



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

2026  
029803  
124973

AUG 20 1984

NATIONAL SECURITY AND  
INTERNATIONAL AFFAIRS DIVISION

B-215130



124973

General Richard H. Thompson  
Commander, U.S. Army Materiel Command  
5001 Eisenhower Avenue  
Alexandria, Virginia 22333

Dear General Thompson:

Subject: Added Emphasis on Consolidation of Multiple  
Purchase Requests Could Result in Significant  
Savings (GAO/NSIAD-84-143)

We reviewed the potential for consolidating multiple procurements at the Army Troop Support and Aviation Materiel Readiness Command (TSARCOM) (recently reorganized as the Army Aviation Systems Command (AVSCOM) and the Army Troop Support Command (TROSCOM)) and at the Army Tank Automotive Command (TACOM). This review was undertaken because of our interest in the efficiency of the military's use of increased funding for force modernization and because of recent emphasis on spare parts procurement.

Our specific objectives, scope, methodology, and findings are presented in the enclosure. In summary, the activities reviewed were not consolidating procurements to the maximum extent feasible. Multiple procurement actions were processed concurrently for identical items, and frequently these actions were placed on separate contracts at different prices. About 23 percent of the 194 procurement actions sampled could have been combined with other purchases of the same items to obtain lower unit prices. Consolidating these actions would have saved an estimated \$1.6 million, or 13 percent of the dollars awarded on our sampled contracts. Further, about 13 percent of the contracts could have been eliminated, thereby reducing procurement work load.

In our opinion, maximum consolidation was not achieved because of the overemphasis by buyers on minimizing the time required to process each purchase request and a lack of aggressive action to match follow-on requests with similar requests for items not yet procured. We also believe a local procurement directive at TACOM had the effect of discouraging consolidation in instances where purchase requests were dated 30 days or more apart.

(942233)

029803

We believe greater consolidation will not significantly delay contract awards if buyers coordinate their efforts when there are multiple purchase requests for identical items. Further, when purchase requests are received at a distribution point and indicate the existence of an earlier purchase request for items not yet procured, the second purchase request should be expedited to the buyer rather than allowing it to be processed through routine handling procedures. Because administrative lead time and timely award of contracts is important, this aspect should be considered, along with potential savings, in deciding whether or not to consolidate requirements when delays may result. Priority procurements should not be consolidated if a delay would impair mission readiness.

While the reorganization of the procurement office and the planned training of buyers at TSARCOM should facilitate coordination between buyers of like items, the need for coordination and the importance of consolidation for price and work load reduction should be emphasized.

#### CONCLUSIONS AND RECOMMENDATIONS

TSARCOM and TACOM have not maximized the consolidation of multiple purchase requests for like items. More consolidation is feasible and can result in significant savings through lower unit prices. In addition, consolidations may reduce the number of contracts to award and administer. Such reductions would provide buyers and contract administrators time to more efficiently and effectively manage their work load.

Accordingly, we recommend that you direct the Commanders at AVSCOM, TROSCOM, and TACOM to:

- Require documentation and supervisor review of each decision to not consolidate multiple purchase requests. This procedure should require consideration of the potential savings available through consolidation.
- Expedite the handling of purchase requests received in the procurement directorate while another request for like items is being placed on contract. This would allow buyers more time to combine the purchase requests.

In addition, we recommend that you direct the Commander, TACOM, to reevaluate the propriety of the local directive restricting consolidation of purchase requests dated 30 days or more apart.

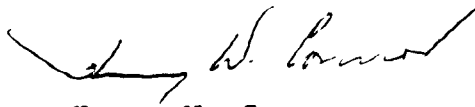
We also recommend that you review the procurement practices at other subordinate buying commands and, if needed, implement procedures similar to those mentioned above.

Officials at AVSCOM, TROSCOM, and TACOM generally agreed with our findings and planned to implement our recommendations. Officials from the Army Materiel Command (AMC) also commented that the consolidation issue would be included in future Acquisition Management Reviews conducted at the other subordinate commands.

We would appreciate knowing what you intend to do about the issues discussed in this report. We wish to acknowledge the excellent cooperation by all Army personnel contacted during the review.

