



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

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PROCUREMENT AND SYSTEMS
ACQUISITION DIVISION

AUG 14 1975

Mr. Michael J. Timbers
Commissioner, Federal Supply Service
General Services Administration

Dear Mr. Timbers:

We have completed an examination of selected procurements negotiated under the public exigency exception to formal advertising by the Federal Supply Service. We wanted to find out whether the number of exigency procurements could be reduced because negotiated procurements tend to limit competition and increase costs.

In fiscal year 1974, exclusive of small purchases and small business set-asides, Supply Service negotiated contracts amounted to \$290.6 million, including 1,781 contracts amounting to \$86.4 million that were negotiated under the public exigency exception. We examined a total of 77 of the latter contracts including 47 negotiated by the Federal Supply Service central office; 22 by Federal Supply Service region 3 in Washington, D.C.; and 8 by region 7 in Fort Worth, Texas. A list of the contracts we examined is shown in the enclosure.

Many negotiated purchases for stock replenishment could have been avoided. Also abuses by Federal agencies in assigning priority codes are resulting in unnecessary procurements by negotiation. Purchases under the exigency exception could be substantially reduced through better planning and management by GSA of stocks and through more control over priority code assignments.

BACKGROUND

Procurement by formal advertising is the preferred means of fulfilling the Governments' needs for property and services and is required when this method is feasible and practicable. However, Federal agencies may procure by negotiation under authorized exceptions to the formal advertising method. One such exception states that purchases and contracts may be negotiated if the public exigency will not permit the delay incident to advertising. To negotiate under this exception the need must be compelling and of unusual urgency.

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URGENCY PROCUREMENTS FOR STOCK REPLENISHMENT

The General Services Procurement Regulations authorize GSA to negotiate under the public exigency exception for purchases of stock replenishment if the following conditions are met.

1. The requirement cannot be obtained from a current term contract or other established sources.
2. The item is one for which there is a steady requirement.
3. Exceptionally heavy and sudden demands have depleted stocks to the extent that a considerable volume of backorders will result unless replenishment merchandise is procured within less time than even the minimum required for formal advertising.

Twenty-seven of the negotiated contracts we examined at the Federal Supply Service central office were for replenishing depleted stocks. We found urgent procurements for stock replenishments were often the result of Supply Service weaknesses relating to evaluating customer demand, questionable procurement methods, poor leadtime forecasting, and inadequate communicating and coordinating. Examples of these weaknesses follow.

Evaluating customer demand

We reviewed four urgent purchases for stock replenishment resulting from a Supply Service decision to discontinue stocking a gray steel furniture line and replacing it with a contemporary line without properly evaluating customers' requirements. As a result of this decision, the Supply Service allowed term contracts to expire and stocks to be depleted. Continued strong demand, however, for the gray steel furniture resulted in reinstatement of the gray steel line. By that time there were no existing contracts for the furniture and stocks had been depleted which resulted in numerous backorders and urgent purchases.

Prices of the four negotiated exigency contracts ranged from 16 to 47 percent higher than previous low bids under formally advertised procurements for the same items. Some time had elapsed between the contracts we reviewed and the previous formally advertised procurements. Thus inflation may have accounted for some of the increased price. However, we believe the need to make negotiated urgency purchases also contributed to the increases in prices paid.

Questionable procurement methods

Urgency procurements were resulting from questionable methods of consolidating purchases. Many urgent purchases resulted from the Supply Service holding 88 stock replenishment requests, from various regional offices, for periods of 6 months to a year without procurement action. This occurred even though a considerable number of inquiries were made by the regions as to the status of their requests. The purchases that resulted were negotiated under the public exigency exception.

In explaining the situation, a procurement official said that these requests were being held for consolidation so that large purchases could be made. He further said that until recently each region would send in purchase requests as the need arose. This led to many small purchases or delays. The official explained that the regions now send in estimates of their needs for a certain period, which allows consolidation without delays. However, when regions underestimate their requirements, an interim purchase may be needed until the next consolidated purchase.

Leadtime forecasting

Undetected changes in procurement leadtimes are resulting in urgent purchases.

According to Supply Service officials, unexpected demand, specification problems, and manufacturers' shortages have increased procurement leadtimes which, in turn, have increased backorders and exigency purchases. "Leadtime" is the time it takes to purchase and receive an item once the need is recognized.

Supply Service officials explained that, based on past experience, an average leadtime is programmed into the computer for various items. The computer keeps track of the leadtimes and provides notice when procurement action should begin. Since the computer leadtime is based on past purchases and changes are not programmed during the year, increases in the actual leadtime are not recognized until it is too late. An increase in the leadtime can result in a contract expiring and stocks depleting before delivery can begin on a new contract. When this occurs the Supply Service is authorized to make interim exigency purchases until a new term contract can be obtained. In one such purchase, individual price increases ranged from \$14,549 to \$98,987 or 56 to 125 percent over the previous advertised contract. The justification for

the added costs was inflation and the short time frame for production under exigency procurement.

