REPORT OF THE COMMISSION ON GOVERNMENT PROCUREMENT

VOLUME 3

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DECEMBER 1972

COMMISSION ON GOVERNMENT PROCUREMENT

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December 31, 1972

The Honorable Spiro T. Agnew
President of the Senate
Washington, D. C.

and

The Honorable Carl B. Albert
Speaker of the House of
Representatives
Washington, D. C.

Gentlemen:

In accordance with the requirements of Public Law No. 129, Ninety-first Congress, as amended by Public Law No. 47, Ninety-second Congress, the Commission on Government Procurement submits herewith its report.

Respectfully yours,

E. Perkins McGuire

E. Perkins McGuire
Chairman

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REPORT OF

THE COMMISSION ON GOVERNMENT PROCUREMENT

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Part C—Acquisition of Major Systems

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Government Property and Catastrophic Accidents

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FOREWORD

Volume 3 consists of three parts:

- Part D—Acquisition of Commercial Products
- Part E—Acquisition of Construction and Architect-Engineer Services
- Part F—Federal Grant-Type Assistance Programs.

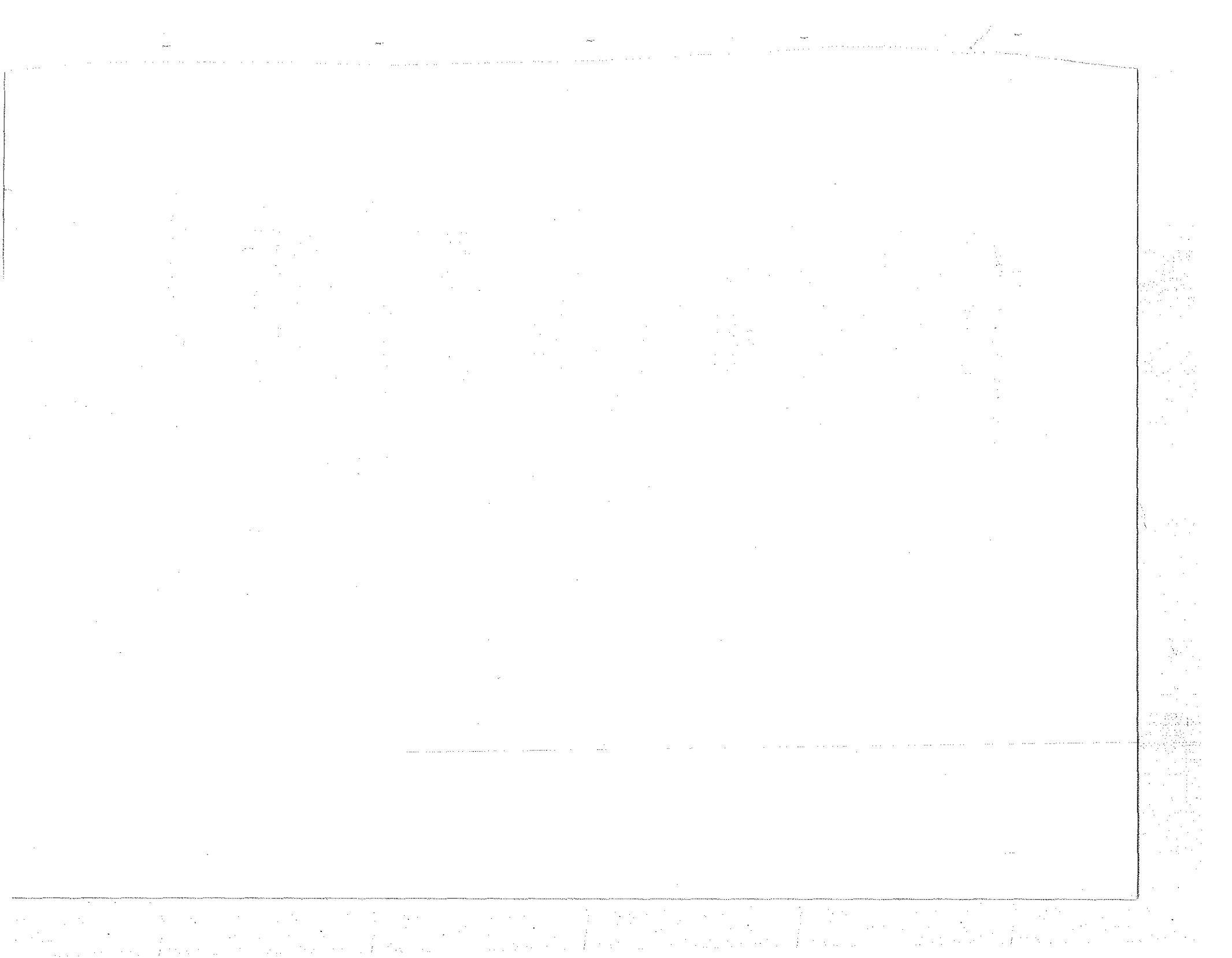
Part D covers the Government's buying of commercial products and services, which represented a major portion of the nearly $57.5 billion expended on Federal procurement during fiscal 1972. This part discusses the need for considering total economic cost in furnishing commercial items to the user. Specific coverage of particular types of procurement (for example, automatic data processing equipment, food, and services from regulated industries) are also included in this part.

Part E analyzes the procurement of construction and architect-engineer services. The construction portion considers suggestions that could shorten the time period to get a building constructed and the impact of labor laws. The architect-engineer (A–E) portion covers the selection of A–Es, a subject on which Congress recently took action in the passage of Public Law 92–582.

Part F is a report on grant-type assistance programs. The use of grants has increased dramatically in the last ten years. This part proposes that the processing of grants could be greatly improved if a classification of the types of actions were established that would provide a more precise definition of the relationships between the Federal Government and the grantee than is now available.

While each Commissioner does not necessarily agree with every aspect of this report, the Commission as a whole is in agreement with the general thrust of the discussion and recommendations, except where noted.

Part D—Acquisition of Commercial Products



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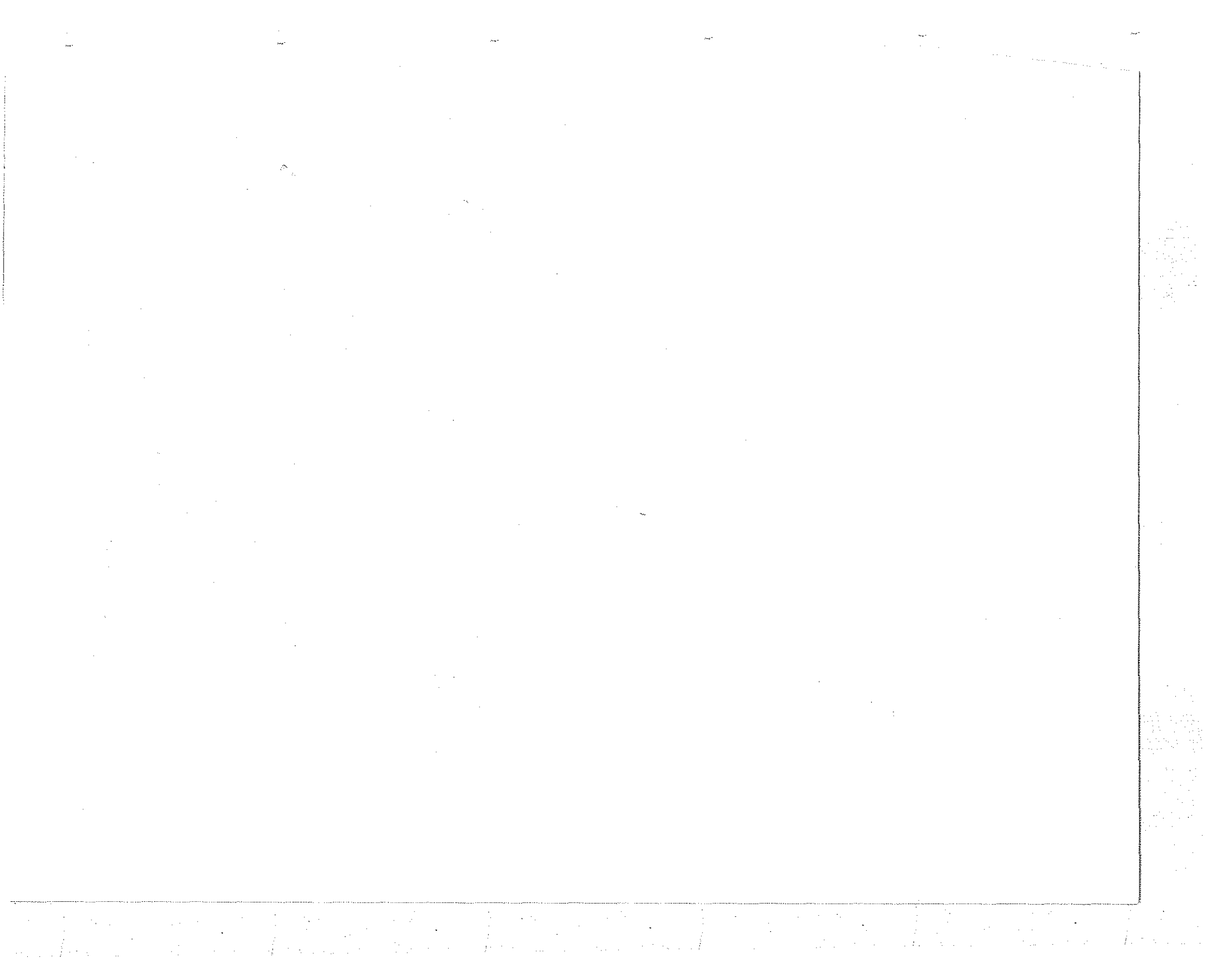


CHAPTER 1

Introduction and Summary of Recommendations

The procurement of commercial products involves all levels of the Federal Government and comprises the greatest arena of procurement interaction between the public and private sectors of the economy. The volume of day-to-day transactions, in and out of Government, affects the lives of nearly everyone in the United States.

For purposes of this study, commercial products include:

- Equipment, materials, supplies, parts, components, and accessories produced and sold to the general public directly or through an established commercial distribution system
- Products generally equivalent to those offered to the general public but modified to meet Federal and military specifications
- Combinations of products having one or more elements that require special ordering but not special design or significant research and development
- Products or services of utilities, transportation systems, communications media, and other regulated industries serving the general public
- Products of Federally supported or operated industries, such as blind-made products and Federal Prison Industries, Inc.
- Services specifically related to the products outlined above, including maintenance, operation, lease, and housekeeping services.

Commercial products acquisition represents a major portion of the nearly $57.5 billion spent on Federal procurement during fiscal 1972. The magnitude of procurement of commercial products required a study approach that concentrated on the areas of greatest potential improvement. The basic purpose of acquiring commercial products is to satisfy user needs. Therefore, the study was structured to sample user opinion in order to determine the current and potential effectiveness of the commercial product procurement and distribution system. Management opinion was also solicited in the field, at central supply activities, and at agency headquarters. In addition to visits made to Government and industry activities and an extensive review of prior studies and other available data, 12 public meetings were held to allow all interested parties to submit their views. The basic data and findings from this extensive study effort form the basis for this part.

The study findings reveal many opportunities for improvement. The conclusions and recommendations indicate the need for a shift in fundamental philosophy relative to commercial product procurement and for the establishment of a continuous oversight function to review agency policies and procedures. Part A deals with the oversight function and recommends the establishment of an Office of Federal Procurement Policy. The fundamental change in policy involves a shift to one of considering total economic cost or landed cost in reaching decisions concerning the procurement and distribution of commercial products. Under current procurement and supply policy, undue emphasis is placed on purchase price. This has resulted in inadequate consideration of administrative, distribution, and user costs in the total cost of providing a product or service.

The recommendations in this part provide the means for implementing the policy of basing decisions on a consideration of total economic cost. They include:

- Providing for appropriate consideration of

significant cost factors in establishment and operation of procurement and distribution systems, techniques, and operational arrangements

- Restricting interagency directed sources of supply to those determined to be cost-effective or to be necessary in support of war readiness and other national interest requirements
- Providing for the financing of interagency support activities on an industrially funded basis, with cost of doing business included in charges to agencies, rather than by direct annual appropriations
- Establishing criteria for development of Federal specifications to achieve greater consideration of cost-benefit analysis, including the state-of-the-art, in commercial product development
- Requiring agencies to establish new programs for on-the-job training of procurement personnel in the development and use of cost-effective techniques and systems
- Improving the system of gathering and disseminating procurement statistics so that Congress, the public, and the executive branch can readily determine what is being bought by the procuring agencies.

CHAPTER 2

The Marketplace

The commercial market encompasses the products and services provided to fulfill the needs and desires of Government institutions, the general public, and industrial users. In order to evaluate the effectiveness of Federal procurement, it is necessary to understand the scope of Government requirements for commercial products in relation to the total market and to recognize the differences between the business practices of the Government and those of the private sector.

In addition to background information on the Federal market, this chapter addresses problems encountered in analyzing procurement statistics by commodity and agency. It also outlines the types of systems used by the Government in the procurement and distribution of commercial products.

THE FEDERAL MARKET

Most industries that produce commercial products sell a relatively small share of their total output to the Government. Of the 178 product groups representing industries that manufacture primary products [1] reported in the *1967 Census of Manufactures*, 123 shipped two percent or less of their output to the Government. Of the remaining 55, only nine shipped more than 10 percent to the Government. Some significant product lines are shown in table 1.

The Government also purchases commercial products from wholesalers. Of 250,556 wholesale establishments reporting $227.9 billion in sales by SIC group and class of customer in the *1967 Census of Business*, the overall average percentage of sales to the Government was 1.6 percent. Only six SIC groups showed sales to the Government amounting to more than three percent of total sales (table 2).

The legal principles involved in contracting with the Government are much the same as those governing contracts in the private sector. There must be a valid offer and acceptance, consideration, certainty of terms, and competent parties. Although the Government has the inherent power to enter into contracts, its agents must do so within the limitations of Federal laws and regulations. These laws differ from laws governing purely commercial contracts.

Government contracts are used extensively as a device for carrying out national programs and fulfilling social and economic goals established by statute, by Executive order, or by agency regulation. Thus the acceptance of a Government contract often obligates the supplier to considerably more than the delivery of the product or service ordered.

Government contracts differ from commercial contracts because of laws governing their financial aspects. Except when authorized by statute, contracts may not be made unless adequate funds have been appropriated and are available. Most appropriations are restricted to a single fiscal year, thus precluding multi-year contracts except under special statutory authority.

Although the Federal market is small relative to the total market for commercial products, it nevertheless represents the largest single concentration of purchasing power in the United States. Since the monies used to procure goods and services are public funds, the Government is accountable for its handling of

[1] By Standard Industrial Classifications (SIC).

TABLE 1. PERCENTAGE OF INDUSTRY SHIPMENTS TO THE GOVERNMENT, 1967

Product line	*SIC classification*	*Shipments to the Government (%)*
Food and kindred products	20	1.9
Tobacco manufactures	21	3.5
Textile mill products	22	1.1
Lumber and wood products	24	0.9
Furniture and fixtures	25	2.0
Paper and allied products	26	0.8
Chemicals and allied products	28	1.5
Petroleum and coal products	29	1.5
Rubber and misc. plastics products	30	2.6
Leather and leather goods	31	4.2
Stone, clay, and glass products	32	0.8
Primary metal industries	33	1.1
Fabricated metal products	34	3.2
Machinery except electrical	35	3.4
Electrical machinery and supplies	36	14.0
Transportation equipment	37	28.2
Instruments	38	11.1
Miscellaneous manufacturing	39	2.0

Source: Percentages calculated by the Commission from data in *1967 Census of Manufactures*, Special Report, Distribution of Manufacturers' Shipments and Sales by Class of Customer, Department of Commerce, May 1971, table 1.

TABLE 2. PERCENTAGE OF SALES TO THE GOVERNMENT BY WHOLESALERS AMOUNTING TO MORE THAN THREE PERCENT OF TOTAL SALES

Product line	*SIC code*	*Sales to the Government (%)*
Dairy products	5043	7.8
Electronic parts and equipment	5065	5.7
Transportation equipment (excluding motor vehicles)	5088	4.7
Printing and writing (fine) paper	5096	3.3
Commercial machines and equipment	5081	3.3
Amusement and sporting goods	5099	3.1

Source: *1967 Census of Business*, Wholesale Trade Sales by Class of Customer, Department of Commerce, Sept. 1970, table 1.

the funds. On the basis of past experience in Government procurement, an extensive and complex set of statutes and regulations designed to guarantee fair and equitable treatment of all parties has evolved.

Unlike the private sector, Government contracts must be in written form. The handshake, oral agreement, or other less formal methods of expressing agreement frequently used in the private sector are not binding in Government procurement.

The Government formally enters into a contract when the written agreement is signed by the Government's officially authorized agent, the contracting officer. It is important to note that a contracting officer cannot bind the Government if he exceeds the limit of his actual authority. His authority is prescribed by laws and regulations that all persons are presumed to know. Commercial suppliers not intimately familiar with the special rules of the Federal market may find their claims for compensation for work done in connection with a contract, but not authorized by the contracting officer, entangled in administrative and legal complications.

The Federal market is comprised of two distinct sectors. The first consists of industries that supply sophisticated systems for the major defense and aerospace programs. The second is made up of industries that furnish commercial goods and services to Federal and non-Federal users.

The defense and aerospace market is dominated by a few large corporations or divisional operations that are primarily dependent on the Government market. This market is characterized by a few sellers and a single buyer. Sales generally result from negotiations, with price determined by cost analyses.

As a buyer of commercial products, the Government has little influence on industrial practices. Prices are established by competitive demand in the open market, not by cost analysis. However, the procedures used to sell to the Government and the degrees of risks assumed by sellers under Government contracts differ from standard commercial procedures and contracts.

The Government procurement process requires potential suppliers to develop an information base concerning Government needs and to respond to contractual solicitations in unique ways. These needs are expressed almost exclusively through specifications or purchase descriptions. Frequently, aggregate requirements for specific products or services may be consolidated for central procurement by a designated agency. Customer services or other assistance normally offered to users in the private sector are generally considered unnecessary by most Government buyers in the interest of securing the lowest possible price and of avoiding the appearance of favoritism.

PROCUREMENT STATISTICS

No single organization in the Government is responsible for collecting and reporting data on what the executive agencies buy or on the total value of their purchases. The public and Congress have a right to this type of information; with it the executive branch could improve procurement management.

Recommendation 1. Improve the system for collection and dissemination of statistics on procurement by commodity and agency to meet congressional, executive branch, and industry needs.

Each agency collects the procurement data it deems necessary for internal management and for submission of reports to the Office of Management and Budget (OMB) and Congress. Some activities, such as those in the Department of Defense (DOD) and the General Services Administration (GSA), compile and publish extensive data involving procurement transactions. Others publish little data; and some, none at all. The Federal Procurement Regulations (FPR) prescribe the information to be reported to GSA by each civilian executive agency.[2] GSA then issues a compilation of the data submitted by these agencies.[3]

Parties interested in the total procurement activity of the executive agencies generally add the figures reported by DOD with those compiled by GSA. This results in a figure that is large and impressive but incomplete and potentially misleading.

GSA data does not include all executive agencies, and many of the figures reported for specific agencies are incomplete. For example, it does not include procurements made by the Equal Employment Opportunity Commission (EEOC), the Federal Maritime Commission (FMC), or the U.S. Postal Service (USPS). The United States Tax Court is reported although it is part of the judicial branch.[4] In fiscal 1972, figures reported for the U.S. Department of Agriculture (USDA) totaled only $261 million [5] although its procurement obligations would exceed $2.6 billion if the food acquired for sale or donation were included.[6]

Some agencies do not appear to realize they are required to report their procurements to GSA, or they interpret their specific authorizing legislation and the FPR as exempting them from reporting.

Data on the dollar value of purchases, what is bought, and who buys it are needed to develop an efficient, economical procurement system. Following are some reasons why the system for collecting and disseminating procurement statistics should be improved:

- Congress needs this basic information to make informed decisions on matters of broad public policy relating to procurement programs.
- The executive branch needs this information to determine the policies necessary for managing the procurement process.
- Interagency support activities require this

[2] FPR 1-16.804.

[3] U.S. General Services Administration, Office of Finance, *Procurement by Civilian Executive Agencies*, July 1, 1971–June 30, 1972.

[4] The Tax Reform Act of 1969, Public Law 91-172, 83 Stat. 483, 26 U.S.C. 7441 (1970).

[5] Note 3, *supra*.

[6] Agricultural Trade Development and Assistance Act of 1954, ch. 469, 68 Stat. 454; 7 U.S.C. 1704 and 1721 (1970). See also Part A, Appendix D.

information to develop and improve the services they offer.

- Suppliers need this information to develop programs to serve the Federal market. Full information creates a more competitive marketplace and provides a more equal opportunity for individual suppliers to compete.

Defining Procurement

Part of the problem lies in an understanding of what is meant by "procurement." For example, until recently the Veterans Administration did not classify the purchase of hospital or nursing home care for a veteran as procurement to be reported. Because there have been many changes in the methods of reporting to GSA, the data for agency participation and categories of procurement vary from year to year and cannot be used for comparative analysis over an extended period.

Civilian agencies do not report procurements made through the Government Printing Office (an agency of the legislative branch) or Federal Prison Industries, Inc. (a U.S. Government corporation). Defense activities normally do not report transactions paid for directly with nonappropriated funds. To the extent that nonappropriated fund activities obtain items from Federal supply operations financed by a revolving general-purpose stock fund, the total value of transactions reported includes procurements paid for with nonappropriated funds. In the case of commissary resale, the stock fund is essentially a nonappropriated fund activity, but it is capitalized by the Government.

DOD reports procurements made for foreign governments although the funds for these purchases are drawn from a trust account maintained by the Department of the Treasury in which foreign governments make deposits for this purpose. Transportation under Government bills of lading (GBL) and Government transportation requests (GTR) are special categories of procurement expressly excluded from the DOD and GSA reporting system.

It is estimated that Federal expenditures through grants and revenue sharing totaled more than $39 billion in fiscal 1972,[7] exclusive of project grants. What one agency may purchase by contract, another may obtain by grant, especially a project grant. It is reasonable to assume that if a commonly accepted definition of procurement existed for all agencies, many project grants would fall within the definition of procurement and be reported.

Procurement Classification

The lack of accurate or complete data makes it extremely difficult to estimate the total value of commercial products procured. Moreover, there is no commonly understood definition of a commercial product. Each agency has different management systems, with the result that no two systems report against the same data base. Very few activities report data in a manner that permits a valid analysis of the types and kinds of commercial products they are buying.

Both GSA and DOD compile extensive procurement statistics and provide breakdowns which make it possible to estimate their procurements of commercial products by commodity or product group. DOD, however, does not provide a commodity-group breakdown for military procurements of less than $10,000. There were 10.2 million of these actions during fiscal 1972 [8] that, although amounting to only 10.1 percent of the dollars spent by DOD,[9] still totaled $3.9 billion.[10] In this connection, DOD stated:

> Contracts and purchases below $10,000 each for which product and service information is not collected are excluded. In each of the Fiscal Years 1969 through 1972, these small transactions totaled from $3 to $4 billion. This exclusion tends to understate procurement of commercial type items and services more than military hard goods items which usually are bought in large dollar amounts. It is known, for example, that Subsistence (FS Group 89) is severely understated for

[7] U.S. Office of Management and Budget, *Special Analyses of the United States Government, Fiscal Year 1973*, table P–9, Federal Aid to State and Local Governments, p. 254. For a discussion on grants, see Part F.

[8] *Military Prime Contract Awards and Subcontract Payments or Commitments, July 1971–June 1972*, Sept. 1972, p. 38. (Figure rounded by the Commission.)

[9] Calculated by the Commission.

[10] Note 8, *supra*, p. 9. (Figure rounded by the Commission.)

this reason. However, information concerning the composition of the small purchases is not sufficient to identify all the categories of commodities and services which are affected to an important degree.

For security reasons, various contracts have been reported without a Federal Supply Classification or with a classification other than the one describing the item purchased. Therefore, data for a number of the Federal Supply Classes shown are incomplete.[11]

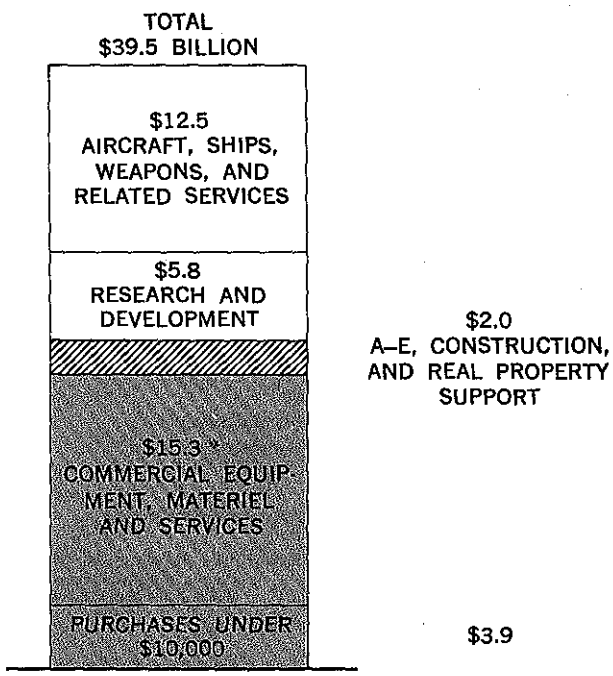
The $3.9 billion of purchases under $10,000 by DOD in fiscal 1972 [12] was three times the $1.3 billion total of all purchases reported by GSA [13] and was $300 million higher than all purchases reported by the ten civilian executive departments combined.[14]

Table 3 is the Commission's estimate of the total procurements of the executive agencies in fiscal 1972. When transportation expenditures are added to DOD procurements of $38.3 billion, the military department total exceeds $39.5 billion.[15] This figure represents 69 percent of the $57.5 billion of total Government procurement estimated by the Commission.[16]

The term "procurement programs" generally is associated with the acquisition of hardware such as aircraft, missiles, ships, combat vehicles, and other weapons as outlined in the United States budget.[17] While not always identified as such in appropriation statutes, construction, research and development, and requirements in support of agency operations and maintenance may also be accomplished through procurement. Except for salaries and other direct personnel expenditures, most of the funds allotted to an agency are expended through grants or some form of procurement.

Federal procurement of equipment, goods, and services in support of agency operations, including building and maintenance of equipment and facilities, is similar to that by State and local Governments, industry, and the general public. It includes utilities, transportation, communication, computers, maintenance services, standard commercial items, and those special requirements that do not require extensive research and development. Figure 1 shows that even in DOD a major share of procurement is for commercial products and services.

CLASSIFICATION OF DOD FISCAL 1972 MILITARY PROCUREMENT



* Includes Government Bills of Lading and Government Transportation Requests.

Source: Appendix A.

Figure 1

SUPPORT SYSTEMS

The acquisition systems used by executive agencies are varied and extensive. They encompass the determination of requirements, the techniques of procurement, and the logistics of supply and distribution. While elements of a particular system can be considered as separate and distinct, they are in fact mutually interactive and exist for the same ultimate purpose. The military concept that "logistics systems exist solely to provide responsive sup-

[11] *DOD Military Prime Contract Awards by Service Category and Federal Classification*, Sept. 12, 1972.
[12] Note 8, *supra*, p. 9.
[13] Note 3, *supra*.
[14] Calculated by the Commission.
[15] See Appendix A.
[16] See Part A, Appendix D.
[17] U.S. Office of Management and Budget, *Special Analyses of the United States Government, Fiscal Year 1973*, p. 102.

TABLE 3. ESTIMATED GOVERNMENT EXPENDITURES FOR PROCUREMENT AND GRANTS

Total Estimated Government Procurement by Executive Agencies, Fiscal 1972

(Billions of dollars)

Agency		*Total*
Department of Defense [a]		39.35
Civilian executive agencies [b]		
Atomic Energy Commission	2.88	
Department of Agriculture	2.62	
National Aeronautics and Space Administration	2.48	
General Services Administration	1.31	
Veterans Administration	0.74	
Department of Health, Education, and Welfare	0.72	
Department of Transportation	0.70	
Department of the Interior	0.65	
Department of Labor	0.38	
Department of Housing and Urban Development	0.25	
Tennessee Valley Authority	0.23	
Department of State	0.20	
Department of Commerce	0.17	
Department of the Treasury	0.16	
Other agencies	1.00	14.49
Other expenditures which should be classified as procurement		
Executive printing by GPO [c]	0.18	
Blind-made products [c]	0.02	
Government bills of lading [d]	1.05	
Government transportation requests [d]	0.38	
Commercial utilities and communications [e]	1.50	
Rents paid by GSA [e]	0.51	3.64
Total estimated Government procurement [f]		57.48

[a] U.S. Department of Defense, Office of the Secretary of Defense, *Military Prime Contract Awards and Subcontract Payments and Commitments, July 1971–June 1972;* and Commission Studies Program.
[b] U.S. General Services Administration, Office of Finance, *Procurement by Civilian Executive Agencies, Period July 1, 1971–June 30, 1972;* and Commission Studies Program.
[c] Estimated by the Commission.
[d] Information furnished by GAO and Commission Studies Program.
[e] Information furnished by GSA and Commission Studies Program.
[f] Does not include salaries of personnel engaged in procurement activities.

Federal Aid Expenditures for Grants and Shared Revenues [a]

(Billions of dollars)

Fiscal 1971 (actual)	*Fiscal 1972 (est.)*	*Fiscal 1973 (est.)*
29.8	39.1	43.5

[a] U.S. Office of Management and Budget, *Special Analyses of the United States Government, Fiscal Year 1973,* table P–9, Federal Aid to State and Local Governments, p. 254.
Source: Part A, Appendix D.

port to the operating forces" [18] applies equally to all support systems.

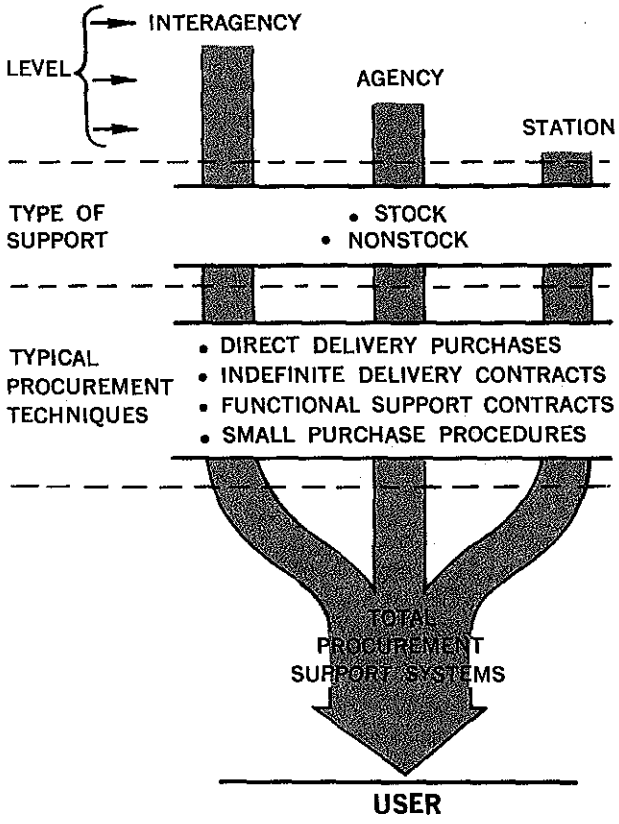
The procurement and distribution systems, as applied at all levels of support, are outlined in figure 2. These systems can best be described in terms of the organizational level at which they operate.

[18] DOD Logistics Systems Policy Objectives, *Defense Industry Bulletin,* spring 1971, p. 32.

Station-level Support

Virtually every Government activity includes a unit that receives requisitions for supplies which it either fills from station stocks or relays to a central depot or local purchasing office. Station-level procurement offices may be independent of the supply unit or be a specialized function of the supply activity. The procedures

COMPOSITION OF TOTAL PROCUREMENT SUPPORT SYSTEMS



Source: Developed by Commission on Government Procurement.

Figure 2

followed by the users to communicate their requirements to the supply units vary by agency, commodity, and source. For items in high demand and designated by Federal Stock Numbers (FSN), an automated ordering procedure provides the user swift, economical, and responsive support from agency depots. Items of supply that cannot be effectively procured, stored, and issued by an agency or interagency system are procured by the station.

There are many variations among agencies, and in some cases within agencies, concerning the organization, authority, and procedures used by a station-level activity. At small stations, procurement and supply may be a part-time function of an administrative officer. At large stations, procurement is performed as a special function. Procurement efforts can be divided between small purchase and major contracting activities, depending on the volume of requirements.

Agency-level Support

Procurement authority is delegated to an agency by authorization and appropriation statutes. The head of an agency has latitude in determining the levels of support needed to accomplish the agency's mission, and he is normally empowered to redelegate his procurement authority.

Each agency determines the type of goods that will be procured on an agencywide basis. These products are then either stored, stocked, and issued through an agency depot or station, or contracts are made for direct delivery from manufacturers or wholesalers to station activities. Some contracts provide for station supply personnel to schedule deliveries directly from contractors or suppliers.

Examples of agency central support activities:

- The Army Materiel Command operates seven commodity support commands and one functional support command at 77 installations, including five procurement activities and a depot complex.
- The Naval Material Command operates six functional system support commands, including the Navy Supply Systems Command. The Navy supply system has four national inventory control managers, a depot complex, and 16 area purchasing offices.
- The Air Force Logistics Command operates five Air Materiel Areas that provide procurement and supply support for specific systems and items.
- The Veterans Administration operates one of the largest civilian agency-level support systems. This includes a Marketing Center providing central procurement support and a system of three depots for stock support.

Items stored, stocked, and issued through a central depot system are cataloged and given a Federal Stock Number. The cataloging and numbering system is managed by the Defense Logistics Support Center (DLSC) at Battle

Creek, Michigan, in coordination with GSA. It is significant to note that if all the items, including parts, used by the Government were to be cataloged, the number would exceed 100 million.[19] Items that are required by an activity but are not stocked listed (NSL) are procured through use of a commercial purchase description.

Interagency-level Support

Establishment of the General Services Administration, as a result of a recommendation of the First Hoover Commission,[20] led to the development of the National Supply System. The system now consists of the coordinated logistics activity of the Federal Supply Service (FSS) of GSA, the Defense Supply Agency (DSA), and other Federal agencies. An understanding of the missions and operations of these agencies is necessary for a proper evaluation of information presented in later chapters.

