



099338
26-084
4042
RELEASED 099338

REPORT OF THE
COMPTROLLER GENERAL
OF THE UNITED STATES



Procurement Of Beef By The
Department Of Defense--

Are We Getting Our Money's Worth?

The Department of Defense beef procurement program needs improvement.

GAO's review and the results of the Defense Supply Agency special beef inspections show that the military services did not receive the high-quality beef which Defense specifications require and for which the services paid.

PSAD-76-142

MAY 25, 1976

703132

099338



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

May 13, 1976

B-146700

The Honorable Lawton Chiles
Chairman, Subcommittee on Federal Spending *sent 5/1*
Practices, Efficiency, and Open Government
Committee on Government Operations
United States Senate

Dear Mr. Chairman:

Pursuant to your July 14, 1975, request, we have reviewed the meat procurement practices and procedures of the Department of Defense.

This report contains recommendations to the Secretary of Defense which are set forth on pages 12 and 23. As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the House and Senate Committees on Government Operations not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report. We shall be in touch with your office in the near future to arrange for the release of the report so that the requirements of section 236 can be set in motion.

We are sending copies of this report to Senator Lowell P. Weicker, ranking minority member of the Subcommittee. At your request, we have not obtained comments from the Department of Defense.

James B. Stille
Comptroller General
of the United States

BEST DOCUMENT AVAILABLE

C o n t e n t s

		<u>Page</u>
DIGEST		<u>1</u>
CHAPTER		
1	INTRODUCTION	1
	Scope of review	1
	DOD beef procurement	2
2	DEFENSE SUPPLY AGENCY	5
	SPECIAL INSPECTION OF BEEF	
	Role of General Accounting Office	5
	Inspection results	5
	Effect of special investigation on contract award prices	6
3	AUDIT OF SELECTED CONTRACTORS	8
4	SPECIFICATIONS	9
	Stringent requirements have a negative impact	9
	Background	9
	Findings	10
	Recommendation	12
5	INSPECTIONS	13
	Weaknesses in meat inspection practices	13
	Background	13
	Findings	14
	Corrective action taken	17
	Conclusions	18
6	CONTRACTING AND CONTRACT ADMINISTRATION	19
	Contracting practices and procedures need to be improved	19
	Background	19
	Findings	20
	Recommendation	23
7	CURRENT INITIATIVES UNDERWAY	24
	Department of Defense	24

BEST DOCUMENT AVAILABLE

APPENDIX		<u>Page</u>
I	Price trend charts for seven troop issue beef items purchased by DOD during fiscal years 1971-75	25
II	Percentage of nonconformance by type of beef item	32
III	Volume of DOD contracts with five selected contractors for troop-issue beef items in fiscal year 1975	33
IV	Principal officials of the Department of Defense responsible for administration of activities discussed in this report	34

ABBREVIATIONS

DIS	Defense Investigative Service
DOD	Department of Defense
DPSC	Defense Personnel Support Center
DSA	Defense Supply Agency
f.o.b.	free on board
USDA	U. S. Department of Agriculture
VA	Veterans Administration

REPORT OF THE
COMPTROLLER GENERAL
OF THE UNITED STATES

PROCUREMENT OF BEEF BY THE
DEPARTMENT OF DEFENSE--
Are We Getting Our Money's
Worth?

D I G E S T

Improvement is needed in the Department of Defense's procurement of beef for feeding military personnel.

Department specifications for beef are costly, complex, and possibly more stringent than required to meet the needs of military services. As a consequence, there is a limited number of meat processors that are willing or able to sell beef to the Department.

Further, it has been demonstrated in fiscal year 1975 that much of the beef accepted from contractors did not meet the specifications. Thus Department specifications for beef are not achieving the purposes for which they were designated. (See chs. 2 and 4.)

Department inspections made in contractors' plants have not insured that the beef delivered meets specifications. The principal cause was a lack of sufficiently trained and experienced inspection personnel. (See ch. 5.)

GAO recommends that the Secretary of Defense improve the procedures and practices followed in awarding and administering beef contracts in order to

- obtain more effective competition,
- lower administrative costs through reduction of procurement actions, and
- obtain meat of adequate quality at reasonable cost. (See ch. 6.)

Problems in the Department's beef procurement system and results of the Defense Supply Agency's special inspection show that the military services did not receive the choice quality beef that Department specifications require.

BEST DOCUMENT AVAILABLE

GAO recommends that the Secretary of Defense reappraise the policy of using special military beef specifications when there exist alternative institutional meat purchase specifications which are accepted by meat processors, institutional customers, grocery stores, and Government agencies.

In September 1975 a Department of Defense task force was formed to study the Department's procurement system at the request of the Chairman of the Subcommittee. The task force will also review how the quality assurance program and the Department's specifications affect the subsistence procurement function.

At the request of the Subcommittee GAO has not obtained comments from the Department.

CHAPTER 1
INTRODUCTION

R

U N 11501

On July 14, 1975, the Chairman, Subcommittee on Federal Spending Practices, Efficiency and Open Government, Committee on Government Operations, United States Senate, requested us to assist in a special study and investigation of military beef purchase practices. The request was initiated after a special investigation of selected military meat shipments revealed that beef items which did not meet military specifications were being delivered to the Department of Defense (DOD), even though they were inspected by both contractor and military personnel. C.

Specifically, we were requested to:

- Observe the special inspection of beef items at six designated supply points throughout the United States.
- Assemble statistical data relative to DOD's purchases of beef items from fiscal year 1971-75.
- Make audits of selected beef processors to determine whether DOD received the choice quality which it specified.
- Review DOD specifications for beef items to determine their impact on costs and competition.
- Review DOD meat inspection procedures.

SCOPE OF REVIEW

We made our review at the Defense Personnel Support Center (DPSC) in Philadelphia and its regional subsistence offices in Alameda, California, and New Orleans, Louisiana. We interviewed officials at the U. S. Army Natick Laboratories, Natick, Massachusetts, and numerous beef buyers and processors in the New England area and the Midwest. We also audited the records of three selected meat processors that had supplied beef to DOD, and we observed special inspections of military beef in six cities throughout the United States. 2
KAC 11562

In addition, we interviewed officials of the U. S. Department of Agriculture (USDA) and the Veterans Administration (VA) concerning DOD's meat specifications, inspection procedures and practices, and contracting practices for beef items. 4
16

We also charted the average price trend data for troop-issue beef items from July 1971 to June 1975. (See app. I.)

DOD BEEF PROCUREMENT

DOD has established uniform menus that are designed to provide the necessary nutrients for a properly balanced diet and has designated cuts of beef and other food items that will be stocked and issued to mess halls for consumption by Armed Forces members. The mess halls order the food items needed to feed their assigned personnel in accordance with the menus. Orders are filled from DOD warehouse stocks or by contractors.

To provide for logistic support and menu planning for military personnel, DOD established the Food Service Program. The Assistant Secretary of Defense (Installation and Logistics) has been assigned overall policy guidance for the Program. The key DOD organizations in the Food Service Program follow.

Food Planning Board

This Board is responsible for providing uniform menus and recipes for DOD. It determines food items to be used and prepares a uniform food acceptability evaluation system. The menus are developed to insure maximum acceptability of food items and to achieve the nutritional level required for the well-being of military personnel. Problems that arise related to interservice responsibility of inspections are resolved by the Office of the Surgeon General, Department of Defense, which is responsible for coordinating technical procedures used by military veterinary personnel.

Armed Services Product Evaluation Committee

This Committee, consisting of representatives of all branches of the services, was established to assist the Food Planning Board in carrying out its mission. The Committee serves as the control point for determining the essential characteristics and acceptability of food items the military services use.

