



Opportunities For Improvement In The Preaward Survey Program

B-166159

Department of Defense

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UNITED STATES
GENERAL ACCOUNTING OFFICE

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

DEFENSE DIVISION

B-166159

Dear Mr. Secretary:

This is our report on opportunities for improvement in the preaward survey program of the Department of Defense. The significant contents of the report are summarized in the digest which is bound in the report.

Our review was made pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

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

Sincerely yours,

A handwritten signature in cursive script that reads "E. M. Bailey".

Director, Defense Division

The Honorable
The Secretary of Defense

D I G E S T

WHY THE REVIEW WAS MADE

The General Accounting Office (GAO) has reviewed the Department of Defense program for performing preaward surveys of prospective contractors. The purpose of a preaward survey is to evaluate contractors' capabilities to perform under the terms of a proposed contract.

The objective of our review was to determine whether the preaward survey program was being carried out in an effective manner considering the need for and volume of survey requests made, the value of prospective contracts, and the importance of the factors evaluated in preaward surveys.

FINDINGS AND CONCLUSIONS

GAO found the following indications of a need for improvement in the implementation of the preaward survey program.

- Of the preaward surveys conducted during calendar year 1969 by the 10 Defense Contract Administration Services offices GAO visited, 37 percent were performed repetitively of relatively few contractors. For example, one contractor was surveyed 110 times during that period. Another contractor was surveyed 83 times during the period June through December 1969. (See pp. 5 and 6.)
- Of the preaward surveys, 37 percent were for proposed contracts of less than \$10,000 each. One survey was performed for a proposed contract of \$93.50 for a standard catalog item. To conduct the survey, a representative of the contract administration office was required to visit the contractor's plant located about 40 miles away. (See pp. 8 and 9.)
- Some preaward surveys were performed even though the prospective contractors were sole-source suppliers and the awards could be made only to these suppliers. One contractor was surveyed 14 times and all surveys resulted in recommendations for no award, but contracts were awarded because no other source was available. (See p. 10.)
- Inadequate consideration was given to financial information obtained in some preaward surveys. One contractor was recommended for award despite its lack of financial capability. In addition, current

financial information on which to base an evaluation of its resources was not available at the time the survey was performed. The contractor failed to deliver on its contract and sold all of its assets. The contract was terminated for default. (See pp. 12 and 13.)

RECOMMENDATIONS OR SUGGESTIONS

GAO is recommending that the Secretary of Defense:

- Establish procedures to screen requests for surveys in order to determine which requests pertaining to the same contractor can be combined and to maintain a record of prior surveys and reports for use by contracting officers to help reduce the number of new survey requests. (See p. 7.)
- Establish procedures requiring that procurement officials consider the need for preaward surveys from the cost standpoint before requesting such surveys. (See p. 9.)
- Issue revised instructions limiting the use of preaward surveys of sole-source contractors to situations where necessary procurement or contract information is otherwise not available. (See p. 11.)
- Revise guidelines for evaluating a prospective contractor's financial capability to perform the contract so that a more realistic appraisal can be made. (See p. 14.)

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CHAPTER 1

INTRODUCTION

The General Accounting Office has reviewed the Department of Defense program for performing preaward surveys of prospective contractors.

The objective of our review was to determine whether the preaward survey program was being carried out in an effective manner considering the need for and volume of survey requests made, the value of prospective contracts, and the importance of the factors evaluated in preaward surveys.

The Armed Services Procurement Regulation defines a preaward survey as "an evaluation by a contract administration office of a prospective contractor's capability to perform under the terms of a proposed contract."

Most contractor plants are now under the administrative cognizance of the Defense Contract Administration Services of the Defense Supply Agency, although the military services continue to administer the contracts of some of their larger suppliers.

The regulation provides that a preaward survey be required when information available is not sufficient to enable the procurement contracting officer to determine the ability of a prospective contractor to perform according to the terms of the proposed contract.

