



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

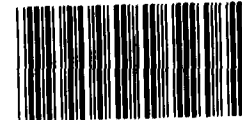
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PROCUREMENT, LOGISTICS,  
AND READINESS DIVISION

B-209137

OCTOBER 21, 1982

The Honorable Arlen Specter  
United States Senate



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The Honorable Charles F. Dougherty  
House of Representatives

Subject: Problems Encountered in Defense Procurements  
of Clothing Items (GAO/PLRD-83-2)

This is in response to your February 9, 1982, letter stating that the Government, specifically the Department of Defense (DOD), is encountering problems in procuring clothing items. DOD's clothing and textile items are procured by the Defense Personnel Support Center (DPSC), Philadelphia, Pennsylvania.

In particular, you were concerned with the large number of sole-source contracts being awarded and the high delinquency rates in the delivery of items associated with these contracts. Because of these problems, you believed there was a need to establish a Defense procurement assistance center, a nonprofit organization, to attract new supply sources and to provide special procurement support to DOD, thereby improving competition and reducing Government costs.

After your request to us, the Office of the Secretary of Defense (OSD) reviewed the areas of competition, delinquencies, and outreach in clothing and apparel procurements and your proposal for establishing a Defense procurement assistance center. In a report dated July 8, 1982, the OSD study team concluded that no significant problems in competition and delinquencies existed but that certain improvements--particularly in the outreach area--were needed. It also concluded that the improvements could readily be handled in-house by DOD and recommended not funding a Defense procurement assistance center.

OBJECTIVES, SCOPE, AND METHODOLOGY

We reviewed and discussed the OSD study with both OSD and Defense Logistics Agency officials, interviewed DPSC small business specialists and procurement officials, and reviewed DPSC contract files. In addition, we visited several small businesses DPSC identified as problem contractors to identify

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factors that limit competition. Our objectives were to determine (1) the extent and adequacy of competition, (2) whether delinquencies on sole-source contracts were a problem, and (3) the adequacy of DPSC's small business outreach efforts.

On August 11, 1982, we met with Congressman Dougherty's Office and discussed our findings. Agreement was reached that additional work to obtain more precise data on competition, delinquencies, and outreach was not warranted. Our findings are summarized below.

### COMPETITION

You advised that there were many sole-source contracts for clothing and textile items while a large number of firms with unused production capacity and high unemployment existed in the Philadelphia area. According to the Defense Acquisition Regulation, competition exists when two or more competitive offers are received. The OSD report stated that during fiscal year 1981, more than 98 percent of all clothing and textile contracts were awarded competitively and that the actual clothing items lacking adequate competition were less than 1 percent of all clothing items procured by DPSC. The OSD report was based on statistics obtained from DPSC records.

Although DPSC's statistics on competition were overstated, competition for clothing and textile items was substantial. Our analysis of DPSC records disclosed that the percentage of competitive awards made during fiscal year 1981 was about 90 percent, or several points below the 98 percent reported in the OSD study. This occurred because DPSC procedures result in all advertised one-bid awards being reported as competitive, while the criteria for competition state that two or more offers are required.

In response to your interest in competition for clothing and textile contracts, DPSC had prepared a listing of 436 recent procurement actions that had resulted in limited competition, including 63 one-bid awards. We reviewed the procurement histories for 33 of these and found that competitive bids were normally received for about half the items. Various reasons were identified concerning why only one bid had been received. For example, a regular supplier of military insignia items was being reorganized under bankruptcy procedures and failed to submit bids for many of these solicitations. The firm is now back in business and is competing again in this area.

Competition for many of these 33 items also was limited because of their nature. Many items are procured infrequently and often in small quantities. Furthermore, many lack a commercial market and require both specialized equipment and labor

skills. The OSD report provided several examples of such items. In our opinion, these factors provide little incentive for new firms seeking Government business, especially when there is no guarantee of follow-on contracts.

#### DELINQUENCIES

Your letter stated that the reported delinquency rate on many sole-source contracts was high, perhaps as much as 30 percent. OSD stated that the high rate was a result of the method used by DPSC to determine late deliveries. Furthermore, the OSD report contended that late deliveries and delinquencies were not a major problem. The study also pointed out that DPSC was experiencing a 90-percent requisition fill rate, which met the Defense Logistics Agency goals. The requisition fill rate is the extent to which DPSC can fill customers' requests for clothing and textile items from available stocks.

Our review of clothing and textile procurements of \$10,000 and over (about 99 percent of the total clothing and textile procurement dollars) has confirmed that DPSC does experience a high rate of delinquencies on these contracts. We found that 612 (about 44 percent) of the contracts awarded during 1981 had experienced delinquencies. In response to your concerns about poor performance of sole-source contractors, we also reviewed the 74 one-bid awards issued during the first 9 months of fiscal year 1981. Eleven contracts, or 15 percent, were reported as delinquent on February 1, 1982.

DPSC and the Defense Logistics Agency are working on a program to improve the control and reporting of contract delinquencies.

We found no indication that reported delinquency problems were attributable to DPSC awarding sole-source contracts and concluded that additional work in this area was not warranted.

#### SMALL BUSINESS OUTREACH EFFORTS

You advised that the Government's outreach efforts were not adequate to develop high levels of competition for many clothing and textile items. You proposed that a Defense procurement assistance center be established to improve the Government's outreach efforts, increase competition, obtain better prices, and reduce Government costs. The OSD report concluded that DPSC's outreach program was sound and could be improved but recommended not funding such a center. The report outlined seven actions needed to make these improvements, including development of a comprehensive profile of the clothing and apparel industry on a nationwide basis, improvement of bidders'

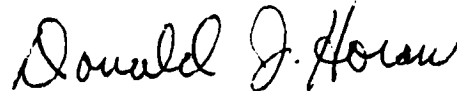
understanding of contractual requirements, and program emphasis to identify requirements with limited or no competition.

We found DPSC's outreach program had limited resources, which restricts its activities and should be improved. Essentially, only one DPSC person performs the outreach functions for clothing and textile items. We compared the outreach functions proposed for the Defense procurement assistance center to those in DPSC's existing program and found that all the proposed functions were included in the present program.

Both the Defense procurement assistance center proposal and the OSD report agreed that the Government could benefit from improved outreach efforts. OSD prefers to improve the existing DOD organization, while the Defense procurement assistance center approach would involve establishing a nongovernmental entity. Since neither the proposal for the center nor the actions outlined by OSD are in operation and cost-benefit data are not available on either approach, we cannot say which is the preferred approach.

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At your request, we did not obtain agency comments. Unless you publicly announce its contents earlier, we plan no further distribution of this report until 5 days from the date of the report. At that time, we will send copies to interested parties and make copies available to others upon request.



Donald J. Horan  
Director