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Policies For Procurement Of Fresh Fruits And Vegetables By The Defense Supply Agency

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Department of Defense

*BY THE COMPTROLLER GENERAL
OF THE UNITED STATES*

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JUNE 25, 1973



COMPTROLLER GENERAL OF THE UNITED STATES

WASHINGTON, D.C. 20548

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The Honorable Mario Biaggi
House of Representatives

Dear Mr. Biaggi:

As requested, we have reviewed the Defense Supply Agency's policy of procuring large quantities of fresh fruits and vegetables from growers rather than terminal market vendors.

The Agency's policies are administered by its Defense Personnel Support Center, Philadelphia, a centralized organization established to purchase food for military activities. The Center operates through four regional headquarters which are responsible for supplying food to military customers in their areas. These headquarters are located in New York; Oakland, California; New Orleans; and Chicago.

An official of the New York Produce Trade Association has stated that local small businesses are precluded from participating in the Center's carlot procurements of produce by the regulation requiring field inspection of produce before buying. He also stated that regulations require commissary store officers to justify purchases from other than the Center. In his opinion, this requirement makes commissary store officers reluctant to purchase locally because of the time and effort involved in justifying the buy.

In discussions with your office, we agreed to review the above matters and the Center's procedures for pricing produce sold to commissary stores. The results of our review are summarized below and are discussed in greater detail on the following pages.

--The Center buys carlot quantities of fresh fruits and vegetables in the field. This practice, which is a practical method for buying produce, provides the Center with the opportunity to visually inspect the produce before buying it. Center officials feel that field buying assures them of the best balance in price and quality to the Government. Buying produce that meets Department of Agriculture grading standards but is not available for inspection before purchase does not provide the same assurances to the Center because of the

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great latitude in quality, condition, and size of produce within each grading standard, including U.S. No. 1.

- Although terminal market vendors can supply carlot quantities of produce and meet Agriculture standards, the produce is generally not available at the terminal market for inspection before purchase. However, if the Defense Supply Agency developed tighter specifications for use by Agriculture inspectors, the need to inspect all produce items in the field before buying might be reduced. The requirement to meet these specifications at destination would be applicable to growers and terminal market vendors.
- Some commissary store officers are unhappy with the Center's service and would like to purchase locally. However, the requirement of the Defense Supply Agency for documentation on their rationale and criteria for each local purchase makes them reluctant to purchase locally. Since commissary store officers operate independently with their own funds and are responsible for the efficiency and performance of their stores, we believe they should be permitted to exercise their own judgment as to the best source for produce without having to document their rationale on each buy.
- The Center sells listed produce items at standard prices established, for inventory accounting and billing purposes, 5 weeks in advance. Occasionally, items are listed at standard prices which are below the current market costs. Commissary stores purchasing these items during this period are obtaining produce at less than actual cost to the Government. We believe the Center should charge actual costs when selling fresh fruits and vegetables to commissary stores.

FIELD BUYING

Under this procedure, carlot quantities of produce are bought after inspection in the growing areas. In the past 3 years, the New York Headquarters has made more than half its buys in the field. The remaining buys, generally less than carlot purchases, have been made from terminal market vendors after the produce has been visually inspected at the vendor's place of business. The following table shows New York Headquarters' purchases of produce from 1970 through March 1972.

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Calendar year	Field buys	Market buys		Total
		Amount	Percent	
	(000 omitted)			(000 omitted)
1970	\$10,140	\$5,431	34.9	\$15,571
1971	9,958	7,313	42.3	17,271
1972 (Jan.--Mar.)	2,498	1,948	43.8	4,446

Purpose

Department of Agriculture standards set forth the maximum permissible defects that produce may have and still meet minimum standards for grade. Center officials are concerned, however, that the lowest price offered by a vendor may be for produce that barely meets these minimum standards and therefore does not constitute good value. This may occur even though the produce offered may grade within the tolerances of U.S. No. 1.

As an example, before January 1972, the New York Headquarters procured potatoes and onions under open competitive bid and received items at the bottom of the grade, barely meeting the minimum Agriculture requirements. Under open competition, if the produce meets the minimum Agriculture standards, the produce offered at the lowest price is accepted. When the New York Headquarters switched to field buying these items after inspection at source, quality improved within the same grade and potato shipment rejections dropped from 35 in a 6-month period to 8 in a subsequent 6-month period. Onion shipment rejections dropped from 11 to 5 in consecutive 6-month periods.

The requirement to inspect produce before contract award is based on the assumption that visual inspection of fresh fruits and vegetables insures the best balance in price and quality to the Government. The latitude in the standards established by Agriculture can cause variations in the actual value of the produce being offered. For example, lettuce is very perishable and starts deteriorating at harvest. Field buying offers the protection of knowing when the lettuce was harvested.