Natick Development Center, U. S. Army

The Center is responsible for the technical adequacy of specifications, standards, and purchase descriptions for food. Upon request, the Center reviews military inspection procedures and advises procurement and inspection personnel on acceptance of food products that appear to deviate from specifications.

DPSC

The Subsistence Directorate within DPSC is responsible for the procurement, warehousing, inventory control, and issuance of about 1,700 perishable and nonperishable commodities for troop consumption and for resale by military commissaries. Procurement of carlot quantities is handled at DPSC, whereas less than carlot quantities are procured on a decentralized basis by regional subsistence offices. Beef shipments from contractors are routed directly to the using military installations and to military and commercial refrigerated warehouses located throughout the country. DPSC controls the issues from these warehouses.

U. S. Army Health Services Command, 94-1-251 Veterinary Corps

The primary mission of the Veterinary Corps is inspection of food and food establishments used to supply all military departments.

Beef market

In 1974, 24.2 billion pounds of beef were consumed in the United States. DOD's total beef procurement amounted to 194 million pounds, or less than 1 percent of the total beef consumed in the country.

In fiscal year 1975, DPSC procured food subsistence items costing more than \$938 million, of which \$555.3 million was for perishable items and \$382.7 million was for nonperishable items. The procurement of beef amounted to \$121 million, or about 22 percent of all perishable items. The beef consisted of regular troop-issue beef and special supplementary beef items. The special supplementary beef items cost \$6 million and included such cuts as minute steaks and quarters of beef. The troop-issue beef items procured in fiscal year 1975 are summarized below.

<u>Item</u>	<u>Number of contractors</u>	<u>Purchased in FY 1975</u>
Grill steak	22	\$ 29
Swiss steak	20	13
Oven roast	20	16
Pot roast	22	14
Diced beef	18	6
Ground beef, bulk	34	21
Ground beef, patties	34	16
TOTAL		<u>\$115</u>

BEST DOCUMENT AVAILABLE
3

According to USDA, there are about 2,500 processors of beef products in the United States. DOD did business with 55 of these firms, of which 13 supplied 84 percent of the troop-issue beef.

CHAPTER 2

DEFENSE SUPPLY AGENCY SPECIAL INSPECTION OF BEEF

At the request of the Subcommittee, the Defense Supply Agency (DSA) formed a special team to inspect beef items stored in refrigerated warehouses at six selected sites throughout the country. The team's mission was to inspect beef processed by a number of contractors to determine whether the beef items met military specifications. According to DSA, the inspections were made by the most qualified food inspection specialists available within the Government, and the procedures used were similar to those required of contractors at the time of processing.

ROLE OF THE GENERAL ACCOUNTING OFFICE

At each site we observed the selection procedures, the security of the beef samples selected, and the inspection process. We questioned the statistical method of selecting samples for examinations and made suggestions, that were adopted, for improving the procedures. We observed no irregularities in the actual inspection of beef.

INSPECTION RESULTS

The team inspected 1,221,600 pounds of beef supplied by 19 contractors. The results showed that 750,939 pounds, or 61.5 percent of all beef examined, did not meet DOD procurement specifications. The majority of the nonconforming beef was processed in Massachusetts, California, and Washington. The specifications classify nonconforming beef as

1. Critical--unwholesome or potentially dangerous to the health of the consumer.
2. Major--defects in the meat and such poor workmanship that there is a major effect on the consumability of the meat.
3. Minor--poor workmanship with only a slight effect on consumability of the meat.

Appendix II shows the percentage of nonconformance by type of beef item, and the following table summarizes the inspection results.

BEST DOCUMENT AVAILABLE

	<u>Pounds</u>	<u>Percent</u>
Nonconforming:		
Critical	42,752	3.5
Major	282,923	23.2
Minor	<u>425,264</u>	<u>34.8</u>
	750,939	61.5
Conforming	<u>470,661</u>	<u>38.5</u>
Total Examined	<u>1,221,600</u>	<u>100</u>

As of December 5, 1975, DPSC had negotiated \$11,086 in price adjustments on the nonconforming beef found in the DSA inspections. The amount of the price adjustments is less than 1 percent of the contract price.

The large amount of nonconforming beef found during the DSA investigation indicated that contractors were not meeting contract specifications and that DOD inspectors were not adequately performing their jobs. The inspection team was highly critical of the poor workmanship on the beef they examined. The poor workmanship was evidenced by the fact that fat, bone, tendons, and other material had not been removed. In addition, some of the meat did not comply with specified weights and other tolerances. In five of the special inspections, the inspectors found what they believed to be a less costly cut of meat, normally used for roasts, being substituted as a steak item. DOD is investigating this matter.

EFFECT OF SPECIAL INVESTIGATION ON CONTRACT AWARD PRICES

In mid-1975 some contractors stopped bidding for military beef contracts. As a result, there were fewer competitors and prices increased for the beef DPSC procured. For example, the price of diced beef increased an average 35 cents a pound, or 30 percent, during July and August 1975. Also, since that time, DPSC has not been able to buy enough quantities of diced beef to meet all demands.

Some of the meat processors said their reason for not bidding was the tightened inspection practices of military inspectors since DSA's special inspection took place. An example of the impact on prices due to intensified inspection practices can be illustrated by comparing the prices of pot roasts with

prices of oven roasts. In June 1975 the average price was \$1.35 a pound for pot roasts and \$1.66 a pound for oven roasts, a difference of 31 cents. Three months later, in October 1975, the difference in prices between pot roasts and oven roasts had narrowed to only 6 cents a pound. DPSC personnel attributed the narrowing of the price difference from 31 cents a pound to only 6 cents a pound to the increased workmanship required on pot roasts to meet the requirements of tightened inspection practices. It appears that, before the DSA special inspections, the specified workmanship was not being performed by the processors or required by the Government inspectors.

BEST DOCUMENT AVAILABLE

CHAPTER 3

AUDIT OF SELECTED CONTRACTORS

We selected for audit five contractors that sold beef items to DOD. Collectively, these five contractors sold \$44 million of the \$121 million of beef items DOD purchased in fiscal year 1975. The contractors were selected with the assistance of the Subcommittee staff. The volume and sales of the selected contractors for fiscal year 1975 is shown as appendix III.

We audited GOLD-PAK Meat Co., Inc.; Max Bauer Meat Packers, Inc.; and Ward Meat Co., Inc. However, Blue Ribbon Frozen Foods, Inc., and G&G Packing Co., Inc., denied us access to the books, records, and documents pertinent to military contracts. While we were considering further action, the records were subsequently subpoenaed and obtained by a Federal grand jury to investigate allegations of fraud.

Our audits of the three contractors included an examination of the contractors' purchase, production, and sales records pertinent to military contracts from July 1974 through August 1975. Our audits were made with the technical assistance of representatives of the Army Health Services Command.

We found no indication that unauthorized grades or cuts of beef were sold to DOD. At one contractor's plant, however, we did note isolated instances where beef graded as good was used instead of choice. These instances were insignificant in amounts and appeared to be due to oversight rather than design.

In addition, we compared the average prices paid to the five contractors for all beef items with the average prices for all contractors doing business with DOD. We found no major differences in the contract prices paid to the five selected contractors, compared with the average prices paid to all contractors doing business with DOD. (See app. I for the data used in our comparison.)

CHAPTER 4

SPECIFICATIONS

STRINGENT REQUIREMENTS HAVE A NEGATIVE IMPACT

The stringent requirements of troop-issue beef specifications have had a negative impact on the number of meat processors willing or able to compete for DOD's beef contracts. Also the high cost of beef purchased by the military services is attributed to the stringent processing requirements imposed by the specifications. The cost of beef to other Government agencies using institutional meat purchase specifications is generally lower than prices paid by DOD.

