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UNITED STATES GENERAL ACCOUNTING OFFICE

Washington, D.C. 20548

FOR RELEASE ON DELIVERY  
Expected at 10:00 a.m.  
Thursday, September 16, 1982

STATEMENT OF  
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PROCUREMENT, LOGISTICS, AND READINESS DIVISION  
BEFORE THE  
SENATE COMMITTEE ON SMALL BUSINESS  
ON  
GAO'S ASSESSMENT OF SBA BREAKOUT EFFORTS  
AT FOUR AIR FORCE AIR LOGISTICS CENTERS



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Mr. Chairman:

I am pleased to appear here today to discuss our assessment of certain efforts by the Small Business Administration (SBA) to identify new competitive contracting opportunities in the procurement of aircraft spare parts by the Air Force. As you may know, we performed this work at the request of Congressman Joseph P. Addabbo, a member of the House Small Business Committee, and issued our report on August 2, 1982.

SBA has Procurement Center Representatives (PCRs) at 52 Federal acquisition centers. Additionally, since late 1979, an SBA breakout PCR has been assigned to work at the Air Force Air Logistics Centers (ALCs) in San Antonio, Texas; Oklahoma City, Oklahoma; and Warner Robins, Georgia. Their primary mission has been to challenge spare parts procurements that the Air Force plans to make on a noncompetitive basis--primarily from large business prime contractors who supply the major end items--and to attempt to identify ways to purchase the parts on a competitive basis, or, at a minimum, directly from the part's actual manufacture

We looked at the activities and reported accomplishments of the breakout PCRs during fiscal years 1980 and 1981. Additionally, in our review, we examined the breakout efforts of the Odgen ALC's regular PCR for the same period because he was reporting substantial breakout accomplishments, even though breakout was not his primary function.

During this 1980 to 1981 period, SBA reported 294 breakout actions at the four ALCs and related savings of \$7.3 million.

We tested 71 of the largest reported savings totaling \$3.5 million. Although we found some problems with the methodology and rationale for estimating some of the savings, we concluded that SBA could reasonably claim credit for successfully breaking out 50 of the parts, involving reported savings of about \$2.4 million. Forty-two of the 50 breakouts, totaling over \$1.5 million, were awarded to small businesses, while 8 breakouts, totaling nearly \$900,000, were awarded to large businesses. (Specific details for each ALC are included in the attachments.) Competition (two or more offerors) was introduced in 41 of these 50 procurements.

We did not agree with SBA's claimed savings on 21 of the cases. In most of these cases the ALC had either previously procured the part from the source identified by SBA or had already broken the part out for competition, but had failed to update its records.

SBA's reported savings, however, could very well understate actual breakout accomplishments. SBA officials have reported they are sometimes unable to calculate savings on subsequent purchases of items already broken out because of limited time and staff.

An example of how the participation of an SBA breakout PCR can result in a successful breakout follows:

The San Antonio ALC had been buying tube assemblies directly from the prime contractor since 1978. In August 1980, the Air Force issued a purchase request coded 3L (low dollar procurement--noncompetitive) and solicited a bid only from the prime contractor.

The SBA breakout PCR challenged the procurement method code. In response to this challenge, procurement officials at the San Antonio ALC recoded the procurement 3-H (incomplete data package). The breakout PCR again challenged the code. Procurement officials at the ALC then found the drawing in question, recoded the procurement for open competition, and issued a new purchase request.

The subsequent purchase of 661 units was competitively awarded to a small business at a price which was about \$181 per unit lower than the price bid by the prime contractor and about \$321 per unit less than the prime contractor's original sole-source bid in August 1980. The Air Force thus paid \$212,498 less to buy the tube assemblies competitively, than if the prime contractor's original sole-source bid had been accepted.

Unfortunately, breakout progress has been, and will continue to be, slow unless the Air Force finds ways to effectively deal with a number of constraints which have hampered breakout efforts. These include:

- Incomplete information on who actually manufactures the parts for the prime contractor.
- Missing technical data with uncertainties as to whether data may be available elsewhere.
- Questions of whether the data is proprietary, and therefore legally unavailable to other suppliers.
- Reluctance on the part of ALC material management officials to accept the additional risk and inconvenience in procuring from a new source.

In spite of difficulties posed by these constraints, SBA's breakout efforts have resulted in large dollar savings relative to the program's costs. SBA's breakout efforts have also increased DOD's awareness of potential savings through breakout and have helped the Air Force identify new opportunities to obtain competition.

Within the next year, SBA would like to expand the breakout program by assigning breakout PCRs to a number of additional installations. We strongly support this action since effective use of these additional breakout PCRs should result in even greater savings to the Government.

Mr. Chairman, this completes my prepared statement. We would be pleased to respond to any questions you or other members of the committee have at this time.

SBA REPORTED SAVINGS FOR  
Fiscal Years 1980 and 1981

	<u>No. of</u> <u>Actions</u>	<u>SBA</u> <u>Savings</u>	<u>Reviewed by</u> <u>GAO</u>		<u>Breakouts vali-</u> <u>dated by GAO</u>		<u>Breakouts</u>
			<u>No. of</u> <u>Actions</u>	<u>Savings</u>	<u>No. of</u> <u>Actions</u>	<u>Savings</u>	<u>conside</u> <u>valid b</u> <u>No. of</u> <u>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	940,628	16	940,628	16	940,628	0
Odgen ALC	<u>86</u>	<u>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>

Type of Business Awarded Breakout  
Fiscal Years 1980 and 1981

	<u>Small Business</u>		<u>Large Business</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
Odgen ALC	<u>11</u>	<u>405,703</u>	<u>-</u>	<u>--</u>
Total	<u>42</u>	<u>\$1,547,237</u>	<u>8</u>	<u>\$879,631</u>