

GAO

Report to the Honorable
Jim Courter, House of Representatives

March 1990

**DEFENSE
PROCUREMENT**

**Fresh Fruit Buying
Practices**





United States
General Accounting Office
Washington, D.C. 20548

National Security and
International Affairs Division

B-238299

March 2, 1990

The Honorable Jim Courter
House of Representatives

Dear Mr. Courter:

As requested in your letter dated August 11, 1989, we reviewed the Defense Logistics Agency's (DLA) practices for buying fresh produce. We were specifically requested to determine whether there has been a trend away from DLA's purchases of New Jersey produce and, if so, whether these purchases were cost effective for the government. You also requested us to determine whether or not bidding for DLA purchases was compromised in any way, and if sufficient quality standards were maintained. Fresh produce is purchased by the Defense Personnel Support Center (DPSC) in Philadelphia, Pennsylvania, a supply center of DLA.

Results in Brief

The DPSC has decreased its bulk—or “carlot”—purchases of New Jersey produce from \$630,000 in 1986 to \$340,000 in 1989. We did not find that the decrease was due to discriminatory buying practices. According to government officials, the principal reasons for the decrease in purchases were (1) weather conditions that affected the availability, and in some cases, the quality of some items, (2) lower prices from growers in other states, and (3) military commissaries' request for produce grown in other regions of the country. The affect of the weather conditions on New Jersey produce was corroborated by commercial vendors and brokers. Also, our review of purchase orders showed that DPSC used competitive procurement procedures and generally paid the lowest price for the produce purchased, while also meeting DLA's quality standards.

Background

DPSC purchases about \$140 million to \$150 million of fresh fruits and vegetables annually for troop support at military bases, military commissary resale, and other government facilities, such as Veterans Administration hospitals. According to DPSC officials, commissary resale requirements make up the largest portion of DPSC's total fresh produce requirements.

Purchases of fresh fruits and vegetables are made by 17 Defense Subsistence Offices (DSOs). The DSOs obtain fresh fruits and vegetables from two sources. Small quantity orders, and more perishable items, are bought at the local (terminal) market by the DSOs from the commercial

We analyzed 53 items regularly sold by DPSC and found that the same 12 items¹ accounted for over 80 percent of the decline in sales each year. According to several commercial vendors and brokers, the decline in sales for the 12 items was largely attributable to extreme weather conditions (i.e., drought conditions in 1988 leading to smaller crops and higher prices and excess rain in 1989 causing disease and rotting of the crops). In addition, we found that New Jersey produce sales have declined due to military commissaries requesting produce grown in other states. For example, both the major retail food chains and the government experienced a shifting to California lettuce during the past 4 years due to a shift in consumer preference.

Competitive Bidding Procedures Used and Quality Standards Maintained

Our review of 125 carlot purchase orders issued for the Virginia, Maryland, and Pennsylvania DSOS² in July and August of 1988 and 1989 disclosed that DPSC maintained competitive bidding procedures while meeting or exceeding quality standards.

DPSC's policy is to solicit two or more bids for fresh produce purchases whenever possible. Further, bids are solicited from more than one area depending on availability of the crops.

Our review of the 125 individual purchase orders showed that DPSC had solicited two or more bids and made the award to the lowest bidder, except in two instances where the low bidder did not offer acceptable quality produce. We also noted that bids were solicited solely from New Jersey brokers on 34 of these purchase orders. On the other 91 orders, bids were solicited from New Jersey brokers and from growers in other states. New Jersey brokers submitted the lowest bids and received the awards on 18 of the 91 orders.

Our review of the 125 purchase orders disclosed that fresh produce purchases met or exceeded required quality standards in each instance. We also reviewed 22 nonconformance reports covering deliveries to the 5 DSOS closest to New Jersey during June through August 1989.³ A nonconformance report is prepared when produce fails to meet quality standards. The nonconformance reports were reviewed to determine

¹These items include such things as peaches, green peppers, green cabbage, cucumbers, and lettuce.

²These three DSOS accounted for 74 to 96 percent of the purchases of New Jersey produce between 1986 and 1989.

³We examined only those reports that covered produce items regularly purchased from New Jersey and surrounding areas.

We discussed the decline in carlot orders with the Landover DSO because Landover ranks second among the five selected DSOs in total purchases of fresh fruits and vegetables. The Landover DSO chief was appointed to this position in August 1989. He agrees with DLA's existing policy of preferring to buy in carlot purchases wherever circumstances permit. Landover has already raised this percentage from 28 percent in July 1989, to 41 percent in October 1989. The Landover DSO chief stated that it can increase the carlot percentage for fresh produce to the 50-60 percent range.

Increases in carlot purchases will give New Jersey growers more opportunity to bid on these orders and could increase their carlot sales.

