



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

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PROCUREMENT, LOGISTICS,
AND READINESS DIVISION

August 2, 1982

B-207831

The Honorable Joseph P. Addabbo
House of Representatives



119143

Dear Mr. Addabbo:

Subject: SBA's Breakout Efforts Increase Competitive
Procurements at Air Logistics Centers
(GAO/PLRD-82-104)

Your August 26, 1981, letter asked us to conduct an indepth review of areas within the Department of Defense acquisition system in which a technique called breakout can be used more extensively to encourage greater competition. You also asked us to observe the Small Business Administration's (SBA's) breakout Procurement Center Representative (PCR) specialist's efforts in seeking new competitive contracting opportunities. Component breakout occurs when a component used in the manufacture, modification, or repair of an end item, which was provided initially under a prime contract, is later purchased by the Government through either competition or direct purchase from the actual manufacturer. This letter contains the results of our review of SBA breakout efforts at Air Force air logistics centers (ALCs). We plan during future audits to assess the potential for breakout in other DOD procurement organizations.

In summary, we found that SBA is making a contribution toward breaking out parts for competition, but opportunities exist to improve the effectiveness of the spare parts breakout program and to realize even greater breakout accomplishments.

BACKGROUND

To implement the Small Business Act, as amended, SBA has assigned PCRs to 52 Federal acquisition centers. Their major function is to maximize potential opportunities for small businesses to obtain Defense contracts. In late 1979 SBA initiated a pilot program to increase these efforts by adding a "breakout PCR" position at three ALCs--Oklahoma City, San Antonio, and Warner Robins. The Ogden ALC does not have a breakout PCR specialist but was included in our review because the regular PCR was reporting substantial breakout efforts.

In 1969 Defense established a High Dollar Spare Parts Breakout Program to determine the optimum procurement strategy for replenishment spare parts by either increasing competition or

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purchasing directly from the source manufacturers. SBA officials said that increases in competition should theoretically increase procurement from small businesses as it is likely that they will receive a substantial portion of competitive awards.

The Air Force ALCs' spare parts breakout program consists of assigning a procurement method code (PMC) to items due for procurement and then periodically rescreening assigned codes to revise them as conditions dictate. To reduce this workload, low dollar purchases are subject to limited screening and the rescreening of high dollar purchases is only required every 3 years. The purpose of this breakout program is to change the procurement method of items from sole-source or direct purchase to competitive. The three types of PMCs are (1) sole-source procurement from the prime contractor who is not the actual manufacturer, (2) direct purchase from the actual manufacturer (also a sole-source procurement), and (3) competitive purchase from qualified sources. Various suffix codes denote restrictions that are deemed necessary to ensure reliable and quality parts. Most active ALC parts have some type of restrictive code. On restrictive coded parts, competition is limited to sources that have met Air Force source qualification criteria.

The four ALCs covered in this review managed a total of almost 750,000 parts as of September 30, 1981. (See enc. I.) Fifty-six percent of these parts had not been assigned PMCs because of inactivity. Of the coded items, 25.3 percent were coded for competitive procurement, 72.4 percent were coded for direct purchase, 1/ and 2.3 percent were coded for sole-source procurement. Of the total procurement dollars spent by the four ALCs in fiscal year 1981, \$907 million, or 12.2 percent, were awarded to small businesses. (See enc. II.) Of the \$3,167 million spent for replenishment spare parts by these ALCs in fiscal year 1981, \$619 million was awarded competitively, \$2,472 million was awarded for direct purchases, and \$76 million was awarded sole source. (See enc. III.)

OBJECTIVE, SCOPE, AND METHODOLOGY

Our objective was to assess the effectiveness of the SBA breakout PCR program and the accuracy of the reported accomplishments. We reviewed and compared the activities of the breakout PCRs at San Antonio, Texas; Oklahoma City, Oklahoma; and Warner Robins, Georgia; and the breakout efforts of the PCR at Ogden, Utah. In addition, we

1/Although direct purchases from actual manufacturers are generally sole source, the Air Force uses sole source to refer to parts procured from prime equipment manufacturers which are not actual manufacturers.