BACKGROUND

The report of the Commission on Government Procurement in December 1972, stated that food specifications were the most unusual and confusing of all Federal specifications in the procurement system. The report also concluded that many times a specification could result in higher prices to the Government because of production line changes necessary to meet special requirements. This occurs when a Government specification is substantially different from that used in regular commerce.

The General Services Administration, when it was established in 1949, was given oversight responsibility for establishing uniform food specifications. By agreement with GSA, the USDA was delegated responsibility for preparing minimum standards for food products. DOD was also given the right to prepare and use military specifications for food procurements.

DOD specifications, along with supplementary descriptive data, inform prospective suppliers of the minimum quality needs of the military services. After a basic specification is developed, further changes can be made as a result of (1) industry proposals, (2) requests from DPSC, (3) unsatisfactory reports from the military services, (4) evaluations by the Armed Forces Product Evaluation Committee, (5) technological advances, or (6) scheduled periodic reviews of the specifications.

Military food specifications often differ from those of comparable commercial products when the services believe that commercial standards are not adequate to meet their requirements.

The stated objectives of some of the military requirements are to (1) achieve high-quality products, (2) meet specified nutritional levels, (3) achieve longer shelf life, (4) permit

portion control, and (5) consider domestic or overseas shipment. To accomplish these objectives, the specifications are more restrictive than institutional meat purchase specifications which are generally accepted and understood in the industry.

Government agencies, such as USDA, VA, and the Coast Guard, purchase beef using specifications which differ from DOD's. The differences in specifications for similar beef products involve such requirements as temperature of beef items during processing, the extent of trimming, weight and thickness, and the grade of beef required.

We believe that specifications which differ substantially from normal commercial practices can have the effect of increasing the cost of the product to the Government and of decreasing the number of suppliers that are willing or able to provide the product.

FINDINGS

Impact on cost

The impact of specification requirements on the cost of beef to DOD is difficult to measure. However, industry officials, as well as Government officials, generally acknowledge that DOD's specifications result in increased costs for beef items over comparable commercial beef items.

Industry sources and officials of large retail food chains have characterized DOD specification requirements as inflexible, ambiguous, and complicated.

An official of a large beef-processing plant commented that he would need the equivalent of one full-time employee to keep up with the various amendments to the DOD specifications and solicitations. For example, from November 1974 through June 1975, there were 12 amendments made to a master solicitation for fabricated steaks, roasts, ground beef, and diced beef.

Industry officials also told us that, in order to comply with DOD specifications, they were forced to over process the beef items at a low rate of production to insure that the end-items are acceptable. VA generally uses modified institutional specifications for procurement of beef items. The additional cost for beef items purchased under DOD specifications is compared with the cost of similar beef items VA purchased.

On the same day in October 1975, DOD and VA each awarded contracts for about 30,000 pounds of diced beef. DOD paid \$1.54 a pound, where as VA paid \$1.12 a pound, a difference of 42

cents. Although different contractors were involved, industry sources attributed the price differential largely to the restrictiveness of the DOD specifications. In another instance, DOD and VA on the same day procured approximately the same quantities of pot roasts from different contractors. DOD paid \$1.80 a pound, whereas VA paid \$1.19 a pound, a difference of 61 cents.

Impact on competition

In fiscal year 1975, 13 contractors supplied 84 percent of the troop-issue beef items to DOD. In view of the fact that there are over 2,500 potential suppliers for various beef items, we believe that limited competition exists in the sale of beef items to DOD. Most of the 13 companies are relatively small businesses. An industry official told us that DOD beef specifications made volume production so difficult that only small contractors were encouraged to participate in bidding on DOD contracts. An official of a large packing house told us that he did not intend to bid on DOD contracts because of the complexities of DOD's procurement system. This same packing house, however, does a large volume of business with USDA.

Another large contractor, that did a significant volume of business with DOD, told us that the production of fabricated beef for DOD had become highly specialized and involved a large capital commitment on the part of those contractors electing to do business with DOD. The contractor gave examples of its investment in special freezing and tempering rooms and in equipment needed for boning, grinding, slicing, and fat testing. It estimated the investment to be a minimum of \$400,000. We believe the investment required could be a contributing factor toward discouraging contractors from bidding on DOD contracts.

One contractor told us that, although it had purchased and used a dicing machine recognized by Natick Laboratories as being able to produce diced beef in accordance with DOD's specifications, its diced beef failed to meet specifications when examined by the military inspectors because the beef was diced too fine. The contractor said he no longer bids on diced beef contracts because of this situation.

BEST DOCUMENT AVAILABLE

Need for DOD specification

DOD's beef specifications may be unrealistic and excessive. For example, the DSA special inspection found that 61.5 percent of the inspected beef (see p. 5) did not meet specifications. However, DSA stated that most of the beef not conforming to the specifications was of high quality.

A further contradiction arises when nonconforming beef products are accepted by the contracting officer with little or no price adjustment. If nonconforming beef can be accepted for troop consumption, the indication is that the present beef specifications may be unrealistic or that DPSC is waiving the specifications by negotiating nominal price adjustments for nonconforming beef.

DOD's specifications are more restrictive than those used by other Government agencies. For example, VA has been purchasing beef it considers satisfactory using modified institutional specifications designed by and understood within the beef industry.

Currently, the Procurement and Production Division of DPSC has requested that it be allowed to purchase diced beef using the modified institutional specifications. This proposal has not been accepted by the Technical and Quality Assurance Division of DPSC because of the belief that the specifications will not result in acceptable diced beef.

RECOMMENDATION

In view of VA's success in using modified institutional specifications, we recommend that the Secretary of Defense review the need for special military specifications for troop-issue beef.

CHAPTER 5

INSPECTIONS

WEAKNESSES IN MEAT INSPECTION PRACTICES

In our review of the military inspection program for troop-issue beef, we found instances of improper sampling procedures, the acceptance of beef without required USDA grade certificates, and the failure to increase the inspection of the contractor's operations. We also found that inspection problems were long-standing in the Boston area and that DPSC had not adequately fulfilled its responsibility to oversee and improve the inspection system.

BACKGROUND

The contractor is primarily responsible for making required examinations to insure that each lot of beef it processes meets DOD specifications. The Government quality assurance representative is responsible for making an independent examination to verify that inspection results reported by the contractor are a reliable indication of product quality. The Veterinary Corps of the Army and the Air Force have responsibility for these verification inspections for all red meat items DOD purchased for troop consumption.

DOD makes and inspection by using a statistical sampling plan to examine each lot (a day's production) processed by a contractor. The inspection plan determines the number of nonconforming samples that are necessary to reject a lot. Beef found to be in nonconformance with specification requirements may be reworked by the contractor, accepted with or without a price adjustment, or rejected as unacceptable.

Specific tests made in each of the inspections are detailed below.

Raw materials

BEST DOCUMENT AVAILABLE

The raw materials must be inspected as to weight, temperature, grade, and condition as stated in the specification.

In-process examination

Examinations are made during processing to determine compliance with specifications for cutting, boning, trimming, exposure of lean tissue, surface fat, excluded material, and time and temperature requirements.

Finished-product inspection

This inspection includes examining packaging, product characteristics, and net weight of the product. The number of samples to be examined is determined by the lot size (pieces and weight of containers) of the finished product.

Inspection severity

There are three degrees of inspection severity: tightened, normal, and reduced. The primary differences are the number of samples selected and examined and the number of defects that may be present before a lot is rejected.

