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Better Use Of Manpower
Possible By Reducing Source
Inspections Of Simple Low-Cost
Commercial-Type Items B-166920

Defense Supply Agency

**UNITED STATES
GENERAL ACCOUNTING OFFICE**

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

PROCUREMENT AND SYSTEMS
ACQUISITION DIVISION

B-166920

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Lt. Gen. Wallace H. Robinson, Jr., USMC
Director, Defense Supply Agency
Cameron Station
Alexandria, Virginia 22314

Dear General Robinson:

This is our report on opportunities for better use of manpower by reducing source inspections of simple low-cost, commercial-type items, in the Defense Supply Agency. Our principal observations are summarized in the digest.

Copies of this report are being sent to the Director, Office of Management and Budget; the Assistant Secretary of Defense, Installations and Logistics; and to the Commanders of the Defense Industrial Supply Center, the Defense General Supply Center, and the Philadelphia Defense Contract Administration Services Region.

Sincerely yours,

R. W. Gutmann

R. W. Gutmann
Director

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ABBREVIATIONS

ASPR	Armed Services Procurement Regulation
COC	Certificate of Conformance
DCAS(R)	Defense Contract Administration Services (Region)
DESC	Defense Electronics Supply Center
DGSC	Defense General Supply Center
DISC	Defense Industrial Supply Center
DOD	Department of Defense
DSA	Defense Supply Agency
GAO	General Accounting Office
QA	quality assurance
QAR	quality assurance representatives

GENERAL ACCOUNTING OFFICE
REPORT TO THE DIRECTOR
DEFENSE SUPPLY AGENCY

BETTER USE OF MANPOWER
POSSIBLE BY REDUCING SOURCE
INSPECTIONS OF SIMPLE LOW-
COST, COMMERCIAL-TYPE ITEMS

Defense Supply Agency
B-166920

D I G E S T

WHY THE REVIEW WAS MADE

Previous GAO work indicated that quality assurance representatives spend considerable time inspecting simple low-cost, commercial-type items at source (the contractor's facility). Similar observations were made by a study group of the Commission on Government Procurement. In this review GAO wanted to determine whether some of these source inspections could be more economically performed at destination (the Government's warehouse).

FINDINGS AND CONCLUSIONS

GAO's review of contracts and observations of source and destination inspections showed that many inspections of simple low-cost, commercial-type items at the contractor's facility could have been made more economically at the Government's warehouse. We found that such items as casters for push carts, candles, bearings for diesel engines, electric hotplates, screws, rope, chain, and other hardware-type items could generally be inspected at destination with the same degree of quality assurance

attained by source inspections. Often, highly skilled personnel make trips specifically to conduct these source inspections.

The following are contributing factors to the situations GAO observed during its review.

--The procurement regulations allow flexibility in determining point of inspection for simple low-cost, commercial-type items. (See p. 1.) Buying offices tend to overemphasize source inspections for these types of items. (See pp. 4 to 8.)

--Buying offices' criteria for selecting the inspection location are not uniform. (See p. 5.)

--Defense Contract Administration Services is not taking complete advantage of its option to use source inspection waivers (certificates of conformance). (See p. 8.)

While GAO recognizes the need for inspecting commercial items to protect the Government's interests, it believes that destination inspection for many commercial

items that are being source inspected would result in a more effective use of Defense Supply Agency resources. To the extent the Defense Supply Agency can convert source inspections to destination inspections, the following benefits would be attained:

- More effective use of inspection personnel.
- Reduction of travel costs.
- Promotion of a policy more closely related to commercial practices.

AGENCY ACTIONS AND UNRESOLVED ISSUES

The Defense Supply Agency agreed in principle with GAO's observations. GAO was advised that this Agency has been aware of the situations discussed in this report for some time; the Agency cited various factors which have made their solution difficult. (See p. 12.)

As an example of recent action taken, the Defense Supply Agency provided GAO with a January 1974 procurement letter to buying activities which states it is a Defense Supply Agency policy to assign source inspection to contracts when technical inspection is required of the contractor. (See p. 13.)

GAO was also advised that the Defense Supply Agency is in the process of clarifying and simplifying its policy on

accepting material without prior inspection on the basis of the contractor's certification that the material meets all contract requirements (certificate of conformance). (See p. 13.)

