solicitations often ask bidders to state price quotations in terms of percents (discounts or mark-ups) of either retail, wholesale, jobber, dealer, or manufacturer's price lists. If the vendor meets the other terms of the solicitation--such as, product specifications and delivery times--DGS awards the contract to the supplier offering the largest discount.

We found several instances wherein DGS did not award the contract to the lowest bidder. In each instance, DGS personnel failed to compute unit prices (i.e., apply the percent of discount or mark-up offered to the

price list quoted by the vendor) to determine which bidder in fact offered the lowest prices. In the following example, DGS personnel apparently assumed dealer's prices (no discount offered) were lower than jobber's prices with a 20 to 25 percent mark-up. However, if they had computed and compared unit prices as we did, they would have found that this was not the case.

<u>Item</u>	<u>Bidder awarded contract</u>		<u>Lowest bidder</u>		
	<u>Dealer's unit price</u>	<u>Discount offered</u>	<u>Jobber's unit price</u>	<u>Percent mark-up</u>	<u>GAO computed unit price</u>
Standard shock absorber	\$ 5.50	0%	\$3 85	+20%	\$4 62
Heavy duty shock absorber	8.95	0%	6.25	+20%	7.50
Fuel pump	9 35	0%	6 89	+25%	8 61

Standards needed to guide departments in ordering certain equipment and clothing items

The Code of Federal Regulations (41 CFR 101-25.3), which the District follows, prescribes standards for deciding whether it is appropriate to buy an item. For example, the Code describes under what circumstances electric typewriters can be ordered, such as, that four or more hours of routine typing will be done daily.

Added criteria can be set by agencies (in this case the District), to limit acquisitions to the minimum needed and authorized to do the job. Standards can also be set by agencies (District) whenever the efficient and economical use of such property will be affected.

We believe substantial sums of money can be saved by developing either added criteria or new standards where none exist. Some examples to show the need for added criteria or new standards follow.

Executive office furniture: GS-15's and above can order a wide variety of office furniture and at a wide range of prices. DGS has a standard which specifies the number and types of furniture items an executive is entitled to order. However, there are no price ceilings established. In our opinion, paying \$765 for a desk, \$605 for a conference table, \$476 for a chair, \$804 for a credenza, \$454 for a bookcase, \$844 for a sofa and \$633 for a love seat is questionable when other District executives bought similar furniture items at the same time for only one fourth to one third of the above prices. Criteria need to be added to DGS's standard to specify maximum prices the District will authorize for such furniture items, thus deleting some lines of furniture from existing and future contracts.

Buying motor vehicles In a GAO letter to the Department of Environmental Services in July 1976, it was pointed out that initial vehicle acquisition costs could have been reduced by buying compact and subcompact cars instead of intermediate or full-sized cars. Price differences range from \$400 to \$1,000 per vehicle (includes air conditioning and automatic transmission).

Standards outlining under what circumstances such economy vehicles should be considered would be beneficial for both ordering agencies (in authorizing the procurements) and purchasing agents (in approving the justification for the vehicles). DGS officials agreed but stated a vehicle utilization study was needed to establish definitive standards.

Clothing District agencies buy a wide variety of clothing, at a wide range of prices, using a term contract. These items are generally for institutionalized persons and citizens being rehabilitated. The five vendors on this contract offered discounts from list prices for clothing lines carried--whether high-, medium-, or low-priced.

There are, however, no maximum standard prices governing purchases under this term contract. As a result the price of clothing purchased for citizens varied widely. For example, the prices ranged from \$50 to \$110 for suits, \$3 to \$15 for shirts, \$7 to \$18 for trousers, and \$7 to \$15 for blouses.

DGS officials stated that they have no authority for establishing clothing standards. They believe Department of Human Resources' (DHR) personnel are responsible for making these determinations because they are the ones who use this contract. The Director of DHR stated that his Department should provide information on program needs while DGS has the responsibility for establishing procurement standards that reflect these program needs.

DGS CONTROL OVER PROCUREMENT AUTHORITY
DELEGATED TO DEPARTMENTS

DGS efforts to ensure that departments comply with District procurement procedures and use established supply sources are ineffective. DGS officials told us they have no staff to periodically audit departments to ensure compliance--e.g., that departments obtain a sufficient number of bids on an item or service. Audits are needed to provide assurance of compliance. Often documentation related to procurement actions (e.g., worksheets detailing how lease versus purchase determinations were made) is filed in each department, not DGS.

DGS can not properly account for purchase orders issued by departments because they are not sequentially numbered or controlled. Also, purchase orders received by DGS are not effectively reviewed to ensure that established supply sources had been used. Further, the District's Office of Municipal Audit and Inspection does not conduct scheduled audits of departmental procurement activities. As a result, the District has no assurance that Departments buy items or services that have been properly authorized and at the lowest prices available.

DGS procedures to ensure departmental compliance with procurement procedures need strengthening

A random sample of 30 purchase orders, issued by city agencies, showed that frequently higher prices were paid than available for similar items on District term contracts. Further, there was no justification shown for not using the term contract. Some examples are listed in the following table.