Communication and coordination

Better communication and coordination between Supply Service operating groups could have prevented urgent purchases. For example, in February 1972, the existing term contracts for jute twine expired without a new term contract being awarded because suppliers could not meet specification requirements. It was a year later before the Procurement Division notified the Standards Division of a need for a deviation from specifications. The deviation was granted within 2 months and was followed by four consecutive exigency purchases on May 7, May 15, September 12, and September 18, 1973.

MISUSE OF THE PRIORITY CODE SYSTEM

Improper use of high priority codes resulted in unnecessary urgent purchases and added costs for special processing. High priority codes are being assigned to requests that do not involve urgent needs.

Under the Federal Standard Requisitioning and Issue Procedures or the Military Standard and Issue Procedures, requisitioning agencies can designate the urgency of their requests by the assignment of a priority code to the requisition form. High priority codes indicate to the purchasing office that the item requested meets the requirements for the public exigency exception and may be acquired through negotiated procurement methods. No further information is required from the requesting agency to justify the urgent need, and Supply Service officials seldom question the validity of the assigned codes.

Procurement officials from both the Department of Defense and GSA have acknowledged that there are widespread abuses in the assignment of priority codes. Region 3 officials said that a comparison of the number of high priority requests to the total number of requests by a requisitioning activity would indicate abuses of the priority code system. They provided us with a computer listing of their customers' ordering patterns. This listing contained 145 region 3 requisitioning activities which sent in 50 or more requisitions assigned high codes between October and December 1974. We were told that, as a general rule of thumb, no more than 10 percent of all requests should be high priority.

Our examination of the listing showed that 135 of the 145 activities exceeded the 10-percent rule of thumb. We found that 93 of the activities

had submitted over 50 percent of their requisitions with high priority codes, 74 had submitted over 75 percent, and 53 had submitted over 90 percent.

We reviewed 17 public exigency contracts negotiated by the Supply Service central office as a result of high priority requests. Two of these were for draperies and one was for carpeting. In all three cases, the Air Force was the requesting activity and assigned priority code 6 to the requisitions. In this case priority code 6 under the military requisitioning system means that (1) the activity is being maintained in a state of combat readiness for deployment to combat in 30 days, (2) the activity's ability to accomplish its mission is impaired, and (3) the supplies are needed immediately or are of comparable importance.

INCREASED COSTS OF URGENT PROCUREMENTS

More than half the negotiated exigency purchases that we examined at the Supply Service central office showed price increases over the previous purchases. In 25 of 35 cases where there was a previous contract, the price increased over the most recent contract for the same items. The overall increases ranged as high as \$1,094,778, or 76 percent, with an average increase of \$43,666, or 23 percent, over previous contracts. In 12 cases the contracting officer said that the purchase probably could have been made at a lesser price had it not been for the time constraints. For example, in two contracts for furniture, the contracting officers attributed the increases of \$29,523, or 47 percent, and \$1,094,778, or 76 percent, to unusually short delivery requirements, premium prices for materials, and the short time for production under public exigency. In another contract totaling \$260,199 for four-wheel-drive vehicles, the lowest bidder, by \$25,000, was rejected because the proposed 150-day delivery did not meet the 45-day-delivery requirements. Department of Treasury, Bureau of Custom's justification for the urgency was that leased four-wheel-drive vehicles were inadequate for their intended use.

Limited competition can also increase prices of urgent procurements. According to contracting officers, 45 of the 47 public exigency purchases by the Supply Service central office would have been formally advertised had there not been urgency time requirements. In 46 of these contracts, competitive proposals were solicited from more than one supplier, however, in 6 of these only one offer was received and in 16 only two were received. (See enclosure)

It is not possible to measure how much prices increased because competition was limited by negotiating rather than formal advertising

and the inability of prospective suppliers to compete due to short production and delivery requirements. There is no question, however, that limiting competition generally results in higher prices.

Increased costs to GSA

In addition to the increased costs of emergency procurements resulting from high priority requests, there are other indirect costs involved in handling such requests.

Supply Service officials explained that high priority requests for stock items must be processed and readied for shipment within 48 hours. Also special delivery requirements may require the use of more costly transportation.

Since the requisitioning agency pays only the GSA catalog price the added costs of high priority requests are absorbed by GSA.

CONCLUSION AND RECOMMENDATIONS

Procurement by formal advertising is the preferred means of fulfilling the Governments' needs. The Federal Supply Service, however, awards many contracts, that could be advertised, using the less preferred negotiated procurement method.

