

095732

~~1.44.19~~

71-135

19



REPORT TO THE CONGRESS



LM095732

Fair Prices Paid
For Small Purchases
By Department Of Defense

B-162313

BY THE COMPTROLLER GENERAL
OF THE UNITED STATES

~~700504~~ 095732

JAN. 29, 1971



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-162313

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

This is our report on fair prices paid for small purchases by the Department of Defense. The report presents our findings together with information on the actions taken by the Department of Defense to improve small-purchase operations. This review was made pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

In an earlier examination we found that buyers had not been aware that some of the items they procured were listed in suppliers' catalogs or Federal stock catalogs at lower prices. We found also that in many cases the buyers lacked sufficient information concerning the items they were buying to enable them to adequately evaluate the reasonableness of prices charged by the suppliers. One company sold a number of items to the Government at prices substantially greater than the prices shown in the company's catalog but sold the items to its commercial customers at catalog prices.

Our recent examination indicated that most of the locations we visited had effectively implemented the corrective measures established by the Department of Defense and the military services after the hearings held in the fall of 1967 by the Subcommittee for Special Investigations, Committee on Armed Services, House of Representatives. As indicated in the report, our tests showed that generally small purchases were fairly priced. We believe, however, that, because of the large number of small purchases that are made annually and the significant number of personnel who are engaged in making small purchases, the Department of Defense should continue to closely monitor this area.

We are issuing this report to advise the Congress of the progress made by the Department of Defense in correcting problems identified in this area earlier.

B-162313

Copies of this report are being sent to the Director, Office of Management and Budget; the Secretary of Defense; the Secretaries of the Army, Navy, and Air Force; and the Director, Defense Supply Agency.

A handwritten signature in black ink, reading "James B. Stets". The signature is written in a cursive style with a large initial "J".

Comptroller General
of the United States

REASONABLENESS OF PRICES PAID FOR SMALL PURCHASES

BY DEPARTMENT OF DEFENSE PROCUREMENT ACTIVITIES

A small purchase is described in the Armed Services Procurement Regulation as the procurement of supplies and nonpersonal services the aggregate amount of which does not exceed \$2,500. In fiscal year 1969 Department of Defense small purchases amounted to \$1.6 billion for about 6.9 million transactions. Of the \$1.6 billion about \$926 million, or 58 percent, was awarded without competition.

6 2 In August 1967 Congressman Otis G. Pike of New York requested our assistance in determining the reasonableness of prices paid for a number of small purchases by Department of Defense procurement offices. In the transactions we examined, it appeared that buyers had not been aware that some of the items they procured were listed in suppliers' catalogs or Federal stock catalogs at lower prices. It appeared also that in many cases the buyers lacked sufficient information concerning the items they were buying to enable them to adequately evaluate the reasonableness of the prices charged by the suppliers. One company sold a number of items to the Government at prices substantially greater than the prices shown in the company's catalog but sold the items to its commercial customers at catalog prices.

2 10 Shortly thereafter, as a result of attention drawn by this investigation to the area of small purchases, the then-Assistant Secretary of Defense (Installations and Logistics) requested the military services and the Defense Supply Agency to appraise the adequacy of small-purchase operations by reviewing procurement staffing, training, and supervision and the accomplishment of daily tasks. Later, the Assistant Secretary indicated that the Department of Defense had launched a comprehensive program built around 16 specific improvement actions.

In the fall of 1967, the Subcommittee for Special Investigations, Committee on Armed Services, House of Representatives, conducted hearings on Department of Defense policies, procedures, and practices in making small purchases. In its interim report of January 22, 1968, the Subcommittee

recommended, among other things, that the General Accounting Office review and appraise the corrective measures taken by the Department of Defense.

Our October 7, 1968, report to the Subcommittee (B-162313), indicated that the Department of Defense, the military services, and the Defense Supply Agency had taken actions, in varying degrees, to comply with the Subcommittee's recommendations. We indicated also that, because there had been a shortage of manpower in the procurement offices and because instructions had only recently been issued, implementation had been delayed at several locations. Consequently, we advised the Subcommittee that we would delay further appraisal of the corrective measures until a sufficient period of time had elapsed to permit their full implementation.

Our recent examination was performed at 10 procurement offices of the Army, Navy, Air Force, and the Defense Supply Agency. During the period January 1 through March 31, 1969, these 10 installations awarded about 138,000 small purchase actions amounting to about \$58 million. We reviewed 1,136 of these actions amounting to about \$557,000.

Our review indicated that most of the locations we visited had effectively implemented the corrective measures established by the Department of Defense and the military services after the hearings by the Subcommittee. Among the improvements noted were better training of buyers, improved procurement data, and more extensive internal reviews of small purchase activities. In September 1968 the Armed Services Procurement Regulation was revised to require that, for purchases in excess of \$250, a statement be placed in the contract file setting forth the basis for the determination that the price was fair and reasonable when only one price quotation was received or when the price variance between multiple responses reflected a lack of true competition. Also, the Department of Defense published a Small Purchase Manual in December 1969. This manual was designed to provide concise guidance to the small-purchase buyer or purchasing clerk.

We did not encounter significant instances of overpricing similar to those previously identified. Our tests showed that generally small purchases were fairly priced.

We believe that, because of the large number of small purchases that are made annually (about 7 million transactions) and the significant number of personnel who are engaged in making small purchases (an estimated 70 percent of the Department's procurement man-hours), the Department of Defense should continue to closely monitor this area.

We performed our review at the following locations.

Army:

Missile Command, Huntsville, Alabama
Fort Lewis, Washington
New York Procurement Agency, New York, N.Y.

Navy:

Electronics Supply Office, Great Lakes, Illinois
Naval Supply Center, Norfolk, Virginia
Ships Parts Control Center, Mechanicsburg, Pennsylvania

Air Force:

San Antonio Air Materiel Area, San Antonio, Texas
(Central Procurement)
Sacramento Air Materiel Area, Sacramento, California
(Central and Base Procurement)

Defense Supply Agency:

Defense Construction Supply Center, Columbus, Ohio
Defense Industrial Supply Center, Philadelphia, Pennsylvania

We examined purchase order folders, prior procurement history data, drawings for selected noncompetitive actions, available suppliers' catalogs, price lists, and Federal Supply Schedules. Our review samples were selected by statistical sampling methods, except that items purchased with nonappropriated funds and procurement actions for utility and other services obtained at fixed rates were excluded. Where appropriate we discussed purchase actions with procurement and technical personnel.