We are sending copies of this report to the Secretaries of Defense and the Army and the Commanders of AVSCOM, TROSCOM, and TACOM.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "Henry W. Connor".

Henry W. Connor  
Senior Associate Director

Enclosure

ADDED EMPHASIS ON CONSOLIDATINGMULTIPLE PURCHASE REQUESTSCOULD RESULT IN SIGNIFICANT SAVINGSINTRODUCTION

TSARCOM and TACOM, two major subordinate AMC commands, are responsible for the logistics support of aviation, troop support, and tactical vehicle equipment for the Army. They were allotted about \$1.8 billion and \$5.7 billion, respectively, for procuring equipment and spare parts for fiscal year 1983. On March 1, 1984, TSARCOM was reorganized into AVSCOM and TROSCOM. The new commands also changed their internal organizations.

The Army's materiel needs are met through materiel managers, who translate those needs into purchase requests that are forwarded to buyers in a procurement directorate. Purchase requests are generated when a need arises or when stockage reaches a specified reorder level. Purchase requests may be generated several times within short periods, depending on the needs. Frequently, purchase requests are generated while other purchase requests for the same items are being placed on contract. When this occurs, Army policy is to try to combine purchase requests in a single procurement. However, our survey showed that buyers were not coordinating their actions and this policy was not being followed in all cases.

Coordination was difficult at TSARCOM before reorganization when the procurement directorate was structured according to the type of procurement instrument used; that is, there was a branch for items bought under basic ordering agreements, one for negotiated procurements, one for simplified procurements, and so forth. In this type of organization, identical parts could be bought by each branch concurrently. This situation has been partially eliminated through reorganization into weapons systems offices that normally make all the purchases of a particular part for that system, thus facilitating coordination between buyers. However, procurement sections within the weapons systems offices remain organized by type of procurement instruments because buyers are not familiar with all the various types of procurement instruments. TSARCOM officials have stated that buyers will be trained to handle all forms of contracts, thus eliminating the need for specialty procurement sections.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our objectives were to:

- determine the potential for consolidating multiple purchase requests without significantly delaying the award of contracts,

- determine the direct monetary savings that might result from consolidation, and
- determine whether contract actions could be eliminated through consolidation to reduce work load.

We interviewed procurement and supply management personnel about their functions in processing procurement actions, and we reviewed Army reports, documents, and procedures on procurement operations. We examined procurement and supply management records to identify contracts awarded during the 2 years ended September 1982. For these records, we analyzed automated contract histories to identify potential candidates for consolidation, that is, contracts for like items that had been awarded within 6 months of one another. At TSARCOM,<sup>1</sup> we identified a universe of 12,320 contract line items valued at about \$898 million bought on 8,839 contracts. Contracts frequently contain more than one line item. A random sample of 209 line items was drawn from that universe. We completed work on 129 items before our findings were presented to the Army and it agreed to take corrective action. At TACOM, we identified a universe of 13,674 line items valued at about \$832 million. We tested 65 randomly sampled items. As at TSARCOM, we did not complete the sample drawn, so our work cannot be used to project sample results to the universe.

In analyzing contracts and line items for possible consolidation, we applied the following criteria:

- Only contracts for identical items were considered.
- Purchase requests for items not yet procured had to be in the directorate simultaneously. Generally, the follow-on purchase request had to be received at least 30 days before award of contract for the earlier purchase request.
- Purchase requests that were assigned an urgent priority were not considered for consolidation.
- Contracts with different suppliers were generally not considered, especially if one of the suppliers was a small business firm which would lose the award or which might not be able to produce the combined quantity.

---

<sup>1</sup>Although TSARCOM was reorganized as AVSCOM and TROSCOM during our review, our findings were generally not affected.

--Consolidation of purchase requests involving foreign military sales were not considered.

--Only sample contracts with single line items were considered for elimination through consolidation.

Estimated savings are the difference between prices for the same item. Savings were estimated only when the selected transaction could have been consolidated with a purchase with a lower unit price and were based on the assumption that the entire quantity could have been bought at the lower price.

Our review was made in accordance with generally accepted government auditing standards.

