

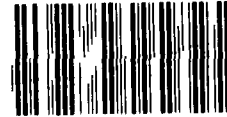
**GAO**

Briefing Report to the Chairman,  
Subcommittee on Oversight and  
Investigations, Committee on  
Energy and Commerce  
House of Representatives

June 1986

**PROCUREMENT**

Project 12,000 at the  
San Antonio Air  
Logistics Center



130407

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NATIONAL SECURITY AND  
INTERNATIONAL AFFAIRS DIVISION

June 25, 1986

B-220528

The Honorable John D. Dingell  
Chairman, Subcommittee on  
Oversight and Investigations  
Committee on Energy and Commerce  
House of Representatives

Dear Mr. Chairman:

In your letter of February 3, 1986, you requested a review of Project 12,000 undertaken by the San Antonio Air Logistics Center (SA-ALC), Kelly Air Force Base, San Antonio, Texas. Project 12,000 was an intensive effort conducted by the SA-ALC during April, May, and June 1985 to reduce the backlog of open purchase requests from 20,855 as of March 31, 1985, to 12,000 by June 30, 1985, by increasing the number of contracts awarded. You expressed concern that the Air Force, in pursuing its goal to reduce its procurement backlog, may have taken inappropriate short cuts in assuring fair and reasonable prices were obtained. You asked us to determine what measures were taken that enabled the SA-ALC procurement personnel to reduce the backlog while processing more current contracts. For example, did the SA-ALC increase its use of unpriced orders or rate agreements or reduce the extent of competition to facilitate completion of procurement requests?

On March 6, 1986, we briefed your staff on the results of our review. As agreed, we are providing this briefing report summarizing those results (see app. I), along with a series of tables on related statistics (see app. II). In summary, the actions taken by SA-ALC to increase the number of contracts awarded did not have any substantial effect on the way SA-ALC awarded contracts.

SA-ALC did stop sending price assistance requests to the Directorate of Competition Advocacy. However, any adverse effect of not obtaining this pricing assistance was probably small because the change pertained mainly to small purchases (less than \$25,000) which accounted for less than 4 percent of the funds spent by SA-ALC in fiscal year 1985. Further, based on our recent work on spare parts pricing for the Senate Committee on Governmental Affairs, we believe that the quality of price analysis performed during Project 12,000 would not have been significantly different than what we previously found.

Our earlier work indicated that SA-ALC was implementing the spare parts initiatives, and while price analysis had improved, there was ample room for further improvement.

As requested, we did not obtain official agency comments. However, we did discuss the information in this briefing report with SA-ALC and other Air Force officials.

As arranged with your Office, unless you publicly announce its contents earlier, we plan no further distribution of this report for 10 days from the date of the report. At that time, we will send copies to the Chairmen of the Senate and House Armed Services and Appropriations Committees, Senate Committee on Governmental Affairs, and House Committee on Government Operations, and the Secretaries of Defense and Air Force. We will also send copies to interested parties and make copies available to others upon request.

Sincerely yours,

A handwritten signature in dark ink, appearing to read "Paul F. Math". The signature is written in a cursive style with some loops and flourishes.

Paul F. Math  
Associate Director

## C o n t e n t s

APPENDIX		<u>Page</u>
I	PROJECT 12,000 AT SA-ALC	4
II	STATISTICAL DATA ON PROJECT 12,000	9
TABLES		
I.1:	End-of-month backlog of open purchase requests	4
II.1:	Comparison of unpriced orders	10
II.2:	Comparison of competition	10
II.3:	Comparison of rate agreements	10
II.4:	Comparison of contractual actions	11
II.5:	Comparison of contractual actions and dollars	11
II.6:	Comparison of overtime expenditures	11
II.7:	Average purchase request backlog per contracting officer/buyer	12
II.8:	Average number of contracting officers and buyers	12

### ABBREVIATIONS

FAR	Federal Acquisition Regulations
SA-ALC	San Antonio Air Logistics Center

PROJECT 12,000 AT THE SA-ALCBACKGROUND

SA-ALC is one of five air logistics centers within the Air Force Logistics Command. The SA-ALC Directorate of Contracting and Manufacturing is the procurement activity responsible for the acquisition of supplies, equipment, and services assigned for management to SA-ALC. During fiscal year 1985, the SA-ALC processed over 48,000 contractual actions and purchased over \$3 billion worth of supplies and services. SA-ALC supports over half of the Air Force's engines, and purchases spare parts as well as overhaul and modification services for 15 different types of aircraft systems. The SA-ALC's major effort is to support the T-38, F-5, and C-5 aircraft and the F-100 and TF-39 engines. As of January 1986, the SA-ALC had 278 buyers and 57 contracting officers. About 114 new buyers were added to the work force in December 1984.