GSA was created by the Federal Property and Administrative Services Act of 1949 [21] to provide the Government with an economical and efficient system for the management of its property and records, including construction and operation of buildings, procurement and distribution of supplies, use and disposal of property, and management of strategic materials, traffic, transportation, and communications. Management of the Government-wide automatic data processing (ADP) resources program was added to GSA's responsibilities in 1965. The statute also authorized the GSA Administrator to assign procurement responsibilities to other agencies; this has been done on a case-by-case basis. GSA provides field support through ten regional offices, corresponding to the ten Federal regions.[22] Each region is responsible for procurement support and depot supply functions.

The Federal Supply Service procures personal property and nonpersonal services for Federal agencies, stores and distributes supplies, and gives advice on and regulates the supply functions performed by the agencies. It promulgates Federal Specifications and Standards and is responsible for developing and promulgating the Federal Procurement Regulations (FPR) and that portion of the Federal Property Management Regulations (FPMR) dealing with transportation and procurement. It also administers the Government-wide transportation management, motor equipment, and public utilities programs.

FSS uses several basic methods of providing procurement and supply support to Federal agencies:

- Storage depots are located in each of the ten FSS regions. Depot items are purchased and stocked for delivery to fill requisitions from Federal using activities, cost-reimbursable contractors, or other authorized activities. Some regions have service or national commodity assignments for management and distribution, and some services and commodities are procured and distributed from more than one depot. Some regions support DOD and other Federal activities located outside the United States. In addition to regional depots, FSS has self-service stores in various cities of the United States that issue administrative supplies through a charge account system. The supplies and services provided by the depots are mandatory for use by all Federal agencies except for emergency requirements of small dollar value or where the activities' needs cannot be satisfied by the FSS stocked item. In the latter case, waivers must be obtained from GSA.
- GSA periodically publishes a catalog which lists the items stocked at various depots and the information required for ordering. Approximately 8.5 percent of item cost is included in the GSA catalog price to cover direct costs of transportation, in-transit damage, or loss. Requisitions for large quantities of stores stock items can be delivered from the commercial source at catalog price less surcharge. Additional charges for export packing are added for overseas shipments. Depot operating costs, as well as purchasing

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[19] U.S. Congress, House, Committee on Government Operations, *Military Supply Systems, Cataloging, Standardization and Provisioning of Spare Parts*, Forty-first Report, 91st Cong., 2d sess., 1970.

[20] U.S. Commission on Organization of the Executive Branch of the Government (1947–1949), *Office of General Services, A Report to Congress*, Feb. 1949, pp. 2–3.

[21] 40 U.S.C. 751 (1970).

[22] U.S. General Services Administration, *United States Government Organization Manual, 1972–1973*, July 1972, p. 450.

and management overhead, are separately paid out of GSA's direct appropriations and not charged to the using agency.[23]

- Federal Supply Schedules are contractual arrangements negotiated for agency use in ordering directly from contractors by delivery order with the ordering agency paying the contractor predetermined prices. Some items are available from more than one contractor, especially brand-name equipment and supplies. Items covered under Federal Supply Schedules are those that are determined to be uneconomical for depot stock and distribution. No surcharge is paid to GSA by the ordering activity. Most of these schedules are mandatory for use by Federal agencies.
- Responsibility for interagency support can be delegated by FSS to other agencies. For example, the Veterans Administration, as the largest civilian agency user of nonperishable subsistence, drugs, and x-ray films, has been assigned support responsibility for all civilian agencies. The service is provided by either Federal Supply Schedules negotiated by the VA or from the VA depot and field station system.

The Defense Supply Agency is an agency of DOD. DSA's mission is to provide effective logistics support at the lowest feasible cost to the operating forces of all military departments and to assigned Federal civilian agencies.

DSA provides interagency support in three areas:

- Supply Support. Procures, stores, and distributes items commonly used by the armed forces and by the Federal civilian agencies. These range from clothing to construction equipment. Mandatory use is required except for emergency needs and for requirements under $10.
- Logistics Services. Administers various programs for DOD. These include maintenance of the Federal Catalog System, Materiel Utilization Program, DOD Coordinated Procurement Program, Research and Technology Information System, Surplus Property Disposal Program, Industrial Plant Equipment Reutilization Program, DOD Industrial Security Program, and the DOD-wide program for redistribution and reutilization of excess Government-owned and leased automatic data processing equipment (ADPE).
- Contract Administration Services. Provides services in support of the military departments and other DOD components, NASA, other designated Federal and State agencies, and friendly foreign governments. These services include contract management, pre-award surveys, quality assurance, payments to contractors, support of small business and labor surplus area programs, transportation and packaging assistance, and surveillance of contractor progress to assure timely delivery of materiel. Agencies other than DOD are charged for services provided.

The overall DSA distribution system is shown in figure 3.

Under the Economy Act of 1932, interagency procurement support can also be obtained from or through agencies other than GSA and DSA. This act authorizes agencies to order supplies or services from the Federal agencies that can fill the requesting agency's requirements. The act further stipulates that payment be made at actual cost or agreed sum and that the supplies or services be obtained from private sources when such sources are convenient or more economical.

Although interagency procurement under the Economy Act of 1932 is overshadowed by the GSA and DSA programs, it provides opportunities for economy and efficiency at all organizational levels. The extent of formality in interagency agreements varies with the complexity of the requirements. Compensation traditionally has been by negotiated agreement between the supporting and receiving agencies. The following interagency programs indicate the type of procurement support that is currently available throughout the Government.

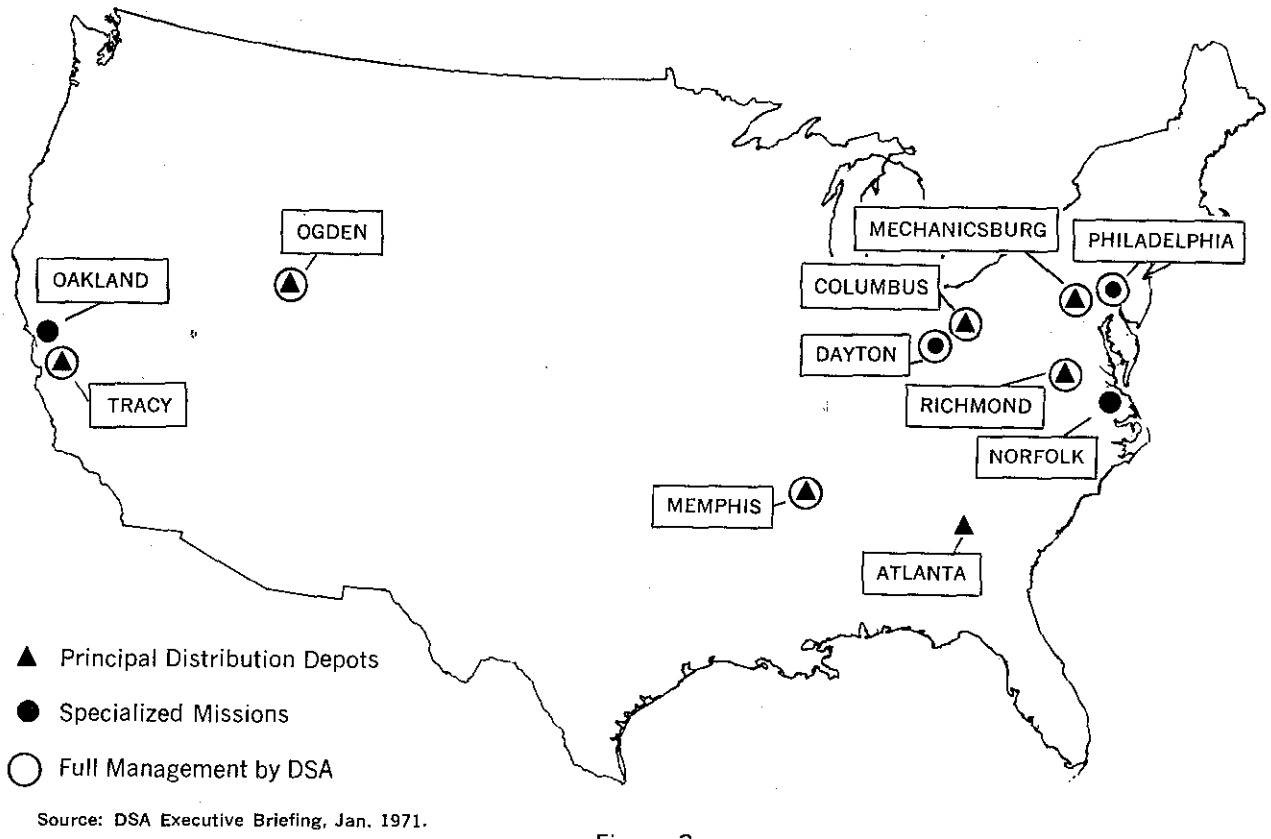
DOD COORDINATED PROCUREMENT PROGRAMS

- Agency Purchase Agreements.[24] Agencies

[23] Information was supplied by GSA at a briefing on May 26, 1971, to members of Study Group 13A.

[24] U.S. Department of Defense, DOD Instruction 4115.1, *DOD Coordinated Procurement Program—Purchase Assignments*, Oct. 14, 1968.

DEFENSE SUPPLY AGENCY DISTRIBUTION SYSTEM



Source: DSA Executive Briefing, Jan. 1971.

Figure 3

are assigned responsibilities for procurement and distribution management of commodities within DOD and in coordination with GSA.

- Military Construction Programs. The Corps of Engineers and the Naval Facilities Engineering Command procure construction services.
- Military Airlift Command (MAC). This command provides military and contract air movement services, including operation of air terminals.
- Military Traffic Management and Terminal Service (MTMTS). This service is the DOD single-manager for military traffic, transportation, and common-user ocean terminals.
- Military Sealift Command (MSC). This command provides ocean shipping services using fleet and commercial shipping.
- Defense Communications Agency (DCA). This agency procures commercial communication services for DOD activities.
- Defense Contract Administration Services (DCAS). This activity provides field contract administration service, including production monitoring, quality assurance, pricing, and Government property management for DOD and other Federal agencies.
- Weapon System Acquisition Management Assignments. An executive agent is designated to manage a joint program for acquisition of systems that have a high degree of interservice commonality and are produced concurrently in one industrial facility.
- Buy United States Here (BUSH). This Air Force managed program provides Federal activities in Europe and Asia with indefinite delivery contracts covering U.S. manufactured products distributed through commercial overseas outlets.

SPECIAL PROCUREMENT PROGRAMS

- United States Postal Service (USPS). This service purchases mail boxes and other mail-related supplies for Federal agencies.
- Tennessee Valley Authority (TVA) and

other Federal utility activities. These activities provide electric power to Federal agencies.

- Veterans Administration (VA). This administration purchases drugs and special medical-care equipment for Federal agencies.
- Government Printing Office (GPO). This office provides contract printing services to all agencies through field contract printing offices.
- Federal Prison Industries, Inc. (FPI). This organization provides prison-made supplies and services to all agencies directly or through GSA.
- National Industries for the Blind. This activity provides blind-made products to all agencies directly or through GSA.
- Small Business Administration (SBA). This administration negotiates some contracts with minority businesses on behalf of other Federal agencies.
- Local Call Contracts. FPR provides for interagency coordination in execution and use of indefinite delivery contracts for supplies and services required by operating activities at station level.

CHAPTER 3

Requirements

The economy and effectiveness of the Government's acquisition system depends not only on how well it serves the Government at large but also on how well it supports the individual user. This chapter focuses on such user concerns as defining and communicating needs, responsiveness, Government specifications, and product quality.

USER'S NEEDS AND SATISFACTION

Effective acquisition requires the clearest possible communication between the user and the local representative of the Government's acquisition system. From the outset, it is essential that the full context of the user's need be clearly understood. The absence of such understanding often increases the total cost of procurement and inhibits the ability of the user to perform effectively.

The basic purpose of the procurement system is to provide the user with required goods, services, and facilities in the most efficient and economical way possible, yet the system sometimes makes it difficult for the user to satisfy his needs. The procurement system may impose mandatory sources of supply and specifications, directed procurement methods, and other restrictive procedures. Exceptions require extensive documentation; however, nothing in the system prevents a user from ultimately obtaining what is needed to accomplish an authorized mission. Decisions of the Comptroller General have repeatedly upheld the right of Federal agencies to:

- Determine needs [1]
- Use restrictive specifications when only one item or feature will do the job [2]
- Consider factors other than price.[3]

Communicating Needs

The cost of and time spent on communicating a description of needs must be considered in the evaluation of any procurement system. The failure to communicate needs effectively causes serious problems, including a significant increase in the total cost of procurement.

Procurement offices not co-located with the user normally require formal procedures for the communication of requirements. In theory, these formal procedures define the need precisely and result in procurement of the required goods. However, in practice:

- Costs tend to increase the farther away the procuring office is from the using activity.
- Any acquisition system that relies on formal specifications will trail the development of commercial products.
- As paperwork proceeds up the organizational structure, many levels review and may "improve or simplify" the users' requirements. This often results in delivery of a product that differs from that required. The most common complaint in this area concerns substitution of brand-name items.

[1] *Decisions of the Acting Comptroller General*, 17:554–560, Jan. 8, 1938.

[2] Letter from the U.S. Comptroller General, B–157053, to James F. Gardner, Aug. 2, 1965.

[3] Letter from the U.S. Comptroller General, B–169140, to the Secretary of the Navy, July 8, 1970.

Dissatisfaction with the substitute is sometimes so strong that it is returned in its original carton and never used. This usually means that the user is forced to find an alternative means for fulfilling the original need.

- Formal statements of requirements tend to become cluttered with protective and explanatory clauses that do not provide an adequate basis for intelligent bidding.

Many users are concerned because distant procurement staffs often fail to consider cost to the point of use (delivered or landed cost). Both costs and effectiveness can be affected by the user's location and the method of delivery, especially if the user must prepare the item for end use or actually deliver it to the point of use. For example:

- One using activity indicated that the rail siding to which plywood was shipped was more than ten miles away. This resulted in additional costs because the user had to obtain a truck and crew to unload and deliver the plywood to the point of use.
- Users believe the freight costs exceed the cost of the item on many items shipped from distant depots.
- Many users expressed the opinion that, if the total costs of central agency or interagency support were known, local commercial outlets for certain services or products would prove to be more cost-effective.

Users expressed concern that staff-level personnel often fail to consider the rising cost of labor for certain services, particularly in repair and maintenance activities. For example, labor cost is a major portion of the total cost of most paint jobs. Attempts to save on the cost of paint can result in more frequent repainting and less productivity. This relationship of labor to supplies generally applies to the entire field of maintenance.

Ordering simplicity is an important factor in satisfying user needs, particularly when the product does not carry a Federal Stock Number (FSN) or does not have a purchase description developed by design engineers. Most users know what they need and can easily communicate a requirement to a colleague but experience difficulty in describing it to the procurement community. These difficulties can be time-consuming and costly, and failure to communicate fully can result in delays and inappropriate procurements.

Clear and direct communication with as few steps as possible saves time and money. Such communication places the user's need in perspective and oftentimes sharply reduces the time and money spent on processing the user's requisition.

When requisitioning and procurement routines are overly formal and rigid, the cost of a procurement, particularly a small purchase, can become excessive. For example: [4]

- Instead of purchasing a $17 identical replacement motor from a local vendor, a lower priced "equivalent" was purchased through competition. Replacement time for the "equivalent" was 2 1/2 hours whereas the exact replacement could have been installed in 15 minutes. When one considers today's labor costs for mechanics at $6 an hour, the extra cost becomes apparent.
- The supply personnel in a major using activity were frustrated in their attempts to identify nonstock-listed items or items for which stock numbers were not identified.

Another example involved an automotive maintenance shop. The unbelievable sequence of steps used in purchasing repair parts was as follows:

- Because he was unaware of certain part numbers and prices required to fill out requisition sheets, the automotive shop stockman called a local Ford agency to get this information.
- The purchase request was prepared from the handwritten requisition and sent to the local purchasing office.
- The purchase request went to a small purchase buyer who called three Ford agencies to get competitive quotes.
- The small purchase buyer advised the lowest offeror of the award and dictated a memorandum of the order.
- The supplier delivered the items to the automotive repair shop.

These formal procedures also caused excessive prices to be paid for parts. Although the

[4] Study Group 13A (Commercial Products), *Final Report*, Feb. 1972, vol. I, p. 179.

system ultimately met the user's need, competition characteristic of the automotive parts market was not sought; procurement was restricted to the original equipment manufacturer whose part numbers were identified to the buyer.

Ideally, the simplest form of ordering lies in having the customer tell the supplier what he needs. Each additional step in the process increases the total cost of the procurement. The functional support contract is a good example of a technique used to simplify communication between user and supplier. This form of contract is tailored to provide all parts or materials needed by a using activity to perform a function (such as maintenance of a vehicle fleet). With all items prepriced by product line, contractual arrangements can be made for users to communicate requirements directly to the supplier. With a sufficient volume of business, the contract can provide for the supplier to have an on-site outlet at the point of Government use. A more detailed discussion of this procurement technique is outlined in Chapters 4 and 6.

Timeliness of Delivery

The total cost of satisfying user requirements is directly affected by elapsed time for delivery. More importantly, promptness may be crucial to accomplishment of the user's mission. Although optimum responsiveness would provide the user the material when he needs it, the system does not always work that way: users take deliveries when they can get them.

The importance of promptness can be illustrated by a few examples:

- Quick delivery response for maintenance parts has a cost premium since equipment is not usable when in need of repair. (The high downtime cost of automotive fleets is an example of this problem.)
- Parts for critical equipment are often stocked for insurance because the cost of breakdown is so high that immediate responsiveness is justified. (Air compressors for air conditioning systems used in ADPE processing areas.)
- Prompt delivery is crucial to a work schedule when a series of items is needed to complete an order for maintenance, construction, overhaul, or other requirements.

Procurement procedures can accommodate urgent needs. "Public exigency" justifies immediate procurement by negotiated contract. Direct contact between user and supplier and the "handcarrying" of emergency requests are exceptions to normal procedures. Priorities can be used to speed the process or provide additional specialized manpower. Each exception increases the cost of procurement. Procedures that minimize or eliminate the need for exceptions should be developed.

In an economic environment that places a premium on labor, any supply system that fails to consider the cost of idle personnel and equipment caused by late or unresponsive delivery cannot be cost-effective. In this sense, responsiveness must be measured from the time the need for a specific item is determined until the item is delivered. Systems that measure effectiveness by the time it takes for a depot to fill a need from receipt of a requisition until the item is shipped are misleading and are lacking in total cost visibility. Personnel costs are significant and are often much higher than the premium that must be paid for rapid delivery of a needed product.

User Satisfaction

Government acquisition systems are designed to meet user needs balanced against such factors as agency resources, mandatory sources, and social and economic programs. A user's satisfaction is directly proportional to the extent he feels his ideas and problems are acted on by those on whom he must depend for support.

Recommendation 2. Provide a positive means for users to communicate satisfaction with their support system as a method of evaluating its effectiveness and ensuring user confidence.

The effectiveness of a highly automated centralized supply support system should be judged by those whose needs the system serves.

In the absence of such judgments, it is possible to lose sight of the purpose for having the system. Our studies revealed that support systems should be continually reevaluated in the light of how well the system serves the user.

Many users feel their ideas are ignored due to the lack of any uniform, effective procedure for receiving and responding to their suggestions and, more importantly, that there is little interest in such factors as ordering simplicity, delivery responsiveness, effective communication, and total cost to the Government.

Conclusions

The organizational structure of many activities makes timely decisions difficult and, therefore, costly and unsatisfactory. To make a system responsive to user needs, decision-making authority must be delegated to the lowest feasible level.

Generally, systems designed to provide specific functional support are effective. Systems that subordinate the user's needs to overly rigid requirements have few satisfied users. Agency or interagency systems are not benefiting from the lowest price for items if total costs are ignored.

SPECIFICATIONS

Specifications and standards are used in contracts to describe the product form, fit, and function required to satisfy the needs of a user. For purposes of this discussion the term Federal specification encompasses Federal and Military specifications, standards, and handbooks unless otherwise noted.

Recommendation 3. Require that development of new Federal specifications for commercial-type products be limited to those that can be specifically justified, including the use of total cost-benefit criteria. All commercial product-type specifications should be reevaluated every five years. Purchase descriptions should be used when Federal specifications are not available.

Recommendation 4. Assign responsibility for policy regarding the development and coordination of Federal specifications to the Office of Federal Procurement Policy.

Definitions of the terms "specifications" and "standards" are available from several sources. Those most frequently used are:

- Specifications describe essential technical requirements for materials, products, or services. They specify the minimum requirements for quality and construction of materials and equipment necessary for an acceptable product.
- Standards have the collective purposes of providing standard data for reference in Federal specifications and identifying standard items for use in the Federal supply system.

To analyze the process of purchasing by specification, one must understand the nature of Government procurement. The Government buys products for which it is the only user and also buys products for which it is but one of many users.

Items for which the Government is the only user are normally highly sophisticated products for which there is no commercial market. This includes major weapon systems such as aircraft and warships, which have relatively long lifespans. Changes made to weapon systems during their use necessarily are shaped by Government needs rather than by forces of the commercial marketplace. The engineering data necessary to produce this sophisticated equipment must exist before it can be manufactured, and the cost of developing these data is charged to the contract under which the data are produced and delivered to the Government.

Commercial products are developed to meet the needs of many users rather than those of any single customer. These items are subject to the competitive forces of a free market with the costs of improvements being borne by the private developer and reflected in the price of his product to the extent competition will permit. Generally, commercial products are dynamic rather than static.

Under the Federal Property and Administrative Services Act of 1949, the General Serv-

ices Administration (GSA) was given the responsibility:

> . . . to establish and maintain such uniform Federal supply catalog system as may be appropriate to identify and classify personal property under the control of Federal agencies . . . and to prescribe . . . standard purchase specifications.[5]

Pursuant to this authority, the system of Federal and Interim Federal Specifications and of Federal and Interim Federal Standards has been created by GSA. Additionally, DOD publishes Military Specifications, Limited Coordination Military Specifications, Military Standards, and Military Handbooks.[6]

Typically, the development of a Federal specification for a commercial product begins with a company's commercial specification. The Government gleans desirable characteristics from the company specification and incorporates them into a proposed Federal specification. The proposed specification is circulated to other firms and eventually, after changes are made, a final specification is developed. This process is very costly, time-consuming, and often is poorly coordinated.

Program Size

The promulgation and use of specifications have proliferated so that by 1972 there were more than 36,000 in use. The breakdown by type is shown in table 1.

TABLE 1. NUMBER OF SPECIFICATIONS BY TYPE

Federal and Interim Federal Specifications	4,661
Federal and Interim Federal Standards	212
Military Specifications	13,956
Limited Coordination Military Specifications	11,161
Military Standards	6,658
Military Handbooks	98

Source: Study Group 13A (Commercial Products), *Final Report*, Feb. 1972, vol. I, part 4, ch. 2.

When appropriate, industry standards are cited in Federal specifications. Table 2 shows more than 2,000 such standards.

[5] U.S. General Services Administration, *Standardization as a Basis for Procurement and Supply Management*, a position paper presented to the Commission, Sept. 17, 1971.

[6] U.S. Department of Defense, *Index of Specifications and Standards*, July 1, 1970.

TABLE 2. USE OF INDUSTRY STANDARDS

Issuing sources	*Number*
American National Standards Institute (ANSI)	350
American Society for Testing and Materials (ASTM)	1,050
Underwriters Laboratories (UL)	123
Miscellaneous	488

Source: Same as table 1.

GSA reported that industry standards are referenced more than 4,000 times in various Federal specifications. There are more than 13,675 national standards used by various bodies in the United States.[7]

Problems of Age

A review of Federal specifications showed that 118 are more than 21 years old and 24 are more than 31 years old. Apart from the inaccuracies in the 24 specifications, they are of marginal value because of their age. Although age alone is not a sufficient criterion for obsolescence, four of them deal with items used by patients in hospitals (for example, children's and women's nightgowns, men's nightshirts, pajama coats and trousers, and bathrobes). These specifications are outdated. The Veterans Administration's program of providing flameproof patient wear is progressing rapidly. Current use of disposable products makes the standards for diapers, written in June 1932, of little value. Table 3 shows the relative ages of Federal specifications.

TABLE 3. AGING OF FEDERAL SPECIFICATIONS AND STANDARDS
As of June 30, 1970

Age (years)	*Number*	*Percent*
Less than 1	776	15
1 to 3	1,960	39
4–10	1,649	33
11–15	400	8
Over 16	250	5
Total	5,035	100

Source: Same as table 1.

Problems of Referencing

Virtually all specifications cite requirements

[7] U.S. Congress, House, Committee on Government Operations, Report of Subcommittee No. 5 to the Select Committee on Small Business, 90th Cong., 2d sess., 1968.

imposed by other specifications and publications and incorporate them by reference. Commission studies traced through the first three levels of references in the specification for one product, the light bulb. The results are shown in table 4.

TABLE 4. SPECIFICATIONS REFERENCED IN W–L–00101G, LIGHT BULBS

	Number referenced		
Type	*1st level*	*2nd level*	*3rd level*
Federal Specifications	7	24	79
Federal Standards	1	10	26
Military Specifications	1	0	9
Military Standards	2	21	28
Military Handbooks	0	0	1
Other	1	31	72
Total	12	86	215

Source: Same as table 1.

In the table, the reference documents on the first level are listed directly in Federal Specification W–L–00101G. The second-level documents are those listed in first-level Federal specifications and standards only. The "other" first-level document is American National Standard C78 Electric Lamps, which may be purchased for $82.60. The Federal specifications and standards would cost the supplier $47.65. The military documents are free if ordered directly from the depot. No attempt was made to price the other documents. It required more than three weeks for the Commission to find and obtain the first- and second-level Federal specification documents. From this experience it appears that complete identification of all documents referenced in most specifications is virtually impossible.

Of the 313 documents concerning light bulbs (table 4) that the Commission could find, most pertain to packaging, packing, and marking. On the average, a supplier generally must ask three offices for specification-type documents in order to be able to bid responsively. It is extremely difficult and very costly to maintain a current set of reference documents since many of the specifications also cite industry standards. Firms doing business with the Government regularly have complained of this problem. New companies, and those who bid on Government work infrequently, are not familiar with these requirements and therefore may be at a disadvantage.

Other Problems

In addition to the cited problems:

- Purchase of items under a Federal specification when comparable commercial products are available usually results in greater cost to the Government.
- Use of Federal specifications that prescribe specific designs may deny the Government the benefit of technological progress because the high cost of testing alternate designs discourages industry.
- Overly strict interpretation of specifications for commercial products forces producers out of Government work, thus reducing competition.
- Since specifications establish a minimum quality level, the offering of a better quality is not encouraged.

Federal specifications have certain advantages. They advance the public interest by providing a basis for standardization, for establishing quality levels, and for competitive procurement.

Obviously, real savings through the use of specifications and standardization only occur if the resulting product meets the level of performance required by the user. Central procurement offices contend that specifications establish "optimum quality levels." This can also be defined as the minimum quality required for the average user or the minimum level that meets the needs of most users. Specifications and standards inherently involve some averaging or grading of user requirements in order to prevent proliferation of grades and types of products. They may require a regular producer to make special production runs solely to satisfy some detail of the specification. When applied to commercial items, specifications tend to become broad rather than specific. This leads to specifications that do not always recognize the specific need of the user.

If specifications are obsolete, many commercial products do not meet their requirements. This in effect limits competition, defeats the intent of the Government, and deprives it of the advantages of the technologically dynamic open market.

In attempting to satisfy the needs of the average user through standardization, a single

quality line is provided. Unfortunately, user needs do not average out. Some users have lower quality requirements than provided in the standard; others have stiffer quality requirements. The result is that all users with needs below the average are brought up to it, and those with needs above the average fill their requirements by exception.

The Federal supply catalog system very often lists products that have commercially available counterparts. Many of these counterparts meet or exceed Government specifications, but some do not. Usually the needs of civilian agencies can be met by available commercial products, whereas the needs of military agencies often cannot.

The military use millions of commercial items that are bought through use of agency-prepared purchase descriptions. The need for specifications and standards is not necessarily due to lack of commercially available products that will meet the Government's needs. Primarily, specifications and standards are used to provide a standard way of describing, cataloging, and qualifying products for purchase, stock, and issue.

Industry believes the Government should normally buy commercial products rather than items made to Federal specifications.[8] Manufacturers state that Government contracts and specifications are not only unnecessarily complex but prevent users from buying satisfactory commercial products generally available in their area. Others state that reliance on Federal specifications results in a more expensive and slower method of procuring items that may be less cost-effective than their commercial counterparts.

Conclusions

The Government standardization effort is a responsibility of several agencies. No single agency has total responsibility, and the degree of coordination among agencies is poor. Many specifications have become too complex for the need and inhibit or exclude the use of commercial products.

[8] For example, see the Associated Equipment Distributors position report, Appendix B.

Benefits to the Government in improved pricing, greater competition, and possibly better quality through the use of Federal specifications should be evaluated against costs and alternatives. Development and use costs should include costs of Government and industry coordination, additional inspection requirements, and updating of the specifications. Benefits should be evaluated on the basis of net savings through formal advertising and central procurement.

The elimination of duplication and obsolescence is the responsibility of the operating agencies that develop the specifications, but responsibility for policy and coordination of the overall standards and specifications program should be assigned to a central point of authority. The following actions could greatly reduce some of the problems:

- Development of Government standardization documents should be justified on the basis of all costs involved in their development, promulgation, maintenance, and use in relation to the benefits obtained.
- All standardization documents should be reviewed at fixed periods.
- Commercial product specifications, when used, should exclude packaging, packing, and marking requirements. All packaging, packing, and marking requirements should be reviewed for economy and efficiency in accordance with current commercial practices.
- Packaging requirements for military items should be completely separated from all other standardization activities.

QUALITY ASSURANCE

To fulfill a user's need, commercial products must be of the required quality. The steps taken to assure quality always cost something and very often add enormously to the cost of procurement. Although quality assurance measures are sometimes inadequate, frequently they are overly elaborate and unnecessarily expensive. To serve the user best and to minimize the total unit cost of procurement, both extremes must be avoided.

Commercial Quality Programs

Most Government contracts for commercial products provide for inspection of the products before they are accepted by the Government. Some commercial items may be simple enough to permit inspection and acceptance on delivery, but for more complex equipment and products there often is a need for an in-plant inspection or quality assurance program. The type of product, requisite product reliability, size of purchase, statutory requirement, or availability of qualified personnel are factors considered in selecting the method used to assure delivery of quality products. In most cases the selection is based on more than one of these factors.

The competitive forces in the market for commercial products compel a manufacturer to maintain a program of quality assurance. Economy and efficiency dictate that the Government, in buying commercial products, usually should rely on these quality programs; however, the Government may be justified in making its own in-plant inspection in cases where the contractor makes a production run solely for the Government and may permit a lower product quality than his commercial standard.

When contract specifications require special production runs, conformity, including interpretation of specifications, must be established and determined for each run; hence, the extent of in-plant inspection for commercial products is affected by the size of the purchase and the degree to which the products vary from standard production items.

Other exceptions to reliance on manufacturers' quality assurance programs occur when special products, statutory requirements, or the public health and safety are involved.

Government Quality Programs

Several Federal agencies have programs to assure delivery of quality products and services procured by the Government. Foremost among these agencies are the General Services Administration, Defense Supply Agency, Veterans Administration, Department of Agriculture, and the Food and Drug Administration. All of these agencies can offer quality control services within their capabilities to other agencies.

GSA and DSA have an extensive quality control program to support the Government procurement function. GSA's Quality Control Division has operating offices in each of the ten GSA regions.[9] Contractor quality control in DSA is operated through DSA's 11 Defense Contract Administration Services Regions (DCASR),[10] whose primary objective is to provide quality control and field contract administration for Federal agencies.

GSA and DSA each provides a range of inspection and quality assurance programs, depending on the terms of the contracts and the products involved. Use of these inspection programs by civilian agencies is optional. Where plant cognizance is assigned to a military department, inspection services are also available to other DOD and civilian activities.

The Veterans Administration performs quality control inspections on medical items for which it is responsible, and the Department of Agriculture and the Food and Drug Administration operate extensive inspection programs in support of public health and safety. Other Government agencies also have quality control programs to protect the health and safety of Government personnel. For example, the Defense Personnel Support Center (DPSC) has a medical laboratory to develop safe drug specifications and programs for testing their quality.

What is lacking in the executive branch is an integrated program to disseminate information on the quality control programs of the individual agencies and a policy to maximize the use of the existing services by all Government procurement organizations.[11]

Conclusions

In attempting to satisfy the needs of users, the Government must assure through some

[9] General Services Administration, *Quality Control Operations*, paper presented to Study Group 13A, Sept. 17, 1971.

[10] Defense Supply Agency, *An Introduction to DSA*, Jan. 1971, p. 35.

[11] See further discussion, Part A, Chapter 10.

kind of inspection procedure that products meet quality requirements. Good business practice dictates that, in buying commercial products, the Government should not impose inspection requirements beyond those normally needed to assure quality in the commercial marketplace.

Government inspection units have been criticized because they sometimes accept shoddy products, duplicate effort, and perform different types of inspection for similar products. The Government has not coordinated its quality assurance programs required by contract with its various inspection functions required by law or regulation, nor has it promoted the full use of existing quality capability in lieu of each procurement organization performing its own inspection. The system within DOD and the informal arrangements between some agency procurement organizations provide a framework for achieving this objective, as recommended in Part A, Chapter 10.

CHAPTER 4

Acquisition

This chapter presents the results of our studies of the various procurement systems and methods as they interrelate to produce the most economical and efficient acquisition of commercial products. We believe improvements in work-force productivity, with reductions in personnel and other operating costs, can be achieved through a more effective evaluation and selection of alternative systems of procurement and distribution.

Many of the Commission's recommendations affect a broad range of procurement. For example, our recommendation in Part A, Chapter 3, to raise the small purchase limitation to $10,000 is particularly applicable to commercial products. Similarly, the need for a well-trained, effective procurement work force, as discussed in Part A, Chapter 5, is as necessary to the acquisition of commercial products as it is to other goods and services.

The chapter concludes with an analysis of the use of Federal sources of supply by grantees and other non-Federal agencies.

PROCUREMENT METHODS AND OPERATIONAL EFFECTIVENESS

Both ASPR and FPR outline several methods for the procurement of supplies and services, including indefinite delivery contracts and several small purchase procedures. When used with various pricing techniques and delivery systems, these alternatives provide extensive choices in tailoring contracts to respond to differing needs and conditions.

The results of Commission field visits, public meetings, and correspondence from industry associations indicate concern over the complexity of procurement. Much of the criticism is directed at the sheer bulk of paperwork and procedural detail associated with Government procurement. Many small businessmen said that they do not seek Government business because they are afraid of missing some costly detail in the mass of paperwork.

