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BY THE COMPTROLLER GENERAL

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Report To The Congress

OF THE UNITED STATES

Implementation Of Federal Policy On Acquiring And Distributing Commercial Products Is Faltering Badly

Federal policy requires agencies to rely on commercial products and distribution channels to meet their needs for products and services. The policy, established by the Office of Federal Procurement Policy in May 1976, was to be fully implemental by August 1979.

In reviewing the progress of several agencies and interagency committees to carry out the policy, GAO found that little meaningful progress had been made. The Defense Department lacks a unified approach, and many necessary changes have not been made. The General Services Administration is lagging, and the Veterans Administration has not completed its assigned tasks.

The interagency committees have achieved some policy benefits. However, unless the individual Federal supply agency pursues the policy's objectives, cost savings and other benefits will not be achieved.



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WASHINGTON, D.C. 20548

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To the President of the Senate and the
Speaker of the House of Representatives

This report deals with the implementation of the Federal Government's policy, established by the Administrator of the Office of Federal Procurement Policy in May 1976, on acquiring and distributing commercial products.

We made our review to determine the progress made by Federal agencies and the problems they have encountered in implementing the major reforms required by the policy. Our review concentrated on the Veterans Administration, General Services Administration, and Department of Defense. Much remains to be done to fully implement the needed reforms.

We are sending copies of this report to the Director, Office of Management and Budget; the Secretary of Defense; and the Administrators of General Services, Veterans Affairs, and the Office of Federal Procurement Policy.

A handwritten signature in black ink, appearing to read "James B. Stuckey".

Comptroller General
of the United States

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" 378

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

IMPLEMENTATION OF FEDERAL
POLICY ON ACQUIRING AND
DISTRIBUTING COMMERCIAL
PRODUCTS IS FALTERING BADLY

D I G E S T

Federal supply agencies purchase, stock, and distribute each year billions of dollars worth of products. In May 1976 the Office of Federal Procurement Policy established a policy requiring Federal agencies to rely on commercial off-the-shelf products to satisfy their needs as opposed to products manufactured to meet Government specifications. Agencies were also to rely on commercial distribution systems to distribute these products rather than to stock them. The policy was to be fully implemental by August 1979. Federal supply agencies recognize the potential savings and benefits of the policy, yet none has pursued them aggressively. Implementation is faltering so badly that successful achievement of policy objectives is doubtful. GAO found that:

- The Defense Department's implementation is fragmented. (See pp. 7 to 10.)
- The Department's Defense Logistics Agency continues to purchase, stock, and distribute low-demand value products; and its policies, procedures, practices, and methods are biased against the commercial products policy. (See pp. 8 and 9.)
- The General Services Administration's implementation has failed due to a lack of commitment and leadership from top management. (See pp. 14 to 19.)
- The Veterans Administration conducted a meaningless survey and concluded that its supply system complied with policy concepts. (See ch. 4.)

The potential savings and other benefits of changes in supply management methods and

practices required by the policy and resistance by Federal agencies to make the changes are not new issues. Since 1963 GAO has recommended that Federal supply agencies take advantage of available savings by using the commercial marketplace to meet their needs. The Commission on Government Procurement made similar recommendations, and it is an established Government policy to rely on the commercial marketplace for products and services. Interagency committees working within single commodity areas have achieved several benefits of the policy.

--The number of Government inspectors with which private industry deals has been reduced by assigning to the Department of Agriculture, Food and Drug Administration, and National Marine Fisheries Service responsibility for quality assurance on food, medical items, and seafood, respectively. (See pp. 27 to 30.)

--The Department of Defense, which began using commercial specifications for seafood products in 1977, reports that its cost for the products decreased 40 percent, resulting in a savings of \$5 million for the year. Also, the number of suppliers more than doubled, and there was a dramatic decline of inferior seafood products introduced into the military supply system. (See p. 28.)

The Office of Federal Procurement Policy's goal to be able to fully implement the commercial products policy by August 1979 has not been accomplished.

RECOMMENDATIONS

The Congress should place executive branch agencies under a mandatory deadline to implement the policy. The Administrator, Office of Federal Procurement Policy, should direct the major supply agencies to speed up the policy's implementation and consider implementing it on a commodity basis. The Secretary of Defense should integrate the efforts of Defense agencies and direct the Defense Logistics Agency to:

- Implement the policy on a full-scale basis and stop stocking and distributing low-demand value items.
- Reevaluate the necessity for its commercial item support program.

The Administrator, General Services Administration, should commit the agency to carrying out the commercial products policy. He should also:

- Define overall agency management responsibility for the policy and eliminate fragmented responsibility and interdivisional conflict.
- Allocate funds and personnel necessary to develop and use the commercial item description system and decrease the funds and personnel devoted to maintaining the agency's duplicative Government acquisition and distribution system.

The Administrator, Veterans Affairs, should complete the implementation of the commercial products policy by conducting market research and analysis on all products procured with Veterans Administration specifications.

AGENCY COMMENTS

The agencies do not believe that progress on the policy is faltering. They listed recent accomplishments and planned efforts.

- The General Services Administration will soon issue a comprehensive agency implementation plan and is developing a series of commercial item descriptions.
- The General Services Administration and the Office of Federal Procurement Policy are establishing a commodity management prototype organization for the furniture center of the Federal Supply Service. The lessons learned from this will be transferred to other commodity elements within the Service.

--In July 1979 the Veterans Administration began a comprehensive review of all its specifications with a completion date of February 1980.

Notwithstanding these positive accomplishments, the commercial products policy represents a major shift in methods and practices used by Federal agencies to purchase and distribute the products they require. The Office of Federal Procurement Policy has stated that proper implementation of the policy requires reforms in using and deploying agency personnel, retraining personnel, and realigning agency functions. Since there is no indication these changes are forthcoming, the conclusions and recommendations remain valid.

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ABBREVIATIONS

DLA	Defense Logistics Agency
DOD	Department of Defense
DPSC	Defense Personnel Support Center
ETIP	experimental technology incentives program
FDA	Food and Drug Administration
FSS	Federal Supply Service
GAO	General Accounting Office
GSA	General Services Administration
HEW	Department of Health, Education, and Welfare
NSN	national stock number
OFPP	Office of Federal Procurement Policy
USDA	Department of Agriculture
VA	Veterans Administration

CHAPTER 1

INTRODUCTION

Historically, the Federal Government has relied primarily upon detailed design specifications to purchase products to meet its everyday operating needs. This has resulted in the development of Government products similar to commercial off-the-shelf products. The Government products frequently cost more than comparable commercial products and are not acceptable in the commercial marketplace. Most of these products are distributed through the Government's depot systems. In addition, Government purchasing agencies warehouse hundreds of thousands of readily available commercial products rather than use commercial distribution systems. Such traditional practices have resulted in the establishment of costly and complex Government acquisition and distribution systems which duplicate established commercial distribution systems.

On May 24, 1976, the Administrator, Office of Federal Procurement Policy (OFPP), in response to recommendations of the Commission on Government Procurement, issued a memorandum to the Secretary of Defense, Administrator of Veterans Affairs, and Administrator of General Services establishing the following policy:

"The Government will purchase commercial, off-the-shelf, products when such products will adequately serve the Government's requirements, provided such products have an established commercial market acceptability. The Government will utilize commercial distribution channels in supplying commercial products to its users."

On December 6, 1976, the OFPP Administrator published the policy's objectives, definition of terms, procedures, and general guidance for reducing warehouse inventories, changing regulations, eliminating specifications, and the specific tasks required of the agencies in order to accomplish incremental implementation of the policy.

Under the direction of OFPP, several interagency committees were working to implement recommendations of the Commission on Government Procurement. In October 1977, OFPP brought the interagency projects under the guidance of the acquisition and distribution of commercial products policy (hereinafter called commercial products policy). In addition to the Department of Defense (DOD), the General Services Administration (GSA), and the Veterans Administration (VA), the following agencies were members of the interagency committees: (1) the Department of Agriculture (USDA), (2) the

Department of Commerce (National Marine Fisheries Services and the experimental technology incentives program (ETIP)), and (3) the Department of Health, Education and Welfare (HEW) (Food and Drug Administration (FDA)).

The objectives of the commercial products policy were as follows:

- Maximize use of commercial distribution channels.
- Reduce Government-stocked commercial items.
- Eliminate all unnecessary Government specifications for commercial products and packaging.
- Tailor Government specifications that cannot be eliminated to reflect commercial practices as much as possible.
- Eliminate acquisition and distribution redundancies.
- Ensure user satisfaction.

WHAT THE AGENCIES WERE TASKED TO DO

OFPP directed each agency to review its acquisition and distribution regulations, procedures, practices, and methods to identify institutional impediments to implementing the commercial products policy. Agencies were directed to analyze products stocked in their depots to determine which were available commercially and could be obtained through commercial distribution systems.

The analysis of products was the mechanism through which problems and solutions would be identified and through which incremental policy implementation would take place. OFPP directed agencies to use innovative procurement methods and to develop uniform regulations, procedures, practices, and methods to assure effective market research and analysis, specifications management, and the best method of acquisition and distribution for a product or group of products.

Each agency was directed to develop a general implementation plan which followed the guidelines and directions in OFPP's December 1976 memorandum and provided for the policy to be in place and operating by August 1979.