GAO believes that the Defense Supply Agency's current effort to clarify its policy on the certificate of conformance offers the greatest potential for improvement. Comments of the Defense Industrial Supply Center, Defense General Supply Center, and Defense Contract Administration Services Region, Philadelphia, are included in chapter 2.

RECOMMENDATION

GAO recommends that the Director, Defense Supply Agency, insure (1) all buying centers use uniform criteria for selecting points of inspection and (2) all Defense Contract Administration Services regional quality assurance personnel have a proper understanding of the certificate of conformance, including the circumstances under which the buying centers apply it.

CHAPTER 1

INTRODUCTION

The Department of Defense (DOD) annually buys equipment and supplies valued in the billions. These items vary from highly sophisticated and expensive weapon systems to simple and inexpensive supplies, such as nuts and bolts. DOD normally inspects the items before acceptance to insure that they meet the quality requirements specified in the contract.

The Armed Services Procurement Regulation (ASPR) cites criteria for selecting points of inspection. Basically, ASPR requires source inspections whenever in-process quality control is required of the contractor. Source inspections are also required when (1) testing facilities are available only at origin, (2) loss or delay to the Government could result from shipping unacceptable supplies, (3) supplies are destined for overseas, or (4) it is otherwise in the best interest of the Government. Inspections at destination are permitted when an examination and test of the end item is sufficient. These inspections are also permitted when (1) the contract value is \$2,500 or less, (2) the supplies are purchased "off the shelf," (3) testing facilities are only available at destination, or (4) it is otherwise in the best interest of the Government.

Inspection points are selected by the buying organizations. The source inspections are accomplished by the cognizant contract administration organization. Since we were concerned about commercial-type items, we concentrated our review on items bought by the Defense Supply Agency (DSA) and inspected by the Defense Contract Administration Services (DCAS).

DSA is directly responsible for providing supplies and services used in common by the military. The two buying centers included in our review were the Defense Industrial Supply Center (DISC) and the Defense General Supply Center (DGSC). DISC supplies such industrial items as bearings, block and tackle, electrical wire and cable, chain, and metal sheets. DGSC supplies items of a general nature including electrical hardware and supplies; cooking, baking and serving equipment; ecclesiastical equipment; and lighting fixtures and lamps.

DCAS is the largest single DOD organization responsible for contract administration, which includes the quality assurance (inspection) function. As of December 31, 1973, DCAS was authorized about 7,000 quality assurance personnel (37 percent of their total authorized manpower).

CHAPTER 2

NEED FOR SOURCE INSPECTIONS

Our review disclosed that the procedures for selecting points of inspection followed by DISC and DGSC were generally consistent with policies prescribed in the ASPR. However, numerous simple low-cost, commercial-type items were inspected at source when, in our opinion, they could have been inspected at destination without any apparent decrease in the Government's assurance of quality and reliability.

Often, DCAS quality assurance personnel make trips specifically for source inspections. On the average quality assurance representatives (QARs) are more highly skilled and are paid higher salaries than their counterparts at the depot. DSA could (1) reduce its inspection costs, (2) make more effective use of its quality assurance personnel, and (3) maintain the same degree of reliability by inspecting these types of items at destination.

DEFENSE INDUSTRIAL SUPPLY CENTER

DISC procedures require that each procurement expected to exceed \$2,500 be reviewed by its Quality Assurance (QA) Division. The QA Division selects the point of inspection and acceptance and the appropriate quality assurance requirements to be included in the contract. DISC personnel informed us that these selections are based on the nature of the item (as determined by examination of specifications and drawings) and the quality history of the item. On procurements which do not exceed \$2,500 (small purchases), the buyer selects the quality requirements based on information in the purchase description. In general, small purchases are inspected at destination.

We reviewed 153 randomly selected DISC contracts and found that 137 contained source inspection requirements. Of the 137, we identified 26 contracts for simple low-cost, commercial-type items which could have been inspected at destination.

A summary of our findings and DISC's reasons for requiring source inspections follows.