Through the years, complexities slowly have been built into the procurement system. Many of the standard forms used in solicitation contain provisions expressly applicable to a range of purchases, but since they include all conceivable variables, they have become unduly complicated. For example, several food industry representatives noted that USDA's large-volume purchase bids contain fewer pages and are awarded faster than those of DSA. USDA and DSA endeavor to simplify their bid packages by incorporating standard provisions by reference. The most obvious difference is that USDA uses a letter form of solicitation that presents the procurement in a business-like package, while DSA uses a standard form that looks complicated and formidable because it covers every type of contract. Also, USDA's use of a computer to evaluate bids makes award within a few days standard practice.

Small Purchases

The value of Government purchases ranges from a few cents to several million dollars; however, most purchases are small. In fiscal 1972, 98.2 percent of DOD purchases were for less than $10,000.[1] The percentages of pur-

[1] *Military Prime Contract Awards and Subcontract Payments and Commitments, July 1971–June 1972*, Sept. 1972, p. 38.

chases under $10,000 in the civilian agencies are probably comparable, except for special activities such as the USDA food programs, but data to verify this could not be obtained.

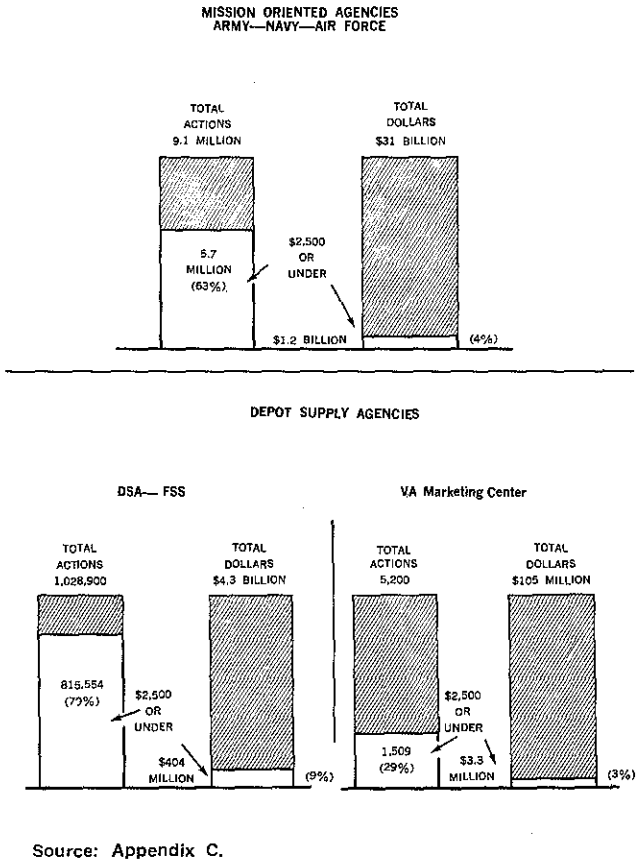
The Armed Services Procurement Act of 1947 and the Federal Property and Administrative Services Act of 1949 both make exceptions to formal advertising for purchases under $1,000. This ceiling was raised to $2,500 in 1958 by legislation [2] that established the basis for considering all Federal purchases of less than $2,500 as small purchases. ASPR and FPR prescribe simplified procedures for small purchases. In Part A, Chapter 3, we recommend that the statutory ceiling on procurements for which simplified procedures are authorized be raised to $10,000. This recommendation has special relevance to commercial products since they account for the greatest number of purchases under $10,000.

Small purchases can be made through imprest funds, blanket purchase agreements, purchase orders, or basic ordering agreements.[3] All small purchase techniques involve individual requisitioning, solicitation, price analysis, ordering, delivery, acceptance, and (except for blanket purchase orders) payment.

Figure 1 shows the proportion of purchases under $2,500 by the military departments, interagency depots, and the Veterans Administration (VA). The data reveals that the VA Marketing Center has the lowest percentage of small purchases. This is due to VA's policy of limiting depot stock to high-volume items. The most significant element of the chart is the high percentage of small purchases made by the other central agencies to satisfy individual field requirements, and of slow turnover items of low value. It raises the question of why so many centrally managed small purchases are necessary.

Recurring requirements for specific items or within a family of items (such as plumbing or electrical supplies used in maintenance) account for a major portion of small purchases. Difficulties in forecasting cumulative requirements for economical stock purchases or in

RELATIONSHIP OF SMALL PURCHASES TO TOTAL PURCHASES
FISCAL 1971



Source: Appendix C.

Figure 1

establishing definitive call contracts generally result in satisfying each requirement as it occurs. The requirements of formal advertising for purchases over $2,500 inhibit the consolidation of individual purchases.

The $2,500 statutory ceiling on the use of small purchase procedures is regarded as unrealistic by virtually every agency and procuring activity. The most vocal critics are field activities that are limited in negotiation authority to the small purchase exception.

Comments from agencies and field activities indicate that if the ceiling were raised to an amount generally identified as $10,000, the Government would achieve large administrative savings. The arguments for this increase are that the value of the dollar has declined since the ceiling was established and that ex-

[2] Public Law 85-800, 72 Stat. 966, 41 U.S.C. 252, 10 U.S.C. 2304 (1970).

[3] FPR 1-3.6; ASPR 3-600. Individual orders against indefinite quantity contracts also are considered to be small purchases, although the basic contract may have resulted from formal advertising.

tended use of the simplified procedures will reduce administrative costs. It would also enhance competition, particularly from small businesses, by simplifying solicitation documents.

The purchasing power of the dollar on the basis of wholesale prices declined about 20.4 percent from 1958 to 1971.[4] If the decline of the dollar were the sole basis for changing the ceiling, the new level would be about $2,900, but this would not consider the increases in the costs of operating and managing the procurement function. The wages of purchasing personnel alone have increased by about 85 percent since 1958.[5]

Raising the ceiling for small purchase procedures to $10,000 would provide a potential for savings in administrative costs without significantly affecting the dollar percentage of formal advertising.[6] GAO has estimated potential administrative savings by DOD of over $100 million annually, if contracts under $10,000 could be awarded under small purchase simplified procedures.[7]

Raising the ceiling to more than $10,000 would provide very little additional administrative savings since there are relatively few actions over $10,000.[8] On the other hand, a change to $5,000 or some other figure below $10,000 would reduce potential savings. Authority for the executive branch to adjust the threshold periodically, based on economic considerations, would improve total effectiveness and assure more orderly consideration of procurement costs.

[4] Calculated by the Commission from data in *Statistical Abstract of the United States, 1972*, table 557, p. 340.

[5] Calculated by the Commission from *Civil Service Commission Pay Rates of the General Schedule, 1958–1971*. (Assumes GS–9, step 1.)

[6] In fiscal 1972, DOD formally advertised military procurements of less than $10,000 amounted to $259.5 million. (See letter from Office of the Assistant Secretary of Defense (Installations and Logistics) to the Commission, Nov. 1, 1972.) When compared to the total DOD military procurement dollars and actions (*Military Prime Contract Awards and Subcontract Payments or Commitments, July 1971–June 1972*, OSD (Comptroller), pp. 48–49), this represents 0.7 percent of the dollars and 7.8 percent of the actions.

[7] Letter (B–160725) from the Assistant Comptroller General to the Commission, Nov. 30, 1972.

[8] Department of Defense procurement actions between $10,000 and $25,000 were only 8/10 of 1 percent of the total number in fiscal 1972. (Letter from the Under Secretary of the Navy to the Commission, Nov. 10, 1972; percentage calculated by the Commission.)

Indefinite Quantity and Indefinite Delivery Contracts

Indefinite quantity contracts are used when the Government has a recurring need for an item or items within a commodity area but does not know precisely, or within a reasonable variation, the quantity or specific identity of its requirements for a specified period of time. Indefinite delivery contracts are used when the precise time of Government need is uncertain. This latter type includes fixed-quantity contracts that provide for an indefinite delivery time.[9]

Indefinite quantity and indefinite delivery contracts are used for such items as tires, office supplies, food products, and furniture. An increase in negotiating authority to $10,000 would encourage greater use of this type of contracting for recurring requirements at field activities. The main advantages of these contracts are delay in passage of title until delivery of goods, price advantages of consolidated purchasing without incurring warehousing and distribution costs, and simplification of ordering by elimination of individual purchases. They have been recognized by GAO as techniques worthy of prime consideration in every small purchase procurement operation.[10] Many variations of this type of contracting are currently in use, but the most common are requirements contracts and multiple-award contracts.

REQUIREMENTS CONTRACTS

Requirements contracts generally provide more favorable prices than other types of term contracts since they give exclusive rights to one contractor during a specified time for all requirements generated within the scope of the contract. By guaranteeing all of an activity's business for a period of time, the solicitation is highly competitive although the precise quantities needed are not identified in advance. It also permits suppliers to adapt their produc-

[9] ASPR 3–409 and FPR 1–3.409.

[10] U.S. Comptroller General, Report B–162394, *Requirements Contracting and Other Aspects of Small Purchases in the Department of Defense*, Feb. 5, 1969.

tion schedules to continuing requirements. Normally a requirements contract is for a list of items with estimated quantities that are used to determine total dollar value in making the award. Contracts generally are for a one-year period with funds obligated by separate delivery orders. The need for product identification, estimated quantities, and exclusive use are the major limitations of this type contract.

Requirements contracts are extremely effective for procuring commodities such as milk or bread. For perishables, the user generally is authorized to schedule deliveries directly with the vendor. Payment of monthly invoices is supported by delivery tickets. This type of contract is also used by central procurement offices for various supplies and services. These offices may authorize or require field activities to place calls under the contracts on a regional basis or on a national basis as in the case of Federal Supply Schedules.

Recent innovations at field activities have increased the potential for use of requirements contracts to provide total support for a function or activity. One concept is to contract for a family of products to support an operational function on an as-needed basis. Pricing is based on a discount from nationally distributed price lists. An example of this method is the Air Force Contractor Operated Parts Store (COPARS) where all requirements for support of a vehicle fleet are covered by contract prices discounted from manufacturer's list prices. Composition of the fleet identifies the requirement and establishes the scope.

Functional support contracts provide several advantages not previously available in one contract:

- Formal advertising can be used even for brand-name items or parts.
- Individually negotiated purchases are drastically reduced, with a corresponding saving in administrative time and paperwork for industry and the Government.
- The processing of emergency transactions is eliminated since any requirement within the family of items on the contract is already prepriced. Only a phone call is required to effect delivery.
- Price analysis is more effective since it is performed on a total support basis for a subsequent contract period rather than under the pressure of filling individual priority requirements.
- Government stock can be eliminated or reduced to operating minimums since administrative leadtime is eliminated and the supplying contractor is able to anticipate a station's requirements on the basis of the scope of the function to be supported.
- A variety of product lines is available to the user.
- The system provides a tailored contract for support of a function or activity, with greater incentives for competition than would be provided by individual small purchases. This support may include related services such as operation of an issue station at the worksite.
- Since the Government does not take title to property until it is received for use, the problem of excess and surplus is practically eliminated.
- Delivery arrangements can provide for the user, such as a mechanic or workman, to communicate requirements orally to the supplier. This procedure simplifies ordering, reduces delivery time, and assures acceptance of proper products.
- With prices based on the nationally distributed price list in effect at the time of product acceptance, the business risks of the seller are reduced since he can operate on a margin without undue concern for unanticipated price increases.

Constraints to the use of functional support contracts include:

- Mandatory agency or interagency sources result in the exclusion of many standard fastmoving items from the contract. Total requirements thus may be reduced below economical contracting minimums. Administration of these exceptions requires a screening of all items.
- Supply procedures discourage innovation that does not include channeling supplies through an established Government delivery system.
- The system drastically reduces the number of individual purchase actions that many

agencies use as a standard for manning and management.

- Some items within the range of supplies may be available only from large manufacturers, thereby limiting small business set-asides.[11]

We reviewed a functional support contract operation of the Air Force Strategic Air Command (SAC) at Castle Air Force Base, Merced, California.[12] A requirements contract was executed by the base procurement officer with a local building supply company for all real property maintenance requirements except for mandatory GSA/DSA items over $50 in value. The $50 exemption was granted by DOD for test purposes. The formally advertised contract was priced by discount from nationally distributed commercial catalogs with special provisions for a contractor's store at the base maintenance shop area. We observed the issuance of stores on hand directly to workmen, the documentation by delivery ticket, the ability to audit each transaction, and the elimination of the need for Government stocking.

Administrative costs in ordering, receiving, and auditing each purchase made under a functional support contract have been estimated by SAC to be $1.55.[13] The convenience of the system probably increases the number of transactions, but even at double the number, the savings through reduction of individual small purchases and Government inventory are significant.

Since total cost to the Government for material received from GSA and DSA is unknown, it was impossible to compare delivered cost of material obtained from the interagency system versus that obtained under the supply contract. The Strategic Air Command (SAC) Civil Engineer projected work-force productivity savings for the 30 SAC bases of more than 1.5 percent of total work-force cost per year.[14] The savings result from improved management of the work force.

[11] FPR 1-1.701-1.

[12] See landed cost studies in Chapter 6.

[13] U.S. Strategic Air Command, *Impact of COCESS on Base Procurement Small Purchase Actions*, July 28, 1972.

[14] Briefing on "Contractor Operated Civil Engineering Supply Store," given by Brig. Gen. Archie S. Mayes to Logistics Personnel, Headquarters USAF, at the Pentagon, Oct. 1971.

MULTIPLE-AWARD CONTRACTS

If variable quantity contracts cannot be made with a single contractor for lack of definite specifications or because of a desire to contract for several brands of merchandise, multiple-award contracts are used. Multiple-award contracts usually provide for a minimum and a maximum amount to be purchased, either to satisfy legal requirements or to establish a base for unit pricing. Within this range the contracts are basically indefinite quantity pricing agreements; they are negotiated and may be written with several companies by brand-name for the same type of item. This type contract is used most frequently by GSA (some Federal Supply Schedules), DSA (Supply Bulletins), and Air Force (Buy U.S. Here [BUSH]).

GSA negotiates regional and national multiple-award Federal Supply Schedule contracts for brand-name products, such as office equipment. These contracts provide a prepriced arrangement that field activities use by placing delivery orders with the lowest priced contractor for a product that fills their needs. Field activities indicate that the main benefit of these contracts is the convenience and simplicity of obtaining supplies and services from a local distributor or manufacturer's representative, including all the benefits of normal customer services such as warranty and delivery to the user.

A controversial aspect of multiple-award Federal Supply Schedules is the "benchmark" method of price negotiation.[15] Under this technique, GSA establishes a discount goal generally equivalent to the largest discount offered by a significant supplier for a given category of products. Other companies are advised they must meet this "benchmark" in order to be awarded a Federal Supply Schedule contract. Since the ordering convenience of these contracts provides potential sales and the contracts for a product line are generally mandatory, a company's position in the Government market may depend on being a Federal Supply Schedule contractor. GAO reviewed the practice and found that, since it produces better prices and the Government is not bound by trade laws,

[15] General Services Administration, Federal Supply Service, *"Benchmark Discount Policy" Technique Used in Negotiating Multiple-Award Federal Supply Schedule Contracts*, Aug. 2, 1971.

the practice benefits the Government. Because of its exemption from the Robinson-Patman Act,[16] the Government can use the "benchmark discount" technique.

DSA Supply Bulletins are mandatory multiple-award contracts for brand-name food products that provide for delivery direct to resale commissary stores of DOD activities. These contracts contain a price clause that ensures prices as favorable as those of the supplier's customers with comparable sales. The mandatory nature of these contracts assures system orderliness, but it precludes consideration by station purchasing offices of alternative techniques that may be more cost-effective. Brands of products not covered by Supply Bulletins may be procured locally to meet consumer preference.

The Overseas Support Systems section of this report discusses BUSH contracts. These contracts are negotiated by the Air Force for overseas use by all Federal agencies for procurement of products made in the United States from overseas outlets of U.S. companies. Their use is optional, and they often parallel GSA Federal Supply Schedules in product and price. A basic goal of BUSH contract negotiations is to obtain prices for overseas delivery by the contractor that are lower than the price to the Government for purchase and delivery in the continental United States, plus the cost of further overseas delivery through the Government distribution systems.

Operational Effectiveness

Recommendation 5. Encourage agencies to use headquarters procurement staff personnel in the conduct of on-the-job training of field procurement personnel to (a) implement techniques adapted to specific field activity needs and (b) identify possibilities for procurement innovation and transfusion.

The overall effectiveness of a procurement system depends on having the appropriate office make the purchase, on placing procurement functions at their proper level in an organization, and on having qualified personnel do the purchasing. The competence of an agency's principal procurement staff in evaluating and developing operational systems also contributes greatly to the effectiveness of the total function.

STATION-LEVEL SUPPORT

The availability of commercial sources at the location where requirements are generated and work is performed provides major opportunities for economical purchasing. This requires consideration of such procurement techniques as leasing and service contracting. Consideration of alternatives also requires a reasonable degree of comparative cost analysis. This use must not be overly constrained by mandatory interagency requirements, and the procurement staff must be qualified and authorized to implement the results of the analysis. If a competent procurement staff is not readily available to choose among alternatives, there is a tendency for either the user or a functional manager to direct an arbitrary course of action that may not be the most effective.

The comments of a laboratory technician at the Bureau of Mines were typical of the dilemma of many users. He gave the example of equipment needed for mineral analysis. The technician knew the purpose for which he needed the instrument, but could not precisely describe or identify it. Before submitting a purchase request, he spent several months surveying the market for equipment that could perform the required function. The local contracting officer formally advertised for the instrument on a brand-name or equal basis. This action, which resulted in only one acceptable bid, further delayed the procurement and increased the administrative cost to the Government. Adequate negotiation authority and coordinated effort between the technician and the local contracting officer in solicitation and negotiation, on a performance specification basis, would have filled the need in one operation. This example is typical of station-level operations where negotiation authority is limited to small purchases. By limiting field-activity authority, agencies provide for central procurement of high-value requirements, but field activities can usually procure sporadic

[16] 15 U.S.C. 13 (1970); 38 Ops. Att'y Gen. 539 (1936).

commercially available requirements more effectively than a higher level purchasing office.

Automated supply management and accountability are essential for weapon system support. Commercial product requirements and resources may not be compatible with highly automated systems because a full consideration of alternatives is not possible. At some stations, prescribed use of automated systems prevents the use of blanket-delivery orders against requirement contracts.

One of the most effective procurement organizations noted in the Commission field studies was that of the five State hospitals of the University of California. Each hospital has its own purchase authority and is responsible for a portion of the combined support of all five hospitals. The headquarters staff exercises policy guidance that uses total cost as the primary basis for selecting methods of support for each function. The results of product-line studies by each of the hospitals strongly favored requirements-type contracts for a product line. Each hospital is able to provide more effective technical and procurement support for its assigned product than could be provided by an outside activity. This is primarily due to a clearer understanding and better communication of needs within the activity. Additionally, each hospital procurement staff competes with the others in performing its procurement assignment.

Station-level procurement staffs can also improve overall effectiveness by coordinating their operations with those of other agencies in the local area. The extent of this coordination and cooperation among station procurement offices varies widely. We noted that most procurement offices lack knowledge about the activity of other Federal procurement offices in the same community. Greater effectiveness could result from consolidation of local purchase offices in an area where several Government activities use the same sources of supply and service.[17]

The effectiveness of field procurement offices varies widely among agencies and even within agencies. The disparity is attributed to complexities of items and services, organization of the procurement function, delegations of authority, and qualifications of personnel. The most notable variation at the station level is in the use of procurement techniques. Some activities rely primarily on imprest funds and blanket purchase orders and others develop functional-support requirements contracts to reduce individual small purchases. Generally, there appears to be a lack of consideration of the varying administrative costs among differing procurement techniques. The ability of field procurement personnel to analyze total support requirements and to develop innovative and effective procurement systems is limited but can be enhanced by the agency's central procurement staff.

AGENCY-LEVEL SUPPORT AND MANAGEMENT

Procurement activity at agency level includes staff responsibilities in managing the agency's total procurement program. Generally it also includes operational support for the agency's depots and for agencywide variable quantity contracts and direct delivery programs. Some agencies also provide special supply or service support to other Federal agencies.

The effectiveness and economy of the total agency logistic operation for commercial products depends on the staff's knowledge of user requirements and the degree of its participation in consideration of agency-level alternatives through total economic cost analyses. Agency-level procurement staffs are in an ideal position to monitor the effectiveness of various purchasing methods and distribution systems; they should be authorized to challenge costly requirements or uneconomical distribution systems. They also are able to exchange concepts and philosophies with their peers in Government and industry. Most importantly, they understand the needs of the people they serve. This spirit enables them to communicate effectively in making and promulgating agency procurement policy. The procurement staff at agency headquarters is also in an ideal position to evaluate use of mandatory sources of supply and other interagency procurement arrangements. To accomplish these things most effectively, agency-level staffs should include procurement specialists with station-level experience.

[17] Study Group 5 (Organization and Personnel), *Final Report*, Feb. 1972, vol. I, pp. 409–431.

During field visits, it was noted that many procuring offices at the field level are unsure of their authority to develop procedures to simplify operations and provide more effective support. There is a reluctance, especially in small field offices, to deviate from established procedures or to submit requests through channels for authorization to use innovative techniques. Agency staff visits should identify areas needing on-the-job training and support development of solutions to specific field needs. Mobile cadres would provide a means of implementing proven techniques and would alert the agency head to operational needs. This practice is used effectively by the Navy in training to improve troop feeding operations on board ship and at isolated locations.

Conclusions

Various procurement techniques are available for use by agencies in acquiring supplies and services.

By increasing the ceiling for small purchases to $10,000, the Government will achieve substantial administrative savings.

Agency solicitation and contracting practices contribute to the bulk and complexity of bid packages and contracts.

Requirements contracts designed to provide total supply support for a function can potentially reduce the number of individual actions and improve work-force productivity through more responsive delivery.

Wide variations in station-level procedures and the resulting differences in operational costs can be attributed to differences in procurement authority, organization, and personnel qualifications at the station level.

The professionalism and organizational placement of the procurement staff and the extent to which it is used at the agency level are of primary importance in considering and selecting among alternative methods of procurement and distribution.

Increased professionalism at station level requires a dynamic agency program for on-the-job training and development of skills among procurement personnel.

SUPPLY DISTRIBUTION SYSTEMS AND ALTERNATIVES

The commercial products covered by this discussion are those that are commonly stored and issued by a Government distribution system. The acquisition and distribution of special-purpose equipment is not addressed in this section except for leasing or rental of such equipment as an alternative in filling specific requirements.

Recommendation 6. Provide statutory authority and assign to the Office of Federal Procurement Policy responsibility for policies to achieve greater economy in the procurement, storage, and distribution of commercial products used by Federal agencies. Until statutory authority is provided and until such responsibility is assigned to the Office of Federal Procurement Policy, the following actions should be taken:

(a) Establish reasonable standards to permit local using installations to buy directly from commercial sources if lower total economic costs to the Government can be achieved. However, decentralization of items for local purchase should not be permitted to affect adversely centralized procurement and distribution management required for purposes such as mobilization planning, military readiness, and product quality assurance.

(b) Develop and implement on an orderly basis industrial funding of activities engaged in interagency supply support of commercial products and services, to the fullest practical extent, so that (1) determination and recoupment of the true costs for providing such products and services will be facilitated, and (2) efficiency in the use of resources will be fostered.

(c) Evaluate continuously the efficiency, economy, and appropriateness of the procurement and distribution systems on a total economic cost basis at all levels, without prejudice to mobilization reserve and other national requirements.

A procurement action generally begins with a purchase request that identifies the requirement and the point of delivery. In acting on the request, attention too often is focused on

the price of the item requested rather than on the total cost incurred by the Government, including a share of the cost of the distribution system involved.

Delivery of products to the user entails the use of a Government or a commercial distribution system, or a combination of both. In nearly every case, delivery accounts for a large part of the total cost of an item at the point of use. Distribution costs should be evaluated in relation to the purchase-price savings and other benefits of Government distribution.

At the point the Government takes title to property, it generally assumes all responsibility for loss, damage, deterioration, obsolescence, excesses, and all costs of handling, warehousing, and distribution. Commercial distribution provides a means of acquiring delivery services with a corresponding reduction in assumption of risks and delivery costs. The evaluation of alternative distribution systems should be based on comparative delivered or landed costs to the user.

Figure 2 shows the levels of support now used in relation to the user. At each level of support both stock and nonstock alternatives are available. Requirements are filled from depot or warehouse stocks or are ordered from suppliers for direct delivery to the user.

EFFECTS OF SUPPORT LEVELS ON LANDED COST OF COMMERCIAL PRODUCTS

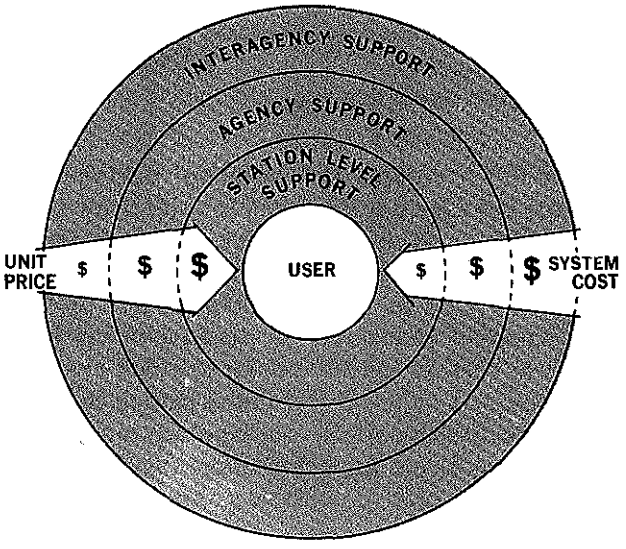


Figure 2

Source: Developed by the Commission on Government Procurement.

Although the unit price of an item tends to decrease as requirements are consolidated and better volume discounts are obtained, the cost of operations of large and more complex levels of support tends to increase the cost. Regardless of the level of support used, there is a true or "landed cost" to the Government at the point of use.

Many activities believe that Government warehousing at or near the local station is essential for adequate support. This is not always true. The stock level at the station depends on the criticality of the potential need, the leadtime for replenishment, and the physical characteristics of the product. One alternative to local stock is direct delivery from commercial sources.

The most obvious cost factors at the station level affected by the distribution system include:

- Administrative costs in processing requisitions, purchases, receipts, and payments
- Work-force productivity losses due to nonavailability of material
- Pickup, warehousing, and distribution costs, including investment capital in stock
- Disposal of excess property generated due to various ordering and operational factors.

Agency-level warehousing and distribution systems vary from those agencies that do not have any to those that have extensive systems. Some systems duplicate the warehousing of interagency, station-level, and commercial systems.[18] Even among DOD activities there are vast differences in policy, logistics organizations, and support systems at the agency level.

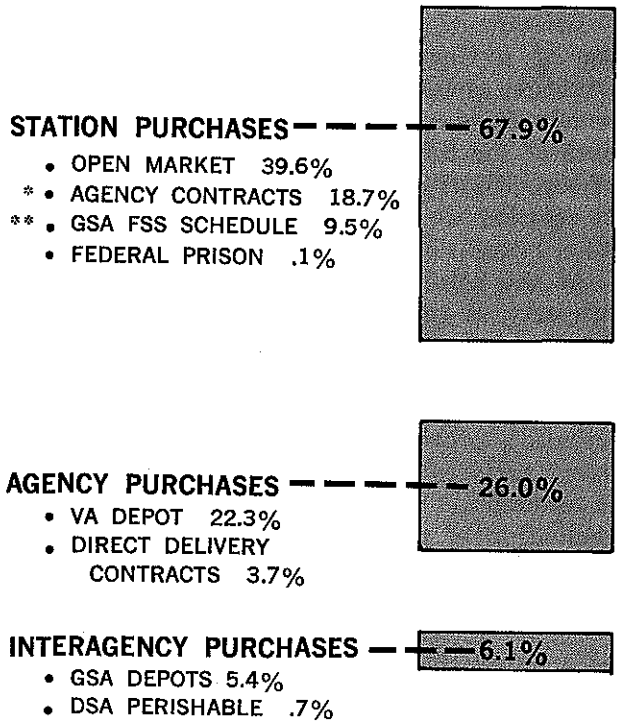
The variation in the methods used to provide users with commercial products has a significant impact on the economy and effectiveness of this support. Landed-cost studies outlined in Chapter 6 indicate that the lack of consideration of total system cost is the main reason for not moving to less costly methods of supply support.

[18] U.S. Comptroller General, Report B–146828, *Savings Available to the Government Through Elimination of Duplicate Inventories*, May 1968, pp. 5–7.

The Veterans Administration (VA) is one agency that operates its support system on the basis of total cost. The VA operates 237 field activities including the largest hospital system in the Nation consisting of 166 hospitals with more than 102,000 beds. The Marketing Center in Hines, Illinois, is the agency's central commodity-management point. Contracts for depot stock, direct delivery, and indefinite delivery contracts for station delivery are made at this point.

Comments on VA station-level procurement from agency users are reviewed for consideration of supply alternatives, including consolidation of orders against existing contracts to take advantage of quantity discounts. Only 1,968 items (27 of which are nonexpendable equipment) are centrally stocked. Careful selection of items for depot stock on a total cost basis has reduced VA depot costs to about 16 percent of item cost. This cost is far below that of all other activities studied.[19] Figure 3 shows the sources and methods used by the VA to provide total requirements to hospitals and the ratio of these levels of support.

SOURCE OF VA FIELD STATION REQUIREMENTS FOR SUPPLIES AND EQUIPMENT



* Indefinite Delivery Contracts Written at Agency Level for use by Station Procuring Activities.

** Indefinite Delivery Contracts Written by FSS (or VA by Delegation) for use by Station Procuring Activities.

Source: VA Field Station Acquisition Report Fiscal 1971.

Figure 3

Interagency-level Support

FSS and GSA interagency support activities were developed to provide greater economy and efficiency by reducing duplication, consolidating requirements, standardizing product lines, and optimizing technical capability. These objectives are valid and have been achieved for a great many items, but it is difficult to evaluate the overall results. These agencies cite many examples of favorable prices obtained through the use of definitive specifications and quantity purchases. However, net savings to the Government through standardization actions cannot be determined unless all costs associated with the transactions are considered.

A review of GAO reports for the past ten years reveals perpetual problems in stocking and managing thousands of commercial products of low dollar value and very little demand.[20] To resolve the problem, various programs have been established to select new items for stock, and special effort has been made to eliminate low-demand items. These programs have resulted in the decentralization of procurement of thousands of items, but the basic criteria used to determine depot stock are item demand and value of the items rather than the cost-effectiveness of the distribution method.

Because direct appropriations finance operational costs and mandatory agency use as-

[19] See Chapter 6.

[20] U.S. Comptroller General, Report B-146828, *Uneconomical Management of Commercially Available Items.* Nov. 29, 1963; Report B-133118, *Substantial Savings Available by Eliminating Low-Cost, Low Demand Spare Parts from Defense Supply System,* Oct. 31, 1967; and Report B-114807, *Opportunities for Savings Through the Elimination of Nonessential Stock Items,* May 22, 1970.

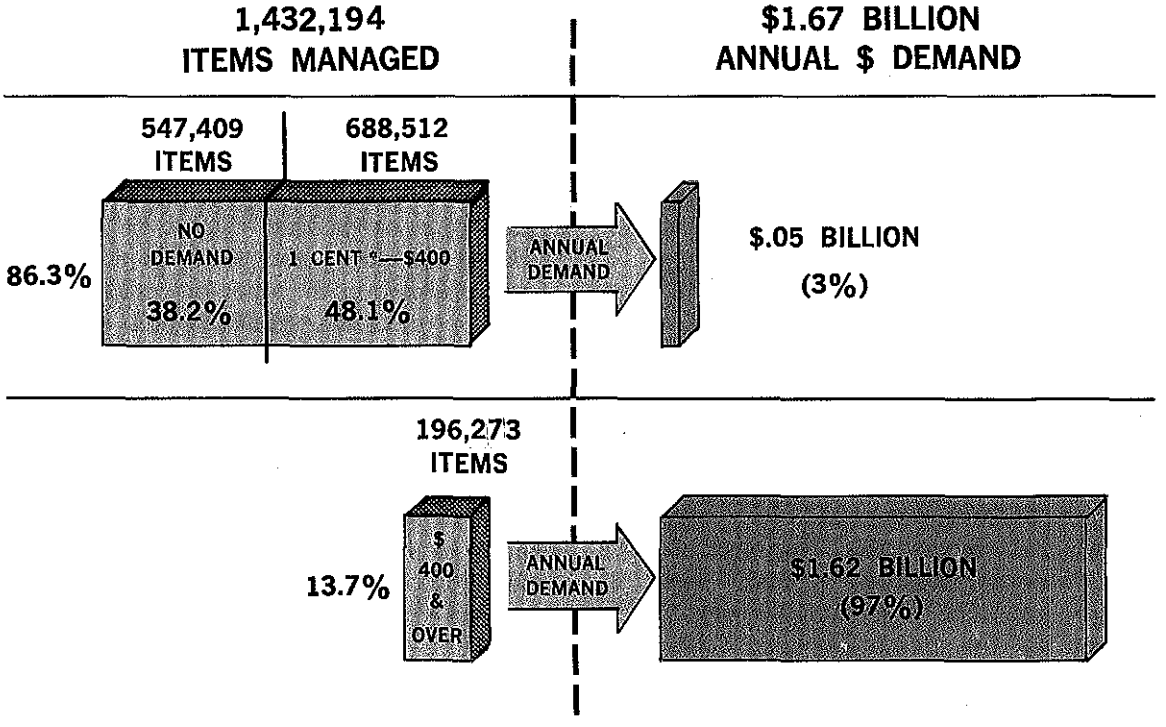
sures a predictable level of activity, there is a lack of visibility and incentive for total cost-effectiveness. If interagency stockage policy were based on cost considerations and agency use of the stock were more flexible, the uneconomically managed items could be identified and those not required for special reasons could be deleted from the system.

Figure 4 shows the stratification of items managed by DSA in relation to the annual value of item demand. Of the items managed, 86.3 percent have an annual turnover of less than $400. In 1963 GAO estimated that each item managed in a depot cost $114 and that the savings obtained by central procurement of items with an annual demand of $400 and under were usually less than the cost of managing the item.[21] The depot cost of managing an item is probably even higher today.

Financing of Interagency Depot Operations

Except for stock-fund operations, FSS and DSA are financed by direct appropriations. The amount charged for items covers the purchase price plus a small surcharge for transportation. The surcharge for FSS is 8 1/2 percent; for DSA it ranges from 2 1/2 to

[21] U.S. Comptroller General, Report B-146828, *Uneconomical Management of Commercially Available Items*, Nov. 29, 1963, p.10.



