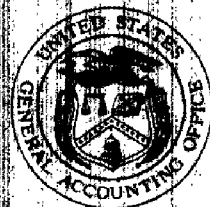


November 1993

**NASA
PROCUREMENT**

**Planning for Pilot Test
of New Procurement
Procedures Is
Adequate**





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

National Security and
International Affairs Division

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November 4, 1993

The Honorable John Glenn
Chairman, Committee on
Governmental Affairs
United States Senate

Dear Mr. Chairman:

As you requested, we reviewed the National Aeronautics and Space Administration's (NASA) planning for a pilot test of new procedures for procurements with annual values between \$25,000 and \$500,000 and total 5-year values up to \$2.5 million. NASA refers to these procurements as "midrange" procurements. The purpose of the pilot test is to determine if the new procedures will reduce the time and effort required to solicit offers and award contracts in this price range. As currently designed, each midrange acquisition of supplies or services shall be reserved exclusively for small business concerns.

Specifically, we reviewed (1) the extent to which the pilot test procurement procedures differ from the Federal Acquisition Regulation (FAR); (2) the development of key features of the pilot project, including the financial impact of using an electronic commerce system¹ on those wanting to do business with NASA and how such a system would provide for amending solicitations; and (3) NASA's plans for assessing the results of the pilot project.

Background

In fiscal year 1992, NASA had 1,976 new procurement actions, of which 1,616, or approximately 82 percent, were under \$500,000. NASA's small purchase procurements of up to \$25,000 typically take 30 days from the receipt of a purchase request to the award of a contract and involve a five-page purchase order. In contrast, procurement lead time for purchases over \$25,000 average 126 days and a 52-page contract.

NASA's objective for the pilot test is to reduce the time and effort applied to midrange procurements without adversely affecting their quality. Proposed pilot test procedures have been developed and reviewed at NASA headquarters and the Office of Federal Procurement Policy (OFPP). OFPP approved the procedures in April 1993 for the purpose of allowing NASA to

¹An electronic commerce system permits computer-to-computer communications and paperless business transactions.

pilot test them. NASA has published the procedures in the Federal Register for public comment, and NASA officials at the pilot test center—Marshall Space Flight Center—have reviewed them. The procedures may be revised or refined during the pilot test, which began on July 1, 1993, and is scheduled to run until June 30, 1997.

Results in Brief

NASA has adequately planned its pilot test of new procurement procedures. If properly implemented, NASA should be able to assess the impact of these procedures on competitiveness and on the participation of minority and small businesses.

The primary change to existing FAR procedures that will be required to implement NASA's new procedures as a normal way of doing business involves the use of an electronic commerce system. Other key features of the pilot test are (1) a small buying team process, and (2) a "best value selection" (BVS) approach. However, for the pilot test, NASA is acting under OFPP's authority to "develop innovative procurement methods and procedures to be tested by selected executive agencies."

NASA officials want to use an electronic commerce system as the primary means of communicating with prospective offerors even though solicitations currently are required to be published in the Commerce Business Daily.² This requirement will have to be waived to allow use of an electronic commerce system. Based on a 1989 report, the Small Business Administration (SBA) concluded that most small businesses had sufficient computer capability to use such systems.

The small buying team process is intended to reduce both the number of personnel involved in the evaluation of offers and the management levels at which award decisions are made. Since BVS will involve less documentation, it could be more vulnerable to challenges by unsuccessful offerors.

To judge the results of the pilot test, NASA has developed baseline data at its pilot test center to help officials determine whether the new procurement procedures are maintaining sufficient competition and adequate participation of small businesses. These quantitative measures will be supplemented by qualitative assessments from both NASA personnel and offerors.

²The Commerce Business Daily lists notices of proposed government procurement actions, contract awards, sales of government property, and other procurement information. Proposed procurements over \$25,000 must be published in the Commerce Business Daily.

Changes to Existing FAR Procedures

The changes to existing FAR procedures include adding a new section to the regulation that primarily enables NASA to use an electronic commerce system to, among other things, announce requirements and disseminate solicitations. Other changes would enable (1) use of small buying teams to evaluate offers and make awards and (2) streamlined and simplified proposal submission and evaluation requirements through a BVS approach. Overall, NASA's new procedures are intended to greatly reduce the amount of documentation required to support the solicitation and award of midrange procurements. A listing of additions to the FAR, which will be necessary to permanently implement the midrange procedures, are contained in appendix I. Other FAR changes or additions may be identified as the 4-year pilot test proceeds.