Often the use of the negotiated method is justified on the basis that the items being procured are urgently needed. The Federal Supply Service could have avoided many stock replenishment purchases had it given greater attention to evaluating customer demands, adhering to prescribed procurement methods, timely updating of procurement leadtimes, and communication and coordination between in-house operating groups.

We also believe the priority code system is not being adequately controlled. Assigning higher priority codes than are necessary has resulted in urgent negotiated purchases and added costs.

GSA could reduce the use of negotiated urgency procurements.

We recommend that the Federal Supply Service

- improve its analysis of customer demand,
- adjust its leadtimes during the year as information becomes available and/or increase leadtimes to provide a buffer for procurement delays, and

--improve communication and coordination between its operating divisions.

GSA customer abuses of the priority code system have increased the cost of supplies and other indirect costs within GSA. We believe that GSA should inform its customers of the added cost of high priority requisitions and should consider charging the customer for the added cost currently being absorbed by GSA.

We discussed our findings and recommendations with Federal Supply Service officials. They pointed out that, during the period audited, there was a high rate of inflation and manufacturing shortages as a result of an overheated economy. They disagreed that, under these conditions, premium prices had been paid and competition limited as a result of negotiating urgent procurements. They acknowledged, however, that the high volume of exigency purchases have continued into the current period.

We would appreciate being advised of your views on these matters and what action you plan to take.

Sincerely yours,



John F. Flynn
Deputy Director

Enclosure

ENCLOSURE

<u>Contract number</u>	<u>Item</u>	<u>Number of suppliers solicited</u>	<u>Number of suppliers responding</u>	<u>Dollar amount of contract</u>	<u>Amount increased or (decreased) from prior contract</u>	<u>Percent increased or (decreased) from prior contract</u>	<u>Previous procurement method</u>
0023964	Bags	7	3	\$ 28,230	\$ 1,085	4.0%	Formally advertised
0027023	Flatware	6	5	6,806	1,082	18.9	Formally advertised
0027024	Flatware	6	5	4,579	728	18.9	Formally advertised
0027025	Flatware	6	5	76,320	12,132	18.9	Formally advertised
0025354	Trucks	36	3	512,078	--- No comparable previous purchase ---		
0027835	Sedans	4	2	7,299,837	"	"	"
0027836	Sedans	4	2	5,341,912	"	"	"
0025531	Sedans	4	3	342,920	"	"	"
0025532	Sedans	4	3	1,108,682	"	"	"
0026671	Sedans	Not obtained		239,873	"	"	"
0027892	Sedans	4	2	1,778,305	"	"	"
0024717	Trucks	12	1	37,560	"	"	"
0026218	Trucks	Not obtained		260,199	"	"	"

ENCLOSURE

<u>Contract number</u>	<u>Item</u>	<u>Number of suppliers solicited</u>	<u>Number of suppliers responding</u>	<u>Dollar amount of contract</u>	<u>Amount increased or (decreased) from prior contract</u>	<u>Percent increased or (decreased) from prior contract</u>	<u>Previous procurement method</u>
0023611	Tool kit	5	2	\$ 149,020	\$ 46,318	45.1%	Negotiated
0025508	Riveter	3	1	79,980	-0-	0.0	Not available
0029911	Awl	4	2	620	-0-	0.0	Negotiated
0029912	Awl	4	2	1,018	237	30.4	Negotiated
0024417	Twine	6	1	83,855	4,746	6.0	Negotiated
0024526	Twine	4	2	103,432	(2,585)	(2.5)	Negotiated
0026065	Brushes	12	5	288	75	35.3	Formally advertised
0026064	Brushes	12	5	1,868	487	35.3	Formally advertised
0026185	Brushes	12	5	4,425	603	15.8	Formally advertised
0028245	Draperies	17	3	4,690	---	No previous comparable purchase	---
0028244	Draperies	17	3	152,108	---	No previous comparable purchase	---
0026024	Carpet	6	2	116,134	462	.4	Schedule
0023788	Can rack	3	1	39,834	-0-	0.0	Formally advertised
0024846	Coat hanger	5	4	29,768	1,684	6.0	Formally advertised
0024164	Bags	7	5	20,227	(809)	(4.0)	Formally advertised
0024165	Bags	7	5	4,276	(171)	(4.0)	Formally advertised
0024183	Bags	7	5	8,835	(353)	(4.0)	Formally advertised