The degree of inspection severity used is dependent on past inspection results. For example, tightened inspection procedures can be instituted when a certain number of lots are consecutively rejected. Conversely, reduced inspection procedures may be used when a specified number of lots have been consecutively accepted and, in the opinion of the DOD inspector, the contractor's quality assurance is adequate.

FINDINGS

We reviewed the inspection systems in effect at three contractors' plants. At two plants we found no major deficiencies in the inspection process.

Our review at a contractor located in Boston disclosed major weaknesses in the manner in which the DOD inspection responsibility was fulfilled. A discussion of each weakness follows.

Use of improper sampling procedures

We reviewed DOD and contractor inspection reports for eight lots produced by the contractor. We found significant errors had been made in determining the sample sizes and the number of defects necessary to provisionally reject a lot in two of these inspection reports.

As a result of these errors and the other inspection-related problems in the Boston area, we requested the Boston veterinary unit to review all inspection reports for contracts completed by the contractor in June 1975. They reviewed inspection reports for 24 lots and found errors in 17 reports.

Acceptance of raw materials without
required USDA certification

DOD specifications require boxed boneless beef used as raw materials to be certified by USDA for grade, condition, and weight range of carcasses from which the cuts were taken. We found no USDA certificates for boxed boneless beef used by the Boston contractor from March to August 1975. As a result, there is no assurance that the raw materials used were of proper grade. A contractor official said that he had been told by DOD inspectors that these certificates were not required.

The Deputy Veterinarian of the New England region stated that the failure to require contractors to provide a USDA certificate existed throughout the region, but that this problem had been corrected and that USDA certificates were being required whenever boxed boneless beef was used as raw material. We reviewed three of these certificates provided by the contractor in October 1975 and found that the corrective action had been taken.

Failure to increase inspection severity

DPSC regulations state that, when a reduced level of inspection is being performed, an increased level of inspection shall be instituted when the number of defects found during an inspection increases above a specified level. In examining an inspection report on a lot produced in June 1975, we found that, in view of the number of defects recorded, the inspection level should have been increased to normal from a reduced level. However, the contractor was not placed on normal inspection. DOD acknowledged this was an error.

Inspection problems are
longstanding in the Boston area

Documentation shows that the Boston veterinary unit, as early as March 1974, lacked experienced inspectors and was having severe problems in making inspections at contractor plants.

The problems were highlighted during an April 1974 inspection by a veterinary staff consultant who noted that "the biggest single problem***/was/ the lack of experienced supervisory personnel." This observation was confirmed by the officer in charge of the Boston veterinary unit during April and May 1974. The officer noted that "the number of people assigned***/was/ not sufficient to perform the mission in a complete and satisfactory method." The situation can best be portrayed by an excerpt from his correspondence file.

BEST DOCUMENT AVAILABLE

"This unit is fast approaching the point of complete mission failure. Currently, we have assigned 14 enlisted men--nine of whom reach expiration term of service within 100 days. Of the remaining enlisted men, only one has experience in all phases of inspection requirements. The current workload has a requirement of 20 enlisted men of whom 6 or more must have the experience to handle the items being procured in this area. Young green inspectors fresh out of school are not the answer. There will be no training or breaking-in period for them. Conditions are now to a point where new men with no experience in the Veterinary Service will be assigned and will adopt current procedures and be contaminated by them. The unit morale is at such a low point now that all that is being done is paper or lip service to inspection requirements***."

In August 1974 an inspection was made of the Boston veterinary unit by a representative of the Army Health Service Command which also cited as a problem the lack of experienced veterinary officers.

Although manpower shortages were noted in both inspections, the conclusion was that the Boston veterinary unit was operating in a satisfactory manner. We believe that the problems which have surfaced in the Boston area might have been minimized or avoided had the personnel problems been given attention.

In July 1975 Army Health Service Command representatives made another visit to the Boston unit and noted that neither contractor nor DOD inspectors were adequately making inspections. According to veterinary unit officials, the inadequate inspections were attributed to:

- Lack of experience. Many of the inspectors were young and lacked experience to do their work.
- Lack of training. The formal training given military inspectors was not adequate. For example, many inspectors did not understand specifications to identify defects. There was a need to specialize in meat inspection instead of specializing in general food commodity inspection.
- Lack of supervision. Supervisors were inadequately trained and unable to offer proper guidance to new inspectors.
- Lack of sufficient inspection personnel. Contractors in the Boston area were told that, due to personnel

shortages, DOD inspectors reduced military inspections and concentrated primarily on the adequacy of contractor inspection systems.

CORRECTIVE ACTIONS TAKEN

In July 1975 the Army Health Services Command started to take corrective actions on the problems found in Boston, which included

- replacing Boston veterinary supervisory personnel,
- initiating formal internal training at the Boston unit,
- making inspection visits and providing training by a Health Services Command team,
- initiating a Veterinary Corps-wide course on procurement and inspection practices for junior officers and senior noncommissioned officers.

Personnel actions

At the Boston veterinary unit, the Army Health Services Command relieved two senior noncommissioned officers, one civil service supervisor, and one junior officer because they were neither providing adequate supervision nor performing their required duties. The Deputy for Veterinary Activities in the New England region was counseled by the Army Health Services Command.

Training

Before July 1975, the Boston unit had no formal internal training program. Since July 1975 a formal training program has been established. The training sessions cover correct meat inspection methods and highlight problems which exist in local contractor plants.

The Army Health Services Command team revisited the Boston unit in August 1975. Each contractor plant was visited and the inspection procedures being employed were observed. During this visit a special training course was given to all unit personnel. Each authorized cut of meat was discussed and the processing of these cuts into finished products was demonstrated. Since August 1975 Army Health Services Command personnel have made subsequent visits to the Boston unit. They have observed that the unit is improving.

The Veterinary Corps has instituted a special course dealing with proper meat inspection procedures for junior officers and senior noncommissioned officers to standardize the inspection practices. The Deputy Veterinarian of the Army Health Services Command stated that all supervisory personnel involved in meat inspection would attend this course.

DPSC inaction

DPSC is responsible for periodically evaluating the system of quality assurance at contractors' plants. DPSC's stated goal is to visit major beef contractors at least once a year and to visit problem contractors more frequently. DPSC made visits to only 6 of 55 contractors in fiscal year 1975. DPSC officials told us that the small number of visits was attributable to a lack of personnel and insufficient travel funds.

CONCLUSIONS

On the basis of the results of the DSA special inspection and our review, we believe that (1) the contractor inspections and the Government verification inspections are inadequate to insure that beef procured and delivered to the military meets specifications and (2) DPSC does not adequately meet its responsibility for evaluating contractors' quality assurance systems.

CHAPTER 6

CONTRACTING AND CONTRACT ADMINISTRATION

CONTRACTING PRACTICES AND PROCEDURES NEED TO BE IMPROVED

During our review of contracts awarded for beef, we noted that DPSC (1) used competitive negotiation rather than formal advertisement in some meat procurement, (2) accepted telephone bids instead of written or telegraphic bids, (3) did not take advantage of possible savings by evaluating bids on a free-on-board origin basis or an f.o.b. destination basis, and (4) accepted nonconforming beef with price reductions.

BACKGROUND

User requirements for beef items are submitted directly to regional subsistence offices. Requirements are then consolidated when possible with other installations' requirements into carlot quantities and are forwarded to DPSC for procurement through one solicitation. The DPSC solicitations for bids instruct all potential suppliers to submit their offers, either orally or in writing, at the specified time and date for each closing to the regional office in their area. Each regional office evaluates the offers received and teletypes the low offers to DPSC. After receiving the offer (the offers are only valid for that day), DPSC makes an analysis, selects the contractors, and notifies the appropriate regional office. Contracting officers in the regional offices and DPSC make the awards and administer the contracts.