Electronic Commerce System

NASA intends to use an electronic commerce system to the maximum extent practicable to announce and award midrange procurements. However, Title 41 U.S.C. section 416 and an Agreement on Government Procurement, a part of the General Agreement on Tariffs and Trade,³ require that solicitations be published in the Commerce Business Daily. Waivers to these requirements would be needed to allow use of an electronic commerce system as the only means to publish solicitations. At the time of our review, NASA, OFPP, and the Office of United States Trade Representative were developing a solution to this issue.

NASA's electronic commerce system would include information on future requirements, synopses of requests for offers (RFO) that have been previously issued, amendments to RFOS, new RFOS, and notices of contract awards. The RFO would be transmitted electronically, and applicable FAR clauses for contracts would be included by reference. In addition, offerors would be permitted to submit facsimile offers. The specific features of NASA's electronic commerce system had not been determined at the time of our review. In developing those features, NASA will have to assure itself that interested parties will be able to gain efficient, economical, and effective access to the system, especially to RFO amendments.

Instead of developing its own electronic commerce system, NASA is considering using an existing system such as the Government Acquisition Through Electronic Commerce (GATEC) system.⁴ This system is currently being used by the Air Force at Wright-Patterson Air Force Base in Dayton,

³The goal of the General Agreement on Tariffs and Trade is the substantial reduction of tariffs and other barriers to international trade.

⁴GAO will be reporting separately on the use of electronic commerce in the Department of Defense.

Ohio, to make small purchases under \$25,000. A GATEC system user needs only minimal computer capability—a personal computer and a modem—and access to the system through a value added network, a third party carrier of data providing various services.

Networks can arrange information in diverse formats. For example, one GATEC network arranges solicitations by, among other categories, agency; state, city, and zip code; national stock number; manufacturer; vendor; item name; part number; contract number; and date issued. Users can minimize their on-line computer time by scanning only those RFOS covering the product(s) or service(s) that they can provide to NASA. They could also limit their searches to specific geographical areas. Thus, prospective offerors can choose the network that provides the most useful range of services for their needs.

Seven networks are currently qualified to work with the GATEC system. The networks' services are provided at no charge to the government and alleviate the government from developing the necessary software to implement electronic commerce systems. To access the GATEC system, prospective offerors can expect to pay between \$100 and \$1,000 for the necessary software. In addition, most of the networks charge a flat monthly fee ranging from \$10 to \$60 a month, and some networks also charge by on-line time and/or transaction. The basic charges of the seven GATEC networks are listed in appendix II.

Based on its 1989 report entitled *Small Business in the Year 2000*, SBA concluded that most small businesses had sufficient computer capability to use electronic commerce systems. Based on about one year's experience with GATEC, an Air Force official at Wright-Patterson said that there have been no complaints from vendors regarding their ability to compete because of the electronic commerce system and, in fact, competition for purchases under \$25,000 has increased dramatically because vendors are linked to GATEC. Because of the successful use of GATEC by the Air Force, NASA officials believe that small businesses should have no difficulty affording the cost of using an electronic commerce system for midrange procurements.

Small Buying Teams

NASA's midrange procurement procedures are intended to replace the traditional source evaluation team, typically made up of four to eight people, with a smaller buying team. Normally, the buying team will consist of at least two persons—one representative from the procurement office

and another from the organization acquiring the service or product. Based on offerors' submissions of technical and price proposals in response to an RFO, the buying team could make an award without discussions with offerors.⁵ The representative from the procurement office will be the source selection official and will conduct the debriefings of unsuccessful offerors.

Because midrange procurement requirements are generally less complex, NASA officials believe that the selection decision could be and should be made by a lower ranking person who is perhaps more familiar with the particular requirements of the procurement. This practice would provide senior-level managers, who currently serve as source selection officials, time to concentrate on the merits of more complex, more costly procurements. Also, since the selection official will be a member of the buying team, considerable time should be saved because briefing successively higher levels of management would not be necessary.

NASA officials do not foresee any obstacles in devolving source selection authority below senior management. If future protests from unsuccessful offerors indicate a lack of objectivity by the selection officials, NASA will curb their responsibilities on future midrange procurements.