A preaward survey usually originates with a request by the procuring office. Its scope is usually determined by the procurement contracting officer. In the absence of specific instructions, however, the contract administration office performing the survey establishes its extent. Generally surveys include determinations as to whether the prospective contractor (1) has, or can obtain, adequate financial resources, (2) is able to meet delivery dates, taking into consideration all existing business commitments, (3) has a satisfactory record of performance and integrity, (4) has adequate facilities and technical capability, (5) has an adequate quality assurance program, and (6) is qualified and

eligible under applicable laws and regulations to receive an award.

The procedures for conducting a preaward survey, as outlined in the regulation, provide that a survey monitor be designated to administer the surveys from receipt of the request to the issuance of the final report. One of the monitor's duties is to determine whether to make an onsite survey at the contractor's plant or a desk survey at the cognizant survey office.

The survey monitor arranges for a team of appropriate specialists from the various organizational segments of the contract administration office to participate in the survey. The size of the survey team depends on the complexity and scope of the survey. Each individual team member reports his findings to the survey monitor. Upon completion of the survey, the monitor forwards his report, which includes a recommendation regarding the award of the contract, to a Preaward Survey Review Board for review and approval prior to transmittal of the report to the purchasing office. The procurement contracting officer evaluates the report and the recommendation, along with any other information at his disposal, to determine whether to award the contract to the prospective contractor.

The Navy, the Air Force, and the Defense Supply Agency maintain contractor experience lists which inform the various purchasing offices of any contractors whose prior performances have been unsatisfactory and which indicate that some doubt exists as to their ability to perform satisfactorily on subsequent contracts. Contractors recommended for placement on an experience list are notified, in writing, of the specific reasons for such action. Inclusion on this list does not preclude a contractor from bidding or quoting on a proposed procurement or from receiving an award.

The Army Materiel Command has a similar list, called the delinquent contractors list, that cites those contractors holding supply contracts in excess of \$100,000 under which scheduled deliveries have been delinquent for 90 days or more. It is mandatory that an onsite preaward survey be made of the contractors included on this list before they can be awarded additional contracts.

The scope of our review appears on page 15.

CHAPTER 2

REPETITIVE PREAWARD SURVEYS

We found that a substantial number of preaward surveys had been performed repetitively of relatively few contractors and that many surveys of the same contractor had been made within a relatively short period of time.

During calendar year 1969, 2,319 preaward surveys, or about 37 percent of those conducted by the 10 Defense Contract Administration Services Offices included in our review, were confined to 104 contractors--less than 5 percent of the total number of contractors surveyed during the year. Statistics on contractors surveyed 10 or more times (by either onsite or desk surveys) are shown in appendix I.

EXAMPLES OF REPETITIVE PREAWARD SURVEYS

One Defense Contract Administration Services Office performed 110 onsite preaward surveys of one contractor during calendar year 1969. The contractor was placed on the Air Force contractor experience list on December 2, 1968. From January through April 1969, a period in which there were 84 working days, 50 preaward surveys were performed and in all surveys but one it was recommended that the contracts be awarded. In May 1969, the contract administration office issued 15 negative recommendations based on unsatisfactory performance by the contractor. The contractor's performance had improved, and no negative recommendations based on unsatisfactory performance were issued after May 1969. Surveys were requested and were performed on this contractor until October 1969, 1 month after its name was removed from the contractor experience list.

During calendar year 1969, another contractor was surveyed 69 times and a negative recommendation was issued each time. All but one of these surveys were conducted at the contractor's plant. This contractor was placed on the Air Force contractor experience list in June 1969, because of poor performance. The cognizant contract administration office continued to perform preaward surveys and to recommend no award on the basis of unsatisfactory performance throughout 1969.

Another contractor was surveyed 83 times from June through December 1969, a period in which there were 148 working days. Of the 83 surveys, 76 were requested by one procuring activity, more than half were onsite surveys, and 53 related to proposals of \$2,500 or less. All the surveys resulted in unqualified recommendations of award.