* 33.3% or 477,523 items have a unit value of between 1 cent and $1.00.

Source: DSA Report of December 31, 1971, Appendix D.

Figure 4

16 percent depending on the product line.[22] The current surcharge policy is based on legislation that resulted from recommendations of the First Hoover Commission.

Conditions today are very different from those prevalent in 1949. New techniques such as functional support contracts are being used by operating agencies. Industry has further developed an extensive commercial distribution system. Despite standardization efforts, miscellaneous Government requirements for items in common commercial use have proliferated.

The cost of services provided by wholesale procurement and distribution systems should be determined and appropriately prorated to each product line as a surcharge. Interagency activities could then be financed by industrial funding rather than by annual direct appropriations. Industrial funding enables an activity to finance the cost of doing business by applying a markup computed on the basis of the value added by its operation. With this total cost visibility, the optimum method and location for purchase of Government needs could be identified easily.

Industrial funding of interagency support activities can be achieved without legislation except for the GSA Federal Supply Service. In establishing GSA, the Federal Property and Administrative Services Act[23] specifically expressed the method by which the FSS operation was to be funded.

The National Supply System

The services provided by FSS and DSA in the procurement and distribution of commercial products to Government activities are sometimes referred to as the National Supply System. These services are virtually identical except for products, and there is even some duplication in the items carried. DSA performs some services for defense agencies in developing products (food and textiles) and in provisioning military supply requirements. The FSS operation includes the Federal Supply Schedule system of call contracts for use by all agencies. Both activities are capable of accepting automated requisitions, with the DSA operation being an integral part of the DOD cataloging and military standard requisitioning system.

Both FSS and DSA maintain depots throughout the United States. The FSS depot system provides regional coverage for commonly used items; special product requirements are distributed on a depot-assignment basis. The DSA depot system is established on a product-line basis without regional coverage. The DSA depots and their locations are the result of a consolidation of military depots previously operated by the individual services. The DSA commercial operations are essentially single management of items used by two or more defense activities with some support also provided to civilian agencies by agreement with GSA. The FSS operation is primarily single management of requirements common to all Federal agencies.

Industrial funding of GSA and FSS operations would identify low-dollar, low-demand, commercially available items that can be procured more economically and distributed by alternative means. This would result in specialization in products and services that can be provided effectively through a central purchase and distribution system. It would include user needs that cannot be economically stocked but for which there is a requirement for mobilization or other purposes. Industrial funding of commercial product support furnished by interagency activities would also identify special needs and permit financing them by the agencies requiring the special services.

If industrial funding were established for FSS and DSA, the resulting combined effort would be essentially a Government wholesale operation. As such it should be organized to be as effective as possible on a total-cost basis. The Commission considered the establishment of a single commercial-type operation, such as a Federal supply corporation, but did not analyze the feasibility of such a corporate structure in sufficient depth to make a recommendation. Nevertheless, the possibility should be considered after industrial funding has been implemented and evaluated.

[22] Briefings of Study Group 13A (Commercial Products) by General Services Administration, Mar. 26, 1971, and Defense Supply Agency, May 23, 1971.

[23] 63 Stat. 379, 40 U.S.C. 751, 756 (1970).

Alternatives

Various types of service contracts are used throughout the Government to fulfill the needs of an agency or user. They include contracts for technical service, housekeeping, and maintenance or operation of equipment and facilities. Service contracts frequently eliminate the need for separate procurement of related supplies. For example, a contract for complete janitorial services eliminates the need for Government procurement of janitorial supplies.

Service contracts can be written to provide for Government-furnished supplies or for the contractor to provide all or a part of the supply requirements. Decisions regarding the type of items to be furnished by the Government should be based on cost, availability, and responsibility for the end result. Obviously the total cost of supplies in the Government distribution system should be known in order to make effective decisions on the items of supply that will be furnished by the Government and those the contractor can furnish most economically.

Despite widespread use of service contracts throughout the Government, there is a lack of orderly consideration of alternatives. This is caused by limitations in the use of funds, mandatory sources of supply and service, and inadequate consideration of the real costs of the method used.

The number and complexity of problems in service contracting reported by using activities and industry were relatively small in comparison to those surrounding purchasing and maintaining supplies and equipment. The flexibility provided in the FPR and ASPR enables the agencies to resolve their problems internally. This adaptability is attributable to the need for having the contracting accomplished as close as possible to the place of performance. The only problems brought to the attention of the Commission by the field activities were mandatory use of regionwide service contracts that precluded field activities from obtaining better terms for their own requirements. Many of the areawide service contracts also are on a time and material basis which requires additional field activity effort to account for the services and supplies involved.

Leasing is sometimes an economical alternative to outright purchase of equipment. Leasing is used extensively in the acquisition of computer capability, but the potential for savings via lease of heavy equipment and tools for short-term use has not been realized. In the construction equipment field, for example, operators obtain the lowest cost per equipment hour by renting or leasing the newest, most modern equipment from a local distributor for a short duration (time of need). Additional factors favoring leasing include:

- Parts and repair remain the responsibility of the local distributor.
- Equipment need not be moved long distances from one jobsite to another at great expense.
- The newest, most modern piece of equipment, designed to do specific jobs, is always available. The Government is not forced to use obsolete, oversized, or undersized equipment on projects because it is in stock.
- Local distributors maintain servicing facilities with trained specialists.
- Government funds normally earmarked for equipment purchase can be used for other purposes.

Conclusions

The choice of distribution systems or combinations of systems has a direct effect on the economy and efficiency of fulfilling user requirements.

Total costs are not considered in the establishment and operation of Government distribution systems and alternatives.

Industrial funding of interagency support activities would provide the cost visibility needed to optimize selection of procurement and distribution methods.

Service contracts and leasing offer substantial advantages in satisfying particular user requirements.

OVERSEAS SUPPORT SYSTEMS

Review of the economy and efficiency in

supporting Federal activities located overseas is of extreme importance in view of the scope of requirements, balance of payments, and other national objectives.

Recommendation 7. Require that consideration be given to the direct procurement of products made in the United States from sources available to overseas activities when such sources are cost-effective.

In fiscal 1972, DOD spent $2 billion for supplies and services outside the United States.[24] Since DOD is the largest Government buyer and user of commercial products overseas, this section primarily deals with its procurement support systems and the Air Force Buy U.S. Here (BUSH) contract program that is available overseas to all Federal agencies.

Government activities overseas obtain or procure commercial products from a number of sources. The major sources are DSA and FSS. Each military department also operates a worldwide logistics network to provide supplies and services to its overseas units. They also have a number of overseas purchasing offices that provide direct support to the agency and other overseas Government activities. These offices range in size and dollar volume from a small office in an embassy, to a Navy ship operating in foreign waters, to large military buying centers in the Pacific or European Theater. Almost all military bases have local procurement offices which buy products and services in a similar manner to those in the continental United States.

Primary differences in procedures relate to consideration of Status of Force Agreements between the United States and host countries, customs requirements, and special operational considerations (such as differences in electric power and use of the metric system). Maintenance requirements for host country acquired facilities and equipment necessitate procurement of foreign-made parts and material. All overseas procurement is negotiated,[25] and small purchase procedures generally are used up to $5,000. The most restrictive requirement in overseas procurement is the need for a balance-of-payments determination on all purchases of foreign-made products of $500 or more.

Facility maintenance and housekeeping services are procured at many overseas locations. Functions that may be included in these contracts are operation, maintenance, and repair of base or engineer facilities, food services operations, motor pool and motor vehicle maintenance, generator overhaul, operation of laundry and dry cleaning plants, and office machine repair. These contracts involve a large amount of funds and play a vital role in support of overseas installations. Primary factors that determine whether these services will be performed in-house or by contract are economic considerations and Government-to-Government agreements. For example, base-maintenance contracts for support of two U.S. Air Force bases in Greenland are awarded to Danish firms by the U.S. Air Force Europe (USAFE) Procurement Office, Copenhagen, Denmark. These contracts are based in part on economic factors and in part on Government-to-Government agreements.[26]

DOD Overseas Direct Delivery Contract Program

The U.S. Air Force operates the BUSH program for commercial products used by DOD and other Government activities overseas. Negotiation techniques used in this program were previously discussed under Indefinite Delivery and Indefinite Quantity Contracts. The program is intended to increase purchase by overseas activities of products made in the United States, thereby improving the U.S. international balance of payments (gold flow). Availability of contracts for U.S.-made items makes the use of these items preferable to the purchase of foreign-made items. Whenever possible, the contracts provide for payment to the parent U.S. company to minimize balance of payments loss.

Basic criteria for BUSH contracts are purchase of products from U.S. companies that have overseas distribution systems, or from

[24] *Military Prime Contract Awards, July 1971–June 1972*, p. 44. (Figure rounded by the Commission.)
[25] 10 U.S.C. 2304(a)(6) (1970).
[26] U.S. Air Force, Europe, Director of Procurement and Production, *Europe Procurement Brochure*, Oct. 1, 1966.

their distributors or subsidiaries, at lower costs and with faster overseas deliveries than would be obtained if the Government purchased similar goods in the United States and shipped them overseas. These indefinite delivery contracts provide for the delivery of only U.S.-made products at fixed prices for a period of time, usually a year. The contractor is then authorized to publish multiple copies of the BUSH "Authorized Price List" (APL) that contains all required Government ordering information plus delivered prices and technical data. This materially assists individual activities in identifying and ordering their specific needs. Overseas BUSH contractors provide warranties and service on the products they furnish. Warranty and maintenance service without return of equipment to the United States is an important cost factor.

All overseas U.S. Government agencies and their nonappropriated fund activities may order from a BUSH contractor's APL. Government contractors performing on cost-reimbursement contracts overseas are also authorized to use BUSH contracts. In its APL, the BUSH contractor may offer its complete commercial product line of U.S.-made goods.

Except for emergencies, DOD restricts use of BUSH contracts to items not centrally managed and stocked in the Government distribution system. Reluctance to change supply source coding in automated systems used to support overseas activities generally precludes consideration of local BUSH contract alternatives. A recent study of BUSH contract use [27] indicated that savings to the Government of from 17.3 percent to 27.9 percent of the purchase price for a select group of items would have been achieved by using the BUSH contracts in lieu of requisitioning the same item from U.S. depots.

Conclusions

Purchase of U.S.-made commercial products by overseas activities from U.S. firms or subsidiaries with overseas distribution systems provides a potential for savings over shipment of these items by the U.S. Government from the United States.

Indefinite delivery contracts can be used to simplify procurement of U.S.-made products from overseas sources.

Overseas activities should not be required to order material from the United States without consideration of alternatives that may be more cost-effective.

GRANTEE USE OF FEDERAL SUPPLY SOURCES

Prior to November 14, 1972, agencies were authorized to allow their grantees to use Federal sources of supply and services under Federal Property Management Regulations (FPMR). This practice has been discontinued by a GSA amendment to the FPMR.[28] Use of these sources by Federal grantees was opposed by potential commercial suppliers and was troublesome to many levels of Government. Notwithstanding the recent action taken to discontinue grantee use of Federal sources of supply and services, the Commission makes the following recommendations:*

Recommendation 8. Authorize primary grantees use of Federal sources of supply and services when:

(a) The purpose is to support a specific grant program for which Federal financing exceeds 60 percent,

(b) The use is optional on the grantee, the Government source, and, in the case of Federal schedules or other indefinite delivery contracts, on the supplying contractor, and

(c) The Government is reimbursed all costs.

Recommendation 9. Require that grantor agencies establish regulatory procedures for assuring appropriate use of the products or services and computation of total costs for Government reimbursement.

Recommendation 10. Assign responsibility for monitoring implementation of this pro-

[27] U.S. Air Force, *Data Systems Design Center, 1971 Study*, Gunter AFB, Alabama.

[28] FPMR, ch. 101, as amended in *Federal Register*, Nov. 14, 1972, p. 24113.

*See Dissenting Position, *infra*.

Commissioner Sampson abstained from voting on these recommendations.

gram and its socioeconomic effects to the Office of Federal Procurement Policy.

Background

The policy of authorizing grantees to use Federal supply sources in fulfillment of grant programs originated in 1967. In 1970, use of Federal supply sources by grantees increased because of two actions: (1) GSA publicized the program and (2) the use of Federal grant funds expanded. The policy specifically included Government sources other than GSA, such as DSA and the Federal Prison Industries, as authorized supply and service sources for grantees.[29] Available resources included calls against Government contracts, self-service stores, motor pools, and depot stocks. The policy also extended the authorization to subordinate activities of the prime grantee.

Grantee use of Government sources required the grantor's written authorization, a copy of which was sent to the Government activity on which requisitions would be made. To use Federal Supply Schedules, the grantee simply included a copy of the authorization with the order. Responsibility for assuring appropriate use of the supplies and services rested with the grantors.

During fiscal 1971, sales to grantees by GSA sources totaled about $5 million out of gross sales of $777 million to all agencies.[30] The amount of grantee use of Federal Supply Schedules is unknown.

Several reasons were given for discontinuing the program. First, the business community and OMB expressed increasing concern over the expanded use of Federal sources by non-Federal activities. Second, the authorization was concluded to be inconsistent with the Administration's declared policy of reliance on private enterprise. Third, the burden of competing with Federal sources adversely affected small business throughout the country. Fourth, to the extent the grantees were divisions of State and local governments, the authorization was inconsistent with congressional intent expressed in the Intergovernmental Cooperation Act of 1968.[31]

Considerations

Industry concerns regarding the expanded policy and efforts to promote the grantee use of Federal sources of supply were expressed in numerous letters and in public meetings. Most of the protests came from local distributors, dealers, and other small businesses that viewed the policy as unwarranted and as promoting unfair competition with private enterprise. Many distributors indicated they were being taxed to support Federal sources since Government operational costs are financed by direct appropriations not fully reflected in supply prices.

Proponents of the program contended that grant dollars—public funds—went further when Federal sources were used for supplies and services. Grantees were given access to sources of supply at item prices that they could not have obtained independently. They also benefited by avoiding the administrative expense of open market purchasing which would have been charged against grant funds.

Industry and local distributors, dealers, and small businessmen indicated that, if total agency and Federal administrative and operating costs, as well as the socioeconomic impact, were considered, the savings to the Government would be doubtful. This argument was based on the present policy of financing supply and service operations by direct appropriation. In addition, no State and local taxes are paid on these sales, thus cutting into potential revenues of these governments. These critics also contended that there was no realistic way to prevent items purchased through Federal sources from being diverted to uses unrelated to the purposes of the grant.

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[29] FPMR, ch. 101–33.

[30] Letter from the General Services Administration to the Commission, Feb. 2, 1972; *Federal Grantee Use of Federal Supply Sources*, GSA Fact Sheet, May 2, 1972.

[31] Public Law 90–577, 82 Stat. 1098, 42 U.S.C. 4201–4344 (1970).

Conclusions

The growing use of Federal grants in education, health, transportation, law enforcement, and other fields increases the number of potential users of Federal supply and service sources. Policy regarding use of Government resources by grantees should take into account the effects of this use on ordinary business channels and on the national economy and should reflect an analysis of costs and benefits of a program of this magnitude.

Where a Government purpose is clearly accomplished by a grant (that is, when the Government's share is more than 60 percent of the program) and when the most economical way of meeting the equipment and supply needs would be through utilization of Federal supply sources, such sources should be available to the grantee on an optional basis.

Federal sources of supply and services, including indefinite delivery contracts, are established to provide Government agencies with economical or convenient ways to satisfy their requirements. The operation of these procurement and distribution systems is financed in ways that may or may not reflect the total cost to the Government in the charges made to the users. GSA and DSA operations are financed directly by annual appropriations, with the product charges to agencies covering purchase price, transportation, and some related incidental costs.

If grantee use of Federal sources of supply were reconsidered, the total computed cost should include the cost of the delivered product to the grantee, the agency's cost of authorizing and administering the use of the sources, and indirect effects on the national economy. A policy or program that authorizes grantee use of Federal sources should recognize all of these factors and establish workable implementing guidelines.

These guidelines should be practical and enforceable. Agency personnel responsible for authorizing access to Federal supply sources should determine that the likelihood of conformance by the grantee is high, that the means of insuring conformance exist, and that costs of surveillance are recognized in the prices charged to grantees.

Dissenting Position

A number of Commissioners* do not support the recommendations to authorize use of Federal sources by grantees except when absolutely necessary. They contend that:

'The procurement services which would be furnished grant recipients under the recommendations of the Commission majority would very nearly constitute a business activity that parallels those services already available to grantees from private distributors and retailers. Under those recommendations, GSA would purchase, warehouse, and make deliveries from its stocks to grantees in exactly the same way as private distributors do. GSA personnel would call on grantees in much the same manner as salesmen of private companies. They would provide grantees with printed catalogs and other material publicizing their services and price advantages and in some instances would conduct training courses for grantee personnel on how to place orders with GSA. This type of activity would clearly and effectively place the Federal Government in competition with commercial suppliers. This would be in direct conflict with the basic Commission recommendation of Part A, Chapter 6, which states, "it is the national policy to rely on private enterprise for needed goods and services to the maximum extent feasible."

Government efficiency in providing supplies to grantees is not superior to that available from the private sector. Consequently, the Government cannot provide such sources more economically, from a long-term national standpoint, than can private enterprise. While the Government has in the past provided grantees supply items at less than commercial prices, this was possible because the Government did not recover many of its costs. Instead, these were paid from appropriated funds which served as a hidden subsidy to the purchasing grantees.

There is no doubt that if all costs to the public are considered, including total economic cost factors, the administrative task of determining eligibility of grantees, the expense of enforcement, the burden of determining when purchase from Federal sources would be economically feasible, and the socioeconomic

*Commissioners Beamer, Chiles, Gurney, Horner, and Sanders.

effects on the economy, the commercial business sector, and State and local communities, the comparison would strongly favor grantee procurement directly from the commercial sector.

The majority recommendations are also wholly inconsistent with the thrust of recent Federal efforts to reduce Federal strings and red tape involvements with grantees, while at the same time striving to strengthen grantee capability for effective management.

Dissenting Recommendation 1. Prohibit the use of Federal supply sources by grantees, except where unusual circumstances dictate and under express statutory authorization.

Dissenting Recommendation 2. Charge grantees on the basis of total economic cost to the Government for Federal supplies and services made available to them.

DETERMINATIONS OF ELIGIBILITY

One of the majority recommendations is that grantees be authorized to use Federal sources of supply and service where Federal financing of the grant exceeds 60 percent.

Aside from the overriding consideration that such activity violates the national policy of avoiding Government competition with commercial business, it is necessary to recognize the adverse socioeconomic impact of such action on the public sector and the additional administrative costs for the Government which are associated with such a proposal.

A recent study [32] revealed that there are now more than 80,000 Federal grantees, and the number is steadily growing. The purposes of these grants vary widely, ranging from undefined purposes involving research to specifically defined areas such as hospital construction. There is also a variety of cost sharing formulae which consider not only dollar outlays by participants but "in kind" contributions of material and manpower resources, the evaluations of which are sometimes questionable.

In many instances determinations of eligibility would be controversial and would produce confusion among grantees, particularly those with multiple grants who would be eligible under some grants and not eligible under others. In addition, a complex system of eligibility controls would be necessary so that Federal supply sources and schedule contractors would be able to limit services to eligible grant purposes.

An effective system for reviewing each grant, including the grant's purpose and the extent of Government participation, would require added personnel and considerable administrative effort and expense on the part of the Government, thereby adding to the price to be charged grantees for supplies from Government sources as their allocated share of increased agency appropriations.

TOTAL ECONOMIC COST

Associated with the administratively complex task of determining grantee eligibility would be an equally complicated and expensive procedure for determining the factors to be included in arriving at a "total economic cost" formula to be applied when grantees use Federal supply sources.

To assure full recovery on a full socioeconomic basis and to prevent overcharging to grantees for these Government services would, in all likelihood, require the establishment of some disinterested group to oversee continuously the assessment of overhead costs, volume of grantee usage, value of Government capital investment, and the socioeconomic factors such as effects of such purchases on individual markets and the general economy, as well as the value of lost sales and property taxes to States and local communities.

OPTIONAL USE

To be workable, the conditions for use of Federal supply sources by grantees would need to be prescribed or regulated in a uniform manner which would protect the interests of all the parties. Leaving to a participating contractor the option of denying grantees access to his contract items would lead to inequities in application, confusion for grantees, and de-

[32] U.S. Office of Management and Budget, The Federal Assistance Review (FAR) Program.

lays in grantee missions. Many contractors would likely choose to make a blanket exclusion of grantee participation while others might discriminate from grantee to grantee.

The entire option concept would be disruptive of the current efforts of the Government in cooperation with its grantees to provide a uniform system for grant administration that minimizes Federal control.

IMPLEMENTATION BY GRANTOR AGENCIES

The majority position proposes that grantor agencies promulgate regulations, audit product or service use, and oversee implementation of policies governing grantee use of Government supply sources. Aside from the enormous bureaucracy and cost of every agency developing and conducting such a policing effort, experience has shown, during the period immediately preceding the November 14, 1972, termination of grantee procurement through Government supply sources, that grantor agencies have a strong bias to encourage such grantee procurement. This bias often overrides national policies concerning total economic cost and reliance on the private sector. It is not realistic to expect grantor agencies to effectively police access by their own grantees to Government supply sources.

INCREASED GOVERNMENT-WIDE CONTRACT PRICES

Allowing grantees to make purchases from Federal contracts and schedules at the Government discounted price may ultimately result in higher contract prices for the Federal Government. The extension by a contractor of his discounted prices to grantees results in a loss of revenues which can be significant when a major portion of the grantee market shifts from the commercial to the Government contract source. In such cases, contractors must recoup these lost revenues from increased prices to their commercial customers. The Government will have no means for assessing the impact on the prices it pays. Most likely the competitive market would force the contractor to recover the loss of revenue from Government contract prices.

LOSS OF TAX REVENUES

To the extent that the Government supplants local commercial business in supplying Federal grantees, the State, local, and Federal governments lose tax revenues. In addition to the Federal and State income tax they pay, private suppliers account for a significant amount of State and local revenue related to property, inventory, and franchise taxes, as well as taxes on the salaries of employees. Also, the transactions of private suppliers produce sales tax revenues which are not applicable to GSA transactions. Thus, the use of Federal sources by grantees could be disadvantageous to State and local governments.

EFFECT ON SMALL BUSINESS

Of similar importance is the fact that the availability of a strong distributor system is vitally important to manufacturers. It is frequently an impossible financial burden for small manufacturers to maintain an effective nationwide distribution organization of their own. They can obtain representation in many markets only by taking advantage of the existing marketing organizations of independent distributors and retailers. Taking the grantee market away from these local suppliers could spell disaster for them as well as the manufacturers which they represent.

Use of Federal Supply Sources By Cost-type Contractors

The practice of permitting contractors performing under cost-reimbursable contracts to have direct access to Federal sources of supply and services has prevailed for many years without controversy. Under a cost-reimbursable contract, the contractor in many ways is treated as if he were acting as an agent of the Government in carrying out that por-

tion of the contract involving purchase of supplies or services. Title to the acquired property passes to the Government upon delivery by the vendor. Records of purchase, cost, and accountability are maintained in accordance with the terms of the contract, and the supplies or services can readily be controlled for intended use. There do not appear to be any reasons not to continue access to Federal sources by cost-reimbursable contractors.

CHAPTER 5

Special Products and Services

The commercial products study covered policies, procedures, and practices used in the acquisition of a wide range of products and services. Our findings, conclusions, and recommendations apply generally to all commercial product acquisitions made by the Government. However, certain products and services require special treatment due either to their nature or to that of the marketplace. These unique characteristics apply to automatic data processing equipment (ADPE), food, and products and services of regulated industries.

ADPE procurement is unique because of its recent dramatic growth as an industry and its importance to all Government operations. These characteristics have resulted in special organizational and regulatory treatment by Congress and the executive branch. In contrast to ADPE as the newest major industry, food processing and distribution is probably the oldest of industries.

Several other products and services, such as public utilities, have come under Government regulation to provide the public with protection from monopolistic endeavors and to ensure the economic health of these vital resources.

AUTOMATIC DATA PROCESSING EQUIPMENT

Government acquisition of ADPE represents a large and rapidly growing portion of a dynamic market. The equipment is commercial. There are no standard Government procurement specifications. In addition to basic control and computer units, there are requirements for software (computer programs), peripheral equipment, systems maintenance, and compatibility with other equipment or systems. Due to the extraordinary growth of this industry, the market has become highly competitive. This has resulted in reduced equipment prices, while personnel expenditures related to the acquisition and use of ADPE have increased. These factors, when coupled with lengthy interagency procedures, extend acquisition time and increase the total cost to the Government.

The U.S. Government is the world's largest single user of ADPE. From June 30, 1960, to June 30, 1971, the number of systems in the Government's inventory increased from 531 to 5,961. Of the 5,961 systems, 4,296 were owned wholly or partially and 1,665 were leased.[1] As of June 30, 1971, the Government owned or leased ADPE valued at $3.1 billion.[2] This growth is much slower than for the Nation as a whole. During this same period, the total number of computers used in the United States increased from 6,000 to 73,077.[3] In fiscal 1971, total expenditures for ADPE in the Government approached $800 million as shown in figure 1.

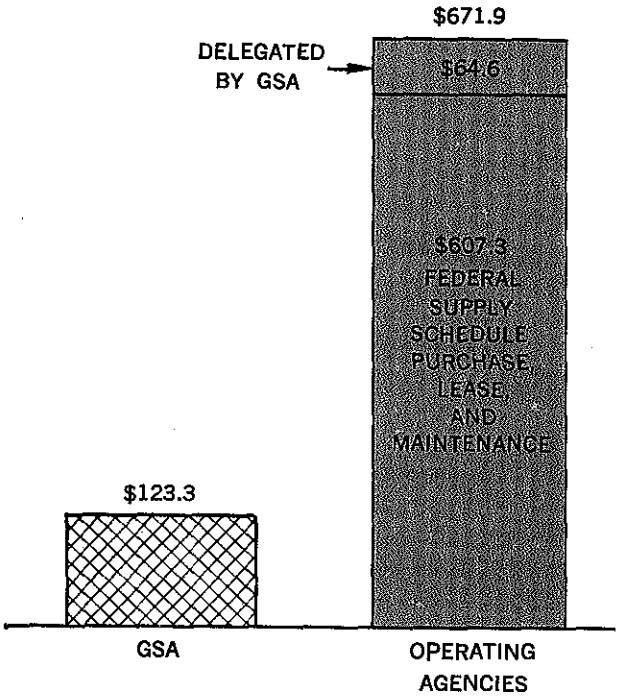
Prior to 1965, Federal agencies independently procured ADPE in accordance with policy guidance from OMB and technical guidance from the National Bureau of Standards (NBS), but without central control. The rapid

[1] U.S. General Services Administration, *Inventory of Automatic Data Processing Equipment for Fiscal Year 1971*, pp. 13, 15.

[2] U.S. General Services Administration, Automated Data and Telecommunication Service, *Summary of Federal ADP Activities for Fiscal Year 1971*, June 1972, pp. 35–36.

[3] Supplemental Views of Senator Percy, in: U.S. Congress, Joint Economic Committee, *Economy in Government: Automatic Data Processing Equipment*, report of the Subcommittee on Priorities and Economy in Government, 92d Cong., 1st sess., May 21, 1971, p. 13.

ANNUAL PURCHASE, LEASE AND MAINTENANCE OF COMPUTER EQUIPMENT
FISCAL 1971
(MILLIONS OF DOLLARS)



Source: Appendix E, Tables E–1, 2, and 3.

Figure 1

increase in agency procurement of ADPE without adequate central direction led to deficiencies cited by GAO and by a special executive report to Congress.[4] As a result of these reports and of deliberations of Congress, the Federal Property and Administrative Services Act (FPASA) [5] was amended to provide for a coordinated Government-wide program for the acquisition of general-purpose ADPE.

Under the FPASA, the Office of Management and Budget (OMB) is responsible for fiscal and general policy, and the General Services Administration (GSA) is responsible for the economic and efficient purchase, lease, and maintenance of ADPE and for establishing and operating equipment pools and data processing centers. OMB exercises fiscal and policy control over all aspects of ADPE acquisition, including feasibility studies. GSA negotiates Federal schedules for use by all agencies, makes specific purchases for agencies, establishes acquisition controls and procedures, and delegates procurement authority on a case-by-case basis. FPASA also authorizes the Secretary of Commerce to (1) provide agencies and the Administrator of GSA with scientific and technological advisory services for ADP and related systems and (2) make recommendations to the President for the establishment of uniform Federal ADP standards. The National Bureau of Standards (NBS) provides advisory services to agencies regarding technical aspects of the selection and use of ADPE in Federal Information Processing Standards Publications (FIPS PUB).

Agencies are responsible for requirements determination and also for procurement when authorized by GSA. Agencies have established organizational controls including staff review of all actions required by GSA. Some agencies, such as DOD, have also established high-level source selection procedures patterned after the process used in selection of a major weapon system.

The ADPE Acquisition Cycle

Recommendation 11. Reevaluate GSA and agency ADPE acquisition procedures, from identification of requirements to delivery of an operational system, for consideration of all appropriate elements on the basis of total economic cost.

The Commission reviewed the acquisition cycle for ADPE but did not evaluate every element by agency. ADPE acquisition procedures are currently being reevaluated by GSA. A step-by-step analysis of the main causes of lengthy acquisition cycles is summarized below:

- *Feasibility Studies*

The acquisition cycle starts with a feasibility study that determines if a valid need exists and if it can be filled most effectively by a computer. The study often restricts

[4] President's Report to Congress, *Federal Policy and Practices in the Acquisition and Utilization of Electronic Computers in Government*, Mar. 25, 1965.

[5] 40 U.S.C. 759 (1970).

or even fixes the equipment ultimately procured. This phase of the cycle was not analyzed in detail, but comments reviewed indicated that agencies generally lack ability to make feasibility studies without industry assistance and that the process generally is not completed in a timely manner. The quality of these studies varies widely, and adequate standard guidelines are not available.

• *Existing Resources*

OMB and GSA policies require agency review of Federal ADPE resources to determine if needs can be met by transfer or by interagency use of excess equipment or time. Agency reviews include:

Use of Excess ADPE Capacity. Federal Property Management Regulations require agencies to consider excess ADPE within the Government to meet their needs.[6] The system is well covered by the FPMR and has been operating for several years with apparent success. We found no major criticisms of the present operation. Communications with GSA and other ADPE facilities are flexible and effective. If excess equipment is available, it is relatively easy to obtain and in less time than it would take to procure new equipment. GSA acts as a central clearing facility to assist all agencies.

ADP Services. The demands for ADP services are not uniform among agencies nor are they constant for an agency over a period of time. Some ADP tasks may be required only three months of the year. Others peak one or two times a year. In these cases, it may be more economical for the Government to acquire only the ADP service required and not obtain equipment to meet peak requirements.

ADPE Sharing. Many agencies share single computers or single systems with other agencies. The requirement for computational capability need not be filled by equipment within the user's organization. GSA has ADP sharing exchanges in each GSA region to serve as a clearinghouse for information on available excess time by type of equipment for all agencies. This review works quite well. It identifies and makes readily available excess computer time, without using an elaborate reporting system. Sharing of existing equipment also provides a means of reducing agency purchase of capability that it only needs sporadically. The one limitation is that it only effectively identifies available hours and does not identify underutilization of machine processing capabilities.

• *Specification Development*

Specifications are developed when a determination is made to fill a need through a new acquisition. This phase is not only time-consuming, but if not done well, its effects will extend throughout the acquisition process and later use of the equipment. By necessity, this effort must be performed by the user or with his close coordination. It also must be coordinated with procurement. Here again, industry has been relied on heavily for guidance in the absence of Government capability. It is during this time that capabilities of equipment are evaluated. The scope and method of evaluating proposed equipment are also determined in the preparation of specifications. Agencies, especially those with recurring requirements, are steadily improving their ability to master this phase of the process, but it is still fraught with inefficiency. It is also characterized by staff reviews and approvals at high levels, with inadequate attention paid to technical assistance. This phase is made more complicated by the need for submission of the requirement to an outside agency (GSA) for approval and possible delegation to the submitting agency for purchase. A further complication is the requirement to specify the telecommunications capability. Separate procedures have been developed to specify these factors, thus reducing the ability to merge both ADPE and communications costs on a common basis. Separate optimization of hardware and communications requirements can result in increased total system costs.

• *Submission to GSA for Purchase or Delegation*

Each procurement that is not automatically delegated to operating agencies, through use of Federal Property Management Regulations (FPMR), must be submitted to GSA.

[6] FPMR 101-32.301-3.

The FPMR specifies the conditions and requirements for this submittal which include: applicable solicitation and amendments, data systems specifications, equipment performance requirements, attendant software requirements, and existing resource analysis. GSA will presume that all OMB policy and guidance directives including lease versus purchase decisions have been met. The agencies that have procuring capability request delegation in this submittal, but they are not certain that it will be granted since there is no standard GSA policy. GSA policy authorizes delegation automatically if a reply to the request is not made in 20 days. This time can be extended by GSA through requests for additional data. If GSA elects to make the purchase, the operating agency's technical personnel are made available for coordination and technical evaluation of proposed equipment. If the procurement action is delegated, the agencies then process the procurement in accordance with their procedures, subject to GSA qualifications.

- *Procurement Action*

Agency procedures vary considerably in the manner in which the procurement is accomplished. Most of the delegations are made to DOD activities that rely heavily on source selection procedures. The technical evaluation of proposals by Source Selection Boards includes an analysis of costs by various acquisition alternatives. This type of evaluation is essential to contract award, but the cost and time of using high-level boards and award directives in lieu of technical evaluation advisory boards on low dollar purchases lengthens the procurement process.

- *Technical Evaluation*

During the selection process, reliance is often placed on live tests of the equipment. These tests include running a set of operations designed by the agency to measure performance, simulating performance with a predesigned set of programs, analysis through mathematical techniques, etc. There are no standards for the use of tests, and little cross-utilization of test data occurs between agencies. There are significant costs involved since each agency develops anew its own testing techniques.

Delegation Policies

Recommendation 12. Require that GSA establish ADPE procurement delegation policy that would promote (a) effective preplanning of requirements by agencies and (b) optimum use of manpower.

The legislative history of FPASA [7] indicates that highly centralized procurement of all ADPE for Federal agencies was anticipated. This has not materialized and may never be feasible due to the scope of activity involved and the special treatment required for various agency applications. The coordinated procurement process which does exist is difficult to standardize for the same reasons. Where GSA does not procure ADPE, its policy is to delegate authority to agencies on a case-by-case basis. In deciding to delegate ADPE authority, GSA considers its own workload, the agency's existing capability, and the complexities of the proposed procurement.

