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JAN 25 1982

Mr. Don W. Minnich
 Regional Director
 Fish and Wildlife Service
 P.O. Box 25486
 Denver Federal Center
 Denver, Colorado 80225

Dear Mr. Minnich:

We have completed an examination of procurement practices and procedures used by selected Denver-area Department of the Interior bureaus. Our objective was to evaluate the bureaus' efficiency and effectiveness in awarding formally advertised contracts. We also reviewed some negotiated contracts.

We discussed our findings with departmental and bureau procurement officials, and considered their comments in preparing our report. All types of findings did not occur at each location visited, and we did not attempt to determine the incidence of the findings beyond the contracts selected for review. However, we believe that you should be aware of not only the audit findings at your office, but also those at the other bureaus to determine if they might also exist in your procurement office.

Effective, efficient, and economical procurement depends on adequate competition. However, we found that, in general, the bureaus were not complying with Federal Procurement Regulations (FPR) designed to assure adequate competition. Nor were they taking advantage of other opportunities to increase competition and decrease costs. Details of our findings are described in the enclosure.

We believe that these findings could have been detected and corrected before our review, had the bureaus regularly performed effective procurement management reviews as required by FPR 1-2.106. Consequently, we recommend that you frequently perform such reviews.

We appreciate the cooperation and courtesies extended to our staff during this review. Your comments, including those on any corrective actions taken or planned, will be appreciated.

Sincerely yours,

Robert W. Hanlon
 Robert W. Hanlon
 Regional Manager



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Enclosure

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DEPARTMENT OF THE INTERIOR (DOI) BUREAUS
CAN MAXIMIZE CONTRACT AWARD COMPETITION
AND REDUCE COSTS THROUGH EFFECTIVE
PROCUREMENT MANAGEMENT REVIEWS

Because effective, efficient, and economical procurement depends on adequate competition, it is vital that contracting personnel make every effort to maximize competition for contract awards. The Federal Procurement Regulations (FPR) specify ways to assure adequate competition, as do DOI regulations. Without adequate competition, the Federal Government has no assurance that it is paying fair and reasonable prices for procured items.

The objective of our review was to evaluate the efficiency and effectiveness of contract award practices and procedures of selected DOI bureaus in the Denver region. We made our review at the following bureaus:

- Bureau of Reclamation (Engineering and Research Center and Lower Missouri Regional Office).
- Fish and Wildlife Service (Denver Regional Office).
- Bureau of Land Management (Denver Service Center).
- National Park Service (Rocky Mountain Regional Office and Rocky Mountain National Park).

We reviewed these bureaus' procedures for awarding both formally advertised and negotiated contracts. We selected for review 86 formally advertised contracts and 49 negotiated contracts, respectively totaling about \$8.3 million and \$2.4 million. We also interviewed procurement officials from DOI's and the bureaus' headquarters. Our review was performed in accordance with the Comptroller General's "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions."

We believe that the bureaus could have increased competition for their contract awards by

- complying with FPR requirements designed to foster competition and
- taking advantage of other opportunities to maximize competition.

Instances of noncompliance with the FPR can be detected through effective procurement management reviews, as required by FPR 1-2.106. Such reviews can also identify ineffective or inappropriate procurement practices which inhibit adequate competition or unnecessarily increase costs. We noted that only one of the four bureaus reviewed, the Bureau of Reclamation, regularly performed procurement management reviews.

NONCOMPLIANCE WITH THE FPR CAN
IMPEDE ADEQUATE COMPETITION

Several of the Federal Procurement Regulations are designed to assure adequate competition for contracts, whether awarded through formal advertising or negotiation. Noncompliance with these regulations can not only inhibit competition, but also increase opportunities for favoritism and jeopardize the integrity of contracting operations.

We believe that the bureaus could have increased the number of bidders for their formally advertised contracts by complying with Federal Procurement Regulations that require them to

- recommend ways to increase future competition when two or fewer bids are received,
- review previous procurement files to identify potential bidders,
- publish synopses of proposed procurements within established timeframes,
- adequately justify the use of "brand name or equal" purchase descriptions, and
- adequately document the justification for rejecting the lowest bid.

Our review of negotiated contracts showed that the bureaus were also not complying with regulations requiring preparation of certain documents to justify the use of negotiation instead of formal advertising.