<u>Item description</u>	<u>Unit price</u>		<u>Savings lost per item</u>
	<u>D.C. term contract</u>	<u>Actually paid</u>	
Executive chair	\$256.44	\$326.38	\$69.94
Leather high-back chair	220 00	280.00	60.00
Carburetor	43.05	57.40	14 35
Fuel pump	6 50	9.45	2.95

We also noted the same situation in comparing open market purchases made for comparable items available from GSA

<u>Item description</u>	<u>Unit price</u>		<u>Savings lost per item</u>
	<u>Federal source</u>	<u>Actually paid</u>	
Spark plugs	\$0.36	\$1.18	\$ 0.82
Lined paper	0.68	1 29	0.61
Tool chest	73.00	98.97	25.97

There also is no assurance that DGS receives all copies of purchase orders for review to ensure compliance. Orders are not prenumbered and issued in series by DGS to departments for accountability purposes. In this regard, we were told that an individual had stolen some blank District purchase orders. Purchase orders are like blank checks. This individual filled out the orders and presented them to several area vendors for merchandise. On three separate occasions, these vendors (assuming the person was a District employee, authorized to obtain

the items) gave the individual about \$3,200 worth of electric trains, telephone dictating equipment, and citizen band radios. The District has not paid for these items. This matter is being investigated by the Office of Municipal Audit and Inspection.

According to DGS officials, DGS has no staff to periodically audit a department's purchasing activities to ensure compliance. Documentation related to procurement actions that DGS would need to examine to ensure compliance (after the fact) is often on file at the department only, not DGS. To illustrate, we examined a random sample of about 150 purchases wherein departmental personnel are permitted to buy or pick up items at a store (referred to as "over-the-counter" purchases). District procurement procedures require that an authorization form be prepared in advance detailing what is to be picked up. However, DGS is precluded from assuring itself (after the fact) that only authorized items were purchased and paid for by departments because invoices are not always submitted to DGS to compare with the authorization form. Further, DGS does not test or sample "over-the-counter" purchase transactions by making periodic audits of a department's procurement activities.

We found that occasionally items were purchased that were not listed on the "over-the-counter" authorization form, for example:

<u>Item</u>	<u>Quantity</u>	<u>Total price</u>
Spark plugs	16	\$15 16
Shoes	1	27.00
Sweaters	2	45.00
Coat	1	22 50

System needed to ensure that departmental procurement personnel follow procurement procedures

DGS has no systematic procedure for identifying individuals who repeatedly fail to use established sources of supply. Our limited tests showed one departmental buyer repeatedly bought items on the open market at higher prices, which were either available on District term contracts or from GSA. He said that DGS never questioned why he was not using the proper sources of supply.

There are also no guidelines that describe what actions DGS will take to ensure compliance in the future. Although DGS can withdraw a department's or an individual's delegated purchase authority, DGS officials told us this has not been done in several years. In this regard, a factor contributing to DGS's problems in ensuring compliance is that there are a substantial number of city personnel who have been delegated procurement authority (about 400 personnel). DGS officials told us, however, that they cannot limit the number of personnel, nor establish criteria outlining under what circumstances procurement authority can be redelegated by departments. Since DGS grants departments such authority, it seems

reasonable to us that DGS should take part in determining who and how many individuals are redelegated procurement authority

CONCLUSIONS AND RECOMMENDATIONS

We recognize that procurement is only one element of a total supply program. Until the District implements an efficient and effective supply program, implementation of many aspects of requirements (needs) determination and planning for procurement purposes is precluded. For example, an information system is needed to provide historical data on past procurements and uses of an item or service for projecting future needs. The present system for relying on departments and vendors for such information is neither acceptable nor effective. This system has produced a number of erroneous volume estimates. As a result, several vendors told us they do not offer the District their lowest price.

To ensure that lowest prices are obtained, DGS can take steps to improve its (1) contracting policies and procedures and (2) managerial control over procurement authority delegated to departments, namely:

- limit the number of comparable or identical items bid upon for term contracts,
- instruct buyers to be more careful in evaluating bids made on the basis of percentage of price lists;
- establish new standards or added criteria to guide departments in ordering certain classes of purchases (e g , executive office furniture, motor vehicles, and clothing),
- take a more active role to ensure departmental compliance with District procurement procedures and use of District term contracts and Federal supply sources by doing the following:
 1. Assign staff to periodically audit departmental purchasing activities to ensure compliance. Arrange with the Director of the Office of Budget and Management Systems for identifying and obtaining necessary procurement audit personnel. Also, consider asking the Office of Municipal Audit and Inspection to assist in defining the scope of such audits and to develop a coordinated plan for conducting these audits on a scheduled basis
 2. Consider prenumbering, assigning and accounting for all blank purchase orders issued to departments to ensure all orders are being sent to DGS for review purposes
 3. Set up procedures for systematically identifying departmental buyers who repeatedly fail to use existing District contracts or established Federal supply sources. Steps to deal with repeated violators should be established, such as conducting

periodic training sessions on District procurement procedures. In this regard, consider withdrawing or restricting either the individual's or the department's delegated purchase authority.

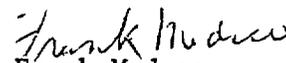
- 4 Take an active role in deciding who and how many individuals are delegated small purchase authorization in departments. Consider limiting the number of such personnel.

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Copies of this report are being sent to the Mayor, City Council, Office of Budget and Management Systems, D.C. Auditor, and the Office of Municipal Audit and Inspection.

Please let us know the actions you plan to take to correct the problems discussed in this report within 30 days. If you have any questions, please call me on extension 3123 or 3124.

Sincerely yours,


Frank Medico
Assistant Director