Scope and Methodology

We reviewed DPSC's purchases of fresh produce from New Jersey growers for the 4-year period 1986 through 1989. In performing our review, we examined DPSC's policies and procedures for buying fresh fruits and vegetables and analyzed summary records of carlot and terminal market purchases for the five DSOs located closest to New Jersey. Our review focused on carlot purchases because DPSC does not maintain records that show the origin of terminal market purchases. We also reviewed a judgmental sample of individual produce purchases to determine the extent of competition and whether minimum quality standards were being maintained. Nonconformance reports were examined to compare the quality of New Jersey produce shipments to produce shipments from other states. We held discussions with responsible DPSC officials, DSO chiefs, field and terminal market buyers, brokers representing New Jersey growers, and produce brokers on the Philadelphia terminal market.

Our review was made in accordance with generally accepted government auditing standards from September through December 1989. The views of responsible agency officials were sought during the course of our work and are incorporated where appropriate. However, in accordance with the requester's wishes, we did not obtain written comments on a draft of this report.

Unless you publicly announce its contents earlier, we plan no further distribution of this report until 2 days from the date of the report. At that time, we plan to distribute this report to the Department of Defense and other interested parties and make copies available to others upon request.

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Please contact me at (202) 275-8400 if you or your staff have any questions concerning this report. Other major contributors to this report are listed in appendix I.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Paul F. Math". The signature is stylized with loops and a large initial "P".

Paul F. Math
Director, Research, Development,
Acquisition and Procurement Issues

whether produce purchased from other states failed to meet quality standards more frequently than similar produce grown in New Jersey. The 22 reports filed between June and August of 1989 showed that purchases from other states were not rejected more frequently than purchases from New Jersey.

Analysis of Carlot Versus Terminal Market Buys

Although DPSC recognizes that purchases of fresh fruits and vegetables in carlot quantities is more economical, it does not believe it is feasible to establish specific levels for purchasing these items in carlot quantities for each DSO. Increases in carlot purchases will give more opportunity for state growers to bid on these orders and could increase their carlot sales. For example, increased carlot purchases by DPSC could increase the government's purchase of New Jersey produce.

Quantities, as well as quality and market conditions are factors that are considered in determining whether to buy produce by the carlot, or on the terminal market. Our review of carlot purchases by the five DSOs closest to New Jersey showed that the carlot purchases have remained fairly steady at three of these five DSOs. However, carlot purchases by the other two DSOs, Landover and Bayonne, showed declines in 1988 and 1989 when compared to 1986 or 1987. Table 2 summarizes these trends.

Table 2: Carlot Purchases by Five DSOs From 1986-89 (as percentage of total purchases)

Figures in percent

DSOs	1986	1987	1988	1989
Cheatham	60	61	59	65
Philadelphia	22	23	22	21
Boston	18	19	20	18
Bayonne	35	43	21	31
Landover	35	37	31	25

DPSC conducts biennial reviews of DSO operations and ascertains to what extent carlot purchases are made. DLA also recently completed a Procurement Management Review of DPSC's subsistence procurements in February 1989. DLA recommended that DPSC establish a formal policy to identify conditions where items should be purchased in carlot quantities. When we completed our review, DPSC had not yet issued this policy statement. We were told that the new policy would be issued in the near future.

vendors. Larger quantity orders are purchased directly from growers (or their brokers) through DSO's field buyers. There are 12 field buyers assigned to specific states, including New Jersey.

The field buyers purchase produce in large quantities that are called carlots and consist of 20,000 to 40,000 pounds of produce. DLA's policy is to buy carlot quantities whenever possible because they are generally more economical and often fresher. Generally, about 45 percent of the annual fresh produce requirements are purchased in carlot quantities through the field buyers, and about 55 percent are obtained at the terminal markets.

The five DSOs located closest to New Jersey purchase about \$57 million annually in fresh produce; about \$22 million was purchased in carlot quantities. They are Cheatham, Virginia; Landover, Maryland; Philadelphia, Pennsylvania; Boston, Massachusetts; and Bayonne, New Jersey.

New Jersey growers typically furnished these DSOs with a relatively small percentage, roughly 3 percent or less of annual carlot produce purchases since 1986. Our review focused on carlot purchases because DPSC does not maintain records that show the sources of produce purchased on the terminal markets. Two major reasons contribute to New Jersey's relatively small market share. First, many high volume items such as citrus fruits are not grown in New Jersey. Second, the New Jersey growing season is limited primarily to 5 months of the year—June through October—while other areas such as Florida and California grow crops 12 months a year.

Purchases of New Jersey Produce Declined

Our review disclosed that DPSC's carlot purchases of New Jersey produce declined significantly in the years 1987 through 1989, as compared to 1986. Table 1 shows the extent of the decline in carlot purchases from New Jersey.

Table 1: Carlot Purchases of New Jersey Produce From 1986 to 1989 by the Five Selected DSOs

Year	Carlot purchases	Percent decline since 1986
1986	\$630,000	•
1987	513,000	19
1988	335,000	47
1989	340,000	46