Recommendations on ways to increase
competition were not made

When fewer than three bids have been received, FPR 1-2.407-1 requires the contracting officer to determine why few bids were received and to recommend, in the record of the invitation for bid (IFB), corrective actions that could increase competition in future procurements of the same or similar items. Without documented recommendations, corrective actions to increase the number of bids could be overlooked in future procurements, and a low level of competition would likely recur.

About 38 percent of the contracts we reviewed had been awarded after receipt of fewer than three bids. However, we found no evidence that contracting officers had attempted to determine why few bids were received for these contracts. Nor did we find, in any of these contract files, documentation of recommended actions to increase future competition for procurement of the same or similar items.

Field contracting officials said noncompliance with this regulation probably occurred because of general neglect, lack of time, or unfamiliarity with the regulation.

Reviews of previous procurements were not made

FPR 1-2.204 requires contracting officers to review previous IFB records at the time of each subsequent procurement action for the same or similar items. This review is required to assure that the information available in the records (e.g., names of previous bidders) is used in connection with the new procurement. Without such review, opportunities to expand competition may be overlooked.

Rather than reviewing previous procurement records, however, three bureaus' contracting officers relied on their experience and memory when issuing IFBs for the same or similar items. As a result, previous bidders were not always solicited, thereby decreasing the likelihood of maximizing competition. For example, the National Park Service purchased a tractor in 1979. Although it had also purchased tractors in 1977 and 1978, it did not send the 1979 IFB to the firms that had bid on the 1977 and 1978 contracts. Correspondingly, the Bureau of Reclamation issued an IFB for an agricultural tractor in 1979, but did not solicit the firms that had bid on a similar 1978 contract. Similar occurrences were noted at the Bureau of Land Management.

Publication timeframes were not followed

According to FPR 1-1.1003-6, a procuring activity shall publish a synopsis of its proposed procurements in the Commerce Business Daily 10 days before issuance of the IFB or the request for proposals. If this is not feasible, the synopsis must be forwarded to the Commerce Business Daily to arrive no later than the IFB issuance date. Compliance with these synopsis publication timeframes is important to allow adequate competition for the proposed procurements.

Timely synopsis publication is especially important to vendors who are not on a procuring activity's "current bidders" mailing list. Timely publication allows such vendors time to request and receive IFBs and to prepare and submit bids. The FPR notes that when prospective bidders do not have adequate time to compute prices and obtain needed information on which to base their bids, higher prices to the Government may result. That is, some bidders may include unnecessary contingency allowances in their bids, while some prospective bidders may be unwilling to submit bids.

We reviewed 86 bid solicitations for proper synopsis publication time. Insufficient documentation precluded our making a timeliness determination on 33 of these. The synopses for 30 of the remaining 53 solicitations were not published 10 days before issuance of the IFB. Additionally, 7 of these 30 synopses were not forwarded to the Commerce Business Daily in time to arrive by the IFB issuance date. The following chart shows, by bureau, the number of synopses that did not meet the required publication timeframes.

<u>Bureau</u>	<u>No. of synopses we could review for timeliness</u>	<u>No. of synopses published fewer than 10 days before IFB issuance</u>	<u>No. of synopses not forwarded by IFB issuance date</u>
Bureau of Land Management	10	3	1
Bureau of Reclamation	13	8	2
Fish and Wildlife Service	7	7	0
National Park Service	<u>23</u>	<u>5</u>	<u>4</u>
Total	<u>53</u>	<u>23</u>	<u>7</u>

According to bureau contracting personnel, such delays in preparing and submitting synopses were probably due to either general neglect or a belief that Commerce Business Daily advertising is not very effective. Additionally, several bureau requisitioners said that most of these synopses were for items not urgently needed, and that more time could have been provided for advertising the proposed procurements. In fact, of the seven synopses, only one was adequately justified and documented as being urgently needed.

Use of "brand name or equal"
purchase descriptions was
not adequately justified

Invitations for bids are to describe the Government's requirements clearly and accurately, without including unnecessarily restrictive specifications or requirements which might unduly limit the number of bids. Accordingly, FPR 1-1.307-4 allows the use of a "brand name or equal" purchase description only under specified conditions, and requires that the reasons for using it be noted in the contract file.