WHY THE REVIEW WAS DONE

We conducted our review to determine the progress made towards implementation of the commercial products policy,

problems delaying implementation, and what needs to be done to complete implementation of the policy. Since DOD, GSA, and VA were the agencies charged with completing the majority of implementing actions, we concentrated our review on their efforts.

It was not our purpose in this review to prove or disprove the overall economies of the policy of relying on commercial products and commercial distribution systems. Prior to and during the past decade many of our studies have shown a need for Federal purchasing agencies to change their acquisition and distribution practices, procedures, regulations, and methods applicable to commercial products. The studies have proven commercial distribution systems to be more economical than the Government's for many common commercial products.

For example, in 1963, we reported the Defense Logistics Agency (DLA) could save \$50 million in supply management costs and reduce its depot inventories about \$275 million by removing hundreds of thousands of slow-moving and inactive commercially available items. We continued to find supply management problems in followup reviews conducted in 1967, 1971, 1973, 1974, 1975, and 1976. In its 1972 report to the Congress, the Commission on Government Procurement found the acquisition and distribution practices of Federal supply agencies were not economically efficient or effective for commercial products.

GAO and the Commission have recommended that Federal supply agencies consider all operating costs when deciding how to acquire and distribute a product. The commercial products policy requires that commercial distribution channels be used unless Federal agencies can prove their distribution systems can handle a product at a lower cost. DOD, GSA, and VA agree with the above statement of policy. We believe that effective implementation of the commercial products policy by Federal supply agencies will reduce the number of low-demand and inactive items in their warehouses and avoid millions of dollars lost each year through obsolescence.

On August 9, 1979, the President approved establishment of a National Supply System for the Federal Government. The Office of Management and Budget has published a two-phased implementation plan requiring executive agencies to gradually alter their acquisition and distribution processes and organizations for the System to be effected by October 1, 1981.

The primary objective of the System is to establish a Government-wide, comprehensive approach in resolving the acquisition and distribution problems of executive agencies.

Implementation of the commercial products policy is listed as an important step in attaining this objective.

SCOPE OF REVIEW

We reviewed agency actions taken to implement the commercial products policy by examining files and interviewing officials responsible for policy implementation. Our work on interagency committees and task groups consisted of reviewing status reports and minutes of meetings and interviewing chairmen or members of committees and groups.

Our criteria for measuring the agencies' progress in implementing the commercial products policy were the tasks assigned to each agency, completion dates for tasks, policy goals and objectives, and guidance and directions contained in OFPP's memorandums.

We performed our work at the Federal Supply Service (FSS), Arlington, Virginia; VA, Washington, D.C., and Hines, Illinois; DOD, The Pentagon, Washington, D.C.; DLA, Alexandria, Virginia; the Defense Personnel Support Center (DPSC), Philadelphia, Pennsylvania; and OFPP, Washington, D.C.

CHAPTER 2

DOD IMPLEMENATATION EFFORTS--

A NEED FOR COMMITMENT

Successful implementation of the commercial products policy depends upon the degree of DOD's commitment to change its acquisition and distribution practices and methods.

DLA is DOD's purchasing agent for products common to the military services. In fiscal year 1978, DLA purchased \$8 billion in commercial products and maintained an inventory of 1.4 million items in its depot system. Examples of the commercial products purchased and stored are air-conditioning equipment; firefighting equipment; hospital furniture; fresh, frozen, and processed meats; and other food products.

Organizationally DLA performs its acquisition and distribution functions through a network of 6 supply centers, 15 depots, and 38 refrigerated storage facilities throughout the United States. Seven of the depots are managed by DLA, and the remaining eight are military service depots which distribute DLA-owned products. The refrigerated facilities, which are mostly privately owned and operated, are used in the distribution of perishable food products.

Historically DLA has purchased common commercial products in large quantities, stored them in depots, and distributed the products based on customer demand. These practices have resulted in an accumulation of low-demand and no-demand items, which become obsolete and are eventually disposed of as surplus. In past studies, we identified DLA's item management regulations as a cause of this problem because they favor central procurement, storage, and distribution of commercial products. These regulations must be changed for DLA and its customers to successfully implement the commercial products policy.

In another problem area, DOD needs to reduce the practice of using detailed Federal and military specifications in its purchasing activities. Since DOD uses many products that are the same as or similar to products produced for the private sector, many of these specifications were developed to purchase commercial products. The specifications often call for rigid design and processing requirements and often are obsolete because they are not updated as products and production methods improve.

To date, DOD has developed and manages 40,000 documents for purchasing the products it needs. These include specifications, standards, and handbooks. Within DOD, 88 activities are responsible for developing and updating the documents.

WHAT DOD WAS TASKED TO DO

OFPP's December 1976 memorandum to the Secretary of Defense contained guidelines and directions for implementing the commercial products policy and specific tasks to be accomplished during a planning and analysis phase of implementing actions. An attachment to the memorandum listed products, centrally purchased, stocked, and distributed, which were to be studied using market research and analysis techniques. DOD identified other products to be analyzed as part of its own commercial commodity acquisition program.

In performing the analysis, DOD was to thoroughly examine its procurement and supply processes to identify any constraints to implementing the commercial products policy. If a regulation, procedure, statute, or legal decision prevented buying or distributing a product commercially, DOD was to identify the changes needed. Six months after the analysis started, DOD was to initiate changes, and OFPP would issue revised guidelines, as appropriate. As progress permitted, additional groups of products would be studied, and the implementation process would be continuous. The objectives of these tasks were to maximize use of commercial products and distribution channels by eliminating Government specifications and distribution systems for commercial products.

In December 1977, OFPP assigned additional tasks to the Secretary of Defense which would produce regulations, procedures, and techniques to fully implement the commercial products policy by August 1979. DOD was directed to develop and implement a specification management system, coordinated with GSA, which would result in:

- A system of functional specifications for commercial products which would eliminate proliferation, duplication, and obsolete specifications from inventory.
- An operating manual on specifications and standards management.
- A 5-year cyclical system for reviewing, updating, or purging specifications and standards.
- A current index of specifications and standards.

--An audit program to validate progress and results.

--A training program for specification preparers developed in conjunction with the Federal Acquisition Institute.

Also, DOD was directed to concurrently establish a 5-year plan to refine its 40,000 specifications, standards, and handbooks in accordance with objectives of the commercial products policy. The documents were to be reviewed at a rate of 2,200 per quarter, and a total of 13,000 were to be completed by August 1979. The rate of review for the remaining 27,000 would be determined by experience gained in the initial review.

DOD was directed to concentrate its initial review on high-volume items to achieve the maximum savings and benefits as soon as possible. DOD was to avoid duplicative efforts by coordinating this project with interagency committees on food, medical supplies, office furniture, and audio and audiovisual products.

DOD EFFORTS

DOD initiated three programs to complete its assigned tasks in the planning and analysis phase of implementing the commercial products policy:

--The commercial commodity acquisition program was a test procurement program to determine if products produced for the public and industry could meet the requirements of the military services.

--The commercial item support program is an effort to determine if commercial distribution channels can supply products to the military services based on cost effectiveness (that is, commercial distribution channels must cost less than the Government's depot system) and military readiness.

--To complete the tasks assigned in OFPP's December 1977 memorandum concerning specification refinement and management controls, DOD began a specifications review effort in June 1978. Headed by the Defense Material Specifications and Standards Office, the effort involved the 88 specification preparing activities. DOD directed the review to be done when specifications are revised, amended, or reviewed for any reason, including its 5-year review program. No criteria are used to determine whether commercial products

would satisfy specification requirements. These decisions will be based on the knowledge and commonsense of specification writers.

Commercial commodity acquisition program

We reviewed 64 products approved by DLA for test procurements during 1978 and 1979 under its commercial commodity acquisition program. DLA selected the products on the basis that each had been previously purchased using a Federal or military specification and each had annual purchases of over \$10,000.

DLA's supply centers were responsible for determining the existence of industry standards or specifications, their suitability for DOD use, and the existence of acceptable commercial products. The specification preparing offices then reviewed the data to determine if the specification was to be waived, be tailored, or remain unchanged and provided a rationale for the decision. The offices prepared the purchase descriptions used in test procurements.

Once a product was approved, the supply centers conducted presolicitation conferences with interested suppliers to obtain comments on purchase descriptions and types of contracts. A supply center would then advertise the requirement and award a contract.

As of May 1979, 49 contracts had been awarded for 48 of the 64 products. DLA has estimated the contracts for the 64 products will amount to more than \$60 million. The types of product descriptions used included 21 purchase descriptions, 17 industry standards, and 11 brand names. Commercial distribution channels were used on 6 of the 49 contracts.

Activities and customers involved in test procurements will prepare case studies on each product, listing difficulties encountered, lessons learned, and acceptability of the product. Studies will be completed sometime in 1980 when customers have evaluated the products. DOD specification preparing offices will review case studies to determine if Government specifications will be used in future purchases of commercial products.

Commercial item support program

In January 1977, DOD directed DLA to develop a plan for the commercial item support program. In November 1977, DOD approved and forwarded the plan to DLA for action. Objectives of the program were to (1) achieve maximum use of commercial distribution channels, (2) reduce inventories of commercial products in DOD's depots, (3) achieve economies in

product acquisition and distribution costs, and (4) accomplish the above without degrading military readiness.

