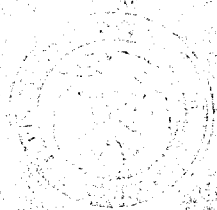


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TO OBTAIN
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Small Businesses
Receive 1/3 Share of Orders for
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 General Accounting Office
 Washington, D.C. 20548

National Security and
 International Affairs Division

B-242257

February 11, 1991

The Honorable Daniel K. Inouye
 Chairman, Subcommittee on Defense
 Committee on Appropriations
 United States Senate

Dear Mr. Chairman:

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In response to your request, we have reviewed the way the Department of Defense (DOD) buys beef for its U.S. commissaries. You indicated that concern had been expressed to your Committee that under DOD's current system small businesses in the meat industry may not be receiving a fair share of contract awards. A small business is defined as an independently owned and operated concern that is not dominant in the field of operation in which it is bidding on government contracts and which meets criteria and size standards set by the Small Business Administration.

As agreed with your office, the specific objectives of our review were to obtain information on (1) the value of beef procured under the two primary methods DOD uses to buy beef for its commissaries and the percentage of contracts going to small businesses, (2) the practicability of comparing the price and quality of beef purchased under each method, (3) the views of military service officials responsible for overall management of the commissaries regarding the acquisition method they use, and (4) recent developments that may affect future procurement methods. This report summarizes and updates the briefing provided to your staff on September 21, 1990.

The Defense Personnel Support Center (DPSC) in Philadelphia, Pennsylvania, is a supply support activity of the Defense Logistics Agency that contracts for subsistence items for the armed forces, including beef for resale in Army, Air Force, Navy, and Marine Corps commissaries in the United States. DPSC primarily awards two types of contracts for beef: (1) indefinite delivery type contracts (IDTCs), which are competitively awarded based on government specifications, and (2) brand-name supply bulletin contracts, which are noncompetitive and intended to procure beef cut according to suppliers' commercial standards. In coordination with the individual commissaries, the individual military services choose the type of beef to order and the acquisition method.

Results in Brief

Overall, small businesses accounted for a large share of beef sales to the military commissaries—supplying 44 percent of the estimated \$163 million purchased in 1990 and 48 percent of the estimated \$181 million purchased in 1989 under the two primary methods of acquiring beef. Most of the orders under IDTCs were placed with small businesses, whereas most of the orders under supply bulletin contracts were awarded to large businesses. The amount of beef purchased from small businesses varied among the military services, but in total the purchases greatly exceeded the DOD-wide goals for contract awards for all goods and services combined to small business concerns.

Trying to determine which contracting method provided the best beef products in terms of price and quality is not practicable, primarily because the items bought are not generally comparable.

Officials responsible for the overall management of commissaries in the four services said that they are satisfied with the price and quality of the beef they are purchasing.

Two recent developments may change the way DOD procures beef in the future. DPSC is currently testing a “best value” method for purchasing beef that is intended to enable the government to take better advantage of the price and quality benefits available in the commercial market. Also, DOD has established a single agency to manage all of the military services’ commissaries. The agency, which is expected to replace the current commissary management system in fiscal year 1992, will have the authority to determine how beef should be purchased.

Background

In 1979 DOD began to use brand-name supply bulletins because of the poor quality of beef delivered by IDTC suppliers. In 1980 the Congress approved the use of both systems to provide maximum choice and flexibility for the services and satisfaction for the consumer. DPSC awards both the IDTCs and supply bulletin contracts. Under each of these methods, commissaries place the individual orders directly with the vendor.

Contract terms, specifications, and provisions for monitoring contractor performance differ for the two types of contracts. DPSC awards IDTCs competitively for a specific commissary (or commissaries within a region) usually for a 6-month period. Prices are set for the contract

term.¹ IDTC awards are based on the U.S. Department of Agriculture's Institutional Meat Purchase Specifications, detailed government technical descriptions of various cuts, types, and quality of meat. These descriptions also provide a basis for measuring whether the beef delivered meets contractual requirements.

In contrast, brand-name supply bulletins are not awarded on a competitive basis. (The Competition in Contracting Act of 1984 exempts commissary resale items from competition.) Brand-name meat items are cut according to the supplier's own commercial standards. Supply bulletins contain ceiling prices with actual prices determined at the time of ordering, approximately every 2 weeks.