The Bureaus of Reclamation and Land Management had used "brand name or equal" purchase descriptions on nine IFBs, seven of which resulted in receipt of three or fewer bids. Only one of the nine contract files included the required justification for use, and that justification, we believe, was inadequate. Bureau contracting officers agreed that indiscriminate or improper use of "brand name or equal" purchase descriptions

can restrict competition. However, they said that users (those for whom items are procured) are often unwilling to prepare detailed specifications or performance standards because they believe it is easier and more cost-effective to cite brand names.

For example, the Bureau of Reclamation issued an IFB, citing a specific brand name, for an electrostatic film digital well logging system. The contract file contained what we believe to be inadequate justification for brand name usage: that it was impracticable and uneconomical to prepare specifications because of a lack of expertise to do so and because few firms make the equipment. The user, however, stated that he had specified the brand name because it was the one most familiar to him through industry pamphlets and an industrial symposium. The IFB resulted in only one bid and a contract award of \$37,000.

A particular brand name was also cited on a Bureau of Reclamation IFB for miscellaneous relay equipment. Although no documentation existed in the contract file to justify brand name usage, the user said he had specified the brand name because of its compatibility with the currently used equipment. He admitted, however, that performance standards for the relays could have been written. The IFB resulted in only two bids and a contract award of \$164,000.

Justification for rejecting
the lowest bid was
inadequately documented

FPR 1-2.407-7 requires a contracting officer to include in the contract file either a statement that the accepted bid was the lowest bid received or a list of all lower bids and the reasons for their rejection. These reasons are to be set forth in such detail as is necessary to justify the award. Compliance with this regulation is necessary to preserve the integrity of the competitive bid system. That is, without adequate documentation, the justification for rejecting the lowest bid cannot be evaluated for compliance with the FPR and other regulations. Additionally, lacking such documentation, the Government has no assurance that favoritism did not occur in contract award or that it paid a fair and reasonable price for the procured item(s).

At three of the bureaus, we found instances of the lowest bid having been rejected with inadequate or no documentation of the rejection justification. Of 26 IFBs reviewed at these 3 bureaus, the lowest bid had been rejected on 6, but only 2 of the rejections were appropriately documented:

--The Fish and Wildlife Service had rejected the lowest bid on four of eight IFBs, but had not adequately documented the rejection justification on two. One of the contract files contained no

documentation of the rejection justification; the other documented that the bid was "nonresponsive," but provided no explanation. The combined value of the contract awards for these two IFBs was about \$19,400; the combined value of the rejected lowest bids was \$18,900.

- The Bureau of Land Management had rejected the lowest bid on 1 of 10 solicitations, but had not documented the basis for its rejection. The contracting officer stated that the lowest bidder's equipment could not meet the performance standards; however, the contract file did not contain an explanation of the rejection determination. The contract award was \$23,031; the rejected lowest bid was \$9,800.
- The Bureau of Reclamation had rejected the lowest bid on one of eight solicitations with no documentation of the rejection justification. We were unable to determine the reason for rejection. The contract was awarded to the only other bidder for \$47,460; the rejected low bid was about \$40,500.

Certain negotiation justification documents were not prepared

Federal Procurement Regulations and DOI regulations require that certain documents be prepared and retained in the contract files to justify the use of negotiation instead of formal advertising. Not properly documenting and justifying negotiated procurement actions casts doubt on the integrity of contracting operations.

At all four bureaus, we found that procurement officials did not always prepare three of the required documents: the determination and findings statement required by FPR 1-3.305, the negotiation memorandum required by DOI regulations and FPR 1-3.811(a), and the justification for noncompetitive procurement required by DOI regulation 14-3.150. Specifically,

- of 36 contract files in which a determination and findings statement was required, 24 did not contain one;
- of 34 contract files in which a negotiation memorandum was required, 27 did not contain one; and
- of 22 contract files in which justification for noncompetitive procurement was required, 15 did not contain one.

OTHER OPPORTUNITIES EXIST TO INCREASE
COMPETITION AND DECREASE COSTS

The FPR suggests several procurement methods which can be used to foster maximum competition and to assure contracting operations' integrity, efficiency, and effectiveness. Additionally, by using these suggested methods, a procuring activity can often reduce its administrative costs and assure economical procurement.