The program plan called for supply centers to review DLA's 1.9 million items for the purpose of identifying items eligible for some form of commercial distribution. Identified items would then be designated local purchase or would undergo a cost analysis to determine the most economical method of acquisition and distribution. The cost analyses would be conducted using a computer model.

Since initiation of the commercial item support program, DLA and the supply centers have been involved in screening inventory items and testing, evaluating, and revising the computer model. At the close of our review, this program had not affected DLA's supply management procedures and methods. The situation remains much as we reported to the Congress in 1976--DLA's management procedures and methods favor central procurement, stockage, and distribution of commercial products and limit the use of commercial distribution channels. 1/

Specifications review program

As of April 1, 1979, DOD's specification preparing offices had reviewed 1,442 specifications. Their reviews produced the following decisions:

- 59 canceled.
- 999 identified as Government-unique items having no commercial counterparts.
- 97 identified as commercial items.
- 263 identified as modified commercial items.
- 24 military specifications for which a commercial specification or standard is being sought.

According to an official of the Defense Material Specifications and Standards Office, specification preparing offices are waiting for GSA to publish criteria for new Federal commercial item descriptions before converting any specifications. These new descriptions will be functional definitions of products rather than detailed, manufacturing

1/"Greater Use of Commercial Distribution Systems for Minor, Low-Use Supply Items Can Reduce Defense Logistics Costs," LCD-76-422, Aug. 9, 1976.

design descriptions. Also, preparing activities are falling behind in this task because personnel and funds have not been committed and the offices are not convinced the commercial products policy will work.

DOD's specification improvement program will not meet the commercial products policy milestones. At the rate specification preparing offices are working, it will be many years before DOD's 40,000 specifications, standards, and handbooks are reviewed. Also, results of reviews conducted so far indicate that few changes will be made by specification preparing offices.

Concurrent with its specification reviews, DOD was directed to develop a management system for specifications which would favor functional descriptions of commercial products. OFPP's December 1977 memorandum listed five requirements to be included in DOD's system. Several requirements are in existence. For example, DOD has:

- An operating manual for specifications and standards, which is being revised to comply with the commercial products policy.
- An index of specifications and standards, which is updated every 2 months.
- A 5-year review program for specifications and standards.

However, DOD has not developed a training program on the commercial products policy for specification writers nor an audit program to validate progress and results of its 5-year cyclical review system for specifications and standards.

NEED FOR INTEGRATION

DOD's implementation efforts to date are fragmented among its commercial commodity acquisition program, commercial item support program, and specification improvement program.

In all three programs, efforts were made to identify commercial products to be purchased by DLA. The test procurement program will purchase 64 products; the commercial item support program identified over 1 million inventory items as eligible for commercial distribution; and DOD's specification preparing offices have identified 97 commercial products which meet DOD's requirements. A common approach to policy implementation is not evident in these efforts.

As of May 1979, contracts had been awarded for 48 of the 64 products. The 64 test procurement products were surveyed to determine (1) the existence of commercial products, (2) industry standards or specifications, and (3) their suitability for DOD use. They were then to be researched under the commercial item support program; however, DLA has not identified commercial distribution systems for the products. Instead, DLA has developed an elaborate and complex screening process and mathematical cost model for many low-value, low-demand items.

Also, the specifications improvement program is totally independent of the test procurement program. Under the test procurements, market research was conducted on commercial products and commercial specifications were developed. In our opinion, when a product is researched for procurement, it should be established whether a commercial product will satisfy DOD's needs and if a commercial distribution system exists to supply the product. Also, DOD's three programs should be integrated to achieve a unified approach to implementation of the commercial products policy and a more efficient use of resources.

CHAPTER 3

GSA IMPLEMENTATION EFFORTS--

A LACK OF COMMITMENT

GSA has failed to implement the commercial products policy due to a lack of leadership and commitment from top management and a lack of cooperation and coordination among FSS divisions.

FSS is responsible for providing common-use quality products to executive agencies at the lowest overall cost. During fiscal year 1978, about \$3 billion in goods and services were provided to executive agencies through four programs FSS operates.

The stock program acquires and distributes 21,000 products via a system of 20 depots and 75 self-service stores. The schedules program makes available to executive agencies a wide variety of commercial products through a system of noncompetitive contracts awarded to multiple suppliers of similar products. In fiscal year 1978, 8,000 contracts were awarded with total purchases amounting to about \$2 billion. The self-service stores program provides a walk-in shopping service. Merchandise sold in the stores comes from the stock program, schedules program, and local suppliers. Finally, FSS provides a special buying program for products with common requirements from all agencies, but which are not available in the stock or schedules programs. An example of these products is motor vehicles.

Another FSS responsibility is developing and managing Federal specifications and standards. Currently, FSS catalogs about 4,500 specifications and 1,500 standards. Many of these documents define in detail the design, material, and technical requirements for commercial products and are subject to the same criticisms directed at military specifications.

WHAT GSA WAS TASKED TO DO

OFPP's December 1976 memorandum to the Administrator of General Services contained guidelines and directions for implementing the commercial products policy and specific tasks to be accomplished during a planning and analysis phase of implementing actions. Attached to the memorandum was a list of products, centrally purchased, stocked, and distributed, which were to be studied using market research and analysis techniques.

In performing the analysis, GSA was to thoroughly examine its procurement and supply processes to identify any constraints to implementing the commercial products policy. If a regulation, procedure, statute, or legal decision prevented buying or distributing a product commercially, GSA was to identify the changes needed. Six months after the analysis started, GSA was to initiate changes, and OFPP would issue revised guidelines, as appropriate. As progress permitted, additional groups of products would be studied, and the implementation process would be continuous.

In December 1977, OFPP assigned additional tasks to the Administrator which would produce regulations, procedures, and techniques to fully implement the commercial products policy by August 1979. GSA was directed to develop and implement a specifications management system, coordinated with DOD, which would result in:

- A system of functional specifications for commercial products which would eliminate proliferation, duplication, and obsolete specifications from inventory.
- An operating manual on specifications and standards management.
- A 5-year cyclical system for reviewing, updating, or purging specifications and standards.
- A current index of specifications and standards.
- An audit program to validate progress and results.
- A training program for specification preparers developed in conjunction with the Federal Acquisition Institute.

Also, GSA was directed to concurrently establish a 5-year plan to refine its 6,000 specifications and standards in accordance with the objectives of the commercial products policy. The documents were to be reviewed at a rate of 250 per quarter, and a total of 1,500 were to be completed by August 1979. The rate of review for the remaining 4,500 would be determined by experience gained in the initial review.

GSA was directed to concentrate its initial increment on high-volume items to achieve maximum savings and benefits as soon as possible. GSA was to avoid duplicative efforts by coordinating this task with interagency committees on food,

medical supplies, office furniture, and audio and audiovisual products.

GSA EFFORTS

FSS was assigned responsibility for completing GSA's tasks to implement the commercial products policy. FSS began its analysis in April 1977 with a group of Government specifications on 270 products having an annual procurement volume exceeding \$150 million. There were 2,300 national stock numbers (NSNs) associated with these specifications.

The analysis of specifications was conducted by requiring the Government specification manager (the official responsible for developing and maintaining the document) to determine whether the product described in the specification was a commercial off-the-shelf product, commercial-type product, or a Government-unique product. Specification managers designated 160 specifications as describing commercial off-the-shelf products and the remaining 110 as describing commercial-type or Government-unique products. None of the specifications has been converted or canceled because replacement documents for the specifications were never developed.

The analysis of items distributed through FSS' depots was conducted by mailing a questionnaire to previous suppliers of the products. Vendors were requested to provide such data as what type of product it was, whether it was commercially distributed, and what the vendor's geographic service area was.

Mailings of the questionnaire and receipt of responses from vendors were handled by Government entities which regularly procured the products. Approximately 6,900 questionnaires were sent out, but FSS officials were unaware of the number of responses received.

The procuring entities evaluated responses from vendors and forwarded the data to FSS headquarters with recommendations to remove 300 NSNs from the depot distribution system. FSS headquarters then processed the data through a computer-simulated economic cost model to determine the most economic method of acquiring and distributing products. Of 2,300 active NSNs, 770, including the previous 300, were identified as being uneconomical to stock and distribute through FSS' depot system. For the remaining 1,530 NSNs, the computer model determined that FSS' depot system could more efficiently distribute commercial products than commercial distribution channels. Since OFPP did not believe the above results were accurate, it directed FSS to review its model and data for possible errors.

The accuracy of data FSS used for the cost analysis was questioned by an FSS official long before the results were forwarded to OFPP. In September 1977, the FSS representative for implementation of the commercial products policy expressed concern about FSS' techniques and methods being used to implement the policy. He told the Assistant Commissioner of Procurement for FSS:

"Procuring entities' actions indicate that they do not comprehend the product survey procedures or the policy; suppliers claim they are asked for information they can not provide; both insist the survey takes too much time, and almost anyone can (intentionally or otherwise) distort the survey data in a decisive way. The survey is supposed to produce price information suitable for use in the economic model, but it very rarely succeeds in doing that."