--Eight contracts involved items that the contractors considered commercial and were provided to the Government as "off the shelf" items. Examples of these items are casters for push carts, rope, chain, and hexagonal nuts. Many of these contractors also told us that their commercial customers did not perform source inspections. DISC officials gave the following reasons for placing source inspection requirements in these contracts: (1) an optional first-article testing requirement identified in the specification was considered necessary, (2) it was necessary to verify that the manufacturer made certain tests required by the specification, or (3) no technical data was available. Neither the invitations for bids nor the contracts contained the optional first-article testing requirement. In view of this, the contractors' comments, and the types of items involved, we believe destination inspections were permissible by the ASPR and would have been adequate.

--Twelve contracts for metal items, such as steel angles and aluminum plates and sheets, contained source inspection requirements because (1) a first-article testing requirement was included in seven invitations for bids as required by the specifications and (2) the QA Division had imposed a mandatory source inspection requirement for all metal contracts in 1969 after experiencing problems with erroneous markings. We noted the first-article testing requirement had been waived in all seven contracts because the successful bidder had previously fulfilled this requirement. We also found that none of these contractors had an adverse quality history and a QAR informed us that his inspections at the contractor's plant could be replaced by inspections at destination. In these instances, the option to waive source inspections should have been granted to the QAR by authorizing the certificate of conformance (COC) in the contracts. DISC officials informed us that this would have been the best course of action.

- Two contracts identified items by a specific manufacturer's part number. DGSC procedures would have required destination inspection, which we believe is practical because, lacking technical data, the QAR would have no way of verifying that the item was manufactured properly. The items were a sleeve bearing and a self-locking nut. DISC officials gave the following reasons for placing source inspection requirements in these contracts: (1) it was necessary to verify that the manufacturer made certain tests required by the specification or (2) the item was being shipped direct to a Government contractor and DISC procedures require the Government to establish ownership at the point of origin. It should be noted that the item requiring verification of the manufacturer's testing was not purchased from the actual manufacturer and the contract only required inspection at the contractor's place of business. The item shipped to a Government contractor was a small purchase and qualified for processing under the fast payment procedure. This procedure transfers title to the Government upon delivery of the item to a Post Office or common carrier without source inspection.
- Three contracts for screws were supplied by a dealer, and, based on our discussion with the QAR, his inspection was only an end item type examination which could have been accomplished at destination. DISC officials stated that one contract required source inspection because it was necessary to verify that the manufacturer performed certain tests required by the specification. The contract did not, however, require an inspection at the manufacturer's plant. DISC officials stated the other two contracts required source inspection because the items were being shipped directly to a Government contractor and by DISC procedures, Government ownership at point of origin was required. (See our comments above.)
- One contract was for furniture glides and DISC officials could not give a specific reason for the source inspection requirement.

In commenting on our findings, DISC officials acknowledged that there could be an honest difference of opinion as to the need for source inspection in the above instances. They maintained, however, in most of these cases DISC had acted properly by requiring source inspection.

The appendix lists the 26 contracts, DISC's reasons for requiring source inspection, and our reasons for questioning that requirement.

DEFENSE GENERAL SUPPLY CENTER

DGSC procedures require source inspection of all new procurements over \$2,500 except those for noncritical items identified by a manufacturer's part number. Items for which DGSC normally requires source inspection include those

- with a critical application;
- purchased from commercial catalogs, drawings, or industry standards;
- purchased in accordance with a Government specification or a drawing; and/or
- purchased using a "brand name or equal" technical description.

Its small purchase policy is basically the same as DISC's.

Although audit effort at DGSC was more limited than that at DISC, we observed that

- source inspection was required on items identified by a technical document, such as a Government specification or an industry standard, apparently without considering the noncomplex, commercial nature of the item and
- DGSC was not requiring source inspections for items considered noncomplex, noncritical, and identified by a manufacturer's part number. As earlier stated, DISC was requiring source inspection of such items.

We reviewed 49 randomly selected DGSC contracts. Source inspection was required in 15. One contract required source inspection because the item was critical, while the other 14 were source inspected because the items were identified by Government specifications or industry standards. We were informed by the contractors involved that the following two items were considered to be commercial "off the shelf."