In those few instances where requirements cannot be consolidated in carlot quantities, the regional subsistence offices award and administer the contracts.

Regional offices are now in process of being eliminated. When elimination is completed, all carlot contracts for perishable items will be solicited, awarded, and administered by DPSC. Less than carlot requirements will be awarded and administered by procurement personnel in supply offices at Cheatham Annex, Virginia; Chicago, Illinois; New Orleans, Louisiana; Alameda, California; Kansas City, Missouri; Fort Worth, Texas; and Los Angeles, California.

BEST DOCUMENT AVAILABLE

FINDINGS

Comparison of DPSC and USDA contracting practices

We compared the manner in which DPSC and USDA procured ground beef and found major differences in the various practices.

- USDA procured ground beef on a formally advertised basis, whereas DPSC used competitive negotiations.
- DPSC accepted telephone quotes, whereas USDA required written or telegraphic quotes.
- In fiscal year 1975 DPSC bought ground beef 208 times, whereas USDA bought only 32 times, but USDA bought about 3 times as much ground beef as DPSC.
- DPSC purchased beef products only on an f.o.b. destination basis; i.e., the contractor paid freight cost to destination, whereas USDA purchased beef on an f.o.b. origin basis or an f.o.b. destination basis, depending on which was more economical.

Formal advertising versus competitive negotiation

We believe that there may be significant advantages to be obtained if DPSC adopted the competitive practices followed by USDA.

When practicable, procurement by formal advertising is considered more effective than competitive negotiations. The DSA Procurement Management Review Office in a report issued March 21, 1975, pointed out that there was an unrealized opportunity for increasing the use of formal advertising in the purchase of food subsistence items and recommended that DPSC increase management emphasis on procurement by formal advertising.

Acceptance of telephone quotes

DPSC's acceptance of telephone quotes has many potential problems which increase the opportunities for possible manipulation of quotes. Written communications, on the other hand, reduces misunderstanding and provides a greater safeguard to the integrity of the competitive system. The

DSA report also stated there was greater opportunity for using written offers and recommended that DPSC require either written or telegraphic confirmation of oral offers, except when clearly impracticable.

Frequency of procurement

Frequent procurement of beef increases the administrative cost of buying.

The DSA report pointed out that the Comptroller and Supply Operation Directorate of DSA headquarters reduced the size of purchases which increased the number of procurement actions. The DSA report concluded that these actions had considerably increased the workload of the DPSC procurement staff.

F.o.b. origin and destination

The Government can frequently obtain lower freight rates than can private contractors. We believe that, as a result, cost savings may be obtainable if bids were evaluated on both origin and destination bases. The DSA report pointed out that savings could be achieved by the Government's negotiating for the transportation and buying on an f.o.b. origin basis and recommended that DPSC establish a procedure of soliciting on both f.o.b. origin and destination bases.

Price adjustments

Before shipment from contractor plants, beef items are sampled and tested in accordance with DOD specifications. If the beef does not meet specifications, the DOD inspector completes a nonconforming material report for the contracting officer. These reports can recommend that the beef be rejected, or be accepted with or without a price adjustment. If beef is rejected because it contains critical or major defects, it must be replaced by the contractor. If beef is rejected for reasons other than critical or major defects, the contractor can rework the beef. We found that contracting officers frequently accepted nonconforming beef on the basis of urgency of need by users.

In fiscal year 1975, a total of 452 reports of nonconforming beef was received in DPSC. The major reasons for the nonconformance were poor quality, improper refrigeration, and excess fat. In 214 instances the beef was accepted either with or without price adjustments.

BEST DOCUMENT AVAILABLE

In 238 instances the beef was rejected. We were unable to determine from DPSC's records how much of the rejected beef was reworked.

We reviewed the reports of nonconforming beef for fiscal year 1975 and selected for analysis the price adjustments for the four contractors reporting the largest number of defects. The total price of the nonconforming beef for the four selected contractors was \$732,000. A total of \$9,000 or about 1 percent of the price of the beef, was negotiated in price adjustments. The percentage of price adjustments was also about 1 percent on the nonconforming beef found during the DSA inspections.

There is another method for reporting unsatisfactory beef products to DPSC. This is the unsatisfactory material report prepared when nonconformances are found by a receiving or using activity, such as a mess hall.

The reports are sent to the Technical and Quality Assurance Unit at DPSC for corrective action, in accordance with the warranty clause in DOD's beef contracts.

DPSC records showed that for 3 1/2 years from January 1972 through June 30, 1975, 100 nonconforming beef reports were received. The majority of these reports were prepared by the Air Force since the Air Force had a special destination inspection program and routinely found more defects than the other services found.

We reviewed 31 unsatisfactory material reports for beef items that were brought to the attention of DPSC personnel by the Air Force between October 1974 and August 1975. We found that DPSC had taken little positive action toward seeking a price adjustment or a replacement for the nonconforming beef reported.

Examples of the types of nonconformance reported and action taken by DPSC follow.

--Unsatisfactory material report dated October 1974 from the Air Force stated that 240 grill steaks were examined and found to be nonconforming because of discolored areas and the presence of dark or black "cutter" beef. Pictures were also furnished to show the excess fat. DPSC in its reply identified the suppliers and the inspection lot number

that consisted of 6,019 pounds. It stated that the supplier agreed with the nonconformance and that plant personnel were given further training in classifying defects to insure that nonconforming steaks are not packed. The reply also stated that the assigned military inspection service had increased its surveillance. However, no price adjustment was negotiated.

- Unsatisfactory material reports for defects in quality and workmanship on 7,785 pounds of grill steaks were brought to the attention of DPSC personnel in August 1975. Air Force personnel stated that the photographs they furnished with the reports suggested that less costly and unauthorized cuts of beef had been substituted as more expensive cuts of steak. DPSC hadn't taken any action to obtain a price adjustment at the time of our review.
- In August 1975 the Air Force inspected 525 pounds of grill steaks. It found a freezer-burned steak in 2 out of 10 shipping containers examined. The Air Force said in its report that it was unreasonable for a freezer-burned steak to occur in a shipping container in which the remainder of the steaks exhibited no freezer burn whatsoever. DPSC in its reply said that there was no reasonable explanation as to how this occurred. It further replied that, although the two steaks would be slightly dry, they were edible and should not have resulted in any monetary loss. DPSC stated that the contractor's performance record would be annotated.

An Air Force representative told us that, in view of the foregoing, he did not feel DPSC was doing an adequate job of contracting for quality beef products.

RECOMMENDATION

We recommend that the Secretary of Defense improve existing procurement practices and procedures to obtain better competition, cut administrative cost, and obtain possible economies of scale available through increasing the size of individual contract amounts.