- analyzed breakout activities for fiscal years 1980 and 1981,
- obtained statistical data on competitive versus noncompetitive procurement and small business awards,
- ascertained the roles and functions of the ALC groups involved in Air Force breakout efforts,
- evaluated a sample of breakout accomplishments reported by SBA for fiscal years 1980 and 1981, and
- identified SBA breakout program problems and constraints.

Our review was performed in accordance with our current "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions."

SBA'S ROLE IN BREAKOUTS

Once a buy requirement has been initiated, a purchase request is prepared and sent to the ALC material management engineering division to be included in a procurement data package on parts to be competed, and for verifying or rescreening the PMCs on the parts to be purchased. Purchase requests over \$2,500 are sent to the Air Force Small and Disadvantaged Business Office for review as to small business set-aside potential. After this review, purchase requests are routed to the SBA PCR for review as to set-aside potential or possible PMC coding challenge (breakout), and then on to procurement for solicitation of bids or placement under an order contract.

Until the establishment of the breakout PCRs, the function of challenging PMCs was one of the duties of the regular PCR. His breakout efforts were limited because of the time-consuming nature of the task.

The Small Business Act, as amended by Public Law 95-507 in 1978, requires ALCs to assign a small business technical advisor who is fully qualified, technically trained, and familiar with parts being purchased to assist PCRs. The assignment of these advisors and the breakout PCRs has placed more emphasis on breakout efforts at the ALCs included in our review.

ANALYSIS OF BREAKOUT SAVINGS REPORTED BY SBA

The SBA offices at the four ALCs reported 294 breakout actions and associated savings of about \$7.3 million during fiscal years 1980 and 1981. We reviewed 71 of the largest reported savings totaling \$3.5 million and found that SBA had contributed to the successful breakout of 50 of the parts involving about \$2.4 million in claimed savings. (See enc. IV.) However, we question the methodology and rationale SBA used to estimate the savings on some of these parts.

We found that SBA had not contributed to the breakout in 21 of the 71 cases. In most of these cases, the ALCs had previously procured the part from the source identified by SBA or had already broken the part out for competition, but had failed to update their records.

SBA guidelines provide that savings be computed by either

- subtracting current unit price from the prior unit price and multiplying the difference by the quantity purchased, or
- subtracting the low bid from the SBA new source from the next higher bid.

However, we found that these guidelines were not always followed and, in some cases, did not provide clear and complete guidance on how to compute the savings achieved. For example:

- At one ALC, SBA frequently used the Air Force's standard price for the item to compute savings rather than actual bid prices. This usually resulted in understating the claimed savings.
- When using the last purchase price to compute savings, SBA did not consider the length of time since the last purchase was made. Consequently, calculated savings may be understated due to inflation.
- SBA did not make adjustments for significant variances in quantities ordered and the effect on unit prices. Thus, calculated savings can either increase or decrease by comparing unit prices for small orders with prices paid for large orders.
- At some locations, SBA claimed savings each time an item was purchased, while at other locations it only claimed savings resulting from the first purchase after breakout.
- At one ALC, SBA sometimes overestimated breakout savings when contracts were awarded to new sources. Until the new source was qualified, the ALC purchased urgently needed items from the prime or sole-source contractor. In such cases, SBA claimed credit for breaking out all the items in the procurement, rather than reducing the calculated savings to reflect those items in the procurement which were purchased from the prime or sole-source contractor.

Of the 50 breakouts on which SBA had contributed, 42 breakouts, totaling over \$1.5 million, were awarded to small businesses and 8 breakouts, totaling nearly \$900,000, were awarded to large businesses. (See enc. V.) Competition (two or more bids) was introduced in 41 of these 50 procurements.