ENCLOSURE

SCHEDULE OF NEGOTIATED CONTRACTS EXAMINED AT
FEDERAL SUPPLY SERVICE CENTRAL OFFICE

<u>Contract number</u>	<u>Item</u>	<u>Number of suppliers solicited</u>	<u>Number of suppliers responding</u>	<u>Dollar amount of contract</u>	<u>Amount increased or (decreased) from prior contract</u>	<u>Percent increased or (decreased) from prior contract</u>	<u>Previous procurement method</u>
0028398	Chairs	2	2	\$ 114,823	\$ 20,474	21.7%	Formally advertised
0023321	Shelving	----- (Not obtained) -----		49,185	----- (Not obtained) -----		
0028692	Chairs	1	1	92,070	29,523	47.2	Formally advertised
0028727	Desks	5	2	1,181,252	200,960	20.5	Formally advertised
0028728	Desks	5	2	499,500	88,389	21.5	Formally advertised
0025329	Cabinets	3	2	142,838	(28,139)	(19.7)	Formally advertised
0025277	Cabinets	3	2	281,629	(15,941)	(6.0)	Formally advertised
0028227	Desk attach.10		4	290,215	40,889	16.4	Formally advertised
0028375	Desk	5	4	2,535,277	1,094,778	76.0	Formally advertised
0023472	Tool equip.	3	2	65,005	9,869	17.9	Negotiated
0028496	Reamer	5	2	27,593	10,970	66.0	Negotiated
0024013	Drill	4	2	36,482	2,386	7.0	Negotiated
0026663	Knives	5	3	48,384	8,561	21.5	Formally advertised
0026375	Tool kit	3	2	39,667	(1,190)	(3.0)	Negotiated
0029818	Awl	4	1	17,548	2,613	17.5	Negotiated
0023771	Tool kit	12	4	75,432	16,821	28.7	Negotiated
0023781	Tool kit	12	4	195,787	(18,403)	(9.4)	Negotiated

ENCLOSURE

SCHEDULE OF NEGOTIATED CONTRACTS EXAMINED
AT FEDERAL SUPPLY SERVICE REGION #3

<u>Contract number</u>	<u>Item</u>	<u>Number of suppliers solicited</u>	<u>Number of suppliers responding</u>	<u>Dollar amount of contract</u>	<u>Amount increased or (decreased) from prior contract</u>	<u>Percent increased or (decreased) from prior contract</u>
3041625	Coal	11	1	\$ 99,000	\$ 74,250	300.0%
3042032	Oil	5	5	85,200	2,481	3.0
3041880	Coal	5	1	96,000	2,796	3.0
3042227	Coal	5	1	105,000	8,670	9.0
3041771	Coal	5	1	99,200	74,400	300.0
3042306	Towels	11	1	95,220	50,516	113.0
3042353	Bags	13	2	78,000	10,584	15.7
3042296	Towels	11	1	30,915	14,558	89.0
3042342	Paper	12	1	19,180	7,252	60.8
3041215	Truck rental	14	3	14,575	(6)	(.04)
3041217	Truck rental	14	3	46,750	(19)	(.04)
3041216	Truck rental	14	3	72,600	(29)	(.04)
3041998	Gas tank	10	1	28,355	No previous purchase	
3042076	Lumber	5	2	14,983	2,285	18.0
3041818	Key punch labor	5	2	36,837	4,665	14.5
3042193	Wax	11	3	46,677	20,454	78.0

ENCLOSURE

<u>Contract number</u>	<u>Item</u>	<u>Number of suppliers solicited</u>	<u>Number of suppliers responding</u>	<u>Dollar amount of contract</u>	<u>Amount increased or (decreased) from prior contract</u>	<u>Percent increased or (decreased) from prior contract</u>
3042194	Wax	11	3	\$ 147,842	\$ 64,785	78.0%
3042195	Wax	11	3	77,248	33,850	78.0
3041063	Rags	5	5	18,000	1,019	6.0
3041064	Rags	5	5	30,600	1,732	6.0
3041814	Hauling	5	1	75,000	19,444	35.0
3042347	File	11	1	27,235	16,337	149.9

ENCLOSURE

SCHEDULE NEGOTIATED CONTRACTS EXAMINED AT
FEDERAL SUPPLY SERVICE REGION #7

<u>Contract number</u>	<u>Item</u>	<u>Number of suppliers solicited</u>	<u>Number of suppliers responding</u>	<u>Dollar amount of contract</u>	<u>Amount increased or (decreased) from prior contract</u>	<u>Percent increased or (decreased) from prior contract</u>
7005689	Alarm system	187	4	\$ 17,867	Not shown	
7005573	Fluorcarbon	3	1	28,000	0.0	0.0
7006297	Polyfoam	3	2	25,480	0.0	0.0
7006400	Book paper	5	1	56,450	0.0	0.0
7006401	Book paper	5	1	56,450	0.0	0.0
7005801	Book paper	5	1	81,423	14,683	22.0
7005875	Gas range	4	3	29,642	4,088	16.0
7006048	Polyfoam	8	1	26,950	Not shown	