<u>Nomenclature</u>	<u>Unit Price</u>	<u>Total Price</u>
Altar Candle	\$ 3.80 to \$4.12, box	\$ 14,310
Time totalizing meter	60.01 ea.	5,220

In addition to the 49 contracts, we also examined numerous invitations for bids and noted source inspection requirements were included for such items as electric hotplates, electrical insulating tape, and soldering guns. The intended use of these items indicates they could be purchased commercially in a hardware store.

- Electric hotplate. The specification covers electrically heated hotplates for use on counter tops. They are intended for use in the preparation of foods, keeping foods warm, preparation of hot beverages, and certain laboratory purposes.
- Soldering gun. A fast-heating soldering gun generally used for intermittent soldering tasks where rapid availability for use is required without the continuous consumption of electric current.
- Electrical insulation tape. A general use electrical friction tape consisting of cotton sheeting that has been impregnated with a tacky adhesive insulating compound.

In commenting on our observations, DGSC officials agreed in many cases, source inspection of simple or commercial items is not necessary. Often, however, they require source inspection of such items because of rigid quality assurance requirements in the specification. The buying activity must abide by the specification and insure that the quality requirements are satisfied. In their opinion, a major cause of unnecessary source inspection is specifications which are outdated or too demanding.

The DGSC officials also noted that health and safety factors can make source inspection necessary on an apparently simple item. They noted, for example, that defective hot-plates or soldering guns are potential fire hazards.

Although we recognize DGSC's responsibility for purchasing items which are safe and which satisfy established quality requirements, we believe that its personnel has the opportunity to exercise judgment when deciding what level of inspection is necessary to fulfill that responsibility. In our opinion, DGSC could give more emphasis to inspecting simple low-cost, commercial-type items at destination.

DEPOTS

We observed the destination inspection of new material at several Government warehouses (depots). The inspectors verified that the material matched the contractual description, the correct quantity was received, and the packaging and marking was correct. They also opened selected outer and inner shipping containers. Small handtools, such as rulers, gages, micrometers, and calipers, were available to measure items. While testing tools and equipment were limited at the depots, our observations indicated that some simple low-cost, commercial-type items could be adequately inspected at destination.

USE OF CERTIFICATES OF CONFORMANCE

A COC, when authorized as the only basis for acceptance, permits the Government to accept material without prior inspection on the contractor's certification that the material furnished meets all contract requirements. It also gives the Government the right to inspect the material at destination and require replacement of any nonconforming items.

The buying office may authorize an optional COC in a contract with a source inspection requirement, which gives DCAS the choice of either performing source inspection or using the COC as the basis for acceptance. The optional COC is used in this manner when small losses would be incurred in the event of defects or when knowledge of the contractor's reputation or past performance provides assurance that defective material would be replaced without contest.

Our review of contracts and discussions with QARs indicated that the COC option is seldom exercised. One QAR said that the small purchase contract form used by DISC is confusing because source inspection is required by one provision while the COC option is authorized by another. Also, while local procedures for exercising the COC option vary, in the Philadelphia DCAS Region the QAR must submit a written request for authorization to his superiors. During fiscal year 1973 no requests were received.

DCAS regional officials generally agreed with our observations, but in their opinion there are few instances in which it would be appropriate to exercise the COC option. In their opinion, the COC option is being exercised more since they began QAR orientation training on a quality assurance manual issued in August 1973. They also noted that larger geographical DCAS regions probably make greater use of the option because the QAR must travel greater distances to make source inspections.

The officials plan to coordinate more closely with buying activities through their regular Customer Relations Program in an effort to clarify the proper use of the COC option. They also plan to give greater emphasis to this subject in their QAR training program.

We believe that the optional COC is an effective tool for reducing source inspections, and DCAS should make every effort to use it whenever appropriate.

CHAPTER 3

INTERNAL AUDIT REPORTS

In 1971 the DSA Auditor General reported on problems with the assignment of Government source inspections to contracts at DISC and the Defense Electronics Supply Center. (DESC). We did not review DESC, but we are including portions of that report to show that problems in assigning source inspections have been noted at other DSA buying centers.