CHAPTER 7

CURRENT INITIATIVE UNDERWAY

DOD

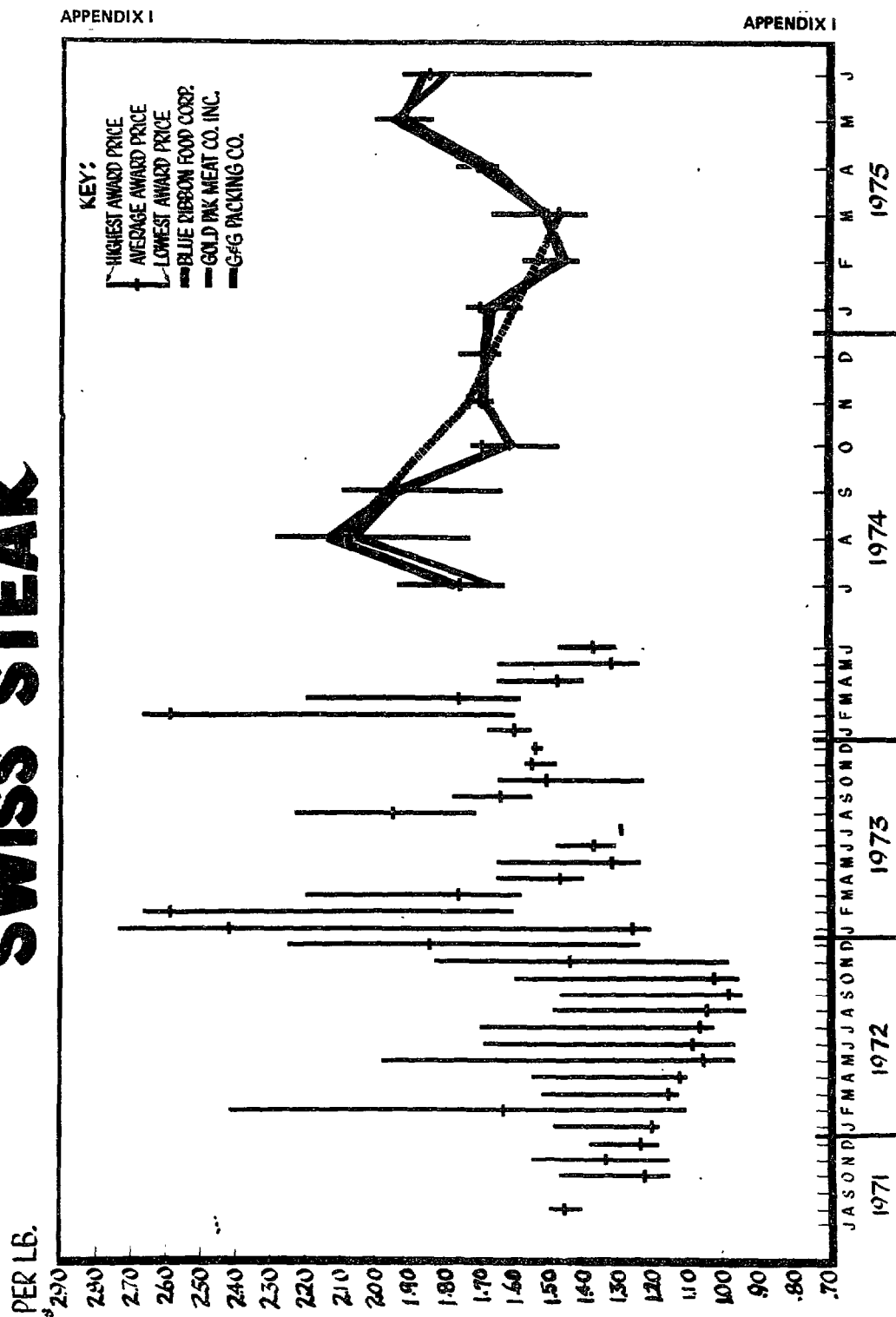
On July 10, 1975, the Defense Investigative Service received a request from DSA to initiate a limited criminal investigation of allegations of fraud, collusion, and bribery at two Boston area beef processors. The investigation is still in process.

DOD task force

In September 1975 a DOD task force was formed to study DOD's procurement system at the request of the Chairman of the Subcommittee. The task force will also review how the quality assurance program and the DOD specifications affect the subsistence procurement function.