"This is not to say that there has not been a lot of work performed, indeed there has. Procedures have been written, computer data have been obtained and edited, forms have been developed, suppliers have been contacted by phone and by correspondence, status reports have been rendered, and many other things-- a costly papermill which has yet to produce one method of supply decision."

In December 1977, the FSS official who had overall responsibility for the analysis notified FSS management that the survey results were less than satisfactory. Some vendors had not responded even after repeated telephone contacts. Of the responses received, many were incomplete or too vague to interpret.

The official pointed out that, in this survey, Government offices which purchase and warehouse the products were asking vendors whose business was supplying products for the warehouses for information which could ultimately result in a decision to eliminate the functions of both. He recommended that a third party, such as a market research firm, conduct the analysis, but FSS management did not accept the recommendation.

FSS has been reviewing and revising its cost model, and as yet the product analysis has not been repeated.

Specification improvement program

FSS established a specification review board and improvement program in 1976 as a means to implement the commercial products policy and also the recommendations in

our report 1/ on the necessity of Government specifications for commercial products.

FSS' Office of Standards and Quality Control was assigned the task of implementing the program. The staff selected specifications and standards which were over 5 years old with no recorded use as the program's first target. Specification preparing offices responsible for preparing and maintaining the documents were required to justify the need for the specifications and standards.

As of January 1979, the Director of Standards and Quality Control reported the following results for the program:

- 979 specifications are being coordinated with the appropriate agencies for cancellation.
- 531 specifications have been modified to reflect commercial packaging and packing.
- 282 specifications have been identified for conversion to commercial item or purchase descriptions.
- 20 specifications have been converted to commercial item descriptions.

Specifications management system

Concurrent with its specification reviews, FSS was directed to develop a management system for specifications which would favor functional descriptions of commercial products. OFPP's December 1977 memorandum listed the requirements to be included in the system.

To fulfill the requirement for an audit program, FSS developed a questionnaire on which specification preparing offices had to identify actions taken to bring documents into compliance with FSS' specification improvement program.

FSS' training program for specification preparers consisted of a 1-day seminar held in March 1977 to acquaint them with its specification improvement program.

1/"Government Specifications for Commercial Products-- Necessary or a Wasted Effort?," PSAD-77-171, Nov. 3, 1977.

FSS has not developed an index of specifications and standards; published an operating manual on specifications and standards; established a 5-year cyclical system for reviewing, updating, or purging standards and specifications; or established a system of functional descriptions for commercial products.

LACK OF COMMITMENT

FSS efforts to implement the commercial products policy showed a lack of management support for the policy. They were hampered by interdivisional disputes, and no one with sufficient authority was appointed to resolve the disputes.

Implementation plan

FSS has never submitted to OFPP a general plan to accomplish the commercial products policy objectives. In reviewing agency documentation on policy implementation efforts, we found its general plan was constantly being revised. The management official or office responsible for coordinating and overseeing the agency's shift from the old procurement policy to the commercial products policy was changed several times. Some FSS officials declined to perform assigned tasks, would not coordinate their work as required, and requested changes in assignments which had traditionally been under their control. This lack of commitment was still evident at the end of calendar year 1978 and is illustrated in the following projects.

Audio and audiovisual products project

In December 1977, when OFPP charged GSA to implement the commercial products policy, annual purchases of audio and audiovisual equipment approximated \$200 million. The Government's acquisition and distribution system for the equipment consisted of the following:

- GSA stocks 25 audio and audiovisual line items in its depot system.
- There were nine multiple award schedule contracts and four single award schedule contracts for audio and audiovisual equipment.
- There were approximately 85 Federal specifications and 250 military specifications for audio and audiovisual equipment.

--DLA's Defense General Supply Center in Richmond, Virginia, stocks and distributes 3,100 audio and audiovisual line items with an approximate value of \$12.2 million.

--The U.S. Army stocks and distributes through its supply centers over 20,000 audio and audiovisual line items (value unknown).

The project's purpose was to develop a comprehensive management system that would ensure:

--User satisfaction with products purchased.

--Use of functional specifications to obtain competition from producers of commercial off-the-shelf products.

--Elimination of Government-unique products.

--Reliance on direct delivery of products to users, rather than dependency on Government depot systems.

--Adequate market research on available products and distribution systems to assure use of the most economical supply method.

OFPP directed GSA to coordinate development of the system with DOD. The project was to be completed by December 1978. According to GSA officials responsible for the project, DOD has many more products in its depot system than GSA and has not developed a comprehensive management system. OFPP subsequently assigned DOD the lead agency role for this project.

Office furniture project

This project included all office furniture that the Government procured with appropriated funds. In fiscal year 1977, GSA had a \$37.4 million furniture inventory in its depot system and sales of \$75 million. GSA was tasked to develop a comprehensive management system that would ensure:

--A single manager for the commodity area.

--Elimination of Government-unique products from the 181 specifications on office furniture and reliance instead on functional specifications and commercial off-the-shelf products.

- Elimination of dependence on Government depot systems and reliance on direct delivery to user.
- Market research and analysis of available products, manufacturers, and delivery systems and use of the most economical supply method.
- Customer satisfaction with products delivered.

OFPP required GSA to fully coordinate development of the management system with DOD, the Department of Transportation, and USDA. The project target date was September 1978.

There was much activity by FSS on this project. An implementation plan was developed in February 1978, requiring coordinated efforts of the Offices of Procurement, Standards and Quality Control, and Customer Service and Support and the National Furniture Center. By November 1978, the plan had undergone five revisions due to interdivisional disagreements over which segments of the plan each division was to complete. This project was eventually canceled because the test procurement product was found to be overstocked in GSA's depot system. No comprehensive management system for furniture products was developed.

CHAPTER 4

VA IMPLEMENTATION EFFORTS--INCOMPLETE

Although the VA supply system reflects many of the concepts of the commercial products policy, the agency did not complete its assigned task. We believe VA has not made a sufficient effort to comply with the policy.

VA's central purchasing is done by its Marketing Center in Hines, Illinois. The Marketing Center supports 235 VA stations (hospitals and clinics) and over 300 other customers, such as the Public Health Service and Federal Prison Industries. The VA distribution system consists of 3 depots and 170 warehouses.

VA depots distribute products for which there are 1,800 NSNs. The products are purchased using 191 VA specifications, 198 Federal specifications, 5 military specifications, 194 purchase descriptions, and 404 multiple award schedules.

The method of acquisition and distribution used for a particular product is determined by the VA Marketing Center. Basically, the Center solicits vendors' large-volume prices for a product based on VA's estimated annual demand. Added to this price is a 7-percent markup to cover overhead costs of the Center. This sets the Center's selling price, which is then compared to prices customers would pay through other supply sources. The Center's selling price must provide its customers a savings of 15 percent or more over the price available through the lowest cost supply source or the product will not be stocked in VA's depot system.

WHAT VA WAS TASKED TO DO

OFPP's December 1976 memorandum provided guidelines and directions to VA for implementing the commercial products policy. During the planning and analysis phase of implementation, VA was required to conduct market research and analysis on a group of products which it centrally purchased, stocked, and distributed using VA specifications. If the product study so indicated, VA was to eliminate its specification and use the commercial product and distribution channel, unless the VA depot system could prove significant savings.

After finishing the first group of products, the Marketing Center was to select another group and continue the product studies until all of the specifications had been studied.

Other tasks assigned to VA for implementing the commercial products policy were under mandates to interagency committees. These are discussed in chapter 5.

VA EFFORTS

VA's Marketing Center conducted a survey of 25 products stocked and distributed through its depot system. A questionnaire was mailed to vendors who supplied products to VA's depot system. Vendors were requested to provide a yes or no answer to questions concerning (1) whether a Government specification described a commercially available product, (2) whether commercial firms used a specification to buy the product, (3) whether the product was affected by seasonal demands, and (4) whatever other data on the product might be helpful, such as its distribution in the commercial marketplace.

Questionnaires were mailed to 573 firms, but only 70 meaningful responses were received. The survey was conducted in three groups of seven to nine products each. These products represented 13 percent of VA's 191 specifications.

After completing the first and second groups, the VA Supply Service Director concluded that (1) industry responsiveness was considerably below expectations, (2) few products centrally procured and distributed by VA would show a savings if converted to commercial distribution systems, (3) VA specifications generally reflected commercial off-the-shelf products, and (4) all other products procured with VA specifications should be surveyed since manufacturers' suggestions had shown potential cost savings. After completing the third group of products, the VA Marketing Center Director concluded that nothing had been accomplished through its surveys and that the VA supply system complied with policy concepts. At this point, VA ended its product surveys.

The above decisions were to be supported with thorough research and analysis of products manufactured and distributed in commercial marketplaces. In our opinion, the method used by the Marketing Center was not market research and analysis, and the questionnaire data offered minimal support for a management decision on policy implementation.

We do not believe that the VA Supply Service Director had sufficient data to conclude that few products centrally procured would show a savings if distributed by commercial systems. No cost comparisons of the two distribution systems were conducted during VA's surveys. Also, the estimates supplied by vendors were so inconsistent that the information was useless. For example, for one product, six estimates

were received, ranging from a 20-percent price decrease to a 50-percent price increase.