Agencies with staffs that are proficient in the evaluation, selection, and procurement of ADPE complain that case-by-case delegation precludes orderly preplanning and optimum use of manpower and that administrative reviews lengthen acquisition schedules and increase costs. They believe a delegation policy that is less restrictive would shorten the acquisition cycle and reduce the total cost of acquisition.

Civilian agencies that have sporadic requirements for ADPE did not criticize specific delegation procedures, but some agencies that have a greater volume of procurement or ADPE procurement expertise were concerned about the complexity of the approval and delegation cycle.[8]

Financing ADPE Acquisition

Recommendation 13. Revise funding policies regarding multi-year leasing contracts, in addition to use of the ADPE Fund, to permit Government agencies to procure ADPE on a cost-effective basis.

[7] 40 U.S.C. 759 (1970).

[8] Meetings at the headquarters of the U.S. Department of Agriculture, May 24, 1971, and of the National Aeronautics and Space Administration, May 18, 1971.

GSA's ADPE Fund, with an initial capital investment of $10 million in 1967, has been augmented by the transfer of assets from the Federal Data Processing Centers. For fiscal 1970, GSA requested a $30 million increase in the Fund's capitalization. The same request was made for fiscal 1971. After GSA submitted examples of $18.1 million in savings involving two agencies, $20 million was authorized in the 1971 Supplemental Appropriation.[9]

The main use of the ADPE Fund is to finance four Government programs: [10]

- *Federal Data Processing Centers (FDPC).* The objective is to make the FDPC the primary source of supply for ADP time whenever the FDPC can meet agency requirements economically.
- *Maintenance Program.* At present ADPE maintenance normally is obtained from the equipment supplier. This program considers the possibility of in-house Government maintenance programs when they offer lower cost alternatives.
- *Software Program.* The ADPE Fund is used both to purchase and to develop general-purpose software when such software has a known multi-user application. Current applications include a manpower and payroll program and an automatic flow-charting program.
- *Lease Program.* The ADPE Fund can be used to acquire ADPE for an agency if the agency's lease versus purchase analysis indicates that leasing is preferable but potential later use of the equipment by other agencies would make purchase more economical for the Government. Sometimes purchase options expire before the agency is able to acquire funds through the usual budgetary processes.

To optimize the use of its limited purchase funds and to support a coordinated Government-wide purchase program, GSA, in conjunction with OMB and other Federal agencies, is revising its Management Information System (MIS). The revised MIS will contain the basic report elements needed to make detailed lease versus purchase analyses and to prepare a Government-wide "best buy" list.

Most Federal agencies lease ADPE using funds appropriated for a single fiscal year. Complications arise when leases run beyond the fiscal year for which Congress has appropriated funds. GAO has held that in the absence of specific statutory authorization an agency does not have the authority to enter into a multi-year lease using annual funds.[11]

Most industrial firms obtain ADPE on long-term lease rather than on a lease for one year or less and thereby often obtain a monthly rental rate substantially lower than that paid by the Government for one-year rentals. Long-term leases can be obtained for less than 80 percent of the cost of a one-year lease. In a GAO report, seven major manufacturers were cited who offered multi-year lease options for installed ADPE. If the Government had chosen those options, the cost of ADPE rental to the Government could have been reduced by as much as $26 million for a three-year period. If the system had been covered by five-year leases, leasehold savings as high as $70 million could have resulted.[12]

Often the monthly rental rates shown in the Federal Supply Schedule for single systems are used by the Government in making purchase versus rental analyses. These one-year rates are not realistic for a true purchase versus rental analysis which covers a long-term requirement. If the industry offers lower monthly rental rates for multi-year leases, such rates should be used in these analyses. Use of the long-term rates will change the lowest cost lease or purchase alternative as illustrated in Appendix E, tables E–4 and E–5.

Cost of Money and Time in Acquisition

The cost of money, when associated with the elapsed time from an agency's determination of a need to installation, is another factor that must be considered. A one million dollar saving this year is more valuable than a one million dollar saving five years from now. The

[9] U.S. Comptroller General, B–115369, *Multi-Year Leasing and Government-wide Purchasing of ADPE Should Result in Significant Savings*, Apr. 30, 1971, p. 30.

[10] Enclosure 2 to a letter from the General Services Administration to the Commission concerning Business Equipment Manufacturers Association (BEMA), Nov. 1971.

[11] Note 9, *supra*, p. 21.

[12] Note 9, *supra*, pp. 16–17.

cost of money over time can be determined by rules contained in OMB Circular A–94.[13] An illustration of the potential savings on only one ADPE procurement is contained in Appendix E. Net savings to the Government during the life of the system rose from $23.57 million to $28.95 million solely by reducing the time to installation from five years to three years.

The magnitude of these potential savings is such that the highest priority should be placed on means for accelerating the time from determination of need to installation of equipment.

Procurement Methods

Both the FPR and ASPR authorize various types of contracts, pricing arrangements, and purchasing techniques. In addition, the FPMR includes special contract provisions for negotiation and procurement of ADPE, software, maintenance, and supplies that are mandatory for all Federal procuring activities and in that respect take precedence over FPR and ASPR.[14] Agencies and industry have indicated some concern regarding the (1) late execution of follow-on Federal Supply Schedules for lease and maintenance of ADPE; (2) length of time required to obtain an ADP system; and (3) benchmarks. These concerns are described below:

- *Late execution of follow-on Federal schedules for lease and maintenance of ADPE.* These schedules are generally negotiated for a one-year period. If a follow-on contract is not in effect at the expiration date, the agency must have the equipment removed or obtain permission to continue to use it without contract coverage. If requirements still exist and essential equipment is retained and used without contract, the Government must eventually pay for its use. Sometimes equipment is used without contact coverage for several months. GSA has indicated that delays in negotiation of follow-on contracts often are caused by industry. Since these are single-source negotiations, GSA does not want agencies to pay for services during the period of negotiation of contract expiration because they believe money due the contractor is an inducement for concluding negotiations on better terms. Industry indicates that nonpayment for services obtained after contract expiration is an unfair negotiation practice.

Several steps have been taken by GSA to alleviate the problem, including staggered contract periods. Apart from the question of negotiation techniques, prompt payment for services obtained is a basic policy of the Government. Contractual arrangements can be made to carry out this policy by an option provision in the contract for payment at the same prices, terms, and conditions, subject to retroactive adjustment, for equipment or services continued in use at the sole discretion of the Government. As an alternative, agencies could enter into an interim agreement with the supplier based on the provisions of the old contract.

- *Length of time required to obtain an ADP system.* This time extends from a few months to several years and is probably the single item of greatest concern to Government and industry. Much time is expended by the using agency in defining requirements, evaluating various alternatives, and, if required, processing the procurement request through GSA review channels. Other delays occur during the procurement phase in solicitation, selection, and contract execution. For large, complex systems, production after contract award may further extend the time period.

Analysis on a total cost basis of every element of the process at requiring agencies and at GSA should identify actions that are not cost-effective. The most obvious deficiency in carrying out the process is the lack of procurement participation in agency business decisions from the inception of requirements. This deficiency may be due to lack of procurement capability, organizational structure, or source-selection board concepts. Contracting officer participation in business decisions that have an impact on the final contract is a prerequisite to procurement at the least total cost.

[13] Office of Management and Budget, Revision of Circular A-94 (Discount Rates), Nov. 15, 1971.
[14] FPMR 101–32.408–4 and 408–5.

• *Benchmarks.* These are a series of computer programs designed by the using office as representative of the workload that will be processed. Benchmark requirements are incorporated in Government solicitations for computers. The Business Equipment Manufacturers Association (BEMA), in a poll of equipment manufacturers, obtained a general estimate that as much as 50 to 80 percent of the cost of bidding is tied to benchmarks, mainly because they are individually designed and developed separately for each procurement.

Acquisition procedures should be tailored to the equipment that is being acquired. Often more than half of an agency's budget for an information system may be expended before the specifications are released to industry.[15] The use of standard benchmarks would substantially reduce these costs.

BENCHMARKS

Recommendation 14. Develop and issue a set of standard programs to be used as benchmarks for evaluating vendor ADPE proposals.

Top-management officials give a great amount of attention to equipment-oriented details. The emphasis is on computer performance and evaluation rather than ADP personnel costs. For example, each new system now involves a completely new set of benchmark programs with the attendant personnel costs of their development. One solution would be to develop a set of standard programs for use as benchmarks. At the time of acquisition, an appropriate sample of the standard programs would be selected. Vendors and procuring personnel would become familiar with the standard programs, and only the program mix would change from one procurement action to another. The Center for Computer Science and Technology, an organization in the NBS Institute for Applied Technology, is a logical choice to develop standard benchmark programs.

[15] Waks, *Implications for Acquisition of Military Information System Technology*, Report MTR–101, the Mitre Corporation, 1966.

LATE PROPOSAL CLAUSE

Recommendation 15. Change the late proposal clause regarding ADPE to conform to other Government procurement practices.

A mandatory clause permitting consideration of late proposals or modifications is required by FPMR [16] in all solicitations for ADPE. This clause differs from late proposal or late bid clauses used in the acquisition of other equipment by Federal agencies, including DOD. The FPMR provisions indicate that normally the only late proposals or modifications that will be considered are those that offer a lower price or more favorable terms and do not require a technical reevaluation.

The question of cutoff for acceptance of revised or late proposals or bids has been dealt with by GAO and executive agencies for many years. Generally any provision or practice that provides industry with more than one "bite at the apple" is not appropriate for Government procurement although there may be advantages in isolated cases. We analyzed the ADPE late proposal modification clause in contrast to other types of procurement and could find no justification for use of clauses in ADPE solicitations that are not consistent with those used in other Federal procurement.

Maintenance

The Government, in addition to acquiring ADPE and software, buys maintenance service or performs in-house maintenance, or does a mix of both.

Maintenance service is available from either the ADPE manufacturer or another contractor. The contract may provide for on-site or on-call service on a time and materials basis or at a monthly rate. Under a maintenance agreement, a call is made for a maintenance man when the computer malfunctions. The response time, usually two hours, is spelled out in the contract. This permits the contractor to spread his services over a geographic area where several installations may exist and permits stocking of spare parts on an area basis. Because

[16] FPMR 101–32.408–4.

of the importance of computer operations to the mission of an organization, maintenance contracts often provide for maintenance personnel to be physically located on-site. Maintenance by Government personnel is not normally undertaken unless service is not readily available from a contractor or the need for maintenance occurs at remote or combat installations.

Users prefer on-site maintenance because of the importance of computer operations to mission accomplishment. On-site maintenance can be inefficient and expensive because when the computer is operating, maintenance personnel are underutilized. Conversely, when the computer is down, computer operators are idle. A more cost-effective approach might be the combined use of maintenance and operating personnel. This could be accomplished by contract or by use of Government employees. Maintenance personnel would be on-site at all times. When they were not doing maintenance, they would operate the computer or perform related functions. Even when the equipment is rented, combined operator-maintenance should be considered.

Software

Comptroller General Report B–115369 [17] presents a broad review of the present policies and practices in the acquisition of computer software by individual agencies. It makes broad recommendations regarding the formulation of a master plan for the acquisition and use of software in addition to the structure needed to implement that plan.

The findings of GAO relative to repeated acquisition of the same software package without benefit of quantity discounts are significant. GAO noted that private industry generally employs a single purchaser for the total corporate entity. This is feasible because in private industry each corporation generally is oriented toward a single mission. However, in the Government the complete centralization of procurement of computer software would be difficult to achieve because of significant differences in agency missions.

The benefit of substantial discounts may be available through improved procurement management within an agency and in interagency coordination. As GAO noted, the Marine Corps centralized its procurement of software and acquired two standard software packages in multiple copies at a substantial discount.

Although software standardization is increasing, many noncompatible systems are still on the market. The delay required to ascertain compatibility can be expected to take at least 20 working days; this is now the time required to process an agency's request for delegated authority to procure software. It could be 130 calendar days; this is now the time required for advance notice for the release of equipment in Government inventory. In either case, the delay of one to three months can be a highly restrictive factor in software procurement.

Personnel and associated costs involved in establishing and maintaining a central catalog of software, or of other products, also must be considered. In addition, manufacturers would develop new pricing structures on programs previously sold as single or limited system-use products. For example, if GSA were to advise a manufacturer that it would purchase a single restrictive or licensed software product which would then be made available to all Government users, it would be necessary for the manufacturer to raise his price in order to recover all development costs on the single sale. It is more reasonable to envision an extension of the present multi-award contracts for computer software with a provision for the Government to receive the benefits of quantity discounts based on actual purchases of the product concerned.

ADP Supplies

In defining the authority of GSA in implementing FPASA, the Comptroller General ruled:

> . . . exclusive authority to GSA to procure all general purpose ADPE *and related sup-*

[17] U.S. Comptroller General, Report B–115369, *Acquisition and Use of Software Products for Automatic Data Processing Systems in the Federal Government*, June 30, 1971.

plies and equipment for use by other Federal agencies.[18] (italics added)

Strictly interpreted, this decision requires agencies to obtain a waiver in order to procure ADP supplies. GPO has operated under a continuing waiver from GSA to contract for all marginally-punched continuous forms.

Paper supplies in the form of tabulating cards, punch-paper tape, and continuous forms are unique in the data processing field because they are standard. Since the early days of tabulating cards, there has been a single standard size for punched cards; and early in the development of high-speed printers, manufacturers standardized the sizes of printed forms. This has been done to such an extent that today only forms designed for particular optical-character or optical-mark reading applications are machine-dependent. Work is now underway at NBS to correct this.

The distinction between ADP paper supplies and general paper supplies is rapidly disappearing. Agencies currently use manually prepared checks, which are later processed through a data processing operation, as well as plain typewritten pages that both communicate with people and are machine-readable. Limiting authority to GSA for the procurement of ADP supplies unduly complicates their acquisition and appears to be unwarranted.

National Policy

GSA, NBS, and OMB all have leadership responsibilities for the Government-wide acquisition of ADPE. A Federal ADP users task force found that:

> . . . the legislative branch and central executive agencies have generally confined their principal concerns with ADPE hardware and software to maximize economy in its acquisition and efficiency in clock time utilization, with only a residual concern with more effective use of the ADP technology in terms of executive branch missions and functions . . .
>
> These three agencies seem to have construed their authority and responsibilities for ADP quite narrowly, being concerned almost exclusively with property management . . .
>
> Telecommunications and data processing are treated separately from ADPE equipment almost everywhere including the central agencies. The technology and new applications in many agencies clearly demonstrate the emerging interdependence of the two, and the need to consider common management of both in the future.
>
> [The Government is not motivated, equipped, or structured well for development of the most effective use of ADP; and few of the presently constituted Government-wide ADP entities have demonstrated either the necessary capability or intentions to lead the charge in this area, which represents about 70 percent of total ADP costs. Executive agencies seem to have been so diverted in purpose or constrained by externally imposed concern with direct economy of ADP acquisitions and operations that they do not feel free, and therefore fail to pursue the best use of ADP technology.][19]

It should be recognized that substantial savings in ADPE procurement must be realized to offset the administrative costs that are now associated with it. Elaborate controls and approval processes that have been built up are stifling the use of computers in new applications and have stretched the computer acquisition cycle to well over two years. A frequent result is that the Government buys bigger computers than it needs because the computer is obtained to handle a sophisticated workload, which may be only a small part of the total workload. The technology exists to give users access to sophisticated computers, but smaller computers can be used for routine tasks. Economy is measured only in terms of the speed of computers, rather than the efficiency of the total data processing task. The large hardware costs are tied to the large computers, with about 10 percent of the Government computers representing more than

[18] U.S. Comptroller General Decision B-151204/B-157587, Jan. 10, 1969, appendix D.

[19] U.S. Interagency Committee on Automatic Data Processing Equipment, *Report of a Task Force on Long-Range Plans for Automatic Data Processing Equipment in the Federal Government*, May 1971.

50 percent of the total purchase costs. (See Appendix E.)

The scope and complexity of Government acquisition and operation of ADP systems warrant national attention regarding standards for ADP, visibility and effective use of total resources, and coordination of acquisition of new or additional resources. Current legislation provides an effective mechanism for assuring necessary management attention. Implementation of this legislation, while alleviating some of the problems existing prior to enactment of the current version of FPASA, appears to have administratively stifled the overall program by preoccupation with procedures directed toward improving acquisition price.

Conclusions

National management of ADP resources by GSA is a special responsibility. It does not require that GSA directly procure computers for use by a single agency.

The present rules for delegating ADPE procurement authority to agencies are overly restrictive. Clear and practical procedures are essential for effective planning and optimum use of manpower. Agencies that have the necessary procurement expertise should be authorized to acquire their own systems except when centralized procurement by GSA is clearly more cost-effective.

The ADPE Fund has not been capitalized adequately to take advantage of "best buy" situations.

Multi-year leasing would permit the Government to benefit from potential cost savings and could relieve the problem of maintaining and disposing of obsolete ADPE.

The policies and procedures for evaluating alternatives in fulfilling an agency's ADPE requirements are generally effective, but complexities in the approval procedures may account for the present lack of adequate consideration of services as an alternative. The current lack of visibility regarding available commercial and interagency services reduces effective use of services as an alternative.

The basis for use of late proposal provisions for the acquisition of ADPE that differ from those used in the acquisition of other equipment and systems could not be determined, nor could it be justified.

There are many problems associated with Government-wide procurement of computer software. The extension of Federal Supply Schedule contracts for software with provisions for quantity discounts should be explored.

Vesting Government-wide purchase authority in GSA for all ADP supplies is not necessary.

Adequate consideration has not been given to the increased costs and delays arising from complex procurement procedures.

FOOD

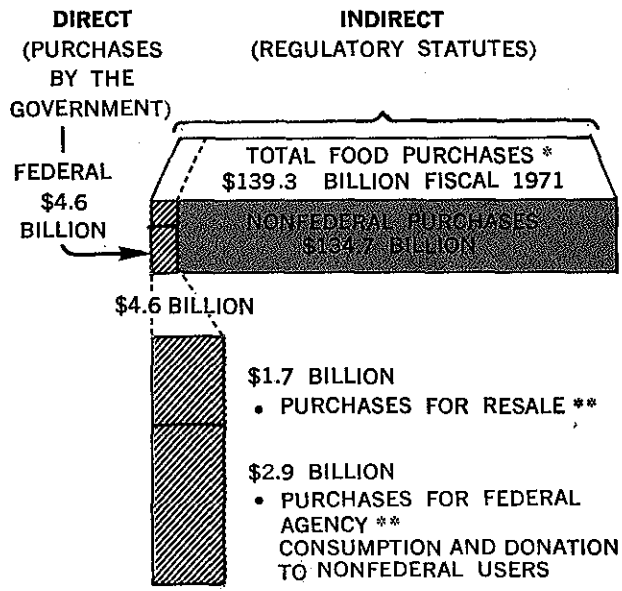
In fiscal 1971 the production, processing, distribution, and preparation of food in the United States was a $140 billion a year business and represented about 14 percent of our gross national product (fig. 2). Statutes designed to help or to protect the public consumer involve the Government in many aspects of the entire business. No other commercial product is so inherently and necessarily subject to the degree of production, packaging, and quality controls by all levels of Government. No other industry in recent years has been involved in as many congressional hearings, consumer protection activities, and controversies regarding the effectiveness of industry-related Federal programs.

Recommendation 16. Assign responsibility for consistent and equitable implementation of legislative policy concerning food acquisition to the Office of Federal Procurement Policy or to an agency designated by the President.

Recommendation 17. Establish by legislation a central coordinator to identify and assign individual agency responsibilities for management of the Federal food quality assurance program.

The Commission's review of Government food acquisition was undertaken in response to congressional, industrial, and user interest. Many studies, investigations, congressional

FEDERAL ACTIONS AFFECT ALL FOOD PURCHASES



* Survey of Current Business, U.S. Dept. of Commerce July 1972, Table 2.4, P. 26.

** Study Group 13A Computation from Agency Responses.

Figure 2

hearings, and writings by industry, agencies, and GAO preceded our review. Therefore, the Commission decided to limit its effort to an analysis of data readily available, to make field visits to become familiar with the industry, and to perform cost studies to compare operational concepts. Results of the cost studies are in Chapter 6.

A review of basic legislation is essential to an understanding of the interrelationships among Federal agencies relating to specifications, standards, quality assurance, distribution policies, and procurement techniques. Food legislation is the result of efforts by many congressional committees to resolve specific problems as they arose, and there is no coordinated legislative policy for uniform application by executive agencies.

Federal Food Market

The Government spends about $4.6 billion annually in the food market. As noted earlier, the Government also regulates the industry through measures designed to prevent disease, improve sanitation, establish quality standards, and raise quality levels.

Federal regulatory provisions have evolved over more than 60 years. State and local laws have been enacted to accomplish similar objectives. Until recently the growth of these programs was not coordinated, but in the last decade increasing attention has been given to cooperative Federal-State efforts. These efforts recognize the State's ability to handle regulatory and inspection functions when State laws establish standards equal to, or stricter than, those established at the Federal level. Using Federal funding to supplement the State funds, the State's inspection activities can be improved, with the potential for eliminating duplicate effort.

As there is no standard procedure for Federal agencies to report purchases by commodity, the exact amount the Government spends on food is indeterminable. The figures in table 1 of food procurement by Federal agencies are program managers' estimates and contain some duplication where interagency support is used for procurement or distribution.

TABLE 1. FEDERAL ACQUISITION OF FOOD, FISCAL 1971

(Millions of dollars)

Department of Defense	2,468
Department of Agriculture	1,998
Veterans Administration	47
General Services Administration	3
Department of Justice	5
Department of Health, Education, and Welfare	53
Department of Commerce	1
Department of Labor	9
Department of Transportation (Coast Guard)	17
Department of the Interior	8
Office of Economic Opportunity	15
Total	4,624

Source: Study Group 13A computation from agency responses.

In the Department of Defense (DOD), the $2.5 billion includes $734 million for troop issue and $1.7 billion for commissary resale. Federal food purchases for agency consumption and donation to non-Federal organizations totaled $2.9 billion (as noted in fig. 2, *supra*).

The Department of Agriculture (USDA) buys food for several purposes:

- Market stabilization
- Nutritional improvement programs for schools, institutions, and the needy
- Surplus removal
- Foreign aid
- Forest Service fire camps and similar activities.

Marketing Coordination

Because DOD and USDA are the two major food purchasers, they can adversely affect each other's programs. Timing of the purchases of similar items can affect the market price of all Government procurements. Commodities procured by one agency can result in a shortage for another.

Attempts have been made by the two agencies to coordinate the accomplishment of their respective missions. To date, coordination consists of informal liaison between commodity specialists of the two agencies; this arrangement was recognized in writing in 1966.[20] DOD specialists receive notice of USDA market actions three to four weeks in advance of formal announcements. The Defense Personnel Support Center (DPSC) is pleased with this notification and regards it as a definite asset to its operations.

DSA headquarters [21] cited continuing efforts to achieve further coordination. It recognizes the potential role of DOD in stabilizing prices in the domestic food market, and on the advice of USDA buys items in plentiful supply and does not buy items in short supply. However, lack of acquisition system flexibility and responsiveness reduces the effectiveness of this coordination. DOD stock purchases of food are based on a 120-day leadtime from requisitions developed to satisfy menu requirements. Except for purchases through the commercial distribution system, this long leadtime reduces opportunities to use large DOD purchases for market stabilization purposes. Efforts should continue toward this goal between the two largest Federal food purchasing agencies.

Distribution Systems

The food industry probably operates the largest and most widespread commodity distribution system. The size, scope, and commodity commonality of the commercial system have made it one of the most competitive. As a result, the options available to provide food at the point of need are almost unlimited. In this environment, every Federal activity that buys food for its own use or for use outside the Government should evaluate commercial distribution alternatives in order to optimize procurement economy and efficiency. The distribution systems currently used by the various agencies do not adequately consider total economic cost.

DOD is the largest user of Federally procured foods and uses a combination of systems to fill requirements that range from troop feeding to commissary resale. Most DOD food procurement is for resale items bought by commercial description. With the exception of some local call contracts for perishables, troop issue acquisition systems historically have considered volume purchases as the primary principle, with quality controlled by detailed specifications. This concept requires elaborate research laboratories, specification libraries, and Government distribution systems. Since the troop issue portion of the total food market is very small, competition in this special market is reduced to those processors willing to comply with DOD procedures and conditions.

Apart from the problems with specifications and contract terms discussed elsewhere in this report, some problems arise because of specific statutory requirements. Federal contracts over $10,000 require adherence to the Walsh-Healey Public Contracts Act,[22] which imposes wage and labor standards on contractors. Food that is not produced using these labor standards cannot be sold to the Government, although less expensive but equally wholesome food produced under other Federal statutory standards

[20] Memorandum from the U.S. Department of Agriculture, Office of the Secretary, to the Defense Personnel Support Center, Feb. 11, 1968.

[21] Briefing on "Foods" presented to Study Group 13A by the Defense Supply Agency, May 25, 1971.

[22] 41 U.S.C. 35–45 (1970).

is sold commercially. Statutory exemptions of the act permit:

- Purchases of commercial items usually bought in the open market
- Purchases of perishables, including dairy, livestock, and nursery products
- Purchases of agricultural or farm products placed for first sale by the original producer
- Purchases of agricultural commodities by USDA.

DOD's largest food program is the call-contract program for brand-name merchandise used by all military activities in the commissary resale program. These multiple-award contracts are controlled centrally by the Defense Personnel Support Center of DSA. The contracts, called Supply Bulletins, are made with packers and producers and provide for direct delivery to the installation by means of delivery orders placed by the installation contracting officer. The prices in the bulletins are negotiated, but the negotiations are limited to review and acceptance of proposed price lists, with the determination of reasonableness based on incorporation in the bulletin of a price warranty provision. The price warranty provision commits the supplier to furnishing these brand-name items to the destination point at prices that are as favorable as those charged to any other customer under the same delivery conditions. Since there are probably no other customers that procure these commodities under the same conditions, the price warranty clause is of limited value. A review was made of the prices being paid under the Supply Bulletins with those that would be available to installations if they were authorized to procure the same items through various alternatives provided by the commercial distribution system. The results of this survey are outlined in Chapter 6. With few exceptions, a station probably can negotiate a tailored delivery system contract for food products on more favorable terms than those currently available through the Supply Bulletins. One of the advantages of the current centralized call-contract program is that standard prices prevail within an area for all activities regardless of the volume purchased. This may be a marginal advantage from the standpoint of total cost since the contract system is mandatory and there is no cost information available regarding alternative methods of acquisition.

In addition to the alternatives currently available for acquisition of food for delivery to the point of need, other alternatives also are available that may include total processing costs, including food preparation and serving. DOD currently is testing this concept at an installation in the Washington, D.C. area under a contract that costs $2.93 per man per day.[23] Under this arrangement, a food service contractor procures all the food, prepares it, serves it, and washes the dishes. This method is used by the Coast Guard and Merchant Marine Academies and on a limited scale by other Federal agencies. In the case of DOD, it cannot be easily determined if this alternative is cost-effective compared with the traditional method of military distribution and preparation, since there are no current statistics on what it costs DOD to provide a meal at the table. The pricing of the contract food service method is by the meal, provided in accordance with a predetermined menu that includes flexibility for customer preference. Between the extremes of total food distribution servicing by a military activity and a full food service contract, some of the services have chosen to contract for one or more steps such as food preparation, cooking, and kitchen police service. These contractual arrangements probably result more through necessity due to lack of available military personnel to perform the services than from an economic analysis of various alternatives.

The second largest food buyer in the Government is USDA. Except for food procured by the Forest Service, the USDA food acquisition program is for distribution to activities outside the Government. These programs range from commodities provided to schools, needy persons, and nonprofit institutions, to those made available through the Agriculture Trade Development and Assistance Act of 1954 [24] for foreign sale or donation. As in the case of DOD, USDA choice of commodity distribution systems disregards total economic cost. The basic reason for ignoring the economics of alternative distribution systems is the traditional

[23] U.S. Department of the Army, Fort Myer, Virginia, Latex Food Service Supply Contract Test Program. Contract Number DABG 13-71-C-00115.

[24] 68 Stat. 454; 7 U.S.C. 1704 and 1721 (1970).

principle of acquiring the commodities in large lots as close as possible to the point of production in order to further a socioeconomic program of price stabilization. In our review of distribution systems, we did not analyze the basis for the programs, but examined program effectiveness specifically regarding procurement and distribution.

In supplying food products to schools and institutions, USDA draws from Government depots and procures for direct delivery. These commodities are distributed to States rather than to the final recipient. Various methods are used by the States in redistribution. Some States have their own distribution system, some use commercial distribution, and some have arrangements with USDA for multilocation delivery to recipients. USDA adapts to State distribution systems. A firm of management consultants recently analyzed the redistribution aspects of the program for USDA.[25] Except for data identified in the cited report, the costs of the redistribution program are not available or considered in the method of acquisition. Costs of delivery of products to the first destination are carefully considered in the USDA award process, which has been computerized for least-cost determination. In fact, USDA was the only agency visited that used ADP techniques in evaluating delivery alternatives for award.

The largest civilian agency user, the Veterans Administration (VA), buys more than two-thirds of its food requirements locally. Only 325 items are procured for depot distribution in addition to medical items. These items are procured in carload quantities to take advantage of the low combined freight rates. VA was the only agency visited that considered total economic cost in selecting its methods of procurement and distribution.

Specifications

Food specifications are the most unusual and confusing of all the Federal specifications in the procurement system. The Second Hoover Commission, in April 1955, recommended that the Federal agencies adopt uniform specifications for food products.[26] Little progress has been achieved in the 17 years that have elapsed since that recommendation was made. GSA, when it was established in 1949, was given the oversight responsibility for establishing uniform food specifications. DOD, by agreement with GSA, retained the right to prepare and to use Military Specifications for food procurements.

GSA delegated to USDA the responsibility for the preparation of Federal food specifications. As a matter of policy, GSA circulates the USDA-proposed Federal Specification to all other affected procuring agencies (about 15) and to the agencies having statutory responsibilities for food inspection, such as the Food and Drug Administration, Public Health Service, and the National Oceanic and Atmospheric Administration. DOD coordinates on these Federal Specifications and supplements them with Military Specifications. We were advised by the Army Natick Laboratories that from 20 to 25 percent of the food industry contributes to the development of Military Specifications in the areas of product characteristics, production practices, and the relationship of specification requirements to product functions and performance.

Because a food specification must satisfy such a diverse number of interests, of necessity it becomes a wide umbrella encompassing the whole spectrum of characteristics that identify the product. For example, a specification usually includes the gamut of grades, style of pack, class, variety, point of origin, size, and kind of containers and packaging materials. Hence, the purpose of definitively describing a single product in a single specification is defeated.

Many times a specification is promulgated that results in excessive cost to the taxpayer because to conform with it a production line must be changed. This occurs when a Government specification is substantially different from that used in regular commerce. Usually such a specification is designed to conform with some particular requirement established by a using agency that has little understand-

[25] A. T. Kearney and Company, Inc., *A Study of the Distribution of Donated Food Commodities*, conducted for the U.S. Department of Agriculture, Food and Nutrition Service, June 8, 1971.

[26] U.S. Commission on Organization of the Executive Branch of Government, *Final Report*, June 1955.

ing or experience with how the commodity is produced. The requirement could very well be valid, as in the case of menu planning and portion control, but to conform with it may require the supplier to use different production or packaging techniques.

Many times overly rigid Government specifications are applied to food products without regard to the end use. These specifications tend to (1) limit competition, (2) increase cost unnecessarily, (3) reduce the quality of the end product, and (4) increase the labor required to prepare the product.

Federal Food Inspection

The inspection of food products is performed in accordance with Federal laws, regulations, voluntary programs, and contract provisions. The responsibility for administering the inspection requirements has been placed in several agencies and is a significant and demanding factor in the food acquisition programs of these agencies.

The legislation [27] that put the Government in the food inspection business was enacted as a result of Upton Sinclair's book, *The Jungle,* published in 1906. This book focused the attention of the American people on the unwholesomeness of the meat then being produced. In 1906, Congress also enacted legislation concerning the adulteration and misbranding of food products.[28] Both laws required inspection but only for food products involved in interstate commerce. These laws placed inspection mandates on USDA for wholesomeness of meat and on FDA for adulteration and misbranding of all foods, including meat. It took from 1906 through 1967, a period of 61 years, before Government inspection of meat processing plants used in intrastate commerce became mandatory.

Federal agency food inspection activity is summarized in the introduction to a document prepared for the Industrial College of the Armed Forces:

> A number of agencies of the Federal Government are engaged in the inspection of subsistence (food) for their own procurement, for regulatory purposes, or as a service to industry.
>
> The Department of Agriculture inspects for wholesomeness all meat and poultry entering interstate commerce. It also inspects and grades agricultural commodities for quality as a voluntary service to industry and consumers, or in connection with Government procurement or price support operations.
>
> The Department of Interior operates a similar program for fishery products.
>
> The Department of Defense inspects food acquired for troop feeding, commissaries, and military assistance programs.
>
> The Public Health Service collaborates with State and local health agencies in programs for the inspection of fresh milk products and shellfish.[29]

Food Imports

About $15 billion is spent each year by consumers on food imports.[30] Many of these food items are acquired by the Federal agencies for troop issue or resale in commissaries or they enter the country as "brand-name" products of U.S. companies. Jurisdiction over the inspection of imported food is split between FDA and USDA. USDA inspects food manufacturing and processing plants in foreign countries for meat and poultry products only. This is a quality assurance program inspection and is not a continual day-to-day inspection as is the inspection of U.S. meat products. However, FDA has no authority to inspect food product manufacturing or processing plants in foreign countries. FDA's jurisdiction begins at the point of entry to the United States.

[27] 34 Stat. 1261, 21 U.S.C. 606 (1970).

[28] Act of June 30, 1906, ch. 3915, 34 Stat. 768; for current provision, see 21 U.S.C. 331 (1970).

[29] Blum, *Subsistence Inspection Programs of the U.S. Department of Defense and the U.S. Department of Agriculture,* a thesis presented to the U.S. Industrial College of the Armed Forces, Mar. 31, 1966.

[30] U.S. Congress, House, Committee on Interstate and Foreign Commerce, *Oversight Hearing on Food Inspection Activities of the Food and Drug Administration,* Hearings before the Subcommittee on Public Health and Environment, 92d Cong., 1st sess., statements of Dr. Charles C. Edwards, U.S. Food and Drug Administration, Aug. 3, 1971, p. 37.