PRICE TREND CHARTS FOR SEVEN TROOP-ISSUE BEEF ITEMS
PURCHASED BY DOD DURING FISCAL YEARS 1971-75

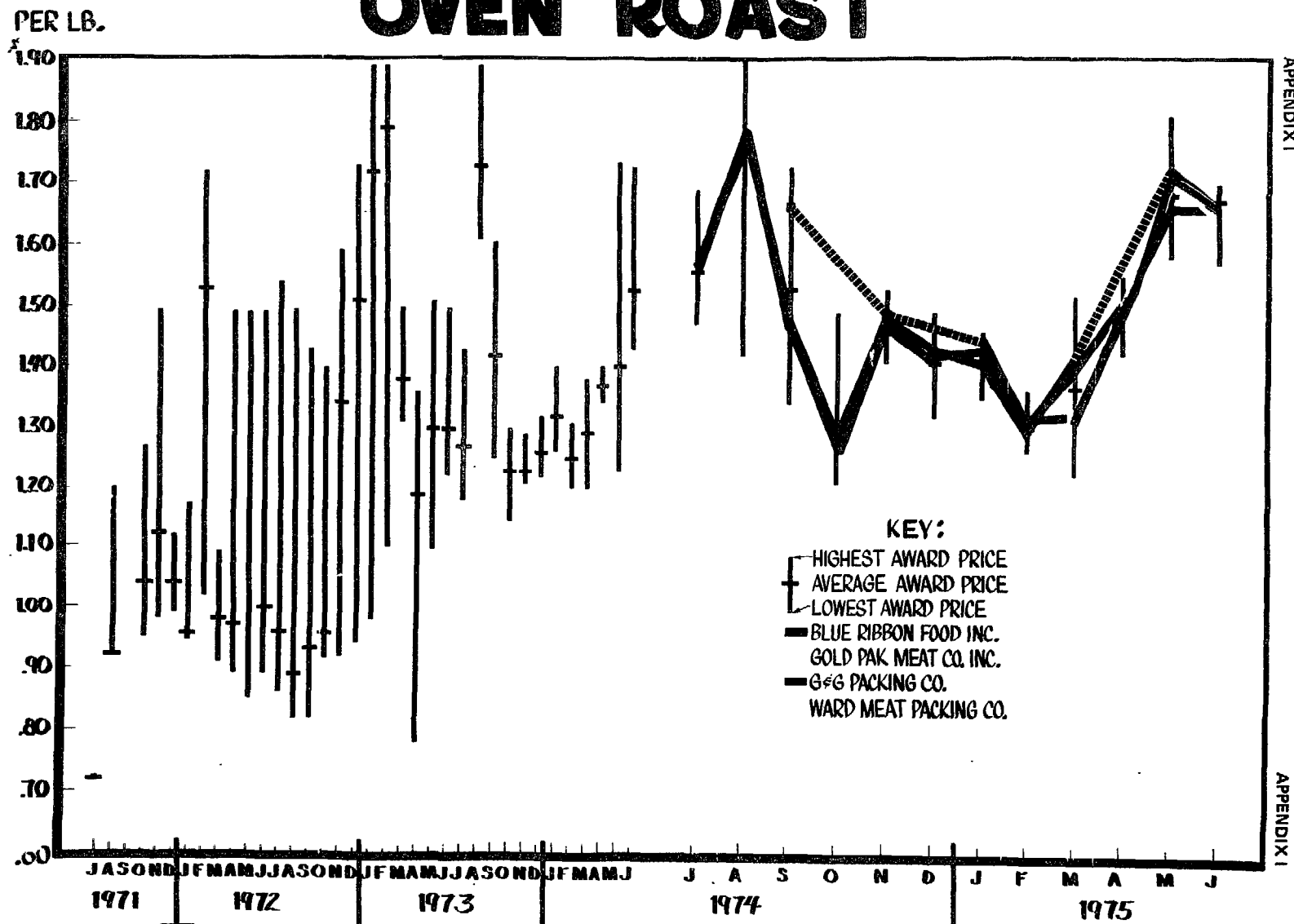
SWISS STEAK



APPENDIX I

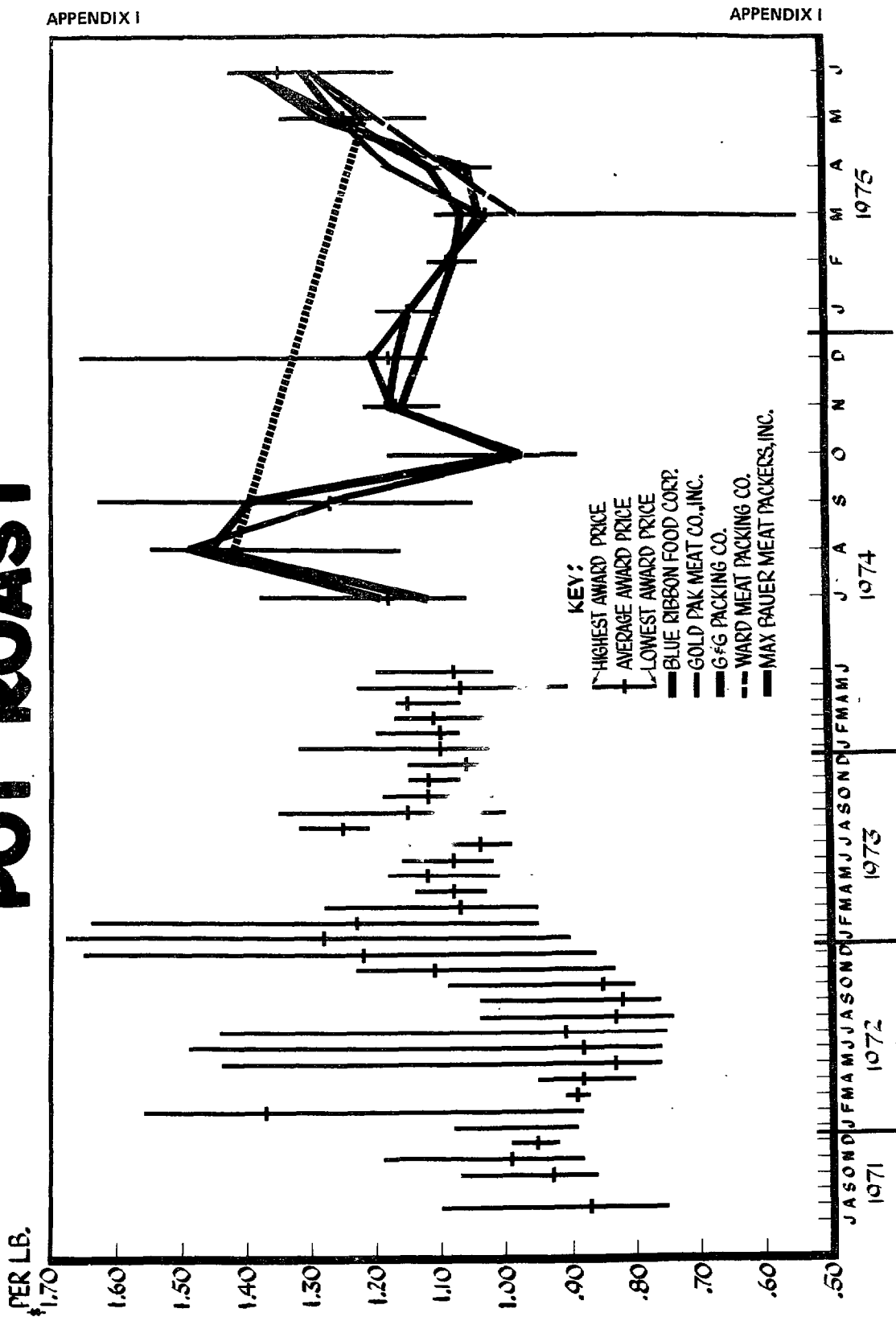


OVEN ROAST

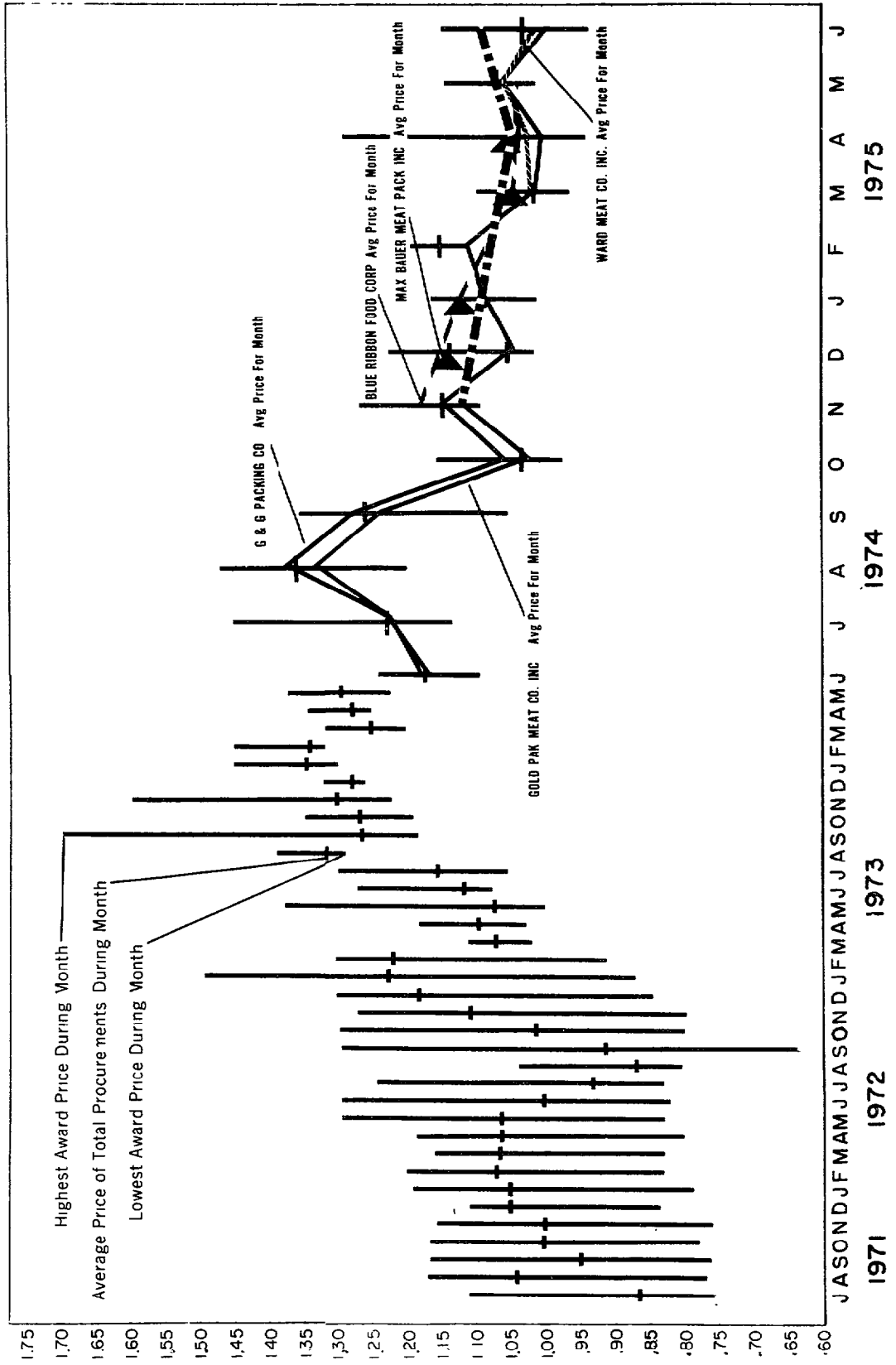


BEST DOCUMENT AVAILABLE

POT ROAST



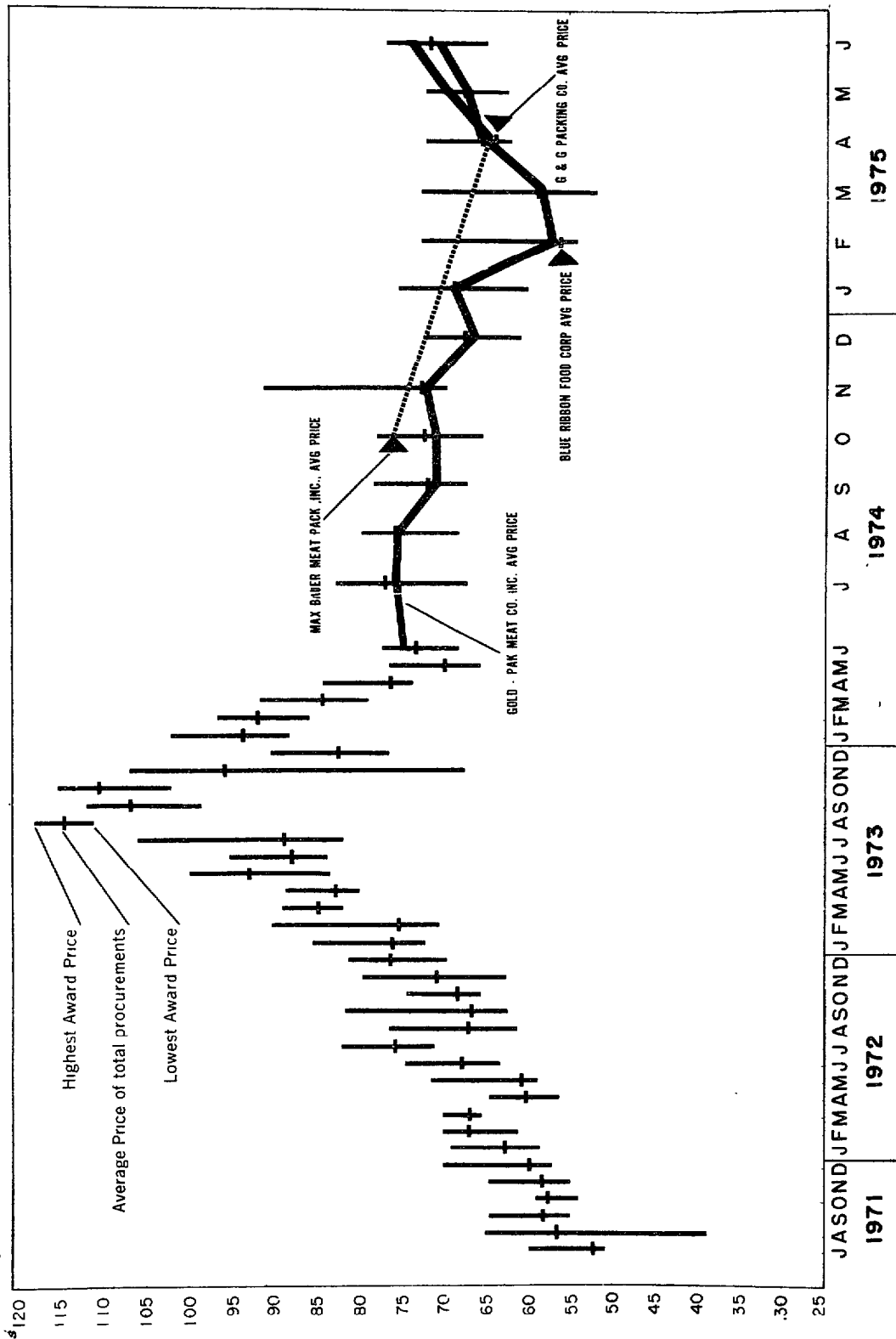
DICED BEEF - UNCOOKED



BEST DOCUMENT AVAILABLE

GROUND BEEF PATTIES

PER LB.



APPENDIX I



PERCENTAGE OF NONCONFORMANCE
BY TYPE OF BEEF ITEM

	Percentage of pounds nonconforming	<u>Number of lots inspected</u>		<u>Total</u>
		<u>Conforming</u>	<u>Nonconforming</u>	
Pot roast	100.0	0	18	18
Diced beef	91.6	1	12	13
Oven roast	87.3	3	28	31
Grill steak	69.0	5	14	19
Swiss steak	21.8	4	2	6
Ground beef	7.4	<u>10</u>	<u>4</u>	<u>14</u>
		<u>23</u>	<u>78</u>	<u>101</u>

VOLUME OF DOD CONTRACTS WITH FIVE SELECTED CONTRACTORS

FOR TROOP-ISSUE BEEF ITEMS IN FISCAL YEAR 1975

	<u>Millions of pounds</u>	<u>Millions of dollars</u>	<u>Percent of DOD contract dollars</u>	<u>GAO audit performed</u>
GOLD-PAK Meat Co., Inc. 3163 E. Vernon Avenue Los Angeles, Calif. 90058	16.6	20.2	17.6	Yes
Blue Ribbon Frozen Foods, Inc. 35 Warner Street Hamden, Conn. 06514	5.4	11.9	10.3	No ^a
G&G Packing Co., Inc. 100 Norfolk Avenue Roxbury, Mass. 02118	9.9	10.0	8.7	No ^a