After reviewing information supplied by vendors, we agree with the Marketing Center Director that nothing was accomplished through its surveys. VA was directed to review its specifications and products stocked in its depots and to eliminate unnecessary specifications and use commercial distribution channels unless the VA depot system could prove significant savings. This remains to be completed by VA.

CHAPTER 5

SUCSESSES AND PROBLEMS WITH INITIAL POLICY IMPLEMENTATION

The successes and problems discussed in the following sections illustrate a learning process that goes with implementing a major change in Federal procurement policy. The commercial products policy requires Federal agencies to use commercial products and distribution channels unless the agencies can prove their products and distribution systems to be less expensive.

DOD's limited policy implementation has produced savings, provided better quality products, increased bidder response, increased customer satisfaction, and disclosed some problems. However, direct cost comparisons of products and distribution systems have not been made.

Interagency committees headed by GSA and established to eliminate duplicative functions and specifications have not been successful. Some, led by other agencies, however, are accomplishing their objectives.

BETTER PRICE

Savings in the contract price for several products are illustrated in the following table.

<u>Item</u>	<u>Specifi- cation price</u>	<u>Adjusted for inflation (note a)</u>	<u>Test procure- ment price</u>	<u>Decrease</u>
Drawers	\$.99	\$ 1.01	\$.94	\$.07
Worcestershire sauce	9.85	10.07	8.01	2.06
Towels	1.24	1.46	1.12	.34
Undershirts	1.16	1.18	.90	.28
Cloth gloves	2.28	2.35	1.81	.54
Fireman's boots	22.30	23.79	20.00	3.79
Protective shoes	16.03	17.92	15.60	2.32

a/Specification prices were adjusted for inflation using the Department of Commerce's "Producer Price Indexes for Selected Products" to compensate for the time lapse between specification procurements and more recent test procurements.

All test procurements did not produce price savings. For example, DLA purchased commercial, electrical worker's rubber gloves at an increased price of over \$5.00. The increase was due to the industry's production capacity being sold out. DLA could avoid this problem by researching a product's marketing and production trends to determine the best time to enter a market.

EXPANDED COMPETITIVE BASE

DOD reported a net increase of 79 responsive bids on 42 test procurement contracts over previous buys of comparable specification items. This illustrates that the competitive base can be expanded by using commercial products and descriptions.

BETTER QUALITY PRODUCTS

Overall, feedback on the quality of items procured under the test procurement program has been good. Customer feedback on conduits, conductor splices, and sodium chloride has been uniformly good. On food items, such as soy sauce and worcestershire sauce, DOD reports that customer feedback shows commercial products to be superior to specification products in quality and user satisfaction.

However, adverse comments have been received on the commercially described undershirt because of unacceptable shrinkage. This problem was not evident in product samples DOD tested. Also, complaints dealing with commercial packaging were received from DOD's warehouses. DOD believes this problem can be solved by including specific packaging requirements in its contracts. Another solution is to use commercial distribution systems to deliver products to customers.

OTHER BENEFITS

The previous examples illustrate the benefits of the commercial products policy spread among several products; but it is possible, if properly researched, to obtain many of the benefits with one product (that is, price, competition, better product, and customer satisfaction). An example is medical X-ray film. Commercial products are being procured rather than material formerly purchased with a detailed Government specification. Consequently, DLA's customers are paying less for the film than if purchased locally or from GSA's multiple award schedules and are more satisfied with it. DLA's need for expensive refrigerated storage capacity formerly maintained by the Government has been eliminated. Also, DLA will benefit from increased customer

use of its established supply method, thus obtaining a more accurate data base for use in forecasting demand or negotiating volume discounts.

IMPACT ON SMALL BUSINESS

There was no significant reduction in the volume of contracts awarded small businesses during DOD's test procurements. As of May 1979, 27 of the 49 test contracts were awarded to small businesses. For the previous 49 contracts on the same products using Government specifications, 29 were awarded to small businesses.

One item of concern, however, is the commercial products policy's impact on businesses which have existed solely by producing Government specification products. The policy's commercial market acceptability clause qualifies a product's acceptability to Government by requiring that it be "currently marketed in substantial quantities for the general public and/or industry." Since many of these businesses have never marketed their Government specification products to the public or industry, their products will not qualify under the commercial products policy.

Some firms have complained that the policy severely damages them and that they will not survive without Government business. In response, DOD has directed that any product which previously met Federal specification requirements can continue to be determined satisfactory for procurement consideration for a specified period of time. This period will be determined by the Government contracting officer on a case-by-case basis in light of the facts of a specific situation. This grace period is intended to provide manufacturers adequate time to begin marketing their products to the public or industry.

ACTIVITIES OF INTERAGENCY COMMITTEES

In addition to efforts of individual executive agencies to implement the commercial products policy, OFPP established several interagency committees and task forces to eliminate duplicative functions and multiple specifications for the same products and to implement standard acquisition and distribution regulations, procedures, and practices among executive agencies. These committees directed their efforts at food quality assurance, food marketing information, medical products, nonperishable food products, multiple award contracts, market research and analysis, and specification refinement and controls.

The interagency task forces under the leadership of GSA have been failures. The scandals and reorganization of the agency contributed to the situation, but a lack of commitment by agency management was the major factor.

Those under the leadership of USDA, DOD, and VA have been most active and produced the most results. All of the agencies involved have approached their tasks with positive attitudes and cooperated in achieving the groups' objectives. Another reason these task forces have been relatively successful may be that their efforts were focused on individual commodity areas.

GSA leadership

OFPP charged GSA with leadership of interagency task forces on market research and analysis, specifications and standards management, and multiple award contracts. Few positive results have come from these task forces. For instance, GSA never even formed a task force on market research.

GSA was also required to form a task force to develop a Government-wide specifications and standards management system designed to implement the commercial products policy. The system was to favor functional product descriptions over detailed, design specifications and to provide effective management controls.

A task force was formed and had its first meeting on April 27, 1978. GSA has published temporary Federal Property Management Regulations prescribing policies and procedures for management of specifications, standards, and commercial product descriptions. The regulations were effective March 5, 1979, to September 30, 1979, and are in the process of being extended to December 31, 1979. The task force has not met since November 1978, and its objectives have not been accomplished.

Regarding multiple award contracts, this task force was to develop a management system which would satisfy customer needs, solicit the total marketplace for greatest competition, and eliminate uncontrolled Federal agency open market buying. The task force met several times but made no progress in solving the problems of GSA's multiple award system. We conducted a detailed review of the multiple award schedule program and reported to the Congress that the Government was buying products of a higher quality than needed and was

not obtaining price competition on most of the 4 million items in the schedules program. 1/

Leadership of other agencies

The committees which dealt with individual commodity areas have been relatively successful in their efforts to implement the commercial products policy. We believe the narrower focus of commodity areas may have been a contributing factor.

Food quality assurance

The goal of this committee was to establish USDA as the Government's manager of food specifications and the National Marine Fisheries Service and USDA as quality assurance representatives for food procured with appropriated funds. Specific objectives of the committee were to:

- Develop a specification management system for food.
- Review and analyze the 850 Government specifications on food and convert them to commercial specification or industry standards.
- Publish quality assurance inspection and acceptance criteria.
- Establish training programs for specification development and quality assurance inspection.

This committee is developing a specification management manual. After completion of the manual, Government food specifications will be brought into compliance with the commercial products policy.

An in-plant quality assurance inspection manual is being printed and will be issued in 1980. Over the past year, USDA has conducted a training program for new meat graders that produced 136 graduates. By October 1979, USDA expects to have 200 graduates.

USDA and GSA have agreed that USDA will have full authority to manage food specifications. GSA will continue to index, print, and distribute the documents.

1/"Ineffective Management of GSA Multiple Award Schedule Program--a Costly, Serious, and Longstanding Problem," PSAD-79-71, May 2, 1979.

The National Marine Fisheries Service assumed full responsibility on January 30, 1978, for quality assurance inspections on all seafoods purchased by military services, and DOD discontinued the use of military specifications and adopted the use of commercial standards and grades for seafoods. Transfer of responsibility began in February 1977, and during the year (1) the procurement base expanded, (2) overall prices decreased, and (3) the amount of nonconforming products received decreased. DOD supported the above findings by reporting that:

- From December 1976 to December 1978 the market price index for seafoods increased by 18 percent, yet the cost of products for DOD decreased 40 percent.
- The number of qualified suppliers that offered and received awards more than doubled.
- There was a dramatic decline in nonconforming seafood products introduced into the military supply system.
- During 1977 and 1978 a savings of \$5 million accrued to DOD in the purchase of seafoods.

Food Marketing Information System

Economy, efficiency, and effectiveness in food acquisition by Federal agencies is the purpose of the Food Marketing Information System. USDA, as manager, is to provide Government food purchasing officials with timely market information on availability of products and prices.

On February 5, 1979, the chairman of this committee reported that USDA had compiled a list of agency procurement officials and had placed them on mailing lists for various marketing and market situation publications. Also, he reported that, after studying procurement processes of the agencies, he has concluded that many Federal food procurement decisions are based on factors other than economic consideration. For example, DLA, based on orders from the military services and not on market conditions, buys the same amount of hamburger each week regardless of price.