The DISC report, issued in June 1971, included a finding titled "Assigning Government Source Inspection to Contracts." The report stated that:

"DISC was assigning Government source inspection to all contracts having a value of \$2,500 or more. This policy was based on DISC operating personnel's interpretation that the existence of a standard inspection requirement in the contract is also a requirement for Government source inspection. For most of the DISC contracts, however, source inspection was unnecessary because the items were not of the type, complexity and criticality requiring such inspection. Assignment of Government source inspection to DISC contracts on the basis of the type, complexity and criticality of the item rather than on a dollar value criterion would reduce annual inspection costs by approximately \$350,000. Command concurred and advised that action is being taken to develop procedures for determining the place of inspection in accordance with Section XIV of ASPR."

We were informed by an official of DISC's QA Division that the recommendation has been implemented and now the Division reviews each procurement over \$2,500. Our review indicated that DISC is generally following this procedure.

The DESC report, issued in December 1971, stated that:

"DESC generally assigned inspection requirements on the basis of contract dollar value. The ASPR states that inspection requirements are to be determined on the basis of type, complexity and criticality of each

individual item. The use of the dollar value criteria can result in the unnecessary inspection of some items, and the failure to inspect other items which due to their application, may require source inspection. Command concurred with our finding and has initiated action to develop provisions for determination of place and type of inspection in accordance with ASPR."

Our review indicated that, although the dollar value of the contract is no longer the only criteria used to justify source inspection, buying centers still require source inspection of many simple low-cost, commercial-type items.

CHAPTER 4

CONCLUSIONS, AGENCY COMMENTS, AND RECOMMENDATIONS

CONCLUSIONS

While we recognize the need for inspecting commercial items to protect the Government's interests, we believe that destination inspection for many commercial items that are being source inspected would result in a more effective use of the DSA resources. To the extent DSA can convert source inspections to destination inspections, the following benefits would be attained.

- More effective use of inspection personnel.
- Reduction of travel costs.
- Promotion of a policy more closely related to commercial practices.

AGENCY COMMENTS

Officials of DSA Headquarters agreed that judgment should be exercised when selecting the point of inspection for simple low-cost commercial-type items. They also pointed out the following factors which make it difficult to remedy the situations discussed in this report.

- Depots have a very limited inspection capability, thus when destination inspection is specified they are taking a calculated risk that items might not meet the complete technical requirements.
- DSA is responsible for procuring quality items which satisfy its customers' needs. This makes the decision to specify destination inspection more difficult because, in many instances when they have done so, defective materials reached the customer.

The officials stated that DSA discusses source inspection requirements in procurement letters issued periodically to their buying activities. Some recent areas of emphasis which were cited as examples are:

- Increasing the use of fast payment procedures.
- Extending the COC to small purchases of commercial items (such as educational supplies) being shipped directly overseas, provided the items can be readily identified at destination.
- Requiring source inspection when it is necessary to verify that the contractor has performed technical inspections of items furnished. In these instances, criteria for the technical inspection must be specified in the contract. (January 1974 procurement letter)

We were also informed that, at the request of DCAS, DSA has initiated action to clarify and simplify a 1971 procurement letter which sets forth its policy on use of the COC. No policy revisions had been finalized, but any approved changes will also be implemented in the DCAS Quality Assurance Manual. The officials agreed there is a need for greater coordination and understanding between buying and contract administration activities on use of COC.

We believe that these comments indicate that DSA is aware of the situations discussed in this report and is attempting to resolve them. In our opinion, DSA's current effort to clarify its COC policy offers the greatest potential for improvement.

RECOMMENDATION

We recommend that the Director, Defense Supply Agency, insure that (1) all buying centers use uniform criteria for selecting points of inspection and (2) all DCAS regional quality assurance personnel have a proper understanding of COC, including the circumstances under which the buying centers apply it.

CHAPTER 5

SCOPE OF REVIEW

Our examination was undertaken to ascertain whether source inspections of simple low-cost, commercial-type items were needed. Our reviews at the buying locations were limited to determining the bases for placing source inspection requirements in contracts and a selective verification of the practice by reviewing contracts awarded in 1972 and 1973. In a DCAS region, we observed QARs making source inspections and at the depots, we observed quality assurance personnel making destination inspections on selected items. We also discussed these matters with responsible officials.