In 1984, the SA-ALC began to experience a steadily growing backlog of open purchase requests--procurement actions in process but not yet awarded to a contractor. Table I.1 shows the end-of-month backlog at various times.

Table I.1: End-of-Month Backlog of Open Purchase Requests

<u>Month</u>	<u>Number of purchase requests in process</u>
June 1983	15,422
Jan. 1984	18,331
June 1984	24,964
Jan. 1985	21,573
Mar. 1985	20,855
Project 12,000	
June 1985	12,264

SA-ALC officials in the Directorate of Contracting and Manufacturing attribute the increasing backlog of open purchase requests to a number of different factors such as

- changes in federal procurement laws that increased processing time,
- conservatism on the part of buyers and contracting officers as a result of publicized horror stories about overpriced spare parts,

- increased spare parts funding as a result of higher budgets,
- increased processing time as a result of intensive competition breakout efforts and price analysis work performed by the new Directorate of Competition Advocacy, and
- additional pricing efforts by buyers and contracting officers as a result of the Department of Defense initiatives to improve spare parts prices and elimination of statistical sampling (an abbreviated method of pricing small purchases) in August 1983.

### OBSERVATIONS

The SA-ALC achieved its Project 12,000 goal by reducing the backlog of open purchase requests to 12,264 by June 30, 1985. The SA-ALC achieved the reduction by adding additional personnel, using extensive overtime, improving administrative support functions, and suspending locally initiated procurement guidelines that had been issued to supplement basic Federal Acquisition Regulations (FAR). Buyers were encouraged to increase the rate of contract awards by taking only the minimum pricing actions necessary to meet FAR requirements, but they were not pressured to ignore or otherwise violate FAR requirements.

Several factors contributed to the Project's success:

- Management emphasis and a sense of teamwork on the part of Directorate employees.
- The Directorate's use of 45,384 hours of overtime costing \$589,602 during April, May, and June 1985--this compares to 28,278 and 24,696 hours in the previous and subsequent 3-month periods, respectively.
- Better control of the administrative support functions involving routing of purchase requests, contract writing, contract printing, and data collection and reporting of contracts actually awarded.
- The addition of about 114 new buyers that came into the work force in December 1984, but were only becoming productive (after on-the-job training) by about March or April 1985.
- Management directed buyers to return to procurement basics and award contracts as soon as reasonable assurance was obtained that a fair and reasonable price was established. This direction took the form of

suspending several prior memorandums and/or instructions that had been previously issued as additional guidance to buyers when pricing items before contract award. In a memorandum dated April 5, 1985, the procurement director stated that

"effective immediately buyers/contracting officers are directed to take only the actions necessary to meet the minimum requirements of FAR 13.106 relative to determining price reasonableness of small purchases."

The SA-ALC has reinstated the memorandums and/or instructions previously suspended. After Project 12,000 was completed, the SA-ALC revised its regulations to incorporate the additional guidance. The number of requests for pricing assistance sent to the Directorate of Competition Advocacy has increased since the beginning of fiscal year 1986.

#### WERE SHORTCUTS TAKEN?

The only one of the above actions that we believe might have related to "shortcuts" in the procurement process was the last action relating to how much work the buyers should do in establishing a fair and reasonable price. This action was formalized in the April 5 memorandum encouraging buyers to speed up the award rate.

The memorandum stated that buyers would have to substantially increase the number of awards per month, and that to facilitate increased award rates, five locally initiated pricing memorandums or guidelines were being suspended. One of these memorandums, for example, was dated September 24, 1984, and contained detailed instructions and proforma routing sheets for transmitting data to and from the price analysis groups in both the Directorate of Contracting and Manufacturing and the new Directorate of Competition Advocacy, whenever assistance was needed on pricing small purchases.