We believe the bureaus could benefit from using, where appropriate,

--the two-step method of formal advertising,

--formally advertised indefinite delivery type contracts instead of blanket purchase arrangements, and

--pre-invitation notices.

Two-step formal advertising was rarely used

Two-step formal advertising is a procurement method designed to promote the maximum competition practicable when available specifications are not definite enough to permit conventional formal advertising. According to FPR 1-2.501, the two-step method is especially useful, in procuring complex and technical items, to prevent the elimination of potentially qualified vendors from the competitive base. The two steps a contracting officer would take to procure such complex and technical items by this method are as follows:

1. Request, receive, and evaluate technical proposals (without pricing) to determine the acceptability of the supplies or services offered.
2. Formally advertise the procurement, issuing IFBs only to those who submitted acceptable technical proposals.

An objective of the two-step method is to develop a sufficiently descriptive statement of the Government's requirements so that subsequent procurements may be made by conventional formal advertising.

We found that the bureaus rarely used two-step formal advertising and that none of their current contracts had been awarded under the two-step method. Although contracting officers said they lack experience in using this method and have received little headquarters direction on its use, they agreed that they could benefit from using it more frequently. For example, a Bureau of Land Management contracting officer said the two-step method could be used to identify a wider competitive base of firms competent to bid on land appraisal and cadastral survey contracts. Such contracts are currently negotiated, and yearly total over \$2 million.

We believe the two-step method could also be used by the National Park Service for soil studies contracts and by the Bureau of Reclamation for visual arts and graphic services contracts.

Blanket purchase arrangements were often used instead of formally advertised indefinite delivery type contracts

Blanket purchase arrangements (BPAs) allow for the purchase of day-to-day requirements through arrangements with vendors to furnish, on a "charge account" basis, such supplies or nonpersonal services as the Government may order from such vendors during a stated period of time or up to a stated dollar amount limitation. BPAs are authorized when, for example, a wide variety of items in a broad class of goods are generally purchased from local suppliers but the exact items, quantities, and delivery requirements are not known in advance and may vary considerably. As a "small purchases" procurement procedure, however, a BPA may not be used to procure supplies and services when the aggregate amount involved is estimated to exceed \$10,000 even though awards under such procurements do not exceed \$10,000. FPR 1-3.602(d) states:

"In arriving at the aggregate amount involved in any one transaction, there must be included all supplies and services which would properly be grouped together in a single transaction and which would be included in a single advertisement for bids if the procurement were being effected by formal advertising."

We found that the National Park Service had issued numerous BPAs to procure supplies and services which, when grouped by similarity, totaled over \$10,000. For example, in 1979 the Service issued six BPAs, with an aggregate dollar limitation of \$40,000, for film processing and supplies. In 1980 it again issued six BPAs for these items, with an aggregate dollar limit of \$45,000.

Additionally, although the Service had established dollar amount limitations on its BPAs, it had often exceeded them. For example, in 1979 the Service issued 11 BPAs for graphic reproduction and supplies. The dollar amount limitations on these BPAs ranged from \$1,500 to \$7,000, and totaled \$51,000. The Service's orders under these BPAs ranged from zero to over \$12,000 with the individual vendors, and totaled \$25,300. In 1980 the Service issued nine BPAs, with a total dollar limit of \$63,000, for similar graphic services and supplies. By June 1980 it had already placed over \$22,300 in orders under these BPAs.

According to contracting personnel, management attention concerning the appropriate use of BPAs has generally been lacking. Additionally, because the procurement office has no control over the orders placed under BPAs, it is not uncommon for BPA dollar limits to be exceeded.

Because the Service has recurring needs for certain supplies and services and can estimate that their annual procurement will aggregately exceed \$10,000, we believe the Service could procure such items more economically and effectively through formally advertised indefinite delivery type contracts. By procuring such items through an indefinite delivery type contract, a procuring activity can likely increase competition for the contract award, and gain additional advantages. For example, indefinite quantity contracts and requirements contracts, either of which is appropriate for use when a recurring need is anticipated for the items to be procured, are advantageous because they

- provide flexibility with respect to both quantities and delivery scheduling,
- permit stocks to be maintained at minimum levels and allow direct shipment to the user, and
- permit ordering of items after actual needs have materialized.