SBA officials reported they were unable to calculate savings on subsequent purchases of items already broken out because of limited time. Overall, however, the reported savings could well understate SBA's accomplishments. The Oklahoma City breakout PCR, for example, reported savings of over \$92,000 in his December 31, 1981, quarterly report and noted that time constraints did not enable him to follow up on additional items broken out. However, when SBA Headquarters requested that he continue his followup efforts, he identified additional savings of over \$800,000 from 14 more parts he had included in his prior report as broken out but savings not reported.

The SBA personnel at all locations involved in breakout activities told us that limited staff prevents them from reviewing many procurements with breakout potential. To verify this, we asked the PCR at the Ogden ALC to record all the procurements which he handled during 1 week. Four hundred and forty-four procurement requests were recorded for the week. The PCR identified 132 of these procurements for potential breakout, but could review only 17 percent (22 of the 132) for breakout. The PCR was firmly convinced that assigning additional staff to breakout efforts would result in a greater number of breakouts and a larger dollar saving.

CONSTRAINTS TO BREAKOUT EFFORTS

Many of the constraints which have hampered ALCs' breakout efforts have also hampered SBA's breakout efforts. These include:

1. Lack of data on who manufactures the parts for the prime contractor. In these situations, the part is usually coded as though the prime contractor is the actual manufacturer. A large number of parts fall in this category.
2. Missing technical data with uncertainties as to whether data may be available elsewhere. (See enc. VI for an example of difficulties experienced in obtaining missing technical data.)
3. Uncertainties as to legal rights to use data on some parts.
4. Reluctance on the part of ALC material management officials to break out parts because of the risks, whether real or perceived, involved in procuring from a contractor other than the prime contractor.

We plan to address these constraints during future audit efforts.

AIR FORCE AND DEFENSE RECOGNITION OF SBA
BREAKOUT EFFORTS AND ACCOMPLISHMENTS

SBA's breakout efforts have contributed significantly toward improving the Air Force's breakout program by developing valuable information which the Air Force can use to improve the procurement procedures on many parts. Such information includes

- identifying actual manufacturers of parts,
- suggesting new sources of manufacture,
- gathering data and manufacturing specifications not previously available, and
- identifying procedural errors in the operation of the Air Force's breakout system.

SBA's objective of increasing awards to small businesses is compatible with the Air Force's objective of increasing competitive procurements. Both programs pursue breakout efforts which have had limited success at ALCs and offer assistance and new approaches to accomplishing breakouts. The Air Force has been receptive to SBA's efforts and has adapted much of its program to utilize the information obtained from SBA.

In a January 1981 letter to all ALCs, the Air Force Logistics Command (AFLC) Director of Deputy Chief of Staff (DCS)/Logistics Operations emphasized the importance of effectively screening requirements under the High Dollar Spare Parts Breakout Program and recognized, in several instances, that SBA representatives at ALCs have successfully challenged erroneous PMCs and have identified millions of dollars for competitive contracting.

In a November 1981 memorandum, the Deputy Under Secretary of Defense for Acquisition Management encouraged Defense procurement organizations and SBA to work together in revising and improving the High Dollar Spare Parts Breakout Program. The AFLC Director of DCS/Logistics Operations subsequently sent a letter to all ALC commanders requesting that procedures be developed to ensure compliance with these directions.

OBSERVATIONS AND CONCLUSIONS

It should be recognized that the breakout program is most effective when needed technical data is obtained as part of the initial procurement package. In spite of difficulties posed by lack of technical data, SBA's breakout efforts have resulted in large dollar savings in relation to the program's costs. Although the breakout specialists used some questionable methods to compute their savings, we believe they contributed to most of the breakouts reviewed. We also believe that SBA may actually

be saving the Government more money than its reports indicate since the breakout specialists are unable to identify savings in subsequent purchases of some items due to time and resource constraints. Finally, we believe that limited time and staff prevent SBA personnel from pursuing many procurements with breakout potential.

