



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

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HUMAN RESOURCES
DIVISION

February 11, 1983

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Mr. Alfred M. Zuck
Assistant Secretary for Administration
and Management
Department of Labor

Dear Mr. Zuck:

Subject: Inadequate Documentation by the Department
of Labor of Small Purchases Made for the
President's Committee on Employment of the
Handicapped (GAO/HRD-83-34)

At the request of the Chairman, Subcommittee on Select Education, House Committee on Education and Labor, we recently completed a review of the President's Committee on Employment of the Handicapped (PCEH), an agency for which the Department of Labor provides administrative support. As part of that effort we reviewed procurement procedures and documentation for small purchases. That review included applicable small purchase files in Labor's Directorate of Administrative Programs and Services, Division of Contract Administration. The Labor files did not conform to requirements for documenting competitive procedures or justifying the use of noncompetitive purchases. Although we did not fully review Labor's small purchase practices, we are bringing these findings to your attention because we believe corrective action is needed with regard to PCEH small purchases and because similar weaknesses might exist in Labor's practices with regard to other small purchases.

BACKGROUND

PCEH operates under Executive Order 11480. The order defines PCEH's mission as facilitating the development of maximum employment opportunities for the physically handicapped, mentally retarded and mentally restored. The order also states that Labor "is requested to make available to the President's Committee necessary office space and to furnish the Committee, under such arrangements respecting financing as may be appropriate, necessary equipment, supplies and services." As part of Labor's responsibilities the Division of Contract Administration reviews and approves PCEH small purchase requisitions and initiates applicable purchase orders. Division staff members serve as the PCEH contracting officers for these purchases.

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Federal procurement regulations and Labor's "Small Purchase Handbook" set forth procedures for making and documenting small purchases. The regulations (41 CFR Chapter 29) define small purchases as purchases of supplies and nonpersonal services from commercial sources for which the aggregate amount included in any one transaction does not exceed \$10,000. Labor's handbook emphasizes the need for and benefits of competition in making small purchases, including the potential for saving as much as 25 percent when using competitive instead of noncompetitive methods. We believe competition may also provide protection against fraud and abuse.

The regulations require that when making small purchases over \$500 agencies must obtain a sufficient number of competitive price quotations from qualified sources to assure the procurement is fair to the Government. Quotations may be obtained orally for purchases of \$5,000 or less, but must be written for purchases over \$5,000. The regulations require that some record of the quotations be retained.

Labor's handbook provides guidance to program officials, such as PCEH officials, for completing requisitions and to contracting officers for making purchases. It states that one key element of small purchase requisitions is a list of known sources of supply, but also states that depending on the type and nature of the requirement, a requisition may also need a justification for a noncompetitive purchase. According to the handbook, contracting officers should attempt to obtain competitive quotations for all purchases over \$500, unless they can justify buying noncompetitively, and suggests that three to five quotations be obtained. It also states that if competitive quotations are not obtained, the purchase file must document the special circumstances that prevent competition. Several possible justifications for noncompetitive procurement are listed, such as:

- The capability required is unique.
- The service or product is urgently needed.
- The purchase continues a previous effort.

The handbook requires that the purchase file for each non-competitive purchase must include a written justification clearly setting forth the circumstances that make competitive procedures impractical.

Scope and Methodology

Our review of PCEH activities was conducted between April and September 1982. As part of the effort, we reviewed all of PCEH's small purchases for fiscal year 1981. We reviewed applicable Federal procurement regulations as well as Labor's "Small Purchase Handbook." To determine whether proper purchasing

procedures were followed we reviewed PCEH small purchase files and discussed procurement practices with PCEH officials. We also reviewed Labor's files for each of PCEH's 1981 small purchases over \$500 and discussed each file with an official from the Division of Contract Administration.

FILES DO NOT INCLUDE QUOTATIONS OR
JUSTIFICATION FOR NONCOMPETITIVE PURCHASES

In fiscal year 1981 PCEH made 15 small purchases over \$500, totalling \$47,320.48. In each case PCEH's requisition specified the vendor selected, but neither the PCEH nor Labor file contained justification for the selection.

Files for 14 of the 15 purchases had no indication that competitive quotations had been obtained and no justification for a noncompetitive purchase. Three of these 14 purchases exceeded \$5,000 and, according to the regulations, written quotations should have been obtained. One file indicated quotations had been obtained, but it did not contain a record of all prices quoted.

Although PCEH officials and a Labor contracting official suggested possible justifications for noncompetitive purchases in some instances, no justifications were included in the purchase files. PCEH officials also told us that if quotations were not obtained it was because Labor officials who approve PCEH's requisitions did not request them. They also indicated that in some cases there was justification for not obtaining quotations because the purchases were for unique services. However, neither PCEH nor Labor files contained such justification.

The Labor official responsible for small purchases told us that the Labor files we reviewed contained insufficient documentation. Although he suggested possible justifications for 5 of the noncompetitive purchases, these justifications were not documented in the purchase files. For example, he said that vendors for 4 of the 15 purchases were handicapped firms or small businesses under section 8(a) of the Small Business Act (15 U.S.C. 637(a)), and noted that Federal regulations allow noncompetitive purchases from such firms. We did not verify that noncompetitive purchases from these firms were allowed. However, the official was able to identify the firms as handicapped or 8(a) firms based on his personal knowledge; the files contained no such indication. For one other purchase the official said the services being purchased probably were unique, but, again, the file did not provide this justification. For the remaining 10 purchases the Labor official did not suggest any justification for the noncompetitive purchases and said that the files should include either competitive price quotations or justifications for the noncompetitive nature of the purchases.

CONCLUSIONS

Labor's files for PCEH small purchases show little indication that competitive procedures were used or that noncompetitive purchases were justified. None of the files we reviewed contained adequate documentation and only a few showed any indication that quotations were obtained or noncompetitive purchases were justified. This condition may not be limited to the small purchases Labor makes for PCEH.

We believe that you should emphasize (1) to PCEH the need to include on requisitions a justification for noncompetitive purchases, if applicable, and (2) to contracting officers the importance of obtaining competitive quotations for all purchases and for properly documenting small purchase files. You may also want to determine if weaknesses similar to those we found in documentation of PCEH purchases exist in your office's documentation of other small purchases.

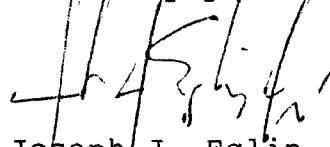
RECOMMENDATION

We recommend that you instruct contracting officers to comply with Federal procurement regulations and Labor's "Small Purchase Handbook" by requiring adequate written justification for all PCEH small purchases for which competitive quotations are not obtained.

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Copies of this letter are being sent to the Chairman, Subcommittee on Select Education, House Committee on Education and Labor and the Executive Director, President's Committee on Employment of the Handicapped.

Sincerely yours,



Joseph J. Eglin, Jr.
Group Director