Best Value Selection

NASA's BVS concept for the midrange pilot test is intended to simplify the selection process while ensuring a fair and impartial selection. Both the government and potential contractors benefit from an efficient selection process that provides potential contractors with clearly defined rules to follow in preparing an offer while, at the same time, ensuring thorough and impartial evaluation. According to NASA's midrange procedures, the BVS concept is intended to meet these needs. If BVS is to be successful, it must be perceived as fair by those who wish to do business with NASA.

Under the BVS process, statements of requirements will be expressed in functional terms to serve as a baseline for preparing an offer, and will identify any additional attributes the government considers important. Offerors will use this information to develop both the technical and price portions of their offers.

Typically, the required documentation on procurements above \$25,000 consists of hundreds of pages of detailed scoring sheets, strength and

⁵Midrange procedures would allow the buying team to make essentially all decisions relating to the procurement, including the award itself if the procurement member is a contracting officer.

weakness assessments, subjective evaluations of non-scored factors, the selection report, and charts for briefing successively higher levels of management up to and including the selection official. In part, such documentation serves to record the rationale employed by the source evaluation team and selection official if an unsuccessful offeror protests.

However, NASA does not plan to use a formal point scoring system or a weighting process in evaluating RFO responses. Under midrange procurement procedures, the buying team will initially evaluate each offer to determine if it is acceptable. A succinct statement of why the offer is unacceptable will be required to support any rejections, and the procurement member of the buying team will be responsible for notifying offerors of any rejections.

The buying team will then identify the best offers among the acceptable offers and may conduct negotiations with those having a reasonable chance of award. For each best offer, the official contract file should contain a short description of its value characteristics, any informal work sheets used by buying team members, and a short, written selection statement that describes the value characteristics of the winning offer.

NASA officials acknowledge that because the BVS concept requires less documentation, there could be more of a problem with successfully defending award decisions and winning bid protests than under the current source selection process. They believe, however, that the risk is acceptable because of the time and effort potentially saved in awarding midrange procurements. The officials are confident that after both NASA personnel and the companies interested in dealing with NASA have had experience with the BVS concept, there will be no inordinate increase in protested awards.

NASA's Plans for Evaluating Test Results

NASA officials will use both quantitative and qualitative data to evaluate the pilot test results. During the pilot test, the procedures will be assessed by NASA officials at headquarters and the pilot test center and by offerors. Primarily, NASA officials must be satisfied with the timeliness and quality of the accomplished procurements. In addition, offerors' views will be used to help assess both the mechanics of the procedures and their perceived value and fairness.

To establish a baseline for their quantitative measurements, NASA officials have gathered data on the test center's midrange procurements for fiscal

years 1990-1992, including small business participation. These data will be used to measure the timeliness of the new procedures and to judge the impact of the pilot test on participation by small businesses. Specifically, the data includes the number of procurement actions, the average time to process a procurement, and the value of awards in total and by contractor type. NASA officials expect to see a decrease in the time needed to process procurements and award contracts, an increase in participation by small and minority-owned businesses, and about the same number of contractors submitting offers.

Qualitatively, NASA officials intend to use a questionnaire to elicit the comments of offerors and NASA personnel involved in implementing the new procedures. To help ensure adequate participation by small and minority-owned businesses, NASA officials at the test center will continuously monitor involvement of such businesses and will be responsible for identifying and assessing any adverse impact on their participation during the midrange test. The questionnaire that NASA plans to provide to prospective and actual offerors will help identify the concerns of the midrange test participants. NASA plans to take remedial action if small and minority business participation declines, and it will use the comments of the offerors to determine if amendments to the midrange procedures are appropriate.

Scope and Methodology

To determine the extent to which NASA's new procurement procedures comply with, or deviate from the FAR and/or other regulatory provisions, and to assess the likely impact of these procedures on small and minority businesses, we reviewed the procedures and discussed them with NASA procurement officials responsible for the pilot program and officials at OFFP. Because of the formative nature of the program, we were limited in the amount of documentation available and, therefore, relied extensively on our discussions with NASA procurement officials for clarification of the proposed procedures and operating plans.

We also reviewed appropriate sections of the FAR and the General Agreement on Tariffs and Trade and compared them with NASA's new procedures. We reviewed the written comments NASA received in response to its announcement of the midrange pilot in the Federal Register, obtained information from Air Force personnel who manage the GATEC system at Wright-Patterson Air Force Base, and obtained user charge information from representatives of each GATEC value added network.