#### POTENTIAL FOR GREATER CONSOLIDATION

We reviewed 194 procurement actions having a value of \$310 million at TSARCOM and TACOM; 56 could have been combined with others to achieve lower prices or reduce work load. Contracting officers and buyers indicated purchase requests had not been consolidated for the following reasons:

	<u>TSARCOM</u>	<u>TACOM</u>
Reluctance to risk delay of contract award thereby breaching AMC procurement administration lead time goals	30	1
Unnecessary delay or mishandling of follow-on purchase request	13	7
Did not recognize potential for consolidation	<u>4</u>	<u>1</u>
Total	<u>47</u>	<u>9</u>

We do not believe consolidation was feasible or beneficial for the remaining 138 contracts primarily because

--purchase requests were not in the procurement directorate simultaneously,

--the later contracts had equal or lower unit prices, or

--priority conditions existed for procurements.

The TSARCOM and TACOM procurement policies require procurement personnel to consolidate identical/similar requirements into single procurements. In addition, automated systems identify similar procurement requests that have not yet been placed on contract so that buyers can coordinate and consolidate them. However, TSARCOM and TACOM have not taken full advantage of the potential to consolidate procurements primarily because of the buyers' emphasis on minimizing the time required to process each purchase request and because of a lack of aggressive action to match follow-on purchase requests with similar requests for items not yet procured. Our analysis showed that the 56 purchase requests identified could have been consolidated with little or no delay.

#### TSARCOM

Our test of 129 TSARCOM purchases made within 6 months of the purchase of like items showed that 47, or 36 percent, could have been consolidated with other procurements to obtain more favorable prices or to reduce work load. Other procurements could have been consolidated, but no savings could be measured. We believe that little or no delay would have occurred in awarding the earlier contracts because all but five of the follow-on purchase requests were issued at least 30 days before the award of the earlier contracts. Our analysis shows most requirements could be consolidated within 30 days with expedited handling. See pages 9 and 10 for examples of purchases that we believe could have been consolidated.

TSARCOM policy is to consolidate requirements. However, procurement personnel reacted more positively to AMC procurement goals emphasizing the placement of purchase requests on contracts within stated periods. This is referred to as procurement administrative lead time. For 30 of the contracts that we believe could have been consolidated, buyers were reluctant to combine the requirements because they felt it could extend the procurement administrative lead time. The buyers did not document their rationale for not combining quantities, nor did supervisors review the buyers' decisions and insure an appropriate balancing of cost savings with lead time considerations.

Another factor inhibiting consolidation was the lack of expeditious processing of follow-on purchases. In several instances, the follow-on purchase requests were not assigned to buyers until a few days prior to the award of the earlier contracts, even though the requests had been received by the procurement directorate much earlier. Although the system identifies purchase requests in process for similar items, TSARCOM did not have a procedure to expedite follow-on purchase requests so they could be matched and combined in a timely manner.

TACOM

At TACOM, we examined a limited number of transactions and found that 9 of 65 procurement actions reviewed could have been combined to obtain more favorable pricing or eliminate contracts. Consolidation could have been accomplished on four other contracts, but no savings could be measured.

TACOM, like TSARCOM, has a procurement policy and system fostering consolidation of requirements. However, it has issued a directive prohibiting consolidations for purchase requests dated more than 30 days apart unless savings are involved. This directive does not define significance of savings and generally discourages consolidation.

Generally buyers were reluctant to consolidate the requirements because they did not want to risk extending procurement administrative lead time. Also, contrary to established procedures, buyers did not coordinate their efforts to determine the status of the earlier purchase actions. Although TACOM's procurement office is organized by weapon system, purchases of identical items are being made by more than one buyer, which makes coordination by buyers necessary to insure consolidation.

MONETARY EFFECTS

Consolidation of purchase requests could have saved the Army about \$1.6 million (\$1.5 million at TSARCOM and \$0.1 million at TACOM), a reduction of about 13 percent of the amount tested, and could have provided more efficient use of personnel through elimination of unnecessary contracts. Savings were based on the assumption that the combined quantity could have been purchased for at least the lower of the two contract prices. We believe that the savings could be greater than the estimated amount because procurement data generally shows that larger quantities can be purchased at lower unit prices.