We discussed the effect of suspending this memorandum with personnel in both the Directorates of Contracting and Manufacturing and Competition Advocacy. We found that simultaneously with the initiation of Project 12,000, the Directorate of Contracting and Manufacturing recalled from the Directorate of Competition Advocacy all requests for pricing assistance which were still on hand. Responding to this request, the Directorate of Competition Advocacy returned 235 referrals for pricing assistance. The 235 referrals represented 7 percent of the 3,184 requests for pricing assistance that had been received by the Directorate of Competition Advocacy since March 1984.



Although the requests were returned, the Directorate of Competition Advocacy continued to work these items to establish a target price. We also found that no additional pricing assistance requests were routed to the Directorate of Competition Advocacy during the remainder of Project 12,000, and only three more were routed through the end of fiscal year 1985. Requests for assistance did increase in fiscal year 1986, after SA-ALC revised its regulations.

We do not know the effect on contract award prices of not sending pricing assistance requests to the Directorate of Competition Advocacy. However, we found that as of September 4, 1985, the Directorate of Competition Advocacy had identified about \$21 million over a 2-year period in potential refunds because of differences in contract award prices and estimated target prices. The Director of Competition Advocacy stated that the \$21 million

"is only an internal statistic accumulated by the Price Appraisal Division for its own use, and is not included in any formal or official report coming out of the Directorate of Competition Advocacy or the Center (SA-ALC). It is merely an independent estimate of the approximate dollar value of the potential refunds identified to Aeronautical Systems Division, Wright-Patterson Air Force Base and the Directorate of Contracting and Manufacturing over a period of approximately two years."

Although we cannot tell the effect on individual contract prices of reduced pricing assistance requests during Project 12,000, we believe the overall effect would be small because the April 5 memorandum mainly affected small purchases (below \$25,000). While about 85 percent of the contractual actions are small purchases, they only represented about 4 percent of the funds spent by the SA-ALC during fiscal year 1985.

#### CONCLUSIONS

We found little evidence that the SA-ALC took shortcuts during Project 12,000 that had any substantial effect on the way contracts were awarded. One of the actions taken did result in fewer pricing assistance requests being sent to the new Directorate of Competition Advocacy. However, the overall effect of this would have been small because the change applied to only a small percent of the total funds spent by the SA-ALC.

Based on the work we performed for the Senate Committee on Governmental Affairs we do not believe the quality of price analysis during Project 12,000 varied greatly from that found during the two earlier reviews. These reviews showed that the quality of price analysis was somewhat improved, but there was ample opportunity for further improvement, and all of the spare parts problems have not been solved.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our objectives were to determine if SA-ALC took inappropriate measures (shortcuts) to reduce the procurement backlog and, if so, what were the effects. To determine if SA-ALC changed its methods for contract award, we analyzed procurement statistics for periods before, during, and after Project 12,000 to see if any unusual pattern occurred in the use of unpriced orders or rate agreements and in the extent of competition. (See app. II.)

We also interviewed management and 11 randomly selected buyers and their supervisors to determine how buyers were encouraged to increase the rate of contract awards and whether they were directed or pressured to ignore or otherwise violate actual FAR requirements. Our work at the SA-ALC was performed during February 1986.

STATISTICAL DATA ON PROJECT 12,000PURPOSE OF  
STATISTICAL ANALYSIS

We obtained the statistical data presented in tables II.1 through II.8 to determine if the SA-ALC reduced its use of competition or increased its use of unpriced orders or rate agreements. While these actions would permit a higher rate of contract awards, they could also have an adverse effect on prices. For example, rate agreements are used to minimize or simplify the award of numerous contracts for spare parts to the same contractor. Rate agreements can also result in minimal price analysis being performed by buyers. Thus, while the rate of contract awards would increase, the amount of price analysis on individual contracts could be less. We have included data on the dollar value and percent of dollars for informational purposes. The number of actions, however, should be used for analysis because they are of equal value statistically. Dollars, on the other hand, can be skewed by a single, high dollar value contract.