RECOMMENDATIONS

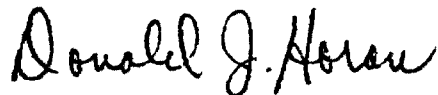
To strengthen SBA's breakout efforts and to increase its ability to identify the actual manufacturers of parts which are now supplied by prime contractors, we recommend that the Administrator of the Small Business Administration assign additional resources to the breakout efforts at ALCs and consider assigning breakout PCR specialists to other Defense procurement centers. We also recommend that the Administrator clarify and expand current guidelines for calculating savings to overcome estimating problems we identified.

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As requested by your Office, we did not obtain official agency comments on the information presented in this report. However, we informally discussed the report with SBA officials who generally agreed with its contents.

We are sending copies of this report to the Chairmen, House and Senate Committees on Small Business and on Appropriations, Senate Committee on Governmental Affairs, and House Committee on Government Operations; the Director, Office of Management and Budget; the Administrator, SBA; the Secretary of Defense; and the Secretary of the Air Force. We will also make copies available to others upon request.

Sincerely yours,



Donald J. Horán
Director

Enclosures - 6

ASSIGNED PROCUREMENT METHOD CODES AT FOUR ALCs

AS OF SEPTEMBER 30, 1981

	<u>Parts managed</u>	<u>PMCs (note a)</u>					
		<u>0</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>
San Antonio ALC	261,078	132,418	15,157	14,249	87,700	7,898	3,656
Ogden ALC	135,411	108,133	6,887	2,349	15,070	1,168	1,804
Oklahoma City ALC	129,949	61,271	12,436	15,712	27,055	11,748	1,727
Warner Robins ALC	<u>223,437</u>	<u>119,747</u>	<u>5,419</u>	<u>10,860</u>	<u>84,970</u>	<u>2,192</u>	<u>249</u>
Total	<u>749,875</u>	<u>421,569</u>	<u>39,899</u>	<u>43,170</u>	<u>214,795</u>	<u>23,006</u>	<u>7,436</u>
Percent of total items	100	56.2	5.3	5.8	28.6	3.1	1.0
Percent of coded items (1 thru 5)	100	0	12.2	13.1	65.4	7.0	2.3

a/PMC indicates no code assigned due to inactivity.

PMCs 1 and 2 indicate competition.

PMCs 3 and 4 indicate sole source from actual manufacturer.

PMC 5 indicates sole source from the prime contractor who is not the manufacturer.

Note: Since SBA was successful in breaking out items which were coded as purchases from actual manufacturers (PMCs 3 and 4), it appears the statistics may understate the number and dollar amount of purchases from prime contractors and overstate the number and dollar amount of purchases from actual manufacturers.

FY 1981 PROCUREMENTS AWARDED TO SMALL BUSINESSES

	San Antonio <u>ALC</u>	Ogden <u>ALC</u>	Oklahoma City <u>ALC</u>	Warner Robins <u>ALC</u>	<u>Total</u>
Total procurements (millions)	\$2,055.8	\$1,234.5	\$1,797.5	\$2,373.1	\$7,460.9
Percent competitive awards	15.3%	18.4%	26.0%	22.3%	-
Small business awards	\$ 277.6	\$ 151.0	\$ 209.7	\$ 268.7	\$ 907.0
Percent small business awards (note a)	13.5%	12.2%	11.7%	11.3%	12.2%

a/Computed as percent of total procurements.

NOTE: This chart includes only contracts awarded directly to small businesses. Many of the spare parts contracts awarded to prime contractors which are not small businesses may have been subcontracted to small businesses for actual manufacture. These subcontracts are not reflected in the above chart.

FISCAL YEAR 1981 REPLENISHMENT SPARE PARTS PROCUREMENT

DOLLARS BY PROCUREMENT METHOD CODES (note a)