Of the 129 transactions reviewed at TSARCOM, 37, we believe, could have been combined with other procurements to save about \$1.5 million through reduced prices. Also 21 contracts could have been eliminated, thus significantly reducing work load. Such action, while not directly measurable, would allow time for more efficient handling of other contracts. Although we did not try to project the cost of awarding and administering contracts that could have been eliminated, we estimate, on the basis of cost data developed at TSARCOM, that the cost to award a contract ranges from about \$450 for simplified purchases of less than \$25,000 to about \$2,000 for more complex negotiated contracts. The Defense Contract Administration Service estimated that in 1982 it cost about \$62 a month to administer a contract.



At TACOM, nine procurements could have been consolidated to save about \$117,000. We sampled only 65 transactions and did not try to project the sample results to the universe.

### CASE EXAMPLES

The following are examples of contracts that we believe could have been consolidated to save money and/or to reduce work load.

#### Example 1

In this case, savings might have been achieved if the contract, delivery order 338, had been combined with an earlier contract to purchase the combined quantity at the lower price. Purchase requests were issued for 925 and 740 tail rotor blades for the UH-1 helicopter in May and July 1980, respectively, and were placed on separate contracts, as the following table shows.

<u>Contract number</u>	<u>Purchase request date</u>	<u>Contract date</u>	<u>Quantity</u>	<u>Unit price</u>
DAAJ09-79-G-0001 DO 284	5/5/80	10/10/80	925	\$ 974.00
DAAJ09-79-G-0001 DO 338	7/3/80	3/5/81	740	1,219.92

If the later delivery order had been included with the earlier order, the Army may have been able to buy the entire quantity at \$974 each and to save about \$181,980, or 20 percent.

When we asked why the purchase requests for these buys had not been combined, the buyer said there was pressure to place a purchase request on contract as soon as possible and to hold up the earlier requirement to combine them would not be tolerated. Our analysis shows there would have been sufficient time to consolidate the buys without incurring a delay--the second request was made in July 1980, 3 months before the contract for the earlier request was awarded. We believe if the buyers had to document their evaluations and to have their supervisor approve them, they would have arrived at a conclusion to consolidate these purchase requests.

#### Example 2

This example involves two contracts for CH-47 helicopter floor units signed on the same day.

<u>Contract number</u>	<u>Purchase request date</u>	<u>Contract date</u>	<u>Quantity</u>	<u>Unit price</u>
DAAJ09-79-G-0005 DO 112	10/9/80	12/4/80	7	\$2,838.00
DAAJ09-79-G-0005 DO 111	10/9/80	12/4/80	20	2,168.83

The materiel management supply control study recommended one buy for a total of 27 floor units, but through an error by the item manager, two purchase requests were generated and subsequently awarded separately.

A savings of \$4,684.19 may have been achieved by combining quantities and obtaining the seven items on the DO 112 at a unit price of \$669.17 less than paid. The contracting officer agreed that these contracts should have been combined. In this case a supervisory review may not have precluded the initial error made by the item manager, but we believe it would have accomplished the consolidation of purchase requests.

### Example 3

In this example, a work load reduction valued at \$2,196.14 could have been achieved by combining orders for vertical hinge pins for the CH-47 helicopter.

<u>Contract number</u>	<u>Purchase request date</u>	<u>Contract date</u>	<u>Quantity</u>	<u>Unit price</u>
DAAJ09-79-G-0005 DO 267	7/9/81	10/16/81	119	\$739.91
DAAJ09-79-G-0005 DO 404	9/14/81	3/12/82	209	\$753.81

Because the sample contract, DO 404, has only one line item, it could have been combined with the quantity on the earlier contract, thereby eliminating a contract. To measure the value of this reduced work load, we obtained estimated contract administration cost data from the Defense Contract Administration Service and we developed estimated costs to award contracts based on variable costs in the various procuring areas. We estimate the administration cost of the contract to be \$1,299.77 and the cost of award to be \$896.37. Although the buyer believed that combining the requirements would have delayed the earlier contract and extended procurement administrative lead time, our analysis showed the contracts could have been consolidated with no delay if priority handling had been given the latter purchase request.

In addition, savings may have been achieved by combining the contracts to obtain a lower unit price.