In reviewing the survey records, we noted that on several occasions, this contractor was listed as having been surveyed two or three times by the same industrial specialist on the same date and sometimes the same factors were investigated. We also found that on several occasions one industrial specialist had surveyed this contractor and that a second specialist had reviewed the same factors 1 or 2 days later. In our opinion, this type of repetitive review is unnecessary or, at least, of questionable value in evaluating a contractor's capability.

Although we did not ascertain the procurement contracting officer's reasons for requesting numerous preaward surveys of this contractor, we did note that the requests increased substantially after a contract was terminated for default.

In June 1969, the preaward survey monitor advised the procuring activity as follows:

"Company at present is meeting delivery schedules in an above average manner. This office recently completed nine affirmative on site surveys ***. Further, recommend that except in isolated cases, preaward surveys not be conducted as a matter of routine."

Officials of the contract administration office informed us that the questionable need for numerous surveys of this contractor within a relatively short period of time was discussed with the procuring activity on a number of occasions. We found, however, that, during the 6 months after it had been recommended that surveys of this contractor not be performed, the procuring activity submitted 68 additional requests, of which 37 resulted in onsite surveys.

CONCLUSION

Preaward surveys are useful in determining whether prospective contractors can be relied upon to perform according to the terms of the proposed contract, since they provide the contracting officer with current information that otherwise might not be available to him. Many surveys, however, are being requested and performed which result in an unnecessary expenditure of time and effort.

In our opinion, the requests being generated by the procuring activities are not being adequately screened by the contract administration offices to reduce the number of preaward survey requests to those actually needed. We believe that the requests should be reviewed further to determine the need for an onsite survey on the basis of information already in the files.

RECOMMENDATION

We recommend that the Secretary of Defense, to reduce the number of repetitive requests for preaward surveys of the same contractor, establish procedures requiring that a single office within each procuring activity be designated to (1) screen requests for surveys in order to determine their need, (2) combine, where possible, those requests pertaining to the same contractor, and (3) maintain a record of information obtained in prior surveys and reports for use by contracting officers to help reduce the number of new survey requests. Contracting officers should be encouraged to use discretion in requesting preaward surveys.

CHAPTER 3

PREAWARD SURVEYS ON

LOW-DOLLAR-VALUE CONTRACTS

A substantial number of preaward surveys were conducted on contractors bidding for low-dollar-value contracts. Of the preaward surveys performed during calendar year 1969 by these offices, 2,357, or about 37 percent, were for proposed contracts under \$10,000. (See app. II.)

The Armed Services Procurement Regulation states that no purchase be made from, and no contract be awarded to, any person or firm unless the contracting officer first makes, signs, and places in the contract file an affirmative determination that the bidder is a responsible contractor. A written determination of responsibility, however, need not be made for purchases estimated to be \$10,000 or less, unless the prospective contractor has not been a responsible contractor in the past.

EXAMPLES OF PREAWARD SURVEYS ON LOW-DOLLAR-VALUE AWARDS

During the 30-day period ended February 12, 1969, four onsite surveys of the capabilities of one contractor were performed on contemplated awards of \$1,744, \$722, \$685, and \$360, respectively. The recommendation in all four surveys was for award. The surveys involved verifying that the prospective contractor could supply from stock the items of the type and quantity desired by the buyer or could readily obtain the items from a vendor.

At another contractor location, three surveys were performed on procurements of less than \$500 each. One survey was an onsite survey for a \$249 procurement, which involved verifying that the supplier had the items on hand, another was an onsite survey for a \$92 procurement, and the third was a desk survey for an \$84 procurement. Many of the other surveys for this contractor also involved verification of items stocked.

Preaward surveys were requested for these two contractors because it was considered questionable whether the contractors could supply the items specified in the bid packages and because the contractors were on listings reflecting poor performance.