This review was conducted at the following locations:

Defense Industrial Supply Center, Philadelphia,
Pennsylvania

Defense General Supply Center and Depot, Richmond,
Virginia

Defense Contract Administration Services Region,
Philadelphia, Pennsylvania

Defense Depot, Mechanicsburg, Pennsylvania

Selected contractor plants

LIST OF DISC CONTRACTS WITH QUESTIONABLE SOURCE INSPECTION REQUIREMENTS

Contract number (DSA-500-)	Nomenclature/ Federal Stock Number	Approximate unit prices	Contract value (cents omitted)	DISC reason for source inspection	GAO reason code for questioning inspection (note a)
73-C-7595	Steel I section 9520-277-4461	\$ 0.11 pound	\$ 1,117	The solicitation required first-article testing of the item. Also, the QA Div. had imposed a "blanket" source inspection requirement for all metal contracts in 1969 because marking discrepancies had resulted in stock which could not be used for its intended purpose.	A, C, E, and F
73-C-6988	Steel I section 9520-277-4460 9520-277-4466	.11 pound	5,360	(same as above)	A, C, E, and F

^a Primary reason underscored.

<u>Contract number</u> (DSA-500-)	<u>Nomenclature/ Federal Stock Number</u>	<u>Approximate unit prices</u>	<u>Contract value</u> (cents omitted)	<u>DISC reason for source inspection</u>	<u>GAO reason code for questioning inspection (note a)</u>
73-C-5866	Steel I section 9520-277-4460 9520-277-4461 9520-277-4462 9520-277-4463	.10 pound	8,607	(same as above)	A, C, E, and <u>F</u>
73-C-8447	Steel channel 9520-277-5959	.11 pound	4,188	(same as above)	A, C, E, and <u>F</u>
73-C-9355	Steel angle 9520-277-4966 9520-277-4974	.11 pound	2,512	(same as above)	A, C, E, and <u>F</u>
73-C-7601	Steel I section 9520-277-4459 Steel angle 9520-277-7312	.12 pound	8,373	(same as above)	A, C, E, and <u>F</u>
73-C-7523	Steel angle 9520-277-4977	.10 pound	2,913	(same as above)	A, C, E, and <u>F</u>

^aPrimary reason underscored.

<u>Contract number</u> (DSA-500-)	<u>Nomenclature/ Federal Stock Number</u>	<u>Approximate unit prices</u>	<u>Contract value</u> (cents omitted)	<u>DISC reason for source inspection</u>	<u>GAO reason code for questioning inspection (note a)</u>
73-C-6935	Steel I section 9520-596-1885 9520-596-1886 9520-596-1887 9520-596-1889	.10 pound	9,291	The QA Div. had imposed a "blanket" source inspection requirement for all metal contracts in 1969 because marking discrepancies had resulted in stock which could not be used for its intended purpose	A, C, <u>E</u>
73-C-8221	Steel angle 9520-596-1813	.10 pound	2,445	(same as above)	A, C, <u>E</u>
73-C-7515	Steel channel 9520-596-1879 9520-954-5661	.10 pound	4,038	(same as above)	A, C, <u>E</u>
73-C-7804	Aluminum sheet 9535-824-9481	.69 pound	2,945	(same as above)	D, <u>E</u>
73-C-8803	Aluminum alloy plate 9535-232-7593	.74 pound	3,560	(same as above)	<u>E</u>

^aPrimary reason underscored.

<u>Contract number</u> (DSA-500-)	<u>Nomenclature/ Federal Stock Number</u>	<u>Approximate unit prices</u>	<u>Contract value</u> (cents omitted)	<u>DISC reason for source inspection</u>	<u>GAO reason code for questioning inspection (note a)</u>
73-C-9103	Caster, rigid 5340-985-6734	1.78 each	14,266	The specification required first-article testing of a compound used in manufacturing the item. Source inspection was needed to verify that the compound used met First Article Testing requirements.	<u>A</u> , G
	Caster, swivel 5340-985-6736	2.07 each			
74-C-0619	Caster, rigid 5340-985-6734	1.78 each	3,204	(same as above)	<u>A</u> , G
74-C-1721	Nut, plain hexagonal 5310-934-9757	.37 hundred	15,744	The item specification required the contractor to subject the items to a magnetic particle inspection test in accordance with a Military Inspection Standard. Source inspection was needed to verify that the contractor performed the required test.	<u>A</u>

^aPrimary reason underscored.