	<u>Total parts</u>	<u>Total</u> (000)	<u>Codes 1 and 2</u>		<u>Codes 3 and 4</u>		<u>Code 5</u>	
			<u>Parts</u>	<u>Amount</u> (000)	<u>Parts</u>	<u>Amount</u> (000)	<u>Parts</u>	<u>Amount</u> (000)
San Antonio ALC	51,798	\$1,150,950	13,787	\$193,326	37,387	\$ 944,545	624	\$13,079
Ogden ALC	27,815	522,177	4,928	90,255	22,726	458,784	161	3,138
Oklahoma City ALC	29,524	892,178	9,675	157,969	19,501	727,434	348	6,775
Warner Robins ALC	33,684	571,511	6,286	177,551	23,770	340,778	3,628	53,182
<u>Total</u>	<u>142,821</u>	<u>\$3,166,816</u>	<u>34,676</u>	<u>\$619,101</u>	<u>103,384</u>	<u>\$2,471,541</u>	<u>4,761</u>	<u>\$76,174</u>
Percent of Total	100		24.3%	19.6%	72.4%	78.0%	3.3%	2.4%

a/PMCs 1 and 2 indicate competition.

PMCs 3 and 4 indicate sole source from actual manufacturers.

PMC 5 indicates sole source from prime contractor who is not actual manufacturer.

Note: Since SBA was successful in breaking out items which were coded as purchases from actual manufacturers (PMCs 3 and 4), it appears the statistics may understate the number and dollar amount of purchases from prime contractors and overstate the number and dollar amount of purchases from actual manufacturers.

SBA-REPORTED SAVINGS FOR
FISCAL YEARS 1980 AND 1981

	<u>SBA</u>		<u>Reviewed by GAO</u>		<u>Breakouts validated by GAO</u>		<u>Breakouts not considered valid by GAO</u>
	<u>No. of actions</u>	<u>Savings</u>	<u>No. of actions</u>	<u>Savings</u>	<u>No. of actions</u>	<u>Savings</u>	<u>No. of actions</u>
San Antonio ALC	110	\$ 792,224	28	\$ 656,670	15	\$ 395,275	13
Oklahoma City ALC	82	1,198,520	15	981,001	8	685,262	7
Warner Robins ALC	16	a/940,628	16	940,628	16	940,628	0
Ogden ALC	<u>86</u>	<u>b/4,388,541</u>	<u>12</u>	<u>924,479</u>	<u>11</u>	<u>405,703</u>	<u>1</u>
Total	<u>294</u>	<u>\$7,319,913</u>	<u>71</u>	<u>\$3,502,778</u>	<u>50</u>	<u>\$2,426,868</u>	<u>21</u>

a/ Although the total amount of SBA-reported savings is questionable because of computation methods, SBA's actions resulted in breaking out these procurements.

b/ About \$4 million was applicable to the F4 aircraft.

TYPE OF BUSINESS AWARDED BREAKOUTFISCAL YEARS 1980-81

	<u>Small Businesses</u>		<u>Large Businesses</u>	
	<u>No. of awards</u>	<u>Amount</u>	<u>No. of awards</u>	<u>Amount</u>
San Antonio ALC	14	\$ 230,724	1	\$164,551
Oklahoma City ALC	3	252,246	5	433,016
Warner Robins ALC	14	658,564	2	282,064
Ogden ALC	<u>11</u>	<u>405,703</u>	-	-
Total	<u>42</u>	<u>\$1,547,237</u>	<u>8</u>	<u>\$879,631</u>

AN EXAMPLE OF DIFFICULTIES EXPERIENCED
IN OBTAINING MISSING TECHNICAL DATA

We previously reported 1/ on certain problems the Oklahoma City ALC had in preparing data packages for competitive procurement purposes. The report cited two specific parts as examples of the ALC's failure to obtain complete data from the manufacturer in time to permit competition. In following up on the status of these two parts, we found that one part is no longer being purchased. As of February 18, 1982, the other part was still coded as having an incomplete data package. The files showed that the contractor had failed to respond to two ALC letters (dated May 7, 1979, and January 21, 1980) requesting the additional data. On May 4, 1981, the ALC purchased 1,926 of these parts for \$498,584 on a sole-source basis from the same contractor. We found no evidence that ALC officials had made any additional attempts to obtain the complete data package for this part.

1/"Noncompetitive Procurement of Aeronautical Spare Parts at the Oklahoma City Air Logistics Center" (B-200136, Oct. 31, 1980).