We discussed small businesses' computer capability with SBA officials and reviewed SBA's 1989 report, *Small Business in the Year 2000*. We also obtained baseline data on small business participation in contracts awarded by the test center. We conducted our review between February and October 1993 in accordance with generally accepted government auditing standards.

As requested, we did not obtain agency comments on this report. However, we discussed the report with NASA officials and considered their comments in preparing it.

Unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days after its issue date. At that time, we will send copies to the NASA Administrator; the Director, Office of Management and Budget; and appropriate congressional committees. Copies will also be made available to other interested parties on request.

The major contributors to this report are listed in appendix III. Please contact me at (202)512-8412 if you or your staff have any questions concerning this report.

Sincerely yours,



Donna M. Heivilin
Director, Defense Management
and NASA Issues

FAR Changes to Permanently Implement Midrange Procurement Procedures

18-18.105(f)	Electronic commerce system used to maximum extent practicable to disseminate procurement information and award procurements.
18-18.105(g)	Use of locally generated forms.
18-18.201	Use of buying team (authority).
18-18.203(b)	Use of simplified procurement plan.
18-18.204	Midrange acquisitions reserved exclusively for small business concerns, unless otherwise provided.
18-18.301	Presolicitation publication requirements are streamlined.
18-18.302	Use of electronic commerce system instead of Commerce Business Daily synopsis.
18-18.401	Use of RFO.
18-18.401-2(b)(1)	Simultaneous submission of price and technical proposals instead of separate submissions.
18-18.401-3&4	Right to award without discussions or make selection and conduct negotiations with successful offeror, based on initial evaluation.
18-18.401-4	Use of BVS for competitive negotiations using qualitative criteria.
18-18.402(a)	Use of RFO as an electronically provided document.
18-18.402(b)	Standard FAR clauses and provisions incorporated by reference.
18-18.402(b)(2)	Standard representations and certifications will be required only from the winner prior to award.
18-18.402(d)	Facsimile offers shall normally be authorized for midrange procurements.
18-18.403	Proposal preparation time may be less than current statutory requirements.
18-18.405	Use of simplified contract format; uniform contract format will not be used.
18-18.406(e)	Requirement to disseminate solicitations in accordance with FAR Part 5 waived.
18-18.503	Prerenegotiations and negotiation memoranda in abbreviated form.
18-18.505	Notifications to unsuccessful offerors will be on the electronic commerce system.

(continued)

**Appendix I
 FAR Changes to Permanently Implement
 Midrange Procurement Procedures**

18-18.506	Synopsis of award for subcontracting purposes will be on the electronic commerce system.
18-18.601(b)	Use of area evaluation factors and highly structured scoring eliminated.
18-18.603(a)	Use of value characteristics against which offers will be judged.
18-18.603(b)	Cost and technical proposals will be given equal consideration.
18-18.603(b)	Value characteristics will not be assigned weights.
18-18.604-2(b)	Buying team will conduct parallel negotiations of complete contracts whenever possible.
18-18.604-2(f)	Determination of finalists focuses on reasons for selection of finalists; the buying team is not required to justify non-selection.
18-18.604-2(g)	Finalists will be posted on the electronic commerce system.
18-18.604-4(c)	Streamlined source selection statement, expected not to exceed one page, focuses on rationale for selection of successful offeror.
18-18.604-4(d)	Notification to successful offeror will be on the electronic commerce system.
18-18.606	Selection statement will be posted on the electronic commerce system. Debriefing will concentrate on reasons why the successful offeror was selected.

Basic User Charges of Value Added Networks Participating in the GATEC System

Value added networks	Registration and software	Monthly fee	Charges based on	
			Time	Transactions
A	\$200	\$25	n/a	\$.33
B	\$850	^a	•	•
C	\$100	\$60	n/a	n/a
D	\$900	n/a	\$10/hr. ^b	\$.20
E	\$999	\$32 ^c	n/a	\$.02/100 characters
F	\$895	n/a	\$10/hr.	\$.20
G	\$1,000	\$10-25 ^d	n/a	\$.10 & \$.02/100 characters

Note: The information contained in this table was obtained through discussions with representatives of each network.

^aNetwork B was in the process of determining its fee structure—monthly fee, time, and/or transaction charges.