FDA and USDA inspection of imported food has become complicated because of extensive use of containerized shipments. For example, a container might arrive in San Francisco and remain unopened until it arrived at Denver, so the port of entry effectively becomes Denver. FDA officials stated that only 6-1/2 percent of all food lots entering the United States are inspected, and that only 43 inspectors, who are also responsible for drugs, cosmetics, and product safety, are engaged in this entire activity. These 43 inspectors cover primarily nine major ports of entry: New York, Newark, Houston, New Orleans, Miami, San Francisco, San Diego, the Los Angeles area, and Seattle.[31]

Conclusions

The scope and substance of the food market is of such importance that it demands constant attention at the highest levels of Government to assure that all operations are consistent with the everchanging national interest, as determined by Congress.

Food acquisition systems for Federal agency use, and those established to further socioeconomic objectives, overemphasize initial price of a food product without sufficient consideration of total cost to provide the product to the user.

Current procurement reporting systems do not provide industry, Congress, or the executive branch with the data on food procurement needed for effective evaluation of the total system.

Federal inspection and acceptance procedures governing food procurements for Government use should be more closely coordinated with Federal and State procedures governing food procurements for public use.

The resources involved in the inspection of food in interstate commerce could be utilized more effectively if each food processor were required to have a quality assurance program.

Many food products are purchased by the Government using Government specifications when a suitable commercial product is available to fill the requirement. When the food specification contains special requirements, they increase production costs and reduce competition.

Packaging requirements are specified without adequate consideration of commercial packaging methods.

The Walsh-Healey Act has varied applications for Federal agencies and programs. These different applications are costly and unduly complicate the process.

PRODUCTS AND SERVICES OF REGULATED INDUSTRIES

The products and services of regulated industries include those provided by industries normally under Federal, State, and local government regulation and those provided by State, municipal, and other local government units (such as sewer and water authorities).

The special characteristics of the products and services of regulated industries are that:

- Prices are not set by competition, and participation in the market is restricted.
- Procurements are necessarily sole source.
- Procurements are made from State or local governments that provide products or control producers.

The products and services involved include:

Energy
Electricity
Gas
Steam
Chilled water

Sanitation
Water
Sewer
Garbage collection
Other

Communication
Telephone
Telegraph
Radio
Other

Transportation
Air passenger charter
Air cargo charter
Air passenger space
Air cargo space
Bus carriage
Rail cargo space
Rail passenger space
Truck common carriage
Truck contract carriage
Water passenger charter
Water cargo charter
Water passenger space
Water cargo space

Government procurement from regulated industries is generally not subject to rules governing similar purchases by industry and the general public.[32] The policy has been to accom-

[31] *Ibid.*, pp. 12, 16.

[32] ASPR 5-801.

modate to regulatory body requirements [33] insofar as the general laws governing procurement will permit.

Recommendation 18. Encourage procuring activities, when it is deemed in the best interests of the Government, to purchase supplies or services from public utilities by accepting the commercial forms and provisions that are used in the utilities' sales to industry and the general public, provided the service contract provisions are not in violation of public law.

Recommendation 19. Review transportation procurement techniques to determine whether more innovative procurement methods are warranted when alternative sources and modes are available.

Except for transportation, most procurements of regulated services include a requirement for physical connection of the user's equipment to the regulated industry's system. The cost of connection can be borne separately or covered partially or wholly by the rates paid for the service. For new facilities, the connection agreement and construction required for obtaining service must be coordinated with the overall construction program. The connection may be made under the general construction contract, under a separate contract, or by the regulated supplier.

The lack of data on Federal procurement by agency and product (discussed in Chapter 2) also applies to procurement from regulated industries. Federal agencies spend more than $1.4 billion a year on Government bills of lading and transportation requests alone.[34] The total Federal procurement of regulated products and services is estimated to exceed $6 billion annually. This estimate does not account for (1) the products and services of the Tennessee Valley Authority (TVA), Bonneville Power Administration (BPA), or similar Government utility operations that buy and transfer services or Federal installations that produce their own regulated industry services, (2) transportation procured as part of FOB destination price procurements, or (3) use of the U.S. Postal Service.

[33] See extensive regulatory power of the Interstate Commerce Commission (ICC), 49 U.S.C. 1–22 (1970).

[34] See Chapter 2, table 3.

The Government has numerous regulatory programs; for example, in the fields of communications (Federal Communications Commission), energy (Federal Power Commission), air transportation (Civil Aeronautics Board), commercial interstate surface transportation (Interstate Commerce Commission), and sea transportation (Federal Maritime Commission).

The Government has no major regulatory program in the field of sanitation. This does not take into account the long-term programs of the Environmental Protection Agency (EPA) and other Federal programs to combat water pollution.

The States generally supplement the Federal regulation of energy, communication, and transportation. State regulation is important in the fields of energy and communication where there is a large volume of intrastate transactions. State regulation does not appear to be of primary importance in the sanitation services and transportation industries. Local regulation is of major importance only in the field of sanitation. Sanitation services are often provided by a local government and are paid for through service fees or general taxation.

The Federal Property and Administrative Services Act of 1949 (FPASA) gives GSA the basic responsibility for management of the Government's effort to provide "an economical and efficient system for . . . transportation and traffic management, . . . management of public utility services, . . . and representation before Federal and State regulatory bodies." In July 1972, GSA transferred responsibility for these functions to its Federal Supply Service from its Transportation and Communication Services. Programs have been developed to advise and assist Federal agencies in obtaining regulated industry services, to develop areawide requirements contracts for utilities, and to represent the Government as a consumer before State and Federal regulatory bodies.

DOD is the largest user of regulated industry services. Pursuant to the provisions of FPASA, the Secretary of Defense has exempted DOD from the transportation aspects of the act. He has reached agreements [35] governing the relationship of GSA with DOD in the procure-

[35] FPR 1–4.402(b); FPMR 101–35.102(a).

ment and management of utility and communications services. This allows DOD to procure services for its own needs except when GSA areawide contracts will satisfy DOD requirements.[36] These agreements assign to GSA the overall responsibility for coordinating the Government's representations before regulatory bodies but with the understanding that DOD will represent the military services where they are the major Government party concerned.[37]

GSA enters into areawide contracts with various utilities for furnishing services to Federal agencies. GSA areawide contracts provide that the utility, upon execution of an authorized Government order, will furnish the services involved in accordance with the supplier's rate schedules specified in the areawide contract.

Unless it is determined that more advantageous services are available, each agency in the area covered by a GSA areawide contract must procure utility services according to the contract. However, when it is in the best interests of the Government, an agency may negotiate special rates under an areawide contract or under a separate contract.[38]

In addition, GSA has special statutory authority to enter into long-term contracts for utility services for periods not exceeding ten years.[39] On its own initiative or upon request by an agency, GSA will negotiate or assist in the negotiation of a long-term contract if one is justified.[40]

When advantageous to the Government (in terms of economy, efficiency, or service), consolidated purchase, joint use, or cross-service by one agency for another is used to procure utility services. In the absence of a GSA areawide or a long-term contract, agencies may procure utility services and facilities independently. This is handled in three ways:

- When the utility rates are fixed or adjusted by a Federal, State, or other public regulatory body, such procurements may be effected by formal contracts or by simple procurement documents, such as Government purchase orders or other written requests for service.[41]
- When the utility rates are not fixed or adjusted by a Federal, State, or other public regulatory body, a formal contract must be used.[42]
- In any event, if the cost of annual service exceeds $50,000, or the connection charge, termination liability, or facilities charge exceeds $5,000, it must be cleared with GSA. This does not apply if the agency has established a clearance with GSA based on having a technically qualified in-house staff capable of handling the matter. The services of GSA are available to agencies to effect contracts or agreements as necessary.[43]

For telecommunication services, GSA will enter into areawide, general-purpose, and special-purpose contracts for Federal agencies. If GSA has an areawide contract, it must be used by all agencies in the area unless a general- or special-purpose contract is deemed by GSA, in consultation with the agency concerned, to be in the best interests of the Government.[44] Certain operational telecommunication systems (for example, air traffic, biomedical, satellite tracking) have been exempted from this provision.[45]

For transportation, GSA offers traffic service to all Federal agencies,[46] but the agencies procure their own transportation on a Government bill of lading (GBL) or Government transportation request (GTR). GSA conducts negotiations on behalf of all Federal agencies for the establishment or modification of classifications, ratings, charges, services, and the rules and regulations pertaining thereto,[47] except that the agencies may be granted authority to negotiate for freight rates or services.[48]

DOD Transportation Operations

The Military Traffic Management and Terminal Service (MTMTS), a major command of

[36] FPR 1-4.407.
[37] "Statement of Areas of Understanding Between the Department of Defense and the General Services Administration in the Matter of Procurement of Utility Services (Power, Gas, Water)," *Federal Register*, Dec. 1, 1950, p. 8227, and *Federal Register*, Feb. 7, 1957, p. 871.
[38] FPR 1-4.407.
[39] 40 U.S.C. 481 (1970) and FPR 1-4.408.
[40] *Ibid.*
[41] FPR 1-4.410-2.
[42] FPR 1-4.410-3.
[43] FPR 1-4.411-1.
[44] FPMR 101-35.402-1.
[45] FPMR 101-35.102(b).
[46] FPMR 101-40.1.
[47] FPMR 101-40.305-1.
[48] FPMR 101-40.305-3.

the Army, is the DOD single manager for military traffic, land transportation, and common-user ocean terminals. It is one of three single-manager organizations established to provide transportation service for DOD. The Military Airlift Command (MAC) provides military and contract air movement services, including operation of air terminals. The Military Sealift Command (MSC) provides ocean shipping services using fleet and commercial shipping.

Personal property shipments handled by MTMTS worldwide represent the largest segment of DOD's peacetime transportation budget. More than 1.1 million shipments having a total weight of close to 1.2 million tons were made during fiscal 1971.[49]

Passenger traffic in the continental United States (CONUS) reached a peak of 7.2 million passengers in 1967 but declined to about 5.6 million in 1971.[50] Air and bus travel have almost completely replaced rail travel. At present, MTMTS manages movements of ten or more people, but this is being changed to apply to movements involving six or more people.

Inland cargo traffic in CONUS, with the exception of movements of less than 10,000 pounds, is given conventional traffic management support (for example, rates, routing) by MTMTS. Fiscal 1971 volume was about 23 million tons. Cargo transhipped through CONUS ports totaled more than 13 million tons, of which 11 million tons were export cargo.[51]

The Commission did not review procurement of ocean shipping services since a joint study was being conducted by the Department of Commerce, the Department of Defense, and the Federal Maritime Commission.[52]

Regulation and Documentation

Representatives of the transportation industry frequently question the Government exemption from automatic acceptance of rates and commercial forms that have been approved by a public utility commission. Government procedures provide for acceptance of rate schedules that are appropriate and reasonable for the services required, but there is no provision for acceptance of commercial forms.

The broad range and nature of Government requirements and the variations in rate-setting methods preclude the Government from relinquishing its prerogative of rate negotiation. For transportation services and possibly other utilities, opportunities often exist for consideration of alternative or competitive means of fulfilling requirements. The Government should avail itself of every opportunity to compete its requirements when savings based on total costs can be achieved.

Industry concern over the Government's reluctance to accept the forms and provisions used by industry appears to have merit. In most cases, Federal Procurement Regulations authorize use of simple procurement documents if the annual cost of the service is under $10,000, but the regulations do not indicate that use of standard industry forms is acceptable. Many service transactions would be simplified if commonly used industrial forms were accepted by the Government. Such a policy might encourage public utilities to modify their forms to conform with legal requirements necessary to make them acceptable to Government activities.

Conclusions

The special characteristics of regulated industries appear to justify the statutory and regulatory exceptions to processes normally used in the procurement of commercial products.

The Government's requirements for services of regulated industries appear to need special consideration in regulatory plans. A statutory requirement for the Government to comply with State and local regulatory requirements is not feasible.

Transportation costs can be reduced through greater consideration of competitive sources and modes.

Administrative costs in the procurement of regulated services can be reduced for both Government and industry by judicious Government acceptance of the forms and provisions used in ordinary commerce.

[49] U.S. Military Traffic Management and Terminal Service, *MTMTS Progress Report Fiscal Year 1971*, July 31, 1971.
[50] *Ibid.*
[51] *Ibid.*
[52] *Sealift Procurement and National Security* (SPANS), Aug. 2, 1972.

CHAPTER 6

Total Economic Cost

In the procurement of commercial products, Government officials at every level tend to focus on the "price paid to the supplier" rather than on the total long-run cost of satisfying a Government requirement. As a result the Government has failed to develop the data and techniques needed to measure the "total economic cost" of fulfilling a Government need.

This chapter addresses three types of costs related to the acquisition and use of commercial products:

- *Support Cost.* The cost of the *support systems* the Government uses to acquire and provide commercial products to the ultimate user.
- *Landed Cost.* The total cost to provide an *item* to its user. This includes the price paid for the item and its allocated share of the cost of the support system, or systems, used to acquire and deliver it.
- *Total Economic Cost.* The landed cost of an item *plus* costs incident to its use, and disposal or consumption.

The chapter summarizes the results of study group analyses of support and landed costs and discusses the compelling need for total system management. Recommendation 6, Chapter 4, encompasses consideration of types of costs, discussed in this chapter, as basic to analyses of effective procurement and distribution systems. The elements of landed costs analyzed in this study are shown in figure 1.

METHODOLOGY

The cost data received from agencies did not segregate costs of procurement and distribution systems, thus necessitating the prorating of these costs. Where necessary, we developed our own estimates from the data furnished and made adjustments for missing data. In some cases, we did not include elements of cost if the information was not critical to the development of support costs. For example, we did not include costs of disbursement of funds at station level for payment of commercial accounts. Our approach was consistent with the cost-effectiveness and analysis guidance used by the Department of Defense (DOD).[1]

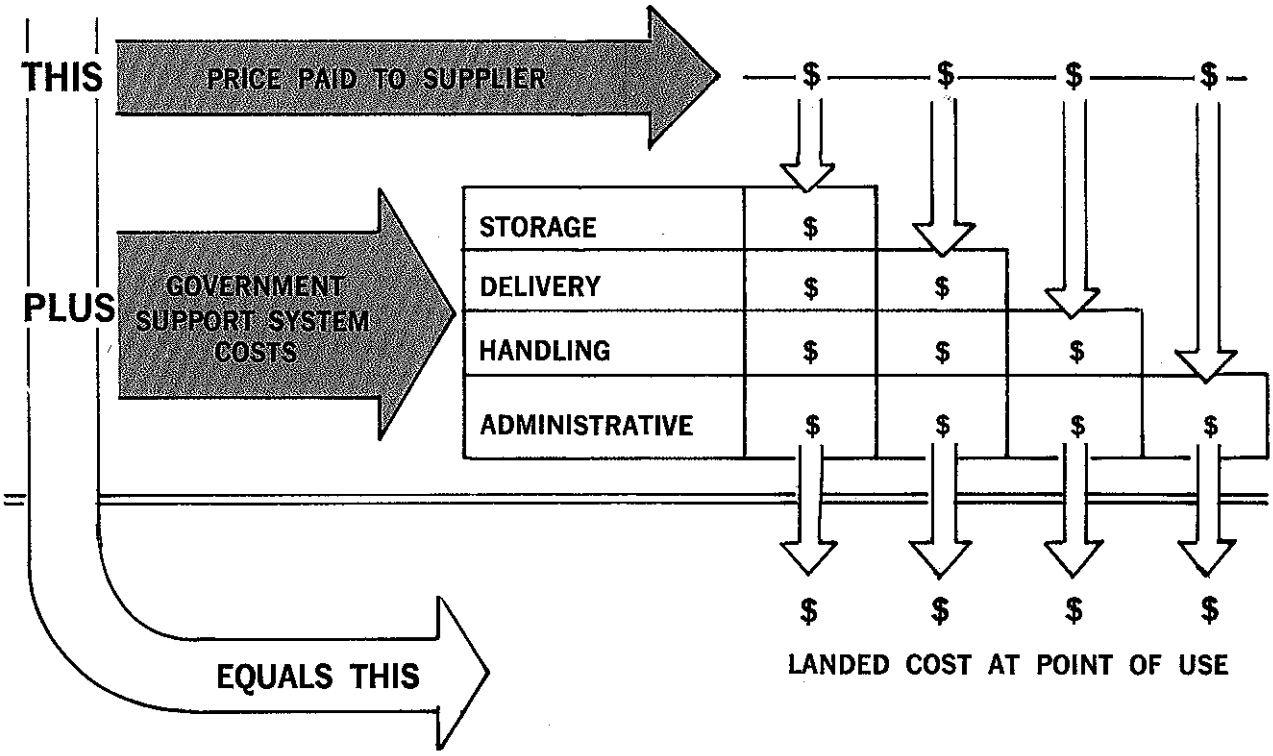
The resources used in procurement and distribution were identified, measured, and priced. For interagency programs, available accounting data were used to develop costs related to capital resources. Return on invested capital was costed at ten percent per year.[2] For base activities, we took the average costs of transactions and the cost of personnel as furnished to us. Costs fell into three general categories:

- Appropriated fund costs that primarily included personnel and operating expenses of the support provided
- Stock or revolving fund costs that primarily included transportation and inventory loss costs (except in the case of the Veterans Administration where operating expenses are funded by its revolving fund)
- Unfunded costs that were primarily investment costs reflecting depreciation and return on invested capital. Annual appropriated funds that might have reflected capital re-

[1] U.S. Department of Defense, DOD Instruction 7041.3, *Economic Analysis of Proposed Department of Defense Investments*, Feb. 26, 1969.

[2] U.S. Office of Management and Budget, Circular A-94, *Discount Rates to be Used in Evaluation of Deferred Costs and Benefits*, Nov. 15, 1971.

ELEMENTS OF LANDED COST



Source: Commission Studies Program.

Figure 1

pairs or minor construction were not adjusted for this factor.

Costing was based on data for fiscal 1971. Activity in that year was declining from the peak of the Vietnamese conflict. This had some impact on operations, mostly in property disposal and the reduction of inventories, as exhibited by low procurements in relation to sales.

The purpose of our cost analyses is not to show relative efficiency. Rather, it is to highlight the magnitude of costs of available alternatives and whether alternative choices would offer the Government opportunities for savings in the procurement and distribution of commercial products. In establishing a support system, various alternatives sometimes compete with and at other times complement one another. Thus the decisions must reflect both the best choice among alternatives and the best combination of approaches to support the specific needs of a given using activity.

As discussed in Chapter 4, the policies governing the acquisition of commercial products are not consistent among the Federal agencies, and agencies generally do not give adequate consideration to total economic cost. In establishing and operating procurement and distribution systems, they often fail to consider adequately the costs of alternatives. This results in higher costs and raises questions about operating costs between Congress and the executive branch, among agencies, and between industry and Government.

INTERAGENCY SUPPORT COSTS

We estimated the costs of the interagency support provided by the Federal Supply Service (FSS) of the General Services Administration (GSA), the Veterans Administration (VA), and the six inventory control points (ICP) or supply centers of the Defense Sup-

ply Agency (DSA). Table 1 summarizes the total volume of procurement for each of these eight interagency support organizations during fiscal 1971.[3]

TABLE 1. PROCUREMENT BY INTERAGENCY SUPPORT ACTIVITIES (Stock and Direct Delivery)

Activity	*Fiscal 1971 procurement (thousands of dollars)*
FSS (excluding ADPE)	
Depot stock and vendor delivered	730,425
VA	
Depot stock and vendor delivered	102,788
DSA Supply Centers	
Construction (DCSC)	336,000
Electronics (DESC)	157,700
General (DGSC)	210,000
Industrial (DISC)	115,200
Fuels (DFSC)	1,295,800
Personnel Support (DPSC)	
Clothing (C&T)	272,900
Medical	183,500
Subsistence	946,353
Total	4,350,666

Source: Appendix F, table F–1.

These eight organizations provide a wide range of supplies and services and each year account for more than $4 billion in procurement. They procure and distribute commercially available products, special goods, and, in the case of DSA, a significant number of military products.

The major procurement and distribution programs of each of the eight organizations were defined on the basis of available data and type of support provided. This was done to estimate the costs of major types of programs and to avoid aggregating types of support that have different cost characteristics. Although we were able to define meaningful programs, certain minor distinctions in programs could not be made due to lack of data.[4]

Appropriated fund data were taken from DSA and FSS accounting systems. Data on VA interagency support activities were obtained from its revolving supply fund records. Costs of support programs were obtained from accounting records and other data furnished by the agencies, or were derived by the Commission in the course of its analyses.

All appropriated fund costs were allocated either to a support program or to "other" activities. Overhead and headquarters costs were allocated to activities at several levels.

For DSA, the major "other " activities were the Defense Contract Administration Services, the Defense Logistics Services Center, the Defense Industrial Plant and Equipment Center, and services provided by DSA centers, depots, and headquarters for Federal agencies.

For FSS, the major "other" activities were the Office of Automated Data Management Services, Federal Supply Schedule Program, GSA business service centers, procurement regulation activities, and certain specification and standards activities.

The result is summarized in table 2.

As can be seen from the funds allocated to "other" activities, an effort was made to segregate activities not directly related to the sup-

[3] Appendix F, table F–1 indicates the largest product groups procured by each of these activities. Indefinite delivery contract programs, such as Federal Supply Schedules, where ordering is accomplished by the using activities, are not included in the data of table 1.

[4] For example, the inclusion of direct vendor delivery of stocked items in the stock support programs analyzed tends to reduce the cost shown for the stock support program by attributing storage costs to a greater quantity of items than were actually stored.

TABLE 2. APPROPRIATED FUND EXPENSE OF INTERAGENCY SUPPORT ACTIVITIES

(Thousands of dollars)

Activity	*Total*	*Cost allocated to "other" activities*	*Cost allocated to support programs*
DSA*			
DCAS	313,080	290,070	23,010
DLSC	20,938	18,007	2,931
Centers	261,273	19,474	241,799
Depots	110,426	16,854	93,572
Other	10,337	10,337	—
Total DSA	716,054	354,742	361,312
FSS	88,622	12,481	76,141

Source: Study Group 13A *Final Report*, vol. II, part VII, ch. 2, exhibit VII–2–7, pp. 705–709.
*Total costs of each activity include allocation of DSA headquarters expenses.

port programs being analyzed. Costs arising from an activity's compliance with legal and regulatory restraints, socioeconomic programs, and other requirements were treated as normal costs of doing business.

Revolving stock fund costs were obtained from annual financial statements. Adjustments were made to eliminate general and administrative costs not applicable to interagency support.

Costs not included in any accounting record were primarily return on invested capital and depreciation. Values for real and personal property were obtained from agencies on a best estimate basis. The allocated costs of inventory, cash, and accounts receivable were obtained from stock fund financial statements. We could not compute all costs that might be relevant. If thought to be significant, categories of missing costs were identified.[5]

Obsolescence Costs

In this report, the term "obsolescence costs" includes the cost of items removed from inventory as excess to current and projected needs. This condition may be due to technological obsolescence, overprocurement, or reduced usage. These costs may arise for any number of reasons, such as the need to maintain military readiness.

Obsolescence costs are significant and were particularly high in fiscal 1971 because routine property disposal operations had been suspended during fiscal years 1966–1969 due to the Vietnamese conflict. These costs can be deferred and are not accounted for until disposal action is taken.

Obsolescence in relation to regular operations at the Defense Construction Supply Center (DCSC) illustrates this problem. The DCSC inventory investment, sales, deliveries, and obsolescence measures are shown in table 3.

From table 3 it can be seen that:

- Total DCSC inventories at the beginning of fiscal 1971 were $481 million. This includes all DCSC products, both commercial and military peculiar.
- DCSC sales in fiscal 1971 were $275 million, of which $199 million were delivered from inventory.
- The obsolescence rate was high in relation to the stock support of $199 million when related to the fact that DCSC sent $122 million to property disposal.

TABLE 3. DCSC OPERATING STATISTICS, FISCAL 1971

(Thousands of dollars)

Inventory (July 1, 1970)	481,334
Sales (fiscal 1971)	275,368
Delivered from inventory	199,053
Obsolescence indicators (fiscal 1971)	
Property disposal by DCSC	122,572
Returns from customers	68,503
Property disposal by customers as directed by DCSC	100,953

Source: *Defense Stock Fund Report, Construction Supplies Category, June 30, 1971* and data furnished by DSA which showed using activities had requested permission to return goods valued at $204 million, excluding automatic returns. Of this, $103 million was authorized for return, leaving a residual of $101 million for disposal by the using activities.

Obsolete inventory is probably an unavoidable cost of supporting changing customer programs. However, inventory managers tend to base their forecasts of future needs and plan inventories on movement from inventory rather than on current customer usage. Stocks and pipelines can be full on the day equipment is removed from service. This is particularly true where supplies to meet repair needs increase with the age of the equipment.

Because of the high cost of obsolescence and the inability to predict its occurrence, we costed DSA operations using four different measures of obsolescence cost as reflected in inventory and accounting adjustments.[6]

[5] For example, the cost of storage facilities provided to DSA by the military services other than those integrated into DSA's regular storage programs; the cost of Government disbursement not borne by the activity itself.

[6] All four measures are shown in Appendix F for DSA but only "with obsolescence" and "without obsolescence" are shown in table 5 of this chapter. The four measures are:

Estimated economic losses reflected in stock fund cost accounts for fiscal 1971 indicate the cost of inventory disposed of or the cost to put it in saleable condition. Changes in value of inventory also were included in this measure. Highest costs generally are found in this category ("with obsolescence").

Surcharge costs for inventory losses for fiscal 1971 as reflected in the DSA surcharge policy. These are accounting charges that are to be recovered by the surcharge income. They primarily reflect charges and credits associated with keeping the stock fund financially healthy as opposed to measuring obsolescence directly.

Surcharge income for fiscal 1971 which reflects DSA's long-run view of average inventory loss.

No cost for inventory losses was considered as the final alternative ("without obsolescence").

TABLE 4. INTERAGENCY DEPOT STOCK SUPPORT PROGRAMS, ESTIMATED COST AS A PERCENTAGE OF SALES*

(Thousands of dollars)

Activity	*Cost*	*Sales*	*Cost as a percentage of sales*
Federal Supply Service (FSS)	132,397	442,495	29.92%
Veterans Administration (VA)	9,694	59,469	16.30%
Defense Supply Agency (DSA)	1,091,309	1,711,134	63.78%
Total	1,233,400	2,213,098	55.73%

Source: Appendix F, tables F-2, 3, and 4 (figures include obsolescence costs).

*The term "sales" is used to denote the action of filling support requisitions.

TABLE 5. INTERAGENCY DEPOT STOCK SUPPORT PROGRAMS, ESTIMATED COST PER $100 PROCURED AND SOLD*

Activity	*Estimated cost per $100*	
	Procured	*Sold*
Federal Supply Service (FSS)	$ 30.32	$29.92
Veterans Administration (VA)	18.90	16.30
DSA Centers (w/obsolescence)		
Defense Construction Supply Center (DCSC)	122.20	92.38
Defense Electronics Supply Center (DESC)	107.97	83.29
Defense General Supply Center (DGSC)	110.81	69.59
Defense Industrial Supply Center (DISC)	132.82	89.87
Defense Personnel Support Center (DPSC)		
—Clothing and textiles	84.48	52.01
—Medical	48.68	47.50
—Subsistence	24.55	24.16
DSA Centers (w/o obsolescence)		
Defense Construction Supply Center (DCSC)	73.39	55.48
Defense Electronics Supply Center (DESC)	68.89	53.14
Defense General Supply Center (DGSC)	78.58	49.35
Defense Industrial Supply Center (DISC)	97.52	65.98
Defense Personnel Support Center (DPSC)		
—Clothing and textiles	67.43	41.52
—Medical	44.49	43.41
—Subsistence	23.83	23.44

Source: Appendix F, tables F-2 through F-6.

*The term "sold" is used to denote the action of having filled support requisitions.

Interagency Depot Stock Support Programs

The total cost of the depot stock support programs analyzed is shown in table 4.

The average estimated cost of purchasing and distributing $100 worth of stock in depot programs of the three agencies was $55.73. The total estimated cost of these interagency depot stock support programs is well over $1 billion annually.

Table 5 summarizes the results of the cost analysis for the individual stock programs.

The following observations can be made from these cost comparisons:

- The cost per $100 sold is lower than the cost per $100 procured when an agency is reducing stock levels because the cost of operation is charged to a larger base.[7]
- Stock support is expensive, ranging from $16.30 to $92.38 per $100 sold when obsolescence costs are included.[8]
- VA costs are the lowest of the activities shown. We attribute this to the VA's restrictive criteria for stockage that exclude items with poor economic characteristics so that volume and turnover per item are higher and to the type of products and limited product lines (food, drugs, and medical supplies) for

[7] Fiscal 1971 was a year of declining activity after the Vietnam build-up and inventories were being reduced.

[8] When measured against procurement, several DSA activities show annual costs in excess of the value of procurement for fiscal 1971 (DCSC, DESC, DGSC, and DISC).

TABLE 6. INTERAGENCY NONSTOCK SUPPORT PROGRAMS, ESTIMATED COST PER $100 PROCURED

Programs	Cost (Thousands of dollars)	Total procured (Thousands of dollars)	Cost per $100 procured (Dollars)
Federal Supply Service (FSS)	13,119	293,753	4.47
Veterans Administration (VA)	551	33,045	1.67
Defense Supply Agency (DSA)	73,632	2,236,025	3.29
Total	87,302	2,562,823	3.40

Source: Appendix F, tables F-2 through F-6.

which the stock support is provided. The VA can tailor its operational systems for specific requirements to a greater extent than can generalized support activities. This is due largely to the visibility VA has over its own operations.

- Even without considering obsolescence, DSA support costs are significantly higher than those of civilian activities. This is due to the type of management required for military logistics support beyond that required for civilian systems, to the economic and demand characteristics of the items being supported, and the high costs of inventory investment associated with low turnover.
- The cost of subsistence support by the military system is significantly lower than that of other military product line support activities. This is the effect of item limitations, high turnover, and low obsolescence rates for product lines provided by the Defense Personnel Support Center (DPSC).[9]
- The data give no clear indication of economies in size of operations. The VA, the smallest activity, was very low in cost. Within DSA, no clear relationship was apparent between size and cost.

Four categories account for most of the cost of depot stock support programs:

- Inventory management costs
- Storage costs
- Annual return on investment costs for inventory owned
- Costs or economic losses associated with disposal of obsolete and unneeded inventory.

Of these four cost categories, only the first two are shown currently in the operating budget. Management has a direct cost responsibility only for the first two. The third is not considered, and the fourth is considered only from the standpoint of the financial health of the stock funds. All of these cost categories result from taking title to goods so as to provide responsive support to the user when the need arises. However, the total cost to the Government of stocking goods for interagency support is substantial. Economy requires that all costs of support should be considered in evaluating alternative means of providing commercial product support to using activities.

[9] A more detailed analysis would show a range of costs for the individual activities shown, depending on the product line being considered.

Interagency Nonstock Support Programs

For some requirements, interagency support is provided by means other than depot stockage. Commercial distribution channels may be used to provide direct delivery to the user or to some point between the manufacturer and the user. In this case, the price paid the vendor will be higher to reflect the distribution services received. Total costs of interagency nonstock procurement programs are estimated at $87.3 million annually, as shown in table 6, and the average cost of this support is estimated at $3.40 per $100 procured.

A comparison of the data in tables 4 and 6 shows that the cost of interagency activity for stock support is many times that for nonstock support, whether obsolescence costs are included or excluded. Part of this difference is offset by higher delivered prices for nonstock program items.

In addition to these direct delivery purchases, each of the agencies shown in table 6 operates call-contract programs for use by field pro-

curing activities. The annual volume of procurement under these programs is over $1 billion for DSA (Supply Bulletins), $751 million for FSS (Federal Supply Schedules), and $78 million for the VA (Federal Supply Schedules). The interagency cost per $100 procured for providing call contract support under these contracts is very low due to high overall volume usage. Estimates of cost per $100 procured were $0.79 for FSS, $0.16 for VA, and under $0.05 for DSA.[10] Transaction costs by field agencies in using these contracts are also very favorable.

Conclusions

The cost of interagency support activities is substantial.

The cost per $100 of providing interagency depot stock support averages 15 times greater than that of providing nonstock support. Part of this difference is offset by higher base prices for direct delivery programs.

The cost of stock support in military logistic systems is significantly greater than in civilian systems. Much of this difference arises because of the nature of the items and the primary missions supported.

There are no indications that size of a Government operation contributes to economy in interagency support. No simple correlation of cost and volume is apparent.

There is a lack of visibility of the cost of interagency support programs.

Consideration of the cost of interagency support is essential if economical support systems are to be developed and installed.

STATION SUPPORT COSTS

We estimated the costs incurred for procurement and distribution support provided at the level of the using activity. This complemented our analysis of interagency support costs. Support at the using level encompasses the complete cycle of the costs of meeting needs for commercial products. The cycle starts at the point of demand or user need and includes costs such as local procurement, supply, handling, storage, and accounting, and extends through delivery to the user.

To develop using activity costs, we visited selected activities and were supplied data on operational costs and the costs of support functions. It was necessary to cost personnel time and rely on the activities visited for estimates of time and resources devoted to support programs. The costs developed do not consider any allocations of general management overhead. Functional management was included only if time had been allocated to the specific activities being considered. No costs were included for financial control or payment systems. Generally, costs were developed based on time used or estimated average costs for a type of transaction.

Our sample primarily represents military activities because civilian activities visited could not generate suitable data, or the level of activity was so low that segregation of specific costs was not meaningful.

Vehicle Fleet Maintenance

We estimated the cost of support for vehicle maintenance activities at eight locations. The systems and procedures used to fill requirements varied widely due to different operating conditions. These cost estimates[11] are summarized in table 7.

Table 7 shows that:

- The cost of station support for vehicle maintenance varies from $27 to $108 per $100 of parts used. Generally, lower costs are associated with high-volume users.
- The average cost of this support, at $44 per $100 used, is a substantial cost element in meeting user needs.
- The lowest cost for support per $100 used is $27 at location 7. This activity has a contractor operated parts store (COPARS) support program for part of its needs. The same is true for location 8, the $36 cost operation. Low operational costs of these

[10] Study Group 13A (Commercial Products), *Final Report*, Feb. 1972, vol. II, exhibit VII-2-2, 2-3, and 2-6.

[11] Costs here are for the support activities only; they do not include the prices paid for the products themselves.

TABLE 7. COST FOR STATION SUPPORT TO VEHICLE MAINTENANCE USERS

Location	Value of parts used	Estimated cost of support	Cost per $100 used Average	Local vendor	Gov't source
1	$70,000	$76,000	$108	$111	$104
2	45,000	24,000	54	54	--
3	124,000	66,000	53	62	44
4	93,000	57,000	62	62	57
5	175,000	54,000	31	23	52
6	138,000	46,000	33	33	33
7	138,000	38,000	27	21	39
8	188,000	68,000	36	16	72
Total	$971,000	$429,000	$44		

Source: Appendix F, table F-7.

activities result from the favorable support characteristics of the COPARS and other functional support contracts (discussed in Chapter 4).