A preaward survey was performed on another contractor for a proposed contract of \$93.50. To conduct the survey, a representative of the contract administration office was required to visit the contractor's plant located about 40 miles away. The survey included a narrative report on the following factors: (1) production capability, (2) plant facilities and equipment, (3) purchasing and subcontracting, (4) labor resources, (5) performance record, and (6) ability to meet required schedule. The item to be procured was a standard catalog item having a unit price of \$8.50. This contractor was on the procuring activity's list of contractors requiring special consideration because of delinquent deliveries in the past.

CONCLUSION

In our opinion, preaward surveys for low-dollar-value contracts should be made on a selective basis since, on some occasions, the cost of the survey may exceed the value of the items procured.

RECOMMENDATION

We recommend that the Secretary of Defense, to reduce the number of preaward survey requests especially on prospective contracts estimated to amount to \$10,000 or less, establish procedures requiring that procurement officials evaluate the need for preaward surveys from the cost standpoint prior to the survey request.

We also suggest that, when a contracting officer requires specific information on a low-dollar-value contract, the contracting officer obtain this information direct from the contractor, if practicable. Obtaining information by this means could preclude the expense of a preaward survey.

CHAPTER 4

PREAWARD SURVEYS ON SOLE-SOURCE SUPPLIERS

Some preaward surveys were performed of contractors appearing on contractor experience lists, although the contractors were sole-source suppliers.

For instance 14 preaward surveys were performed on one sole-source contractor during the period from October 1968 through January 1969. The contract administration office making each preaward survey recommended that the contractor not be awarded the contract. The buying activity subsequently recommended that the contracts be awarded to the contractor because it was the sole source.

We were informed by procurement personnel that a survey of a sole-source contractor is requested:

1. To emphasize the critical nature of the contractor's standing with the Government.
2. To obtain more comprehensive historical data on the contractor.
3. To determine if the contractor had sufficiently improved to warrant removal from the contractor experience list.
4. To determine the actual delivery schedule the contractor can meet.
5. To determine the actual extent of the contractor's ability to perform.

CONCLUSION

The above considerations may be valid reasons for performing preaward surveys when several contractors are competing for a contract. When there is no competition, however, contracting officers may have no choice but to award the contract to a sole-source contractor. Sometimes the performance of a preaward survey on a sole-source supplier is of questionable value.

RECOMMENDATION

We recommend that the Secretary of Defense revise the instructions pertaining to preaward surveys, to limit surveys of sole-source contractors to situations where vital procurement or contract information is otherwise not available.

CHAPTER 5

WEAKNESSES IN PERFORMING REVIEW OF CONTRACTOR FINANCIAL CAPABILITY

The Financial Services Division of the Defense Contract Administration Services regional office has responsibility for reviewing the financial capability of prospective contractors and for making appropriate recommendations as part of the preaward survey process. Its financial analysts attempt to determine whether a prospective contractor has the financial resources to satisfactorily perform under the contract. In evaluating a contractor's internal resources, the analysts generally rely on financial data submitted by the contractor, such as its cash position, working capital, and net worth in making their determinations. These data, however, are not always certified by independent public accountants nor always verified by the analysts.

EXAMPLES OF QUESTIONABLE FINANCIAL EVALUATIONS

Our review of selected cases in which contractors experienced financial problems raised questions as to the adequacy of consideration given to financial information uncovered in preaward surveys. Following are examples of what we considered to be questionable evaluations of a prospective contractor's financial capability. The examples cited pertain to contracts which were terminated for default and for which a survey was performed prior to the award.

The report of a survey for a proposed contract of \$440,000 recommended that a contract be awarded to a contractor having a working capital deficit of \$17,189 and a net worth deficit of \$2,142. It was determined during the preaward survey that the contractor's financial condition was deemed adequate for this contract because he had performed successfully in the past despite a similar weak financial condition. In addition, a bank which had previously provided financial support indicated in a letter to the preaward survey technician that the bank would advance funds for this contract if the Small Business Administration also participated. Although the contractor's performance was

dependent upon the bank's financing which was, in turn, dependent upon Small Business Administration participation, the survey technician did not determine whether the Small Business Administration would loan funds to the contractor. The contractor was unable to perform the contract because financial aid could not be obtained from the bank, the Small Business Administration, or other sources. The contract subsequently was terminated for default.