Max Bauer Meat Packers, Inc. 143 NW. Fifth Street Miami, Fla. 33128	2.9	2.0	1.8	Yes
Ward Meat Co., Inc. 36 Charles Street Malden, Mass. 02148	0.9	0.9	0.8	Yes

a

GAO denied access to firm's records.

BEST DOCUMENT AVAILABLE

APPENDIX III

APPENDIX III

PRINCIPAL OFFICIALS OF THE DEPARTMENT OF DEFENSE
RESPONSIBLE FOR ADMINISTRATION OF ACTIVITIES
DISCUSSED IN THIS REPORT

	Tenure of office	
	From	To
<u>DEPARTMENT OF DEFENSE</u>		
SECRETARY OF DEFENSE:		
Donald Rumsfeld	Nov. 1975	Present
James Schlesinger	June 1973	Nov. 1975
William P. Clements, Jr. (acting)	Apr. 1973	June 1973
Elliot L. Richardson	Jan. 1973	Apr. 1973
Melvin R. Laird	Jan. 1969	Jan. 1973
ASSISTANT SECRETARY OF DEFENSE (INSTALLATIONS AND LOGISTICS):		
John J. Bennett (acting)	Apr. 1975	Present
Arthur T. Mendolia	Apr. 1973	Mar. 1975
Hugh McCullough (acting)	Jan. 1973	Apr. 1973
Barry J. Shillito	Feb. 1969	Jan. 1973
DIRECTOR, DEFENSE SUPPLY AGENCY:		
Lt. Gen. W. W. Vaughan	Jan. 1976	Present
Lt. Gen. Wallace H. Robinson, Jr.	July 1971	Dec. 1975

AN EQUAL OPPORTUNITY EMPLOYER

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

**OFFICIAL BUSINESS
PENALTY FOR PRIVATE USE, \$300**

**POSTAGE AND FEES PAID
U. S. GENERAL ACCOUNTING OFFICE**



THIRD CLASS