Facility Maintenance

For five using locations, we estimated the cost of providing support to civil engineer or facility maintenance activities. The systems and procedures varied between activities. The five cost estimates [12] are summarized in table 8.

Table 8 shows that:

- There appears to be no consistent relationship of value of parts used to support cost. The average costs of station support to facility maintenance users ranged from $10 to $63 per $100 of products used.
- The cost of meeting user needs is substantial. The average cost for station support of facility maintenance users was $48 per $100 of product used.
- The lowest cost station support program for facility maintenance was $10 per $100 used. This program was a 100-percent contractor operated civil engineer supply store (COCESS) support activity that operates on a concept similar to COPARS. Its favorable cost is due to the desirable support characteristics previously discussed for COPARS.

In facility maintenance support, the delivery of requirements through a Government source was more costly than delivery through local vendors. The lower cost of local vendor support is due primarily to the fact that the products obtained were not stocked by the using activity. Facility maintenance is an excellent example of a program that can be supported in several different ways. The best method of support could be selected by item or by families of items forming a logical product group. The economies of various combinations must be evaluated. These vary from 100-percent dependence on local vendors to 100-percent dependence on mandatory Government sources. The decisions for structuring a support program must be tailored to the using activity being supported.

[12] *Ibid.*

TABLE 8. COST FOR STATION SUPPORT TO FACILITY MAINTENANCE USERS

Location	Value of parts used	Estimated cost of support	Cost per $100 used Average	Local vendor	Gov't source
1	$812,000	$369,000	$45	$36	$51
2	189,000	108,000	57	42	89
3	1,521,000	952,000	63	45	77
4	835,000	231,000	28	24	42
5	144,000	15,000	10	10	
Total	$3,501,000	$1,675,000	$48		

Source: Appendix F, table F-8.

Commissary Operations

We estimated the cost [13] of support for commissary operations in six locations. This included support for nonperishable subsistence items to six food service or mess hall operations and two resale stores. The cost analyses did not include costs of food service or store personnel involved in receipt or requirements development. Commissary resale operations often were specially organized and did not use regular supply operations. Also, the resale operations personnel were authorized to place orders with vendors against indefinite delivery contracts. The cost analyses of these support activities are presented in table 9.

The estimated cost of using-activity support for food service operations ranged from $8 to $31 per $100 of food handled, and the average cost was $16. These costs are considerably higher than those incurred at station level in ordering and handling food for resale. Lower support costs for resale operations are mainly due to higher volume procurement.

GSA Retail Stores

The GSA retail stores provided by FSS in major Federal office building complexes offer direct retail services to using activities. In these self-service stores, users select their needs from stocked shelves. A credit card is used to identify authorized requisitioners and to bill using activities.

Personnel from outlying offices, some a hundred or more miles away, also obtain supplies from these stores. It is difficult to ascertain how many trips are made just to pick up supplies because many people periodically visit agency offices in Federal centers and pick up supplies at that time.

The cost of the GSA self-service stores is $14 per $100 of support as shown in Appendix F, table F–2. This cost does not include space costs or any costs associated with the requiring activity. The cost of acquiring office supplies through the use of GSA retail stores should be considered in determining the most cost-effective method of office supply support.

Station Support Characteristics

Many activities are large enough to have specialized procurement and supply functions while in others these functions are part of the duties of user activities. Station support costs for product lines analyzed varied widely but typically are in the range of $10 to $63 for each $100 purchased.

The development of interagency and agency support systems over a period of years is impressive. Computerized systems and other management tools have been developed and implemented; automatic processing and transmission systems have reduced the cost of

[13] *Ibid.*

TABLE 9. SUPPORT COSTS OF COMMISSARY OPERATIONS

Food service location	*Value of volume handled*	*Estimated cost*	*Cost per $100 handled*
1	$2,330,000	$193,000	$8
2	54,000	12,000	22
3	1,777,000	454,000	26
4	259,000	80,000	31
5	513,000	62,000	12
6	180,000	28,000	16
Total	$5,113,000	$829,000	$16
Resale store location			
1	$5,059,000	$152,000	$3
2	8,203,000	144,000	2
Total	13,262,000	$296,000	$2

Source: Appendix F, table F–9.

individual transactions and provided capability for national inventory control; and new systems currently are being implemented to automate operations under such systems as the DSA managed programs and the standard military logistics data systems.[14]

In contrast, the development of systems for station-level support have received far less emphasis. We found no station-level inventory control system that has been programmed to produce delivery orders under national or local requirements contracts.[15] Exceptions are the systems at the station that interact with agency and interagency support systems.

Station-level support provided directly from nongovernment sources involves procurement from vendors, while interagency support involves internal Government operations only. System development for interagency-level transactions is therefore simpler because the restrictions in procurement from vendors are excluded. Prescribed supply and procurement concepts at this level have inhibited the development of responsive, efficient station-level systems. As a result, local acquisition costs have been higher than necessary in many instances.

Conclusions

Station-level procurement and supply support costs are substantial. This is true for products procured locally or obtained from Government sources.

[14] SAMMS — Standard Automated Materiel Management System
MOWASP — Mechanization of Warehousing and Shipment Processing
MOCAS — Mechanization of Contract Administration Services
DIDS — Defense Integrated Data System
APCAPS — Automated Payroll, Cost, and Personnel System
DAAS — Defense Automatic Addressing System
MILSTRIP — Military Standard Requisitioning and Issue Procedures
MILSTAMP — Military Standard Transportation and Movement Procedures
MILSTRAP — Military Standard Transaction Reporting and Accounting Procedures
MILSTEP — Military Supply and Transportation Evaluation Procedures
MILSCAP — Military Standard Contract Administration Procedures

[15] Interagency activities such as FSS have such programs for replenishing their depot stocks. Local using activities automatically develop FEDSTRIP and MILSTRIP requisitions, but not delivery orders to vendors.

The cost of station-level support varies. The characteristics of the using activities, the different organizations and techniques used, and the functional activities and product groups involved contribute to this variance.

The cost of the station-level support component is comparable to interagency support costs.

There has been a lack of emphasis in developing more efficient and cost-effective station-level support systems. This appears to be an unexploited opportunity for cost reduction.

LANDED COST

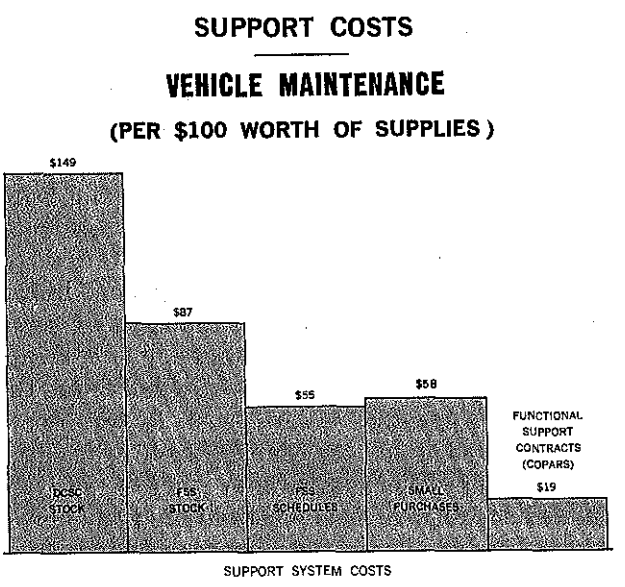
Landed cost, as previously defined, is the total cost to provide an item to its user. Landed cost includes the purchase price plus support system costs. These two cost elements generally have an inverse relationship. Consolidation of requirements in the interagency and agency stock support systems permits more favorable prices, but it also increases the costs of providing the product to the user.

Vehicle Fleet Maintenance Costs

The support portion of landed cost for vehicle fleet maintenance shown in figure 2 is based on the data previously presented. In each case shown, the purchase price equals $100 worth of supplies.

The sample data in figure 2 show that the most costly systems are those that use elements of interagency support. The lowest cost system, the contractor operated parts store (COPARS), eliminates both the supply and procurement functions for item-by-item actions.

We priced a number of requirements taken from work orders of one installation. The sample totaled 122 items that were procured locally, primarily on a competitive, small purchase basis. The same or equivalent items were priced under a COPARS contract and under the Federal Supply Schedules and regional term contracts (RTC) used to support the Army in Region 10 of the Federal Supply Service (FSS) procurement office. It was not



Calculated from data presented in Appendix F, Tables F–2, 4, 5, and 7; based on cost per $100 sold with obsolescence.

Figure 2

possible to identify each item procured to an equivalent item under the FSS program. The results are in table 10 (prices are stated in terms of an index, with the small purchase prices being 100).

Compared with competitive small purchase prices for the same or equivalent vehicle parts:

- On 122 items, COPARS prices were 13 percent lower even though the COPARS operation included two full-time contractor personnel to run and manage the "store" at the base.
- On 48 items, FSS regional term contract prices were 23 percent lower and COPARS prices were 15 percent lower.
- On 20 items, Federal Supply Schedule prices were 30 percent lower and COPARS prices were 6 percent lower.

The price savings of interagency schedule and term contracts are significant. However, the COPARS and local vendor support systems we examined were more responsive, and the price savings of the interagency contracts would not have offset other support-system costs. In addition, costs associated with workforce productivity and vehicle availability ultimately must be considered.

Federal Supply Schedule contracts that provide for shipment from manufacturers' warehouses to the user cause problems involving timeliness, correct identification, and communication of the need. These problems are minimized when Federal Supply Schedule contracts provide for local delivery through a dealer distribution system. Under these circumstances, daily delivery or pickup usually is possible and the user can order the item needed from the supplier by telephone. While unit prices paid to dealers may be higher than those paid directly to the manufacturer, landed costs are usually more favorable and local small businesses can participate.

To summarize, with the various fleet-maintenance requirements and using-activity support programs, there is no one best acquisition system to meet everyone's needs. Exploring alternatives and weighing cost-benefit possibilities will provide a basis for structuring an economical, effective support program to fit specific needs.

Facility Maintenance Costs

Using data developed in a manner similar to that used in the vehicle maintenance analysis, figure 3 shows the relationship of support cost

TABLE 10. VEHICLE PARTS PRICE COMPARISON

	Number of item prices compared	*Price index*	*Difference (%)*
Competitive small purchases	122	100	--
COPARS	122	87	−13
FSS regional term contracts	48	77	−23
COPARS	48	85	−15
Federal Supply Schedules	20	70	−30
COPARS	20	94	− 6

Source: Study Group 13A, *Final Report*, vol. II, table 2, Feb. 1972, p. 761.

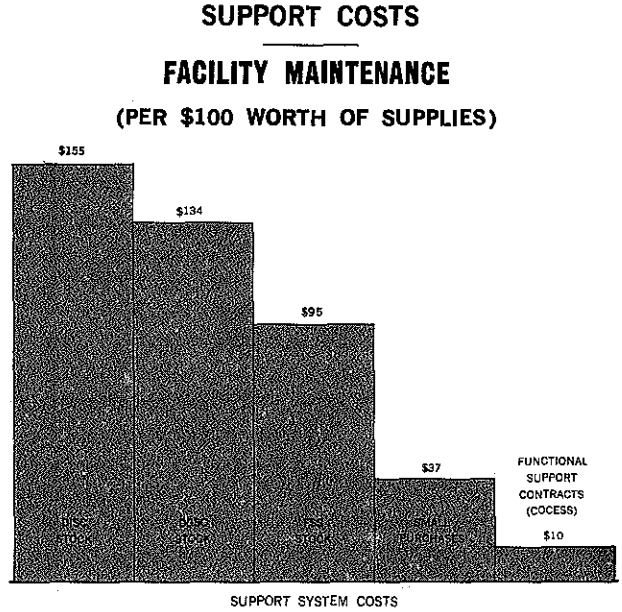
to purchase price ($100) under various procurement systems.

Support costs are usually higher when items are obtained from interagency stocks than when they are obtained from a local vendor or contractor operated civil engineering supply store (COCESS). This is because of the high cost of maintaining Government stocks. In the case of the COCESS, supply and procurement (by item) are bypassed, and stock support is provided directly by the vendor.

The discount from retail prices, at one of the military installations we visited where a functional support contract was being used, varied from 10 to 30 percent.[16] This discount depends on the scope of the contract and the number of items excluded due to mandatory sources of supply. Excluded items are generally of high volume and quick turnover. When fast-moving items are furnished by a mandatory supply system, local vendors are left to supply slowmoving items and therefore must increase their prices. Split supply sources also require costly manual screening of all items as requirements are generated.

The pattern of cost relationships for facility maintenance as shown in figure 3 is similar to that shown for vehicle maintenance in figure 2.

[16] Procurement Division, Castle Air Force Base, Merced, California. Contract FO 4604-71-C-0166, Aug. 18, 1970.



Calculated from data presented in Appendix F, Tables F–2, 4, 5, and 8; based on cost per $100 sold with obsolescence.

Figure 3

Food Procurement

We used a different approach to determine the landed cost of food products acquired for military dining halls. The estimated cost of the acquisition process was determined by taking the purchase price for a product, adding the cost of rail transportation to first destination based on Government rates, and applying the cumulative amounts of separate markup factors of interagency and using-activity support costs as developed from the data in Appendix F. All cost factors were adjusted so that the same basis was used throughout. The interagency factor was adjusted to remove first destination transportation charges. Items used were selected from the 50 highest dollar volume products.

The six activities selected did not obtain a significant portion of their standard nonperishable subsistence from local vendors. To develop a local vendor alternative, we contacted vendors and obtained prices on the basis of delivery to the kitchen storeroom. Vendor prices were based on specifications for the same set of standard institutional food items for which estimates of Government landed cost were developed. The results are summarized in table 11, based on an index set at 100 for the FOB origin price.

TABLE 11. ESTIMATED LANDED COST COMPARISON FOR FOOD SERVICE SUPPORT

(Price FOB origin equals $100)

Location	*Cost delivered to kitchen storeroom*	
	Government source	*Commercial source*
A	$135	$118
B	150	118
C	157	124
D	163	124
E	143	111
F	131	118

Source: Study Group 18A, *Final Report*, vol. II, table 4, p. 766.

The average difference between the estimated Government and commercial landed costs is $28 per $100 in favor of commercial vendor delivery. We were told that the Government's pricing advantage in nonperishable subsistence was not extensive and that the institutional food distribution industry will serve volume customers on a delivered basis regularly on a margin of from 12 to 14 percent.

On the basis of price alone, the Government appears to be saving significantly by taking title at origin and performing the distribution service itself. When landed cost is considered, the situation is reversed.

The high-volume activity of commissary resale provides opportunities for delivery of brand-name products at a lower rate than for dining hall service. According to industry sources, the wholesale grocery industry services large supermarkets on the basis of a markup over cost of four to six percent. The vendor comparison we developed shows the delivered cost to be 13 percent lower than the Supply Bulletin prices.[17] The vendor service included product placement on shelves.

Pricing

Price frequently is thought to be directly related to volume of purchase. Within limits, the greater the quantity, the lower the price. Much of the Government's acquisition strategy seems rooted in the belief that buying large quantities produces economies in production, marketing, and distribution. The landed cost concept adds a new dimension to this consideration. The real cost to get the product to the user is increased by all actions necessary to increase quantities and lower the unit purchase price. Lower prices are obtained through quantity purchases, but this method requires Government systems for communicating and consolidating requirements. Thus some part of the reduction in price achieved through quantity purchases is offset by Government assumption of usual seller costs. Such costs arise from needs for increased personnel, warehousing, and transportation.

Commercial Distribution

In considering landed cost alternatives to support the commercial product needs of using activities, the services available from commercial channels of distribution should be included. Based on Internal Revenue Service reports showing the operational costs of wholesale trade, the average cost for commercial channels of distribution before payment of taxes was $20 per $100 procured in 1967 (see table 12). This compares favorably with present Government interagency stock program costs.

TABLE 12. PERCENTAGE OF GROSS PROFIT (BASED ON COST OF GOODS SOLD), 1967

Wholesale trade category	*Percentage*
Motor vehicles and automotive equipment	28.5
Drugs, chemicals, and allied products	22.7
Piece goods, notions, and apparel	26.0
Groceries and related products	12.8
Farm products—raw material	7.6
Electrical goods	25.4
Hardware, plumbing, and heating	27.7
Machinery, equipment, and supplies	30.5
Alcoholic beverages	20.5
Lumber and construction materials	20.8
Not elsewhere classified	21.4
Average all wholesale trade	19.8

Source: Computed from statistics of income, 1967, Internal Revenue Service, pp. 12–13, and Study Group 13A, *Final Report*, vol. II, exhibit VII–4–6, p. 795.

The data in table 12 do not mean it is a toss-up between the two ways of meeting user needs. To develop a landed cost comparison between the use of commercial channels and the use of Government sources to meet user needs, the cost of the two alternatives must be considered.

Costs of transactions with commercial distributors vary greatly depending on the procurement arrangement and the system used to develop and to communicate needs and to deliver the product to the user. COPARS-type operations and local requirements contracts may have low unit-cost characteristics, but are not always practical since the activity, functions supported, types of products required, form of organization, location, and many other factors may dictate the use of an alternative support method.

Nevertheless, we find that prices to the Government vary above and below those available to commercial users. Generally, when products are procured for stock in large volume, the Government is able to buy at a lower price.

In summary, landed costs using commercial channels of distribution appear competitive to using Government sources and in many cases offer other advantages to user activities.

[17] Study Group 13A, *Final Report*, vol. II, exhibit VII–4–5, p. 793.

Conclusions

Athough price savings accrue from large volume purchases, this should not be the sole consideration for using interagency support systems.

The costs of the acquisition process (the nonpurchase price portion of landed cost) are often well over 50 percent of the purchase price of the product procured.

Landed cost characteristics vary widely; valid decisions require tailoring to specific user needs.

The landed cost characteristics of commercial channels of distribution appear to be a viable alternative that should receive consideration if support decisions are to be cost-effective.

TOTAL ECONOMIC COST CONSIDERATIONS

The concept of "total economic cost" considers the cost of the product, cost of the system support, and costs arising through use and disposal or consumption. Ideally, all costs ultimately incurred by the Government are brought to bear on the procurement support decision.

The objective of economy and efficiency as outlined in the policy statements of Public Law 91–129 are not being achieved by the decisionmaking systems currently in effect. The practice of not including certain costs, lack of systems cost visibility, and other inefficient practices hide the total cost of carrying out Federal missions. The Government's distribution systems can be supplemented by commercial systems to provide viable alternatives for furnishing commercial products to users. By considering the total economic costs of each alternative, the Government will ensure that its tasks are accomplished with optimum economy and effectiveness.

The value of total economic cost analysis is well accepted by Government officials and suppliers alike. In its position paper on selection of method of supply, the Federal Supply Service stated:

> Many factors must be examined to determine the best way of supporting agencies' requirements. Total cost and overall advantages to the Government are the primary considerations . . . The importance of quantifying and evaluating all Government-wide costs associated with various supply methods and actions is fully recognized.[18]

The difficulty arises in developing realistic cost analysis methods that will provide simple determinations of the best alternative means of meeting user needs.

Decision Effectiveness

Based on our review of user needs, support systems, selected commercial products, and costs, we believe the current decisionmaking system has significant deficiencies. These deficiencies make it extremely difficult to use total economic cost criteria in selecting commercial product support systems.

They include:

- The data base does not reflect the cost of support systems needed to make reasonable decisions.
- Many decisions are made at too high a level.
- Key decisions on type of support (stock versus nonstock) and organization (interagency versus station support) are made by organizations having a direct operational interest in the decision. This raises the question of organizational conflict of interest.
- Consideration of total systems costs is inhibited by overemphasis on purchase price savings.
- The role of the supply function in the decisionmaking process appears disproportionate to that of procurement. This role may be appropriate in critical military logistics supporting weapon systems but not for commercial products.
- Traditional procurement and distribution procedures are relied on at the expense of new techniques and with insufficient regard to changes in the marketplace.

[18] Federal Supply Service's paper, *Method of Supply*, sets forth considerations on which method of supply decisions are based. (Submitted to the Commission by FSS, document undated.)

These deficiencies have had the following results:

- Stock support programs are overemphasized and overused in relation to nonstock programs. This is true at the interagency, agency, and station levels.
- Interagency support decisions have restricted the development of innovative and efficient station-level support systems.
- The national supply system concept has been developed to assign, on the basis of product groups, support responsibility for all Government users of commercial products. This has been done in response to congressional pressure to eliminate "duplication." Assignments are being made to both military and civilian support systems without adequate consideration of costs and other differences in the characteristics of these systems.
- Mandatory interagency support prevents local vendor sources from providing products and services where they would be efficient and cost-effective if total costs were considered.

MANAGEMENT OF COMMERCIAL PRODUCT ACQUISITION

We believe the current procurement environment and management practices of the Government should be changed to focus more directly on the application of total economic costs in acquiring commercial products.

National Policy Requirements

Executive branch policy concerning the acquisition of commercial products should be clearly established and consistently applied throughout the Government. We believe this goal can best be achieved through the leadership of a nonoperational entity such as the Office of Federal Procurement Policy recommended in Part A, Chapter 2.

The criteria for the identification and interaction of elements affecting total economic cost must be clearly established in areas where we found deficiencies, such as in the development of Federal specifications, in depot stockage of low-turnover, commercial-type items, and in coordinated procurement among agencies.

Operating Management

Operating personnel must be given the authority and management support necessary to apply total economic cost principles in their decisionmaking. This requires that top-level agency managers support and follow through with effective programs to achieve this capability. These programs include on-the-job training, encouragement of innovative techniques, improved coordination among staff and organizational elements, better information for decisionmaking, and other programs that have been discussed in this report.

Executive Oversight

The effectiveness of commercial product acquisition systems requires continuing visibility of operations at all levels of management. It is also essential that Congress and the public have operational visibility in order to promote confidence in the integrity of the system.

Top management needs better reporting systems and improved statistical data to make the decisions required to implement the recommendations of this report on the acquisition of commercial products. They offer the potential for greater user satisfaction and substantial savings. The key to achieving this potential is enlightened, aggressive management.

APPENDIX A

Analysis of Procurement by Commodity Grouping

The Department of Defense classifies military purchase actions over $10,000 by Service Category and Federal Supply Classification.[1] The most significant item that is excluded from this report, which is not all-inclusive, is the purchase of transportation services by Government bills of lading (GBL) and transportation requests (GTR).[2] Table 1 combines elements of this report into groupings that are more directly related to Commission Study areas and, in addition, includes transportation and purchases under $10,000.[3]

The first four categories of procurement also include supplies and services of the type generally available on the commercial market either directly or as required by prime contractors in performing under the terms of a contract. For example, aircraft and vessel procurements include commercial and commercial-modified as well as those of purely a military design. Data referenced above are outlined in table 2.

TABLE 1. SUMMARY OF DOD MILITARY PROCUREMENT

Description	*Thousands of dollars*	
Section A		
Research, development, test, and evaluation		5,844,104
Section B		
Other services and construction:		
Services related to military capital equipment	1,205,956	
Services related to commercial capital equipment	5,112,273	
Total services	6,318,229	
A–E, construction, maintenance, repair, and alteration of real property	1,978,522	8,296,751
Section C		
Supplies and equipment:		
Military	11,330,335	
Commercial	8,934,722	20,265,057
Purchases under $10,000		3,885,689
Transportation by GBL and GTR		1,238,143
Total DOD procurement		39,529,744

[1] *DOD Military Prime Contract Awards by Service Category and Federal Supply Classification, Fiscal Years 1969, 1970, 1971, and 1972*, Department of Defense ASD (Comptroller).

[2] Letter from the General Accounting Office to the Commission, Oct. 16, 1972.

[3] *Military Prime Contract Awards and Subcontract Payments or Commitments, July 71–June 72*, Office of the Secretary of Defense, p. 9.

TABLE 2
DOD MILITARY PROCUREMENT BY SERVICE CATEGORY AND FEDERAL SUPPLY CLASSIFICATION

(Thousands of dollars)

Section A—Research, development, test, and evaluation		5,844,104
Section B—Other services and construction		
J5 Maintenance and/or repair of equipment		
501–505—Aircraft and engines, missiles, vessels, and combat vehicles	546,324	
K5 Modification, alteration, and/or rebuilding of equipment		
531–535—Aircraft and engines, missiles, vessels, and combat vehicles	586,337	
L5 Technical related services		
541–545—Aircraft and engines, missiles, vessels, and combat vehicles	50,629	
M6 Operation and/or maintenance of Government-owned facilities		
601–602—Aircraft and missile system facilities	19,645	
P6 Salvage services		
622—Vessel salvage	3,021	
R642 A–E Services	203,516	
Y9 and Z9 Construction, maintenance, and alteration of real property	1,775,006	
Total noncommercial	3,184,478	
Commercially related services	5,112,273	
Total Section B		8,296,751
Section C—Supplies and equipment		
10, 12–17, and 19—Weapons, fire control equipment, ammunition, missiles, aircraft, aircraft components and accessories, aircraft launching, landing, and ground handling equipment, ships, small craft, pontoons, floating docks	11,070,549	
2305 and 2350—Ground effect vehicles, tanks, and self-propelled weapons	102,037	
6920 and 6930—Armament and operational training devices	74,627	
8415, 8455, 8470, and 8475—Special-purpose clothing, badges and insignia, personal armor, specialized flight clothing and accessories	83,122	
Total noncommercial	11,330,335	
Commercially related equipment	8,934,722	
Total Section C		20,265,057
Purchases under $10,000 not included in the above statistics		3,885,689
Total DOD procurement		38,291,601
Total DOD expenditures for transportation		
Freight by Government bills of lading (GBL)	948,886	
Passengers by Government transportation requests (GTR)	289,257	1,238,143
Total DOD procurement with GBLs and GTRs		39,529,744

APPENDIX B

Associated Equipment Distributors Position Report to Study Group 13A

The Associated Equipment Distributors organization, represented by thirteen of its member firms and staff personnel, was pleased to be invited by Study Group 13A of the Commission on Government Procurement to offer suggestions on how local distributors can be of service in supplying Federal Government requirements for construction equipment, parts, and service.

As a result of the comments offered at the meeting held at the Sheraton O'Hare Motor Hotel, Chicago, Illinois, on September 8, 1971, it was decided that AED as an association should prepare an industry position report to the Commission covering those areas where it is felt that greater economy, efficiency, and effectiveness could be realized by the Federal Government through the services offered by local AED equipment distributors, as contrasted to the present centralized purchasing system used by the Government. The Government does not make maximum use of these local suppliers at the present time.

However, before detailing some of the specific areas for improvement, it appears appropriate to first review some of the past procurement methods used by the Federal Government in obtaining construction equipment, parts, and service.

As early as 1940, an Army engineer unit used commercially available construction equipment very successfully. This was followed by the activation of many engineer units during World War II, and they too used commercially available equipment with only such minor modifications as: lifting eyes, OD paint, and RIS electrical components. In 1942 the Navy and the Marines also activated engineer units, and they too utilized commercially available construction equipment. So World War II was fought with commercial construction equipment, all without the kind of support which is available today through a worldwide distribution network.

During the Korean conflict, engineer units were again equipped with commercial construction equipment.

Between the Korean war and the start of the war in Vietnam, we saw the introduction of Mil. Spec. construction equipment and centralized parts supply for Army and Marine Corps requirements.

Product qualification, standardization, extensive testing, provisioning, FSNs, special manuals, etc., duplicating that done in the commercial market, all costing considerably more to the Government and to the taxpayer make for doubtful increases in performance and reliability.

In many instances, the Mil. Specs. and APL requirements did not incorporate the latest designs.

Today there are over 20,000 contractors who are dependent on five billion dollars worth of commercially produced equipment to perform their jobs efficiently and economically per year so that they can make a profit and retain the good will of their customers. This figure does not include field inventory. Many of these same contractors perform services for the Federal Government without the benefit of special equipment. Commercial equipment is currently being used in Vietnam by RMK-BRJ to lay

highways, and the performance on the equipment has been excellent.

With this short summary, the reasoning of the Government might well be questioned.

Why Mil. Spec. construction equipment?

It is often heard that the equipment must operate under a wide variety of terrain and environmental conditions.

In answer to that—perhaps it should be remembered that commercial equipment has been used under the most rigid conditions at the North and South Poles and most of the land masses in between.

With this background information in mind, AED wishes to offer the following comments which the Association members feel will aid the Federal Government in its cost cutting role without sacrifice to effectiveness:

(1) Utilize standard commercially available equipment whenever and wherever appropriate, especially when the functional performance is the same and yet there could be considerable savings in cost and maintenance to the Government.

Where would the savings come from?

(a) There would be no special development expense.
(b) The equipment is now in high production and available.
(c) No special tooling is required.
(d) Testing costs would be minimized. (Many suppliers cannot undergo the expensive testing required to meet Government specs.)
(e) There would be reduced administrative expense.
(f) Local distributor service teams can be utilized.
(g) Equipment inventories can be kept to a minimum.
(h) Buy equipment to suit the need rather than use what is available.

Other advantages are:

(a) Faster delivery (mobilization)
(b) Latest technology
(c) Less recordkeeping
(d) Training and service manuals available.

There are over 800 AED local distributors strategically located throughout the United States and others in many foreign countries.

(2) Utilize local distributor stocks. Parts and components stocks of suitable mix and quantity are available on a local basis where they are needed. The Government does not have to maintain parts warehouses, parts stock, trained people, maintain costly records, separate manuals and reports, special packaging facilities and pay for shipping to the using unit. There would be no loss through obsolescence.

Local equipment distributors maintain 85–90% of parts availability at all times in order to prevent costly downtime with contractor customers. This service is available to local Government installations.

(3) The Government should take advantage of equipment rental when permanent ownership is not really needed. The newest most modern equipment can be rented from local distributors for short duration (only for the time needed) at the lowest cost per equipment hour.

Other savings to the Government through rentals:

(a) Service and repair remains the responsibility of the local distributor.
(b) Equipment need not be moved long distances from one job site to another at great expense.
(c) Exact usage costs can easily be maintained—there is just one rental billing.
(d) The cost of disposing of owned or obsolete equipment is eliminated. Overhauling for resale and the time and money required to find buyers is an important factor.
(e) Funds are available for other use.
(f) More effective service can be expected on equipment either rented or sold to the Government in a local area because a distributor has a better knowledge of the terrain and the conditions where the equip-

ment will be used. Because of this he has a vested interest in the right equipment and its performance. Local distributors maintain the most modern service facilities with trained specialists on every type and make of equipment.

(g) The Government product manager would still control and authorize equipment purchases and rentals, but he would use local sources of supply instead of remotely located Government warehouses and depots.

(h) Downtime—poor use of personnel.

(4) The Federal Government often automatically eliminates itself from doing business with many desirable suppliers because of the voluminous paper work and the "red tape" involved in the completion of bids and contracts.

It is, therefore, suggested that forms used by the many services be standardized and that consideration be given to those provisions which are essential and can be clearly understood by the buyer and the seller.

If many standard commercially available products were specified, there would not be a need for reams of paperwork as is presently the case. If over 20,000 contractors are buying equipment on a daily basis from local suppliers without problems, why should the Federal Government who buys considerably less require such rigid regulations?

(5) When the Federal Government requires much stronger guarantees, warranties, and "hold harmless" clauses than that required by contractors for like equipment and like work, the Government has to pay a premium for these provisions.

In Summary:

The original concept of centralized procurement, which was installed by the Government a number of years ago, may have served a purpose at the time and was a step in the right direction.

At that time it provided for the accumulation of purchases which, in most cases, produced a savings to the Government and the taxpayer. Better controls were established and management practices were introduced which contributed to greater efficiency.

However, like most systems and procedures, they became too fixed and rigid in practice, and little provision has been made since for the many changes which have evolved.

Throughout the U.S., distributor organizations have emerged in great numbers in every city and state. They have responded to the pressing need for specialized service and parts to support expensive labor saving equipment.

The Government is continuing to perform some functions which can be done more economically by others who are specialists in their field.

The members of AED welcome the opportunity to work with the Federal Government in an effort to find a solution to its problem of reducing costs to the taxpayer. We hope our suggestions will be helpful.

APPENDIX C

Procurement Actions $2,500 and Under [a]

	Number of Actions			*Thousands of Dollars*		
	$2,500 & under	*Agency total*	*Percentage of agency total* [j]	*For actions $2,500 & under*	*Agency total*	*Percentage of agency total* [j]
Army	2,143,976 [b]	3,228,563 [i]	66.4	410,643 [i]	9,149,053 [i]	4.5
Navy	2,257,477 [c]	3,199,134 [i]	70.6	455,004 [i]	11,833,312 [i]	3.8
Air Force	1,299,816 [d]	2,707,744 [i]	48.0	328,579 [i]	9,994,828 [i]	3.3
DSA	503,354 [e]	674,238 [i]	74.6	219,716 [i]	3,539,634 [i]	6.2
DOD total	6,204,623 [f]	9,809,679 [i]	63.2	1,413,942 [i]	34,516,827 [i]	4.1
VA Marketing Center	1,509 [g]	5,207 [g]	29.0	3,331 [g]	105,245 [g]	3.2
GSA-FSS	312,200 [h]	354,700 [h]	88.0	184,094 [h]	730,425 [h]	25.2

[a] Latest available data to place all agencies on a fiscal 1971 basis. The data furnished by the Veterans Administration (VA) are for actions under $2,500 rather than for actions of $2,500 and under. DOD data consist of negotiated procurements only.

[b] *Department of the Army Procurement Statistics, Fiscal Year 1971*, Procurement Statistics Office, DCSLOG Data Processing Center, Washington, D.C., p. 28.

[c] Calculated by the Commission using data in *Military Prime Contract Awards and Subcontract Payments or Commitments, July 1970–June 1971*, OSD, p. 49.

[d] Letter from Directorate of Procurement Policy, Hq. USAF, to the Commission, June 27, 1972.

[e] *Procurement and Production Directorate Procurement Statistics, FY 1971*, Defense Supply Agency, pp. 69–70.

[f] Note C, *supra*.

[g] Letter from Director, Supply Service, Veterans Administration, to the Commission, June 26, 1972, and *VAMC Operational Management Data (Procurement)—FY 71*, VA Marketing Center, Hines, Illinois, n. d.

[h] Letters, with attachments, from Director, Federal Supply Service, General Services Administration, to the Commission, Sept. 17, 1971, and Feb. 2, 1972.

[i] Source of other data: Note c, *supra*, pp. 48, 54–56.

[j] Calculated by the Commission.