An additional advantage of a requirements contract is that price advantages or savings may be realized through combining several anticipated requirements into one quantity procurement.

Pre-invitation notices were not extensively used

FPR 1-2.205-4 suggests that, when a bidders mailing list or an IFB is excessively long, a procuring activity send pre-invitation notices to the vendors on the mailing list. These notices should furnish a sufficiently complete item description to allow vendors to adequately determine their interest in the procurement. Only those vendors who express an interest are then sent the complete bid set. By using pre-invitation notices, a procuring activity can significantly reduce its administrative costs without inhibiting competition.

We found that only one of the four bureaus--the Fish and Wildlife Service--extensively used pre-invitation notices, usually when a bidders mailing list exceeded 50 names. The other bureaus generally used them only for construction contracts, while the Fish and Wildlife Service used them for construction, supply, and service contracts.

Although bureau contracting officials said they lack definitive guidance and policies on the use of pre-invitation notices, we believe the bureaus could significantly decrease their administrative costs by using the notices more extensively. A Fish and Wildlife Service study found that a greater use of pre-invitation notices can reduce total printing costs by about 25 percent. To demonstrate the beneficial effect of using the notices, we compared two bureaus' solicitations for two similar procurements (of tractors and of heavy equipment). One bureau (Fish and Wildlife

Service) had used pre-invitation notices; the other (Bureau of Land Management) had not. We found that the bid response rate--the number of bids received in proportion to the number of IFBs distributed--was considerably higher for the Service (16 percent) than for the Bureau (5 percent). Additionally, the Service had issued 65 fewer IFBs. A 1978 study by a Service contracting officer estimated the cost of an IFB to be \$7.56 (based on an average of 54 procurements). Using this cost estimate, we determined that the Service saved about \$500 by using pre-invitation notices for the two above procurements.

The cost-saving effect, however, is negated when the response to the pre-invitation notices is not used as the basis for printing and distributing the IFBs. For example, although the Bureau of Reclamation used pre-invitation notices for its construction solicitations, it customarily printed 250 copies of the IFB before receiving responses to the notices. Additionally, even though some of the Bureau's IFBs cost up to \$40 each, the Bureau distributed two or more copies to each vendor. We estimated that for five solicitations the Bureau spent over \$4,000 on IFBs that were not sent, and over \$750 to send extra IFB copies to vendors.

EFFECTIVE PROCUREMENT MANAGEMENT
REVIEWS ASSURE CONTRACTING OPERATIONS'
INTEGRITY AND ECONOMY

Procurement management reviews, as required by FPR 1-2.106, are vital to assuring the efficiency, economy, and integrity of formal advertising operations. These reviews are to include an examination of solicitation content and form, the distribution of solicitations, the bidders mailing lists, the review and evaluation of bids received, response rates, etc. Through such management reviews, therefore, inadequate contracting procedures, insufficient controls, and noncompliance with the FPR can be detected before they impede adequate competition or otherwise adversely affect an office's contracting efficiency and effectiveness.

We believe that the instances of noncompliance that we found during our review could have been detected earlier through procurement management reviews. Additionally, the other opportunities we cited to increase competition and reduce administrative costs could have been identified through such reviews. Of the four bureaus, only the Bureau of Reclamation regularly performed procurement management reviews (every 2 years). Neither the National Park Service nor the Fish and Wildlife Service performed any regularly scheduled or formalized reviews. The Bureau of Land Management had performed a narrow-scope review, as part of a 3-year general administrative review, which was limited to the Bureau's minority business enterprise procurement program, small business and labor surplus area set-asides, and anti-inflation initiatives. Although bureau officials agreed that procurement management reviews are important, they said a lack of staff resources and travel funds deterred them from performing reviews.

CONCLUSIONS AND RECOMMENDATION

Effective, efficient, and economical procurement depends on adequate competition. Compliance with the FPR is necessary to maximize competition and to assure the integrity of the acquisition process in the absence of competition. Noncompliance with the FPR can be detected through procurement management reviews. Such reviews, as required by FPR 1-2.106, can also identify contracting practices and procedures which may unnecessarily inhibit competition, increase costs, or jeopardize the overall efficiency and effectiveness of contracting operations.

Consequently, we recommend that bureau officials frequently perform procurement management reviews.