The chairman stated he is reluctant to engage the committee in developing a system which agencies cannot use. He proposed that an evaluation be made of the Federal Government's food procurement policy to determine the criteria agencies use to purchase food.

Medical and nonperishable subsistence

This committee consisted of two task groups. One reviewed medical products, and the other reviewed nonperishable food products. The goal for medical products was to eliminate overlap and duplication in procurement among Federal agencies. The following specific objectives were assigned to the committee:

- Transfer procurement responsibilities from GSA and HEW to DOD and VA.
- Assign medical items for acquisition to DOD and VA without duplication.
- Establish the Federal Medical Materiel Council to eliminate redundant specifications and develop a system of specifications that conforms to the commercial products policy.

This interagency committee has been in existence since June 1974, and the agencies have expended considerable effort. A shared procurement test was conducted by DOD and VA during 1976 and 1977. DPSC and the VA Marketing Center exchanged lists of stocked medical items which each purchased for itself and the other agency. DPSC awarded 21 contracts for \$2.1 million worth of medical items, and the Marketing Center awarded 45 contracts for \$2.3 million. Problems encountered and benefits experienced during the tests were analyzed by committee members. Most problems were related to different administrative and delivery requirements of the two agencies. There was no industry resistance since the same bidders participated in each agency's procurements and offered comparable prices.

The findings were reported to OFPP, and, in January 1978, DOD and VA were directed to develop a cooperative arrangement by which responsibility for purchasing all medical items would be divided between their purchasing agencies without duplication. The arrangement was to include provisions for joint development and use of requirement-type contracts and for establishment of item entry controls for new items.

The Administrator of General Services was directed to transfer its procurement responsibilities and inventory of medical items to DOD and VA.

DOD and VA reached an agreement in June 1978. The agencies are carrying out actions necessary to implement the agreement, such as issuing joint solicitations. VA

reports it canceled 187 specifications on drugs and chemicals and is reviewing the remaining common specifications in an attempt to develop common specifications for both DOD and VA use.

FDA has assumed responsibility for quality assurance inspections of drugs on a Government-wide basis. Eventually, FDA will perform quality assurance inspections for all medical devices purchased by the Government. This consolidation of functions parallels that accomplished with USDA in the food area.

Activities of the task groups on nonperishable food matched those of the medical item groups. DOD and VA were directed to establish a Government-wide procurement system for food which divided items between agencies without duplication and provided entry controls on new items. GSA was directed to transfer its procurement responsibility and inventory of nonperishable food items to VA. This transfer was completed in January 1978.

The medical supplies and nonperishable food systems are both scheduled to be operational in 1981.

CHAPTER 6

CONCLUSIONS, RECOMMENDATIONS,

AND AGENCY COMMENTS

Concepts of the commercial products policy are not new to Government supply agencies. Since 1963, we have shown that, in many cases, savings will accrue to the Government when commercial products and distribution systems are used to meet the Government's needs. This viewpoint was supported by the 1972 report of the Commission on Government Procurement.

Ending the Government's modification of commercial products with its detailed, design specifications and duplication of commercial warehousing and delivery systems is the objective of the commercial products policy. Not only are these practices costly to taxpayers, but competition with private industry is contrary to policy established by the Congress that the Government should rely on private enterprise for commercial and industrial products and services it requires.

Cost savings and other personnel and administrative benefits expected from the commercial products policy are real. In past reports, we have compared the effectiveness, economy, and efficiency of the two acquisition and distribution systems and have shown that the commercial system is superior for many products. DOD's limited application of the policy concepts involved also illustrates the potential savings and benefits that can be attained.

The commercial products policy is over 3 years old, and efforts of the supply agencies we reviewed (VA, GSA, and DOD) have produced little meaningful progress in attaining policy goals. Each of the supply agencies has approached implementation of the policy in a different way. VA conducted a meaningless survey and concluded that its supply system complied with policy concepts. GSA's efforts were plagued with diffused management responsibility and apathy and have accomplished very little. DLA has been involved in DOD programs designed to disclose institutional impediments to the commercial products policy, identify commercially available products, and increase DOD's use of commercial distribution systems but has accomplished very little.

DLA has approached the DOD programs as tests to prove or disprove the concept of the commercial products policy. The agency's activities and programs, supposedly developed to maximize use of commercial products and distribution systems, have served to maintain the status quo. The House Appropriations Committee, in its fiscal year 1979 hearings, was

concerned that DLA's pursuit of its commercial item support program may prove to be "overly expensive and not result in a significant use of the commercial distribution system." We believe the committee's concern is valid and that major changes are needed before the commercial products policy can be fully implemented within DOD.

RECOMMENDATION TO THE CONGRESS

The Congress should consider placing executive branch agencies under a mandatory time frame for accomplishing implementation of the commercial products policy. We believe this is necessary because of the lack of progress being made to implement a policy which offers potential significant savings to the Federal Government.

RECOMMENDATIONS TO OFPP

We recommend that the OFPP Administrator:

- Exercise the Office of Management and Budget's power to recommend budgetary sanctions for failure to make acceptable progress.
- Consider directing implementation of the commercial products policy on a commodity basis.
- Direct the major supply agencies to speed up implementation of the commercial products policy and require the agencies to adopt a uniform approach.

RECOMMENDATIONS TO DOD

We recommend that the Secretary of Defense integrate efforts of the Department's agencies and activities to implement the commercial products policy and direct DLA to:

- Implement the policy on a full-scale basis and get out of the business of stocking and distributing low-demand value items.
- Reevaluate the necessity for its commercial item support program in view of its lack of contribution to implementing the commercial products policy.

RECOMMENDATIONS TO GSA

We recommend that the Administrator of General Services fully commit the agency to implementing the commercial products policy and take the following actions:

- Define overall agency management responsibility for implementing the commercial products policy and eliminate fragmented responsibility and interdivisional conflict.
- Allocate the resources necessary to develop the commercial item description system and decrease the resources devoted to maintaining the agency's duplicative Government acquisition and distribution system.

RECOMMENDATION TO VA

We recommend that the Administrator of Veterans Affairs complete the assigned task of implementing the commercial products policy by conducting adequate market research and analysis on all products procured with VA specifications.

AGENCY COMMENTS

OFPP, GSA, VA, and the Small Business Administration provided written comments on our report. (See apps. I, II, III, and IV.) DOD provided informal comments.

In summary, the agencies do not believe that policy implementation is faltering badly. OFPP, GSA, and VA listed some accomplishments during the past few months and planned implementation efforts for further achievement of policy objectives.

Notwithstanding these positive efforts, the commercial products policy represents a major shift in methods and practices used by Federal agencies to purchase and distribute the products they require. OFPP has stated that the proper implementation of the policy will require major reforms in using and deploying agency personnel, retraining personnel, and realigning agency functions. As we stated earlier, Federal agencies have historically resisted making these changes; and we found no indications in our review, or the agencies' comments, that the required reforms will soon be forthcoming. We believe our conclusions and recommendations remain valid. Individual agency comments follow.

GSA comments

GSA agreed with our recommendations and is developing a plan to bring the agency into compliance with the commercial products policy. The plan includes the necessary administrative actions, including revisions to regulations and development of supporting policies, and operational action

items designed to insure a continuous transition to commercial acquisition and distribution methods. Also, GSA has begun a priority effort to develop the Federal series of commercial item descriptions.

If GSA successfully completes the above efforts, our recommendations would be implemented. In addition, we must point out that the commercial products policy requires GSA to use commercial distribution systems unless it can prove significant savings would accrue to its customers by using Government depot systems.

VA comments

VA believes that it is a willing participant in the implementation of the commercial products policy and that it is fully complying with objectives of the policy. VA officials point out that over the past 5 years they have substantially reduced the number of VA specifications. And, in July 1979, they began a comprehensive specification review program designed to eliminate unnecessary VA specifications and to develop commercial product descriptions for new products entering their supply system.

VA disagreed with our finding that the questionnaire technique it used in surveying 25 centrally managed products was not market research and analysis. We believe this technique does not comply with guidance and directions on market research and analysis contained in OFPP's policy memorandum. Also, VA's marketing center considered the technique useless and halted the process in April 1978.

Small Business

Administration comments

The Small Business Administration believes the commercial products policy will have a devastating effect on small manufacturers which produce products used solely by the Government. We agree that the policy will adversely affect these client firms. However, DOD has proposed that all manufacturers of products which have met Government specification requirements be allowed to compete for a specified period of time with firms providing commercial products. This grace period is intended to provide manufacturers of Government specification products time to develop a market for their products within industry or with the public. If this proposal is adopted, it should ease any adverse impact on these small business firms.

DOD informal comments

DOD generally agreed with our report and believes it will be useful as the Department continues to implement the policy. DOD did not concur with our recommendation to the Secretary of Defense that DLA be directed to implement the policy on a full-scale basis. DOD stated that DLA has been directed to implement the policy through the issuance of DOD directive 5000.37, dated September 29, 1978, and numerous pieces of correspondence, directive in nature.

Our analysis of DLA's implementation efforts recognized the existence of these DOD management directives. However, our recommendation was based on the fact that DLA had not significantly used commercial distribution channels in test procurements, that DLA's inventory continued to consist of mainly low-demand value items, that a decision to use Government specifications or purchase descriptions will not be reached until sometime in 1980 or 1981, and that Government-unique products will be purchased until then.