APPENDIX D

DSA Summary Fractionation Report as of December 31, 1971 *

STRATIFICATION OF ITEMS MANAGED BY VALUE OF ANNUAL DEMAND

Annual demand range	*No. of items*	*Demand value ($000)*	*No. of items in inventory*	*Inventory value ($000)*
Items with no demand	547,409	------	355,914	165,718
$0.01 to $400	688,512	56,182	633,740	327,327
$400 to $10,000	177,297	333,360	163,181	622,331
$10,000 to $100,000	16,599	454,863	15,155	455,503
$100,000 to $500,000	2,038	387,496	1,902	316,782
Over $500,000	339	441,198	321	319,664
Total	1,432,194	1,673,099	1,170,213	2,207,325

STRATIFICATION OF ITEMS MANAGED BY UNIT VALUE

Unit price range	*No. of items*	*Items (%)*	*Cumulative (%)*
$0.01 to $1	477,527	33.3	33.3
$1 to $10	545,288	38.1	71.4
$10 to $50	273,004	19.0	90.4
$50 to $500	125,262	8.7	99.1
Over $500	11,113	0.9	100.0
Total	1,432,194	100.0	

*Summarized by the Commission.

APPENDIX E

Federal Procurement of ADPE

TABLE E–1. GSA ADPE PROCUREMENTS OUTSIDE FEDERAL SUPPLY SCHEDULE CONTRACTS Fiscal 1971

Contracts awarded	*To*	*Volume*	*Lease or purchase*	*Reduction from FSS prices*	
Regional Replacement (FAA)	RCA	$1,391,860	Lease	$426,500	(23.5%)
CNO Communications Center (Navy)	RCA	22,318,237	Lease	2,493,763	(10.1%)
COMNAVAIR (Navy)	RCA	1,465,344	Lease	458,400	(23.9%)
Commissaries (Army)	Singer	1,475,133	Purchase	190,595	(12.9%)
NADC (Navy)	CDC	11,216,557	Install. pur.	2,893,733	(20.4%)
Motor Pool Gear (GSA)	Standard Register	356,928	Purchase	78,890	(18.2%)
Regional Replacement (IRS)	CDC	29,284,674	Purchase	10,809,476	(26.9%)
IBM 1401 (Post Office)	Am. Used. Comp. Corp.	67,000	Purchase	327,740	(83.0%)
OSIS (Navy/DIA)	CDC	2,050,406	Install. pur.	871,006	(28.2%)
Disk Packs (Gov't-wide)	CDC	4,200	Purchase	1,120	(21.0%)
	Nashua/Caelus	22,990	Lease	5,045	(18.0%)
USARPAC (Army)	RCA	8,738,471	Lease	6,609,957	(43.1%)
GIRS (GSA)	Information Sciences, Inc.	56,200	Purchase	-----	-----
Region 6 Expansion (GSA)	HIS	5,500	Maintenance	-----	-----
IBM 1401 (Post Office)	Comp. Sys. of America Inc.	72,000	Purchase	332,740	(81.8%)
RAMUS (GSA)	HIS	188,820	Lease	21,090	(10.0%)
MASSDATA (Army)	IBM	4,007,746	Lease	-----	-----
Stock Points (Navy)	Burroughs	30,646,823	Install. pur.	42,877,980	(58.4%)
Peripheral Project (Gov't-wide)	Texas Instruments	1,785,380	Lease	1,287,040	(41.9%)
	Ampex	1,771,169	Lease	1,244,461	(41.3%)
	Tracor	2,146,435	Lease	1,361,065	(38.8%)
	Storage Technology	126,716	Lease	46,174	(26.7%)
Aero Center (FAA)	IBM	4,132,501	Install. pur.	-----	-----
Total		$123,331,090		$72,336,775	(37.0%)
Rounded to		$123.3 million		$72.3 million	

Source: GSA-FSS, Aug. 3, 1971, and Study Group 18A, *Final Report*, Feb. 1972, vol. I, part VI, table I, p. 359.

TABLE E–2. AGENCY ADPE PROCUREMENTS UNDER DELEGATION FROM GSA OUTSIDE FEDERAL SUPPLY SCHEDULE CONTRACTS
Fiscal 1971

Contracts awarded	*To*	*Volume*	*Type of acquisition*	*Reduction from FSS prices*	
Naval Avionics Facility (Navy)	GE	$2,760,139	Lease	$563,760	(16.9%)
Peripheral Replacement (Navy)	Ampex, Telex, Potter, Calcomp, and Memorex	15,867,276	Lease	8,926,182	(36.0%)
Naval Academy (Navy)	GE	1,857,588	Purchase	99,428	(5.3%)
Bureau of Mines (Interior)	Burroughs	2,481,612	Purchase	574,633	(18.8%)
Peripheral Replacement (VA)	Calcomp	4,553,561	Purchase	2,636,952	(36.7%)
IRS Project (Treasury)	Honeywell	9,780,140	Lease	-----	-----
IRS Project (Treasury)	RCA	2,062,598	Lease	46,191	(0.02%)
IBM 360/65 Third Party (Labor)	Esso	1,618,500	Purchase	814,835	(33.5%)
Peripheral Replacement (DSA)	Potter	5,500,000	Lease	3,000,000	(35.3%)
DSU/GSU Program (Army)	NCR	4,375,536	Lease	-----	-----
STAG Project (Army)	UNIVAC	2,036,245	Purchase	1,271,730	(38.4%)
H–200 Components (Treasury)	Honeywell	1,800,000	Lease	1,200,000	(40.0%)
Interim Stock Points (Navy)	IBM	3,397,687	Purchase	1,264,552	(27.1%)
All others		2,365,779	Lease	121,609	(4.9%)
" "		3,267,177	Purchase	756,660	(18.8%)
" "		831,927	Maintenance	37,493	(4.3%)
Total		$64,555,765		$21,314,025	(24.8%)
Rounded to		$64.6 million		$21.3 million	

Source: GSA-FSS, Aug. 3, 1971, and Study Group 18A, *Final Report*, Feb. 1972, vol. I, part VI, table II, p. 361.

TABLE E–3. PROCUREMENTS UNDER FEDERAL SUPPLY SCHEDULE CONTRACTS
Fiscal 1971

ADPE	*Lease*	*Purchase*	*Maintenance**	*Total*
Burroughs Corp.	$4,236,201	$347,887	$480,971	$5,065,059
Control Data Corp.	30,615,148	19,269,445	8,973,653	58,858,246
General Electric Co.	10,369,854	5,212,530	2,383,476	17,965,860
Honeywell, Inc.	8,267,508	3,522,624	1,976,232	13,766,364
International Business Machines Corp.	189,094,490	101,117,598	12,216,419	302,428,507
National Cash Register Co.	5,060,631	407,604	278,512	5,746,747
RCA Co.	12,702,680	7,318,000	3,216,738	23,237,418
Univac Div., Sperry Rand Corp.	34,652,081	23,862,686	14,294,936	72,809,703
Xerox Data Systems	1,362,838	3,558,179	2,435,965	7,356,982
Other ADPE manufacturers	1,933,962	11,529,760	1,711,403	15,175,125
Total ADPE	$298,295,393	$176,146,313	$47,968,305	$522,410,011
Accounting machine equipment				
International Business Machines Corp.	$38,028,868	$12,017,642	$2,400,781	$52,447,291
National Cash Register Co.	6,600			6,600
Univac Div., Sperry Rand Corp.	9,362,584	3,134,368	6,227,654	18,724,606
Total AME	$47,398,052	$15,152,010	$8,628,435	$71,178,497
Accessorial (total)	1,039,415	11,154,922	884,891	13,079,228
Software (total)	597,277			597,277
Grand Total	$347,330,137	$202,453,245	$57,481,631	$607,265,013

*For purchased equipment.

Source: GSA-FSS, Aug. 3, 1971, and Study Group 18A, *Final Report*, Feb. 1972, vol. I, part VI, table III, p. 363.

TABLE E–4. PURCHASE VS. LEASE ANALYSIS

Recognition Equipment Incorporated Input 80 System
One-shift Utilization

Factors	*Installation*	*1st year*	*2nd year*	*3rd year*	*4th year*	*5th year*	*6th year*	*Total*
Purchase price	$555,000							
Residual value (25%)							($138,750)	
Maintenance		$29,670	$29,670	$29,670	$29,670	$29,670	29,670	
Present value	555,000	26,970	24,507	22,282	20,265	18,425	(61,521)*	$650,928
Annual lease (FSS 1-year rate)		$190,980	$190,980	$190,980	$190,980	$190,980	$190,980	
Present value		173,601	157,749	143,426	130,439	118,599	107,713	$831,527
Annual lease (6-year lease rate)		$148,164	$148,164	$148,164	$148,164	$148,164	$148,164	
Present value		134,681	122,383	111,271	101,196	92,010	83,564	$645,105
Present value discount factor from OMB Circular A–94	1.000	.909	.826	.751	.683	.621	.564	

*Represents present value of maintenance ($29,670) less residual value of the equipment ($138,750).
Source: Recognition Equipment Inc., cost proposals and Study Group 13A, *Final Report*, Feb. 1972, vol. I, part VI, exhibit III, p. 417.

TABLE E–5. PRESENT VALUE ANALYSIS OF ADPE COST/BENEFIT RATIOS EFFECT OF LENGTH OF SELECTION PROCESS ON PRESENT VALUE

(Millions of dollars)

	Years												
	1	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*10*	*11*	*Total*	*Difference*
Costs (5 year)	.2	.2	.2	.2	.2	11	11	11	11	11	11		
Present value	.18	.17	.15	.14	.12	6.20	5.64	5.14	4.66	4.25	3.85	30.51	
Benefits	0	0	0	0	0	20	20	20	20	20	20		
Present value						11.28	10.26	9.34	8.48	7.72	7.00	54.08	23.57
Costs (4 year)	.2	.2	.2	.2	11	11	11	11	11	11	11		
Present value	.18	.17	.15	.14	6.83	6.20	5.64	5.14	4.66	4.25		33.37	
Benefits	0	0	0	0	20	20	20	20	20	20			
Present value					12.42	11.28	10.26	9.34	8.48	7.72		59.50	26.13
Costs (3 year)	.2	.2	.2	11	11	11	11	11	11	11			
Present value	.18	.17	.15	7.51	6.83	6.20	5.64	5.14	4.66			36.49	
Benefits	0	0	0	20	20	20	20	20	20				
Present value				13.66	12.42	11.28	10.26	9.34	8.48			65.44	28.95
Costs (2 year)	.25	.25	11.2	11.2	11.2	11.2	11.2	11.2					
Present value	.23	.21	8.41	7.65	6.96	6.32	5.75	5.23				40.76	
Benefits	0	0	20	20	20	20	20	20					
Present value			15.02	13.66	12.42	11.28	10.26	9.34				71.98	31.22
Costs (1 year)	.4	11.4	11.4	11.4	11.4	11.4	11.4						
Present value	.36	9.42	8.56	7.79	7.08	6.43	5.85					45.49	
Benefits	0	20	20	20	20	20	20						
Present value		16.52	15.02	13.66	12.42	11.28	10.26					79.16	33.67
Present value discount factor	.909	.826	.751	.683	.621	.564	.513	.467	.424	.386	.350		

Costs include: $100,000 annually for price escalation.
$100,000 annually for selections staffs in years 5, 4, 3; $150,000 for year 2; and $300,000 for year 1.
$4,000,000 for annual systems costs.
$7,000,000 for annual operations.

Source: Study Group 13A, *Final Report*, Feb. 1972, vol. I, exhibit II, p. 415.

APPENDIX F

Support Cost Data

TABLE F–1. PROCUREMENT VOLUME FOR TOP PRODUCT GROUPS AND TOTAL FOR INTERAGENCY SUPPORT ACTIVITIES, FISCAL 1971

(Thousands of dollars)

FSS stores and nonstores [1]

FSG	*Product*	
23	Motor vehicles	175,237
5	Office supplies	100,493
1	Packaging	49,866
51	Hand tools	42,817
0	Paint	38,828
	Other	323,184
	Total	730,425

VA depot and direct delivery [2]

FSG	*Product*	
65	Drugs & medical	78,459
89	Subsistence	15,514
72	Burial flags	3,401
66	Laboratory equip.	1,707
35	Laundry equip.	1,695
	Other	2,012
	Total	102,788

DCSC [3]

FSG	*Product*	
24	Tractors	27,941
55	Lumber	27,042
39	Materials handling equipment	25,673
28	Engines, turbines	20,290
42	Safety equipment	17,165
	Other [4]	217,889
	Total	336,000

DESC [3]

FSG	*Product*	
59	Electronic	82,443
	Other [4]	75,257
	Total	157,700

DGSC [3]

FSG	*Product*	
61	Electric dist. equip.	23,890
68	Chemical prod.	21,634
67	Photographic	18,466
62	Light fixtures	15,926
81	Packaging	14,253
	Other [4]	115,831
	Total	210,000

DFSC [3]

FSG	*Product*	
91	Fuels and lubricants	1,278,534
55	Lumber, millwork	3,060
61	Elec. wire, etc.	1,581
	Other [4]	12,625
	Total	1,295,800

DISC [3]

FSG	*Product*	
95	Metal bars, sheets	10,986
53	Hardware and abrasives	8,199
31	Bearings	7,379
40	Rope, cable, chains	4,461

(continued next page)

DPSC [3]

FSG	*Product*	
65	Drugs & medical	155,707
66	Laboratory	3,991
72	Household furnishings	20,639
79	Cleaning supplies	8,851

(continued next page)

DISC [3] *(continued)*

FSG	Product	
61	Elec. wire, etc.	4,321
	Other [4]	79,854
	Total	115,200

DPSC [3] *(continued)*

FSG	Product	
81	Packaging	4,031
83	Textiles	41,405
84	Clothing	205,445
87	Agricultural supplies	2,737
89	Subsistence	709,706
94	Nonmetallic material	2,429
	Other [4]	247,812
	Total	1,402,753

[1] "Procurement by Commodity Group," FSS. Data do not include ADPE procurement.
[2] Data submitted to Study Group 13A by the Veterans Administration.
[3] Data submitted to Study Group 13A and "Key Management Data," June 1971, Procurement and Production, Directorate, DSA.
[4] The FSG product groups include only actions over $10,000 for DSA centers. The procurement volume in these groups in actions under $10,000 is included in "Other."

TABLE F–2. GENERAL SERVICES ADMINISTRATION—FEDERAL SUPPLY SERVICE [1] COST OF PROCUREMENT/DISTRIBUTION SUPPORT

(Thousands of dollars)

Cost category	*Stores*	*Non-stores*	*GSA self-service stores*	*Overseas support programs*
Appropriated FSS funds				
Central office operation	15,352	3,686	96	415
Regional office operations	49,147	4,543	2,764	138
Total appropriated fund cost [2]	64,499	8,229	2,860	553
Revolving fund costs				
Transportation	26,005	--	--	7,472
Special programs	--	--	--	16,915
Inventory adjustment	1,928	--	--	--
Total revolving fund cost	27,933	--	--	24,387
Annual unfunded investment cost				
Replacement value of real property	7,785	--	--	151
Value of personal property	312	191	20	--
Depreciation of real property	1,298	--	--	25
Inventory net of surcharge	21,030	--	471	--
Cash, accounts receivable, and others	9,540	4,699	--	--
Total unfunded investment cost	39,965	4,890	491	176
Grand total all costs	132,397	13,119	3,351	25,116
Procurement volume	436,672	293,753	24,063	N/A
Cost/$100 procured	30.32	4.47	13.93	--
Gross sales volume net of surcharge [3]	442,495	266,161	24,898	101,654
Cost/$100 sold	29.92	4.93	13.46	24.71

[1] Derived from data obtained from FSS and reprinted in Study Group 13A, *Final Report*, vol. II, exhibit VII–2–2, pp. 685–687. The footnotes to the detailed exhibit in the Study Group report explain the methodology used in constructing the estimate by support program.
[2] Not shown in this exhibit are the amounts of $12,481,000 allocated to the following programs by FSS:

a. ADMS-ADPE programs	$2,848,000
b. Specifications, standards, and cataloging activities	1,163,000
c. FPR and FPMRs	1,177,000
d. Business service center, socioeconomic staffs, and share of service division	1,654,000
e. Administrator operations fund	456,000
f. Federal schedule program excluding ADPE	5,183,000
Total	$12,481,000

[3] The term "sales" is used to denote the action of filling support requisitions.

TABLE F–3. VETERANS ADMINISTRATION—CENTRALIZED DEPOT OPERATIONS COST OF PROCUREMENT/DISTRIBUTION SUPPORT

(Thousands of dollars)

Cost category	*Regular stock*	*Direct vendor delivery*
Operating costs [1, 2, 3]	6,044	465
Annual unfunded investment costs expense element		
Return on invested capital		
Inventory investment net of surcharge	1,815	--
Cash and accounts receivable [4]	587	81
Personal property	70	3
Real property [5]	983	--
Depreciation		
Real property [6]	148	--
Personal property	47	2
Total unfunded investment costs	3,650	86
Grand total all costs	9,694	551
Procurement volume	69,743	33,045
Cost/$100 procured	13.90	1.67
Gross sales volume net of surcharge [7]	59,469	N/A
Cost/$100 sold	16.30	--

[1] Does not include $127,000 to operate the Federal Schedule Program assignment by FSS.

[2] These costs are primarily funded by the VA Supply Fund.

[3] Includes 41 members of the Washington, D.C., headquarters staff.

[4] Average cash and accounts receivable investment was estimated as $13,363,000. Fifty percent was estimated to relate to central operations (prorated 88 percent to the Regular Stock Program and 12 percent to Direct Vendor Delivery Program).

[5] Real property was estimated at acquisition cost to reflect market value. Investment was $9,833,000. The capital value of the Bell, Calif., GSA-owned facility, which understates this cost category, is not included.

[6] Real property depreciation was estimated at a rate of 1-1/2 percent applied to $9,833,000. Depreciation of Bell, Calif., facility is not included.

[7] The term "sales" is used to denote the action of filling support requisitions.

TABLE F-4. DEFENSE SUPPLY AGENCY COST OF PROCUREMENT/DISTRIBUTION SUPPORT, FISCAL 1971

(Thousands of dollars)

Cost category	*Inventory control points*				
	DCSC stock program	*DCSC direct delivery*	*DCSC wood products*	*DESC stock program*	*DISC stock program*
Program costs					
Center expense	29,145	5,482	982	28,178	29,357
DSA headquarters allocation	3,534	669	116	3,563	4,254
DCAS allocation	3,339	1,992	652	3,153	3,452
DLSC allocation	569	--	--	1,190	847
Total program costs	36,587	8,143	1,750	36,084	37,910
Storage cost	46,197	--	--	25,288	32,341
Transportation	10,559	--	--	1,995	7,717
Annual unfunded investment costs	44,286	183	--	44,982	34,341
Adjustments	--	--	--	285	30
Total costs before consideration of obsolescence	137,629	8,326	1,750	108,634	112,339
Inventory losses and adjustments					
Economic loss through obsolescence (1)	91,548	--	--	61,640	40,670
Cost of surcharge (2)	55,429	--	--	29,100	11,646
Surcharge income (3)	11,199	--	--	20,736	8,212
No adjustment (4)	0	--	--	0	0
Total all costs (considering inventory alternative losses and adjustments)					
With obsolescence (1)	229,177	8,326	1,750	170,274	153,009
Without obsolescence (4)	137,629	8,326	1,750	108,634	112,339
Procurement					
Procurement volume	187,544	111,936	36,520	157,700	115,200
Cost/$100 procured					
With obsolescence (1)	122.20	7.44	4.79	107.97	132.82
Without obsolescence (4)	73.39	7.44	4.79	68.89	97.52
*Sales**					
Gross sales volume net of surcharge	248,079	N/A	N/A	204,433	170,260
Cost/$100 sold					
With obsolescence (1)	92.38	--	--	83.29	89.87
Without obsolescence (4)	55.48	--	--	53.14	65.98

*The term "sales" is used to denote the action of filling support requisitions.

TABLE F–5. DEFENSE SUPPLY AGENCY COST OF PROCUREMENT/DISTRIBUTION SUPPORT, FISCAL 1971

(Thousands of dollars)

Cost category	Inventory control points: DGSC stock program	DGSC direct delivery	DGSC education supplies	Defense Fuel Supply Center (DFSC)
Program costs				
Center expense	18,652	2,554	309	2,728
DSA headquarters allocation	2,247	310	35	395
DCAS allocation	3,488	1,122	268	759
DLSC allocation	267	---	---	---
Total program costs	24,654	3,986	612	3,882
Storage cost	50,140	---	---	---
Transportation	13,411	---	---	---
Annual unfunded investment costs	29,701	77	10	---
Adjustment	50	---	---	---
Total costs before consideration of obsolescence	117,956	4,063	622	3,882
Inventory losses and adjustments				
Economic loss through obsolescence (1)	48,376	---	---	---
Cost of surcharge (2)	21,612	---	---	---
Surcharge income (3)	6,448	---	---	---
No adjustment (4)	0	---	---	---
Total all costs (considering inventory alternative losses and adjustments)				
With obsolescence (1)	166,332	4,063	622	3,882
Without obsolescence (4)	117,956	4,063	622	3,882
Procurement				
Procurement volume	150,100	48,200	11,700	1,295,800
Cost/$100 procured				
With obsolescence (1)	110.81	8.43	5.32	.30
Without obsolescence (4)	78.58	8.43	5.32	.30
*Sales**				
Gross sales volume net of surcharge	239,034	N/A	N/A	N/A
Cost/$100 sold				
With obsolescence (1)	69.59	---	---	---
Without obsolescence (4)	49.35	---	---	---

*The term "sales" is used to denote the action of filling support requisitions.

TABLE F-6. DEFENSE SUPPLY AGENCY COST OF PROCUREMENT/DISTRIBUTION SUPPORT, FISCAL 1971

(Thousands of dollars)

Cost category	*Defense Personnel Support Center (DPSC)*				
	Clothing and textile	*Medical*	*Perishable*	*Nonperishable stock program*	*Nonperishable direct delivery*
Program costs					
Center expense	14,620	10,845	13,702	4,136	2,839
DSA headquarters allocation	1,889	1,402	2,285	533	373
DCAS allocation	1,058	3,175	...	460	92
DLSC allocation	3	14	...	34	7
Total program costs	17,570	15,436	15,987	5,163	3,311
Storage cost	70,278	28,285	7,977	20,566	761
Transportation	7,328	4,459	7,677	13,137	951
Annual unfunded investment costs	88,842	33,456	12,008	12,239	2,478
Adjustments	2	2	16	1	1
Total costs before consideration of obsolescence	184,020	81,638	43,665	51,106	7,502
Inventory losses and adjustments					
Economic loss through obsolescence (1)	46,516	7,680	3,512	1,557	310
Cost of surcharge (2)	(590)	(5,730)	(1,649)	1,028	205
Surcharge income (3)	15,566	5,823	1,607	747	162
No adjustment (4)	0	0	0	0	0
Total all costs (considering inventory alternative losses and adjustments)					
With obsolescence (1)	230,536	89,318	47,177	52,663	7,812
Without obsolescence (4)	184,020	81,638	43,665	51,106	7,502
Procurement					
Procurement volume	272,900	183,500	581,899	214,484	149,970
Cost/$100 procured					
With obsolescence (1)	84.48	48.67	8.11	24.55	5.21
Without obsolescence (4)	67.43	44.49	7.50	23.83	5.00
*Sales**					
Gross sales volume net of surcharge	443,251	188,054	582,342	218,023	152,135
Cost/$100 sold					
With obsolescence (1)	52.01	47.50	8.10	24.15	5.13
Without obsolescence (4)	41.52	43.41	7.50	23.44	4.93

*The term "sales" is used to denote the action of filling support requisitions.

TABLE F–7. ESTIMATED COSTS EXPENDED TO PROVIDE $100 WORTH OF COMMERCIAL VEHICLE EQUIPMENT MAINTENANCE AND REPAIR PARTS TO THE USER MECHANIC

Location	Parts source	Parts volume used	Average costs per $100 used borne directly by the using activity's functional unit: Maintenance unit	Supply unit	Procurement unit	Total
1. Military base Virginia	Central supply	$25,000	$78	$26	$--	$104
	Local procurement:					
	Local sources	45,000	78	--	33	111
	Central sources	---	--	--	--	--
	Total/Average	$70,000	$78	$10	$20	$108
2. Military base Illinois	Central supply	$---	$--	$--	$--	$--
	Local procurement:					
	Local sources	45,451	52	--	2	54
	Central sources	---	--	--	--	--
	Total/Average	$45,451	$52	$--	$2	$54
3. Military base California	Central supply	$60,022	$31	$13	$--	$44
	Local procurement:					
	Local sources	64,000	31	10	21	62
	Central sources	---	--	--	--	--
	Total/Average	$124,022	$31	$11	$11	$53
4. Military base California	Central supply	$3,222	$53	$4	$--	$57
	Local procurement:					
	Local sources	82,128	53	2	7	62
	Central sources	7,186	53	2	9	64
	Total/Average	$92,546	$53	$2	$7	$62
5. Military base Illinois	Central supply	$42,608	$17	$35	$--	$52
	Local procurement:					
	Local sources	116,963	17	4	2	23
	Central sources	15,000	17	8	5	30
	Total/Average	$174,571	$17	$12	$2	$31
6. Military base California	Central supply	$59,200	$22	$11	$--	$33
	Local procurement:					
	Local sources	78,507	22	--	11	33
	Central sources	---	--	--	--	--
	Total/Average	$137,707	$22	$5	$6	$33

7. Military base California	Central supply	$47,950	$13	$25	$--	$38
	Local procurement:					
	Local sources*	89,631	13	--	8	21
	Central sources	---	--	--	--	--
	Total/Average	$137,581	$13	$9	$5	$27
8. Military base Virginia	Central supply	$62,235	$11	$61	$--	$72
	Local procurement:					
	Local sources *	119,872	11	--	5	16
	Central sources	6,196	11	61	--	72
	Total/Average	$188,303	$11	$22	$3	$36

*These activities utilize Contractor Operated Parts Stores (COPARS).
Source: Estimated by Study Group 13A based on data collected in field visits to obtain using activities' cost of support.

TABLE F–8. ESTIMATED COSTS EXPENDED TO PROVIDE $100 WORTH OF COMMERCIAL FACILITY MAINTENANCE REPAIR AND SUPPLY ITEMS TO THE USER REPAIRMAN

Location	Parts source	Product volume used (Thousands of dollars)	Average costs per $100 used borne directly by the user organization's functional units: Maintenance unit	Supply unit	Procurement unit	Total
1. Military base California	Central supply	$530,336	$23	$28	$--	$51
	Local procurement	282,000	23	5	8	36
	Total/Average	$812,336	$23	$20	$2	$45
2. Military base California	Central supply	$62,162	$32	$57	$--	$89
	Local procurement	126,592	32	10	--	42
	Total/Average	$188,754	$32	$25	$--	$57
3. Military base Illinois	Central supply	$852,951	$23	$54	$--	$77
	Local procurement	668,092	23	10	12	45
	Total/Average	$1,521,043	$23	$35	$5	$63
4. Military base California	Central supply	$191,377	$10	$32	$--	$42
	Local procurement	644,115	10	9	5	24
	Total/Average	$835,492	$10	$14	$4	$28
5. Military base California	Central supply	$------	$--	$--	$--	$--
	Local procurement*	143,504	6	--	4	10
	Total/Average	$143,504	$6	$--	$4	$10

*This activity utilizes a Contractor Operated Civil Engineer Supply Store (COCESS).

Source: Estimated by Study Group 13A based on data collected in field visits to obtain using activities' cost of support.

TABLE F–9. ESTIMATED COST OF USING ACTIVITY SUPPORT TO COMMISSARY OPERATIONS

Cost category	*Mess hall—Food service operations*						*Resale operations*	
	1. California military	*2. California military*	*3. Illinois military*	*4. Illinois military*	*5. Virginia military*	*6. Virginia civilian*	*1. California military*	*2. California military*
Administrative	$9,271	$2,825	$45,983	$32,294	$7,840	$2,918	$39,836	$33,168
Warehouse employees	71,120	6,330	61,953	27,992	35,100	16,128	81,926	89,162
Breakdown & delivery	70,000	----	329,242	10,000	11,448	-----	----	-----
Warehouse occupancy	25,160	2,160	7,216	10,000	5,440	9,000	6,500	20,222
Equipment	17,480	884	----	-----	2,250	-----	24,192	1,242
Food inspection	-----	----	9,872	-----	-----	-----	-----	-----
Total	$193,031	$12,199	$454,266	$80,286	$62,078	$28,046	$152,454	$143,794
Volume used	$2,330,000	$53,886	$1,777,270	$259,000	$513,259	$180,100	$5,059,000	$8,203,000
Cost/$100 used	$8.28	$22.64	$25.55	$31.27	$12.09	$15.57	$3.01	$1.75
W/O administration	----	----	----	-----	-----	-----	2.03	1.33

Source: Estimated by Study Group 13A based on data collected in field visits to obtain using activities' cost of support.

APPENDIX G

List of Recommendations

1. Improve the system for collection and dissemination of statistics on procurement by commodity and agency to meet congressional, executive branch, and industry needs.

2. Provide a positive means for users to communicate satisfaction with their support system as a method of evaluating its effectiveness and ensuring user confidence.

3. Require that development of new Federal specifications for commercial-type products be limited to those that can be specifically justified, including the use of total cost-benefit criteria. All commercial product-type specifications should be reevaluated every five years. Purchase descriptions should be used when Federal specifications are not available.

4. Assign responsibility for policy regarding the development and coordination of Federal specifications to the Office of Federal Procurement Policy.

5. Encourage agencies to use headquarters procurement staff personnel in the conduct of on-the-job training of field procurement personnel to (a) implement techniques adapted to specific field activity needs and (b) identify possibilities for procurement innovation and transfusion.

6. Provide statutory authority and assign to the Office of Federal Procurement Policy responsibility for policies to achieve greater economy in the procurement, storage, and distribution of commercial products used by Federal agencies. Until statutory authority is provided and until such responsibility is assigned to the Office of Federal Procurement Policy, the following actions should be taken:

(a) Establish reasonable standards to permit local using installations to buy directly from commercial sources if lower total economic costs to the Government can be achieved. However, decentralization of items for local purchase should not be permitted to affect adversely centralized procurement and distribution management required for purposes such as mobilization planning, military readiness, and product quality assurance.

(b) Develop and implement on an orderly basis industrial funding of activities engaged in interagency supply support of commercial products and services, to the fullest practical extent, so that (1) determination and recoupment of the true costs for providing such products and services will be facilitated, and (2) efficiency in the use of resources will be fostered.

(c) Evaluate continuously the efficiency, economy, and appropriateness of the procurement and distribution systems on a total economic cost basis at all levels, without prejudice to mobilization reserve and other national requirements.

7. Require that consideration be given to the direct procurement of products made in the United States from sources avaliable to overseas activities when such sources are cost-effective.

8. Authorize primary grantees use of Federal sources of supply and services when:

(a) The purpose is to support a specific grant program for which Federal financing exceeds 60 percent,

(b) The use is optional on the grantee, the Government source, and, in the case of Federal schedules or other indefinite delivery contracts, on the supplying contractor, and

(c) The Government is reimbursed all costs.

9. Require that grantor agencies establish regulatory procedures for assuring appropriate use of the products or services and computation of total costs for Government reimbursement.

10. Assign responsibility for monitoring implementation of this program and its socio-economic effects to the Office of Federal Procurement Policy.

[One Commissioner abstained from voting on recommendations 8, 9, and 10.]

Dissenting Position

Dissenting Recommendation 1. Prohibit the use of Federal supply sources by grantees, except where unusual circumstances dictate and under express statutory authorization.

Dissenting Recommendation 2. Charge grantees on the basis of total economic cost to the Government for Federal supplies and services made available to them.

[Offered in lieu of Commission recommendations 8, 9, and 10.]

11. Reevaluate GSA and agency ADPE acquisition procedures, from identification of requirements to delivery of an operational system, for consideration of all appropriate elements on the basis of total economic cost.

12. Require that GSA establish ADPE procurement delegation policy that would promote (a) effective preplanning of requirements by agencies and (b) optimum use of manpower.

13. Revise funding policies regarding multi-year leasing contracts, in addition to use of the ADPE Fund, to permit Government agencies to procure ADPE on a cost-effective basis.

14. Develop and issue a set of standard programs to be used as benchmarks for evaluating vendor ADPE proposals.

15. Change the late proposal clause regarding ADPE to conform to other Government procurement practices.

16. Assign responsibility for consistent and equitable implementation of legislative policy concerning food acquisition to the Office of Federal Procurement Policy or to an agency designated by the President.

17. Establish by legislation a central coordinator to identify and assign individual agency responsibilities for management of the Federal food quality assurance program.

18. Encourage procuring activities, when it is deemed in the best interests of the Government, to purchase supplies or services from public utilities by accepting the commercial forms and provisions that are used in the utilities' sales to industry and the general public, provided the service contract provisions are not in violation of public law.

19. Review transportation procurement techniques to determine whether more innovative procurement methods are warranted when alternative sources and modes are available.

APPENDIX H

Acronyms

ADP	Automatic data processing
ADPE	Automatic data processing equipment
A–E	Architect-engineer
AED	Associated Equipment Distributors
AFB	Air Force Base
ANSI	American National Standards Institute
APL	Authorized Price List
ASD	Assistant Secretary of Defense
ASPR	Armed Services Procurement Regulation
BEMA	Business Equipment Manufacturers Association
BPA	Bonneville Power Administration
BUSH	Buy U.S. Here
CDC	Combat Development Command
CFR	Code of Federal Regulations
CNO	Chief of Naval Operations
COCESS	Contractor Operated Civil Engineer Supply Store
COMNAVAIR	Commander Naval Air Systems Command
CONUS	Continental United States
COPARS	Contractor Operated Parts Store
DAAS	Defense Automatic Addressing System
DCAS	Defense Contract Administration Services
DCSC	Defense Construction Supply Center
DCSLOG	Deputy Chief of Staff for Logistics
DESC	Defense Electronics Supply Center
DFSC	Defense Fuel Supply Center
DGSC	Defense General Supply Center
DIDS	Defense Integrated Data System
DISC	Defense Industrial Supply Center
DLSC	Defense Logistics Support Center
DOD	Department of Defense
DPSC	Defense Personnel Support Center
DSA	Defense Supply Agency
EPA	Environmental Protection Agency
FAA	Federal Aviation Administration
FDA	Food and Drug Administration
FDPC	Federal Data Processing Centers
FEDSTRIP	Federal Standard Requisitioning and Issue Procedures
FIPS PUB	Federal Information Processing Standards Publications
FMC	Federal Maritime Commission