The need for field buying was also emphasized by the larger chain stores. Although their buyers are not present at each field for each buy, they can generally rely on the brokers' knowledge of general field conditions and crop quality. Agriculture officials agree that it is desirable for the

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buyer to have knowledge of the general condition of the growing areas and crops. They also agree that it is useful for the buyer to know the growers and packers and their reputations for providing quality products. They indicate, however, that their field personnel can inspect to any specifications established by the buyer. If the Center wants the top of a grade and can develop such specifications, the Department's field personnel will inspect to these specifications.

Terminal market vendors' objections to field buying

All suppliers of carlot quantities of fresh fruits and vegetables are required to identify the location of the packing and loading facilities of the produce. Vendors not providing this information are advised that their offers cannot be considered.

Terminal market vendors feel they have been discriminated against in carlot procurements of fresh fruits and vegetables. In their business they handle large volumes of fresh fruits and vegetables without establishing specific growing area affiliations; consequently, it is difficult to identify the growing area. In their opinion, the Center places an unnecessary burden on them by requiring this information. They claim that final inspection and acceptance to Federal specifications should be made at destination without any consideration of the growing area.

An official of the Association felt that the only factor to be considered was whether or not produce met the grading standards of Agriculture. He indicated that his particular firm could supply produce to meet any specifications without difficulty and at a lower cost than the New York Headquarters was paying for the same product. He also alleged that, in many instances, field buying was conducted by telephone without visual inspection.

Visual inspections

According to Center officials, field buyers make every effort to examine all produce purchased in the field. Field buyers are the Center's primary source of intelligence and continually travel their areas observing growing conditions, packaging procedures, etc. In the few cases where buyers purchased by telephone, they were not totally unaware of the produce situation in the area. We were told that in the case of such delicate items as lettuce, there is no exception to the rule of field inspection.

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We analyzed lettuce purchases of the New York Headquarters from July 10 through August 21, 1972. Two of its field purchasing agents awarded 42 contracts for several thousand cartons of lettuce during this period, and the procurement records showed that each was field inspected.

Conclusion

With the wide variance in the quality, condition, size, and defect toleration of produce within each Agriculture grade standard, including U.S. No. 1, the opportunity to examine produce before purchase benefits the Government. Center officials feel that purchasing carlot quantities of produce in the field, where the buyer has the opportunity to visually inspect the produce before buying it, assures them of the best balance in price and quality to the Government. Buying produce which meets Agriculture standards but is not available for inspection before purchase does not provide the same assurances to the Center.

Although terminal market vendors can supply carlot quantities of produce and meet Agriculture standards, the produce is generally not available at the terminal market for inspection before purchase.

We believe, however, that the Defense Supply Agency could reduce its need to inspect all produce items in the field if tighter specifications were written for the more perishable produce items. Terminal market vendors could then compete with growers or vendors with growing-area affiliations by offering products certified by Agriculture inspectors to the tighter specifications.

Recommendation

We recommend that the Director, Defense Supply Agency, consider developing tighter specifications which can be used to describe the required produce to all interested suppliers. In addition to the size, condition, and quality that is required, these descriptions should include the types of defects that are acceptable and the percentage of the total shipment that must meet the overall requirements.

COMMISSARY PURCHASES OF FRESH FRUITS AND VEGETABLES

Defense Supply Agency policy requires commissary store officers to document their rationale and criteria for each purchase of fresh fruits and vegetables made from sources other than the Center.

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Some commissary store officers have advised us that this policy makes them reluctant to procure produce locally when favorable prices and quality are available. They are not satisfied with the services of the New York Headquarters and would prefer to purchase from local vendors. Among the reasons for their dissatisfaction were the long leadtime required for orders, policy of giving credits rather than replacing rejected produce, daily rather than weekly price changes, lack of notification of unavailability of items, and, in some cases, poor quality of merchandise.

Officials at the New York Headquarters assert that they are constantly improving service to commissary stores, and it is in the best interest of commissary store managers to have the Center's professional buyers procure their fresh fruits and vegetables.

Center sells to commissary stores
at less than market prices

Department of Defense directives 7420.1 and 1330.17 require that commissary resale stores within the United States shall be operated on a self-sustaining basis.

The Center publishes a catalog of "listed" and "non-listed" items. Most listed items are intended for troop issue and are described in broad categories, such as "apples, eating." These items are billed at standard prices which have been established 5 weeks before the month the price becomes effective. Occasionally, standard prices are less than the current market costs. The standard price includes a 2.5 percent surcharge to cover transportation costs and inventory losses.

Nonlisted items are intended primarily for commissary stores and are described in more detail as "apples, golden delicious, size 88, 6 in a tray pack." Nonlisted items are priced by the Center at actual cost plus a 6 percent surcharge to cover transportation and handling.