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

OFFICE OF FEDERAL
PROCUREMENT POLICY

OCT 16 1979

Mr. J. H. Stolarow
Director
Procurement and Systems
Acquisition Division
General Accounting Office
Washington, DC 20548

Dear Mr. Stolarow:

Thank you for your letter of September 17, 1979, regarding the proposed draft report on the implementation of the Acquisition and Distribution of Commercial Products (ADCoP) policy. Your staff's cooperation in keeping us informed while preparing the report and in helping us support the implementation of the ADCoP policy are appreciated. The report has directed needed attention to the policy, and while we generally agree with many of its findings, we do not totally concur with its conclusion; i.e., "Implementation (of ADCoP) has faltered badly to the point that successful achievement of the policy objectives is doubtful."

As noted in the draft report, the OFPP in its instructions to the agencies established a goal of "having the ADCoP program fully implemental by August 1979". In establishing this goal, we intended for the agencies to be in a position to implement the policy on a regular basis by that date. We did not assume all objectives of the policy would be fully accomplished. ADCoP represents a fundamental change in the Government's procurement practices, and changes of this type are at best difficult and time consuming. The proper implementation of ADCoP requires the internal realignment and adjustment of some agencies' resources, the development of new operating procedures, and the training of personnel. The agencies must, of course, accomplish these changes while concurrently performing their operational requirements.

OFPP has been working with the various agencies to develop the procedures, regulations, and processes necessary to incorporate ADCoP into their regular day-to-day procurement routines. We are, for example, participating with the General Services Administration to establish a commodity management prototype organization for the Furniture Center in the Federal Supply Service (FSS). The center is the first of a series of commodity managed assignments that will bring other FSS elements in line with ADCoP. Also, we are continuing our efforts with the Department of Defense, the Department of Agriculture, and the Veterans Administration

to develop procedures for specific commodities and to create the routines for purchasing commercial products. This dual approach allows the agencies to focus on specific commodities while leading to the development of routine operating procedures which will lay the foundation for the day-to-day implementation of the policy. The greatest payoff from ADCoP will be achieved as it becomes a part of the agencies' regular practices.

The draft report correctly points out the involved agencies have not finished many of the specific tasks OFPP assigned to them. While we consider these tasks important, and expect them to be accomplished as rapidly as possible, we believe the report should give credit to the agencies for their efforts in adjusting their procurement systems to accommodate the ADCoP policy. Many of the agencies' accomplishments have occurred since the cut-off date for assembling the information contained in the report. For example, two new parts to the Federal Acquisition Regulation (FAR) have been developed and published in the Federal Register (44 FR 55912). These parts, Part 10 and Part 11, set forth the Government's policies regarding specifications and standards and they provide expanded policies, procedures, and definitions for the implementation of ADCoP. The two parts will complement the internal procedures previously developed by the various agencies such as DOD Directive 5000.37, Defense Acquisition Circular 76-18, and GSA's Temporary Federal Property Management Regulation E-59.

Comments on the two new FAR parts are expected from interested agencies and the public by December 5, 1979. Our plan is to analyze the various comments received on the FAR parts and then issue improved guidelines to the agencies for their use in furthering ADCoP implementation pending finalization of the FAR. An ADCoP training course is also being developed in conjunction with the Department of Defense and the Federal Acquisition Institute to train people in ADCoP procedures. The training course coupled with the proposed new guidelines and a new Federal Property Management Regulation on commercial item descriptions is expected to do much to speed up implementation of the program.

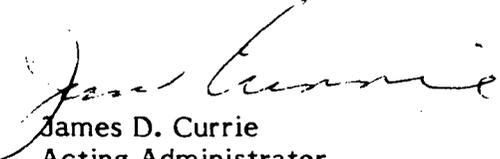
We believe your staff has done a good job in preparing its report on ADCoP. Our main concern, though, is that the report tends to concentrate on the negative aspects of the agencies' attempts to implement the policy. It does not give enough recognition to the difficulties inherent in changing the complex procedures and systems that have been developed to govern procurement and supply, nor does it sufficiently recognize some of the positive accomplishments that have been made. For example, DOD has achieved savings of over \$15 million under ADCoP in purchasing such common commercial items as ice cream makers, electrical fuses, bath towels, boxer shorts, undershirts, plumbing fixtures, Worcestershire sauce, seafood, salt, chain saws, meat, cotter pins, fire extinguishers, and

handkerchiefs. The use of ADCoP procedures in accomplishing these purchases as well as some of the major systems acquisitions done by the DOD services indicate positive action on the part of many agency operating officials despite sparse instructions from higher echelon.

The buys that have been made to date only scratch the surface of potential ADCoP savings. Nevertheless, we are optimistic that more concentration of effort and improved communication flow will result from institutionalizing the regulations and procedures now underway and presenting the training courses currently under development. This will provide even greater savings while ensuring the ultimate success of the overall program.

Finally, we note that throughout your draft report there is an underlying but critically important theme: inherent in the existing supply management systems and programs of Government are philosophies, procedures, and techniques that are inimical to the concepts upon which the commercial products initiatives are based. We fully agree with you that such obstacles exist--and that their removal is essential to the success of our commercial products programs. While we will continue to press for progress by applying the commercial products policy to selected categories of material, we are convinced by your findings as well as our own that ultimate success in this endeavor is dependent, in large part, upon a dramatic reorientation of existing supply management systems. We believe that such a reorientation is required by the recently enacted OFPP reauthorization legislation (P.L. 96-83) and its call for development of a Uniform Procurement System. You may wish to consider this factor in your recommendations.

Sincerely,



James D. Currie
Acting Administrator

OFPP Comments

Our assessment of agency progress to implement the commercial products policy was reached by comparing what the agency accomplished to what the agency was directed to do in order to be in a position to implement the policy on a regular basis. None of the three agencies have in place the "procurement routines" necessary to implement the policy.

DOD was issued directives, but DLA has yet to incorporate these into standard operating procedures. Also, DOD has stated it does not have the personnel capacity or funds to train procurement officials to implement new procedures.

GSA has yet to issue a plan to develop the "procurement routines" to incorporate ADCoP into its day-to-day processes. This plan was to be issued in January 1977. The agency admits its efforts faltered until January 1979.

VA refuses to change its practices and methods to comply with policy directions, and has no plans to develop a market research and analysis routine.

OFPP states the procedures, regulations, and processes necessary are under development. "Many accomplishments" did occur after our cut-off date, but these still do not bring the agencies near compliance with required target dates.

OFPP's comments in the final two paragraphs sum up our conclusions. Without an aggressive and concentrated commitment from these agencies, the benefits of the policy will not be achieved. We did not find these in our review, and only GSA states it is committed to accomplish initiatives.

As to the positive accomplishments of the agencies, we actively searched for these during our review and afterwards. Only those we were able to document were included in the report. Also, it must be remembered the savings achieved by DOD were temporary. These test procurements will be analyzed by DLA into 1980 and 1981, and a decision to repeat will not be made until then.



General
Services
Administration Washington, DC 20405

OCT 22 1979

Honorable Elmer B. Staats
Comptroller General of the United States
General Accounting Office
Washington, DC 20548

Dear Mr. Staats:

On September 17, 1979, copies of the draft report, "The Federal Policy on Acquisition and Distribution of Commercial Products -- Implementation is Faltering Badly," were transmitted with the request for comments. Enclosed is the response to that request.

Sincerely,

A handwritten signature in black ink, appearing to read "R. G. Freeman III", is written over the typed name. The signature is cursive and somewhat stylized.

R. G. Freeman III
Administrator

Enclosure

General Services Administration (GSA)
Comments on GAO Draft Report to the Congress
Concerning Federal Policy on Acquisition
and Distribution of Commercial Products --
Implementation is Faltering Badly (25-9124-A)

General Comments

Implementation of the Office of Federal Procurement Policy (OFPP) issuance on Acquisition and Distribution of Commercial Products (ADCoP) has faltered within GSA until this year. Since January 1979, the Office of Acquisition Policy has emphasized the ADCoP program and worked towards establishing a comprehensive plan for ADCoP implementation in the various services in GSA. The plan is currently in the final stages of coordination prior to issuance. Additionally, the Federal Supply Service has emphasized the program in the field and initiated an intense effort to develop Commercial Item Descriptions (CIDs) for high demand products to replace detailed specifications. More specific accomplishments are outlined in the discussion which follows. Much of the recent ADCoP activity in GSA has occurred after the research for this GAO report was completed. Another look at the program today by GAO might result in more timely and accurate conclusions and recommendations.

Specific Comments

The audit report (page iii, Digest) indicates that interagency committees working within single commodity areas have achieved several benefits. Since the draft report was issued, GSA has established a commodity management center for furniture as a pilot program which follows this concept.