^bMaximum of \$200 per month.

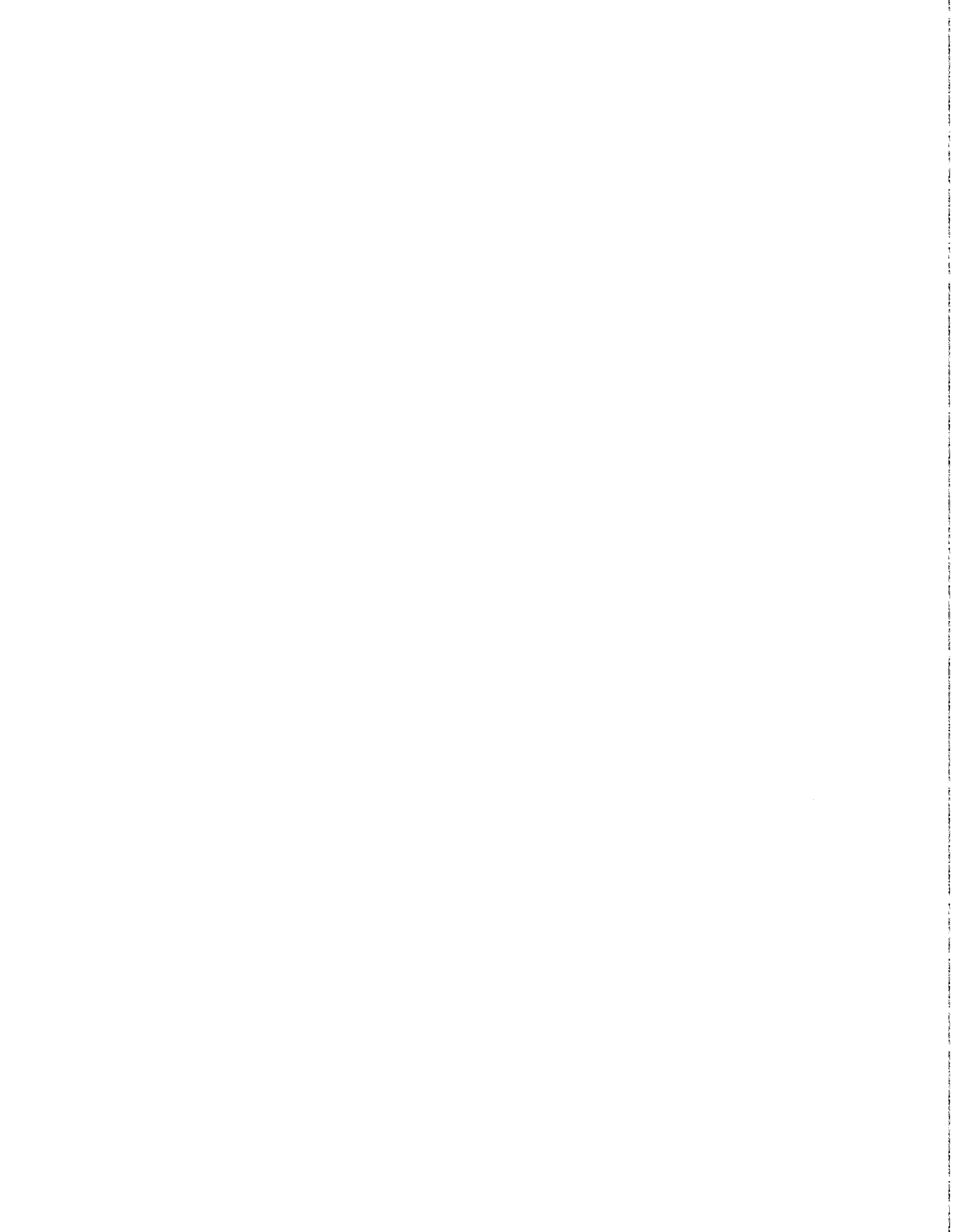
^cIncludes a \$12 monthly maintenance fee.

^dMethod of payment determines monthly charge—\$25 by check or \$10 by electronic transfer of funds.

Major Contributors to This Report

**National Security and
International Affairs
Division, Washington,
D. C.**

David R. Warren, Associate Director
Frank Degnan, Assistant Director
Lawrence A. Kiser, Evaluator-in-Charge
Roberta H. Gaston, Evaluator



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