GAO reason
code for
questioning
inspection
(note a)

<u>Contract number</u> (DSA-500-)	<u>Nomenclature/ Federal Stock Number</u>	<u>Approximate unit prices</u>	<u>Contract value</u> (cents omitted)	<u>DISC reason for source inspection</u>	<u>GAO reason code for questioning inspection (note a)</u>
73-C-4177	Screw, cap, hexagonal head 5305-022-3843	.37 each	2,952	(same as above)	<u>C</u> , D
74-C-0434	Nut, self-locking barrel 5310-550-4368	2.82 each	8,319	(same as above)	<u>B</u> , D
73-M-GB59	Screw 5305-323-8183	5.00 each	305	Local DISC procurement procedures require source inspection of any material being shipped directly to a Government contractor in order to establish Govern- ment ownership of the ma- terial at the point of origin	<u>C</u> , D, H
73-M-GA07	Screw, cap, hexagonal head 5305-724-6762	.27 each	1,323	(same as above)	<u>C</u> , D, H

^aPrimary reason underscored.

GAO reason
code for
questioning
inspection
(note a)

<u>Contract number</u> (DSA-500-)	<u>Nomenclature/ Federal Stock Number</u>	<u>Approximate unit prices</u>	<u>Contract value</u> (cents omitted)	<u>DISC reason for source inspection</u>	
73-M-NG50	Bearing, sleeve 3120-251-1250	1.90 each	30	(same as above)	<u>B</u> , H
74-C-0834	Cable, power, electrical 6145-553-8010	.69 foot	2,255	The item specification required the contractor to perform tests on the items. Source inspection was necessary to verify that the contractor performed the tests accurately.	<u>A</u> , D
74-C-0321	Rope, nylon 4020-141-7152	1.08 pound	10,062	(same as above)	A
74-C-0243	Chain 4010-149-5575	.40 foot	35,049	(same as above)	A
74-C-0288	Wire rope 4010-542-2294 4010-272-8851 4010-273-2903	99.21 reel	9,227	(same as above)	A

^aPrimary reason underscored.

<u>Contract number</u> (DSA-500-)	<u>Nomenclature/ Federal Stock Number</u>	<u>Approximate unit prices</u>	<u>Contract value (cents omitted)</u>	<u>DISC reason for source inspection</u>	<u>GAO reason code for questioning inspection (note a)</u>
73-C-0770	Glide, nail type, fur- niture 5340-664-7030	.04 each	1,482	The QA Div. did not recom- mend source inspection on this contract. The Pro- curement Division probably included the source inspec- tion requirement in the solicitation because of the high dollar value of the proposed procurement action.	
74-C-1111	Bearing, main shell & sleeve 3120-450-6678 3120-737-4008	22.48 each 10.46 each	5,950	No technical data available on item, thus source in- spection was necessary to verify that the item was manufactured properly.	<u>A</u> , B, D

^a Primary reason underscored.

LEGENDReason code
for questioning
source inspectionExplanation

- A Item classified "off the shelf" by contractor. ASPR permits such items to be inspected at destination.
- B Item identified by manufacturer's part number. DGSC procedures would have required destination inspection, which we believe is practical because, lacking technical data, the QAR would have no way of verifying that the item was manufactured properly.
- C Based on discussion with QAR, his inspection was only an end-item type examination that could have been accomplished at destination.
- D Contractor did not manufacture item, thus inspection performed at source could only have been an end-item type examination that could have been accomplished at destination.
- E Based on the quality history of the contractor, authorization of the COC option was warranted.
- F First-article testing requirement waived by the Procurement Div. at time of award because the successful bidder had previously satisfied the requirement. Based on his quality history, authorization of the COC option was also warranted.

LEGEND (continued)

Reason code
for questioning
source inspection

Explanation

- G According to the specification, the first-article testing requirement was to be included in the contract at the option of the buying activity. Neither the solicitation nor the contract included a requirement for first-article testing.
- H Contract was a small purchase (under \$2,500). Had the purchase been made under fast payment procedures allowable for small purchases, the Government would have taken title to the items upon their delivery to a Post Office or common carrier without having to source inspect them.

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