The audit report (pages 25 and 38) discusses a lack of progress by GSA in implementing a specification management system. However, a task group was formed as a result of the Acquisition and Distribution of Commercial Products letter of December 1977, issued by the Office of Federal Procurement Policy to implement a specification management system. The group last met in June 1979, but much of the work associated with this effort has been accomplished by GSA outside the task group in coordination with DOD. A temporary FPMR was issued in February 1979. The FPMR, which was scheduled for expiration on September 30, 1979, is now in the process of being extended to December 31, 1979. A revision to this FPMR was discussed at the June 1979 meeting and is being cleared prior to issuance as a new temporary regulation. The new regulation includes instructions for development and issuance of commercial item descriptions and has been modified to be consistent with the draft of the proposed Federal Acquisition Regulation. As a result of this effort, the following objectives in the draft report have been accomplished:

1. Providing for a system of functional specifications for commercial products, i.e., Commercial Item Descriptions (CIDs).

2. Providing an update to the FPMR 101-29 manual on specifications and standards management. (Note: The total revision of the manual has been jointly assigned to FSS and DOD by the task group and a draft will be completed by December 1, 1979.)

3. Notification of the computer program controlling the index of specifications and standards to include new listings of CIDs. The CIDs will be listed in the index numerically, as well as proper sequence under alphabetical and National Stock Number listings. The index already provides a listing of specifications and standards cancelled since the prior issue, and is cumulatively updated bi-monthly.

4. GSA has exceeded the goals established for FY 1979 as established by the ADCoP plan, i.e., reviewing and taking total or partial actions as follows:

- . 841 specifications have been identified for conversion to CIDs
- . 76 are in draft CID format
- . 86 have been converted to CIDs
- . 774 have been cancelled
- . 737 have been identified for cancellation

5. CIDs for 43 products with an annual procurement volume exceeding \$90 million were given top priority and are ready for issuance.

GSA agrees that the other task groups which GSA was to chair or jointly chair with DOD have not been successful. One of the reasons can be attributed to the near halting of other than essential operating priorities as a result of the GSA scandals and the FSS reorganization. However, the recent FSS reorganization will be beneficial in furthering GSA's commercial products policy.

FSS has established a renewed and vigorous commitment to the commercial products policy and has designated an ADCoP project manager reporting directly to the Commissioner. FSS is committed to accomplishing significant commercial products policy initiatives in FY 1980.

Comments on Recommendations

GAO recommends the Administrator of General Services define overall agency management responsibility for implementing the commercial products policy. Fragmented responsibility and interdivisional conflict should be eliminated.

Comment: GSA agrees with this recommendation. Until recently, the Office of Acquisition Policy was the focal point for commercial products policy. However, because FSS has a predominant role in supply operations and has basic responsibility for supply policy, FSS has now been designated the responsible activity for implementing GSA's commercial products policy. An implementation plan was developed by the Office of Acquisition Policy which details: (1) necessary administrative actions, including revisions to applicable regulations and development of supporting policies; and (2) operational action items designed to insure a continuous transition to acquisition and distribution methods in compliance with commercial products policy.

GAO recommends the Administrator of General Services allocate resources necessary to develop and use the commercial item description system, and decrease the resources devoted to maintaining the agency's duplicative Government acquisition and distribution system.

Comment: GSA agrees and resources are now being applied on a priority basis to the development of CIDs. Over 300 CIDs have been under intensive development and over 150 have been completed and are ready for issuance, with the remainder to be completed within 30 days. A priority schedule for FY 1980 has been developed in order to continue the conversion from detailed Government specifications to CIDs.

GSA agrees that the agency's supply distribution (depot and retail stores) operations may be considered duplicative of commercial distribution systems. As it is determined to be cost effective, the agency will increase its utilization of commercial distribution systems. By eliminating items from the supply system, fewer resources will be needed to operate the supply facilities, and other initiatives such as depot consolidation may become practical.

Office of the
Administrator
of Veterans Affairs

Washington, D.C. 20420



Veterans
Administration

OCTOBER 23 1979



Mr. Gregory J. Ahart
Director, Human Resources Division
U. S. General Accounting Office
Washington, DC 20548

Dear Mr. Ahart:

Your September 20, 1979 draft report, "The Federal Policy on Acquisition and Distribution of Commercial Products--Implementation is Faltering Badly," states the Department of Defense, General Services Administration, and the Veterans Administration (VA) procure, stock, and distribute billions of dollars worth of products. The report also states the Office of Federal Procurement Policy (OFPP) established a policy in May 1976 which requires Federal agencies to rely on commercial off-the-shelf products to satisfy their needs as opposed to products manufactured to meet Federal or military specifications. In addition, agencies were to rely on commercial distribution channels to provide these products rather than stock them. This policy was to be fully implemented by August 1979. The major Federal supply agencies recognize the potential savings and benefits; however, the General Accounting Office (GAO) believes none has aggressively pursued the policy; implementation has faltered badly; and has now reached the point that successful achievement of policy objectives is doubtful.

The GAO recommends that the VA

—complete the assigned task of implementing the commercial products policy by conducting adequate market research and analysis on all products procured with VA specifications.

The report indicates the VA has not completed its assigned task of implementing the policy because the limited efforts performed were not beneficial. This conclusion does not reflect VA's total effort to comply with the mandate. The VA is a willing participant in the Federal policy of acquisition and distribution of commercial products and is following a positive course of action.

Initially, the VA had 663 items purchased under specifications. As of September 1979, only 152 items remained which are centrally managed through the VA's distribution system--27 subsistence, 124 other medical, and one drug (alcohol).

We are comprehensively reviewing all VA specification items. The following dates have been established for completing the review:

Mr. Gregory J. Ahart
 Director, Human Resources Division

<u>Review Period</u>	<u>Specifications Base Date</u>
July - August 1979	5 years or older
September 1979	4 to 5 years old
October 1979	3 to 4 years old
November 1979	2 to 3 years old
December 1979	1 to 2 years old
January 1980	Miscellaneous
February 1980	Target Completion Date

Since June 1978, the VA has eliminated 214 specifications. Most were commercially available products. We have made a concentrated effort to review centrally managed depot stock items and currently have 1,748 line items cataloged for depot distribution.

The decision to centrally manage an item is based on a careful analysis of market research data. We have reduced the number of centrally managed line items to 1,748 by discontinuing 251 VA specification line items and adding 106, all under commercial product descriptions.

We disagree with GAO's findings that our marketing research techniques are faulty and that the VA ended its products surveys and stopped implementation of the commercial products policy after study data were solicited from 573 firms. GAO gives limited recognition to the process we are following but does not recognize it as our continuing implementation of the commercial products policy. The feasibility of using commercial products and commercial distribution is incorporated in our ongoing item management. Items introduced into the system are reviewed to determine if they should be procured locally, centrally with commercial distribution, or centrally with government distribution. Findings are documented for each newly standardized item and are again reviewed and documented at the time these items are replenished.

We plan to review each item now in the central system and remove it if it cannot be economically maintained. New items will be added to the central distribution system only if it is economical to do so. We believe our market research and our decisionmaking process on the use of commercial versus government facilities protects the interest of the taxpayer and complies with the commercial products distribution policy.

Mr. Gregory J. Ahart
Director, Human Resources Division

The Veterans Administration has made a significant effort to comply with the mandate to convert from specification items to commercial and industrial products, and find it disappointing that GAO does not recognize the progress we have made.

Thank you for the opportunity to comment on this report.

Sincerely,

A handwritten signature in black ink, appearing to read "Max Cleland", with a stylized flourish extending from the end of the signature.

MAX CLELAND
Administrator



U.S. GOVERNMENT
SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

OFFICE OF THE ADMINISTRATOR

OCT 24 1979

Mr. Henry Eschwege
Director
Community and Economic Development
Division
United States General Accounting Office
Washington, D. C. 20548

Dear Mr. Eschwege:

This is in response to your request for our comments on a draft report entitled, "The Federal Policy on Acquisition and Distribution of Commercial Products--Implementation Is Faltering Badly."

We have reviewed that portion of the report which deals with the impact on small business of the Government's policy to purchase commercial products, as opposed to utilizing the past procurement practice of buying generally under a Federal specification.

We had previously reviewed the statistics resulting from the 49 test contracts that had been awarded by the Department of Defense (DOD). The result showed that 27 of the 49 test contracts were awarded to small businesses which was a reduction of only two contracts to small businesses for the same items, when those items were purchased previously using Government specifications. This reduction does not appear to be significant. However, the problem caused by the buy commercial Government policy is that the small companies responding to the request, based on commercial products, are in many cases no longer the manufacturer of the product, but rather a dealer or broker for a large manufacturer, and this is the basic problem. It is our position that as the buy commercial policy is extended to more and more products, more and more small manufacturers will be cut out of the pattern, and while statistics may show that purchases are coming from small businesses, they will, in fact, be the product of major industry.

Mr. Henry Eschwege

Many, if not most, of the small manufacturers who compete for Government requirements, particularly FOD, basically manufacture the product required as a result of a contract award which contains Government specifications. One of the stumbling blocks to small business manufacturers in complying with the commercial products policy is that the product must be marketed in substantial quantities to the general public. To be substantial, sales to the general public must predominate over sales to the Government. This is not generally the sales pattern for small business manufacturers. Therefore, a continuation of this policy could have, in our opinion, a devastating effect on small business manufacturers whose position is basically supplying the Government.

Sincerely,

William H. Maulf
A. Vernon Weaver
Administrator *acty*

(950480)

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