Commissary stores can obtain produce at less than cost by purchasing listed items when the standard prices are below the market prices. We noted, for example, that two west coast commissary stores were able to save \$25,000 in a 6-month period by using this procedure.

During fiscal year 1971, actual costs for all perishable items purchased by the Center's four subsistence regional

headquarters exceeded the standard price by \$5.5 million. This loss increased to \$7.6 million in fiscal year 1972. The Center did not analyze the portion of the \$7.6 million attributable to fresh fruits and vegetables. However, from a limited test of 17 fresh fruit and vegetable items purchased in 1972, we attributed (1) a \$2.5 million loss to such items and (2) a very substantial portion of the Center's 1972 losses to its pricing of these items.

Since the Center does not maintain records separating troop issues and sales to commissary stores, we are unable to determine losses caused by pricing practices on commissary store sales. However, a Department of Defense study showed that in fiscal year 1971 commissary requirements accounted for 71 percent of the subsistence procurements made by the military services. Therefore, it is reasonable to assume that losses have resulted from sales to commissary stores.

Conclusions

If commissary store managers are to operate on a self-sustaining basis and are to be held responsible for the efficiency and performance of their stores, it seems they should be permitted to purchase produce from the source offering the best service, all factors considered. Although the Center offers quality and price in most cases, products from the terminal market may be equally acceptable to store patrons. In our opinion, commissary store managers are in the best position to evaluate the quality and salability of produce offered by the terminal market.

We believe the Defense Supply Agency should revise its policy to permit commissary store officers, operating independently with their own funds, to exercise their own judgments on the best sources for produce without having to document their rationale for each local purchase. This should not preclude the military departments from issuing guidance with appropriate controls to insure that this responsibility is properly exercised. In addition, we believe the Center, to comply with the intent of the DOD policy that commissary retail stores be operated on a self-sustaining basis, should charge actual costs when selling produce to the commissary stores. Our office is reviewing the Center's pricing procedures to determine whether they conflict with the provisions of the statutes dealing with commissary stores and stock fund operations. If the pricing procedures are not consistent with the intent of applicable laws, we plan to advise DOD to take appropriate action.

The Defense Supply Agency has recently begun reevaluating its relationship with the commissary stores, including its service to them. Under consideration will be whether some commissary stores might be better served by their local terminal markets. The Center has recently submitted to the Agency the tentative results of a study of its operating procedures. Included was the suggestion to limit the use of standard prices to troop issues, while items sold to military resale stores would be charged at actual costs.

Recommendation

We recommend that the Director, Defense Supply Agency (1) develop measures which will permit commissary officers to purchase fresh fruits and vegetables from whichever source is the most advantageous and (2) revise its pricing practices and charge actual costs when selling produce to commissary stores.

OTHER AREAS

The representatives of the Association made other statements regarding the association's efforts to sell produce to the Government.

Proposal to load overseas-bound produce into containers at New York Terminal Market

A terminal vendor indicated that the Center summarily rejected a proposal that could save \$1 million annually by consolidating and loading fresh fruits and vegetables directly into containers at terminal markets rather than at dockside. We learned that the loading of containers by a commercial consolidator at a point within a 50-mile radius of any New York port is prohibited by the Government's general cargo agreement with the International Longshoreman's Association. As a result, the proposal was rejected.

Pilot program to supply overseas commissaries

A terminal vendor entered into a test program supplying fresh fruits and vegetables directly to several 3d Air Force commissary stores in the United Kingdom. He stated that the Air Force dropped the program even though it was successful.

BEST DOCUMENT AVAILABLE

An evaluation of the program by the Air Force concluded (1) that it was not successful because of erratic arrival of shipments, rapid spoilage due to long chill time, and local prices as good or better than the vendors' and (2) that highly perishable fresh fruits and vegetables will not survive overseas surface transportation. These commissary stores are now purchasing highly perishable items locally.

Closing, merging, or moving
26 small business firms

The New York Produce Trade Association stated that 26 small businesses at the New York Terminal Market were forced to close, move, or merge, partially because the Government bypassed the terminal markets.

Center officials advised us that 12 of the 26 firms had never participated in the Center's procurement of fresh fruits and vegetables.

The Small Business Administration office, the New York City Economic Development Administration, and other Federal and local agencies we visited did not have sufficient information on these firms to enable us to determine the reasons for their terminating business.

Extent of unemployment
in Hunts Point, New York

The Center is turning business away from the New York Terminal Market located in an area with an unemployment rate two or three times higher than the national rate, according to the Association. We confirmed that in 1970 unemployment in Hunts Point was about 25 percent above the national average. We could not determine to what extent the loss of the Center's business contributed to the unemployment rate in Hunts Point.

We trust this information is responsive to your request. In accordance with your request, we did not obtain comments