Another contractor was recommended for award although its financial capability was based solely on its willingness to obtain additional capital, if required. The contractor subsequently experienced serious financial difficulties, failed to make any deliveries under the contract, and eventually closed its plant. The contract was terminated for default.

A third contractor was recommended for award even though its financial strength was questionable. During the financial analysis, it was determined that (1) the contractor's latest financial information consisted only of a balance sheet over 10 months old, (2) a Dun and Bradstreet inquiry revealed that the credit allowed the contractor by each of three suppliers was limited to \$500, (3) the contractor had \$186 in cash and a net deficit working capital of \$10,526, as of the latest balance sheet date, and (4) although the contractor had been requested to furnish more current financial data, he had been unable to do so. The contractor's backlog of Government and commercial work was \$21,000. The proposed contract was for \$5,688. The contractor failed to deliver on this contract and sold all of its assets. Therefore the contracting officer recommended that the contract be terminated for default.

CONCLUSION

We believe that the above examples indicate a need to give greater consideration to survey disclosures bearing on a contractor's financial ability to perform on a Government contract.

RECOMMENDATION

We recommend that the Secretary of Defense revise the procedural guidelines for evaluating a prospective contractor's financial capability to require that more importance be placed on a contractor's existing financial condition rather than on conditional promises of credit that are expected to provide working capital essential to contract performance.

CHAPTER 6

SCOPE OF REVIEW

Our review was performed at Headquarters, Defense Contract Administration Services; its Atlanta, Dallas, Los Angeles, Philadelphia, St. Louis, and San Francisco Regions; and at selected procurement activities.

We interviewed contract administration office personnel and contracting officers, developed statistical data, and reviewed surveys performed on selected contracts.

APPENDIXES

CONTRACTORS SURVEYED 10 OR MORE TIMES
DURING CALENDAR YEAR 1969 BY THE
DEFENSE CONTRACT ADMINISTRATION SERVICES

<u>Defense Contract Administration Services Offices</u>	<u>A</u> Total number of con- tractors surveyed	<u>B</u> Number of con- tractors surveyed 10 or more times	<u>C</u> Surveys performed on con- tractors in column B	<u>D</u> Total number of surveys performed
Atlanta Region	246	9	243	666
Orlando District	190	9	156	490
Dallas Region	282	25	533	1,073
Wichita Office	54	7	341	454
St. Louis Office	140	5	61	306
Los Angeles District	362	18	367	998
Van Nuys District	232	11	188	606
Philadelphia Region	325	10	232	828
Pittsburgh District	102	3	37	190
San Francisco Region	<u>393</u>	<u>7</u>	<u>161</u>	<u>730</u>
Total	<u>2,326</u>	<u>104</u>	<u>2,319</u>	<u>6,341</u>
Percent of column B to A		4.47		
Percent of column C to D			36.57	

APPENDIX II

PREAWARD SURVEYS
 PERFORMED BY THE DEFENSE CONTRACT
 ADMINISTRATION SERVICES DURING
 CALENDAR YEAR 1969

Defense Contract Administration Services Offices	Dollar-value categories of contract bids				Total
	Unknown	\$0 to 4,999	\$5,000 to 9,999	\$10,000 and over	
Atlanta Region	21	78	32	535	666
Orlando District	18	76	42	354	490
Dallas Region	59	342	153	519	1,073
Wichita Office	0	299	44	111	454
St. Louis Office	17	89	17	183	306
Los Angeles District	18	338	111	531	998
Van Nuys District	0	155	88	363	606
Philadelphia Region	21	178	97	532	828
Pittsburgh District	8	10	12	160	190
San Francisco Region	<u>23</u>	<u>117</u>	<u>79</u>	<u>511</u>	<u>730</u>
Total	<u>185</u>	<u>1,682</u>	<u>675</u>	<u>3,799</u>	<u>6,341</u>
Percent	2.9	26.5	10.7	59.9	100.0