Table II.1: Comparison of Unpriced Orders  
(\$ millions)

<u>3 months before 12,000</u>		<u>3 months during 12,000</u>		<u>3 months after 12,000</u>	
<u>Actions</u>	<u>Dollars</u>	<u>Actions</u>	<u>Dollars</u>	<u>Actions</u>	<u>Dollars</u>
47	\$357.5	53	\$161.6	66	\$461.4

Table II.2 Comparison of Competition  
(\$ millions)

<u>Contract awards</u>	<u>3 months before 12,000</u>		<u>3 months during 12,000</u>		<u>3 months after 12,000</u>	
	<u>Actions</u>	<u>Dollars</u>	<u>Actions</u>	<u>Dollars</u>	<u>Actions</u>	<u>Dollars</u>
Competitive	2,829	\$ 73.4	3,713	\$100.8	3,797	\$113.4
Non- competitive	6,452	104.6	9,699	334.3	6,512	341.0
Percent competitive	30	41	28	23	37	25

Table II.3 Comparison of Rate Agreements  
(\$ millions)

<u>Price evaluation code</u>	<u>3 months before 12,000</u>		<u>3 months during 12,000</u>		<u>3 months after 12,000</u>	
	<u>Actions</u>	<u>Dollars</u>	<u>Actions</u>	<u>Dollars</u>	<u>Actions</u>	<u>Dollars</u>
	(\$ millions)					
J codes (use of rate agreements)	616	\$ 9.8	601	\$ 10.0	353	\$ 33.5
All other codes	9,685	183.4	15,433	467.5	10,340	464.7
Percent of J codes	6	5	4	2	3	0.7

Table II.4: Comparison of Contractual Actions  
(\$ millions)

<u>Quarters</u>	<u>FY 1983</u>		<u>FY 1984</u>		<u>FY 1985</u>	
	<u>Actions</u>	<u>Dollars</u>	<u>Actions</u>	<u>Dollars</u>	<u>Actions</u>	<u>Dollars</u>
1st	12,213	\$ 707.4	9,746	\$1,029.2	8,950	\$ 920.7
2nd	13,583	554.1	9,748	471.5	10,666	483.0
3rd	17,831	677.3	9,069	530.8	16,632	873.1
4th	<u>14,200</u>	<u>767.3</u>	<u>12,663</u>	<u>641.5</u>	<u>12,252</u>	<u>739.1</u>
Total	<u>57,827</u>	<u>\$2,706.1</u>	<u>41,226</u>	<u>\$2,673.0</u>	<u>48,500</u>	<u>\$3,015.9</u>

Table II.5: Comparison of Contractual Actions and Dollars  
(Percent breakdown)

<u>Quarters</u>	<u>FY 1983</u>		<u>FY 1984</u>		<u>FY 1985</u>	
	<u>Actions</u>	<u>Dollars</u>	<u>Actions</u>	<u>Dollars</u>	<u>Actions</u>	<u>Dollars</u>
1st	21.1	\$26.1	23.6	\$38.5	18.4	\$30.5
2nd	23.5	20.5	23.7	17.6	22.0	16.0
3rd	30.8	25.0	22.0	19.9	34.3	29.0
4th	24.6	28.4	30.7	24.0	25.3	24.5

Table II.6: Comparison of Overtime Expenditures  
(\$ thousands)

<u>Quarters</u>	<u>FY 1983</u>		<u>FY 1984</u>		<u>FY 1985</u>	
	<u>Hours</u>	<u>Dollars</u>	<u>Hours</u>	<u>Dollars</u>	<u>Hours</u>	<u>Dollars</u>
1st	2,790	\$ 31.2	4,939	\$ 56.3	13,076	\$ 160.0
2nd	2,969	31.6	6,210	73.2	28,278	385.4
3rd	3,679	41.3	12,824	165.3	45,384	589.6
4th	<u>7,244</u>	<u>85.8</u>	<u>55,855</u>	<u>730.6</u>	<u>24,696</u>	<u>316.7</u>
Total	<u>16,682</u>	<u>\$189.9</u>	<u>79,828</u>	<u>\$1,025.4</u>	<u>111,434</u>	<u>\$1,451.7</u>

Table II.7: Average Purchase Request Backlog  
per Contracting Officer/Buyer

<u>Quarters</u>	<u>FY 1983</u>	<u>FY 1984</u>	<u>FY 1985</u>
1st	70	94	81
2nd	73	86	70
3rd	81	92	51
4th	83	100	40

Table II.8: Average Number of Contracting  
Officers and Buyers

<u>Quarters</u>	<u>FY 1983</u>		<u>FY 1984</u>		<u>FY 1985</u>	
	<u>Contracting officers</u>	<u>Buyers</u>	<u>Contracting officers</u>	<u>Buyers</u>	<u>Contracting officers</u>	<u>Buyers</u>
1st	42	145	45	132	57	224
2nd	41	138	50	161	56	247
3rd	42	142	53	200	57	256
4th	41	138	53	205	60	248

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