In January 1981 DPSC relaxed the criteria for qualifying vendors as suppliers of brand-name beef. A DPSC official said that this change was intended to increase the number of small businesses that are awarded supply bulletin contracts. Previously, a supplier had to offer proof of customer demand in at least 25 separate commissary stores to qualify for a supply bulletin; now DPSC requires only that suppliers prove they are in the beef industry and have sales to 5 businesses.

According to commissary officials in each of the services, a third method, blanket purchase agreements, is also used to buy beef, but this method is used less frequently than the other methods. A blanket purchase agreement is a simplified method of filling anticipated repetitive needs for supplies or services by establishing "charge accounts" with qualified sources of supply. These purchase agreements are awarded by the services, usually on a regional basis, not by DPSC. Commissaries also may use local purchases to order beef in certain situations—for example, in emergencies.

Small Businesses Received Significant Share of Orders

Based on information provided by the military services, we estimate that the 241 military commissaries in the United States ordered a total of \$181 million and \$163 million of beef in fiscal years 1989 and 1990, respectively, under the IDTC and supply bulletin acquisition methods. Overall, small businesses received 48 percent and 44 percent, respectively, of the total beef ordered in those years under these two methods.

¹Beef price is made up of two components: (1) base price, which is set weekly and follows the beef trade market, and (2) special price factor, which is the supplier's cost of doing business. IDTCs are awarded based on the lowest special price factor, which remains in effect for the life of the contract. Under supply bulletins, the special price factor reflects the current vendor's price, which can change each month.

These percentages exceeded the DOD-wide goals for contract awards for all goods and services to small businesses, which were set at approximately 18 percent for those years.

Table 1 summarizes commissary beef purchases, by military service, and the percentage of those purchases awarded to small businesses.²

Table 1: Estimated Value of Beef Purchased by Military Service Commissaries Under IDTCs and Supply Bulletins

Dollars in millions

Service	1989				1990			
	Supply bulletin	IDTC	Total	Percentage of awards to small business	Supply bulletin	IDTC	Total	Percentage of awards to small business
Army	\$71.6 ^a	\$0.2	\$71.8	29.8	\$71.6 ^a	\$0.7	\$72.3	29.6
Air Force	0	63.8	63.8	68.2	0	48.3	48.3	56.5
Navy	0	37.3	37.3	57.6	0	32.9	32.9	69.6
Marine Corps	7.5	0.3	7.8	3.8	9.3	0.3	9.6	3.1
Total	\$79.1	\$101.6	\$180.7	48.0^b	\$80.9	\$62.2	\$163.1	44.1^b

^aArmy supply bulletin data for both years was annualized based on information provided by the U.S. Army Troop Support Agency for the period December 1988 through May 1990.

^bThis figure represents the percentage for all services combined

Except for small amounts purchased under blanket purchase agreements, the Air Force and Navy rely solely on IDTCs to order beef, while the Army and Marine Corps rely primarily on supply bulletins.

Data obtained from the military services show that the Army is the largest purchaser of beef and ordered about 30 percent of its beef in both years from small businesses. Army commissaries make very limited use of blanket purchase agreements to purchase beef. The Army is the only military service that has established small business goals for its commissary purchases. The goals were about 18 percent for each year, which were consistent with DOD-wide goals.

The Air Force and Navy, which are the next largest purchasers, procured more than half of their beef in 1989 and 1990 from small businesses. Although information on the value or sources of beef ordered

²The Defense Subsistence Region Pacific, a field office of DPSC, awards beef contracts to small business on a "set aside" basis as specified by the Federal Acquisition Regulations. The field office awards contracts for commissaries in the western United States.

under blanket purchase agreements was not available for these two services, Air Force and Navy officials indicated that (1) about 10 to 15 percent of the value of their commissary resale beef is purchased under blanket purchase agreements and (2) these purchase agreements are likely to be made with small businesses.

The Marine Corps ordered most of its beef under supply bulletins from large businesses and obtained about 4 percent of its beef each year from small businesses under IDTCs. However, the Marine Corps purchased a substantial portion of its beef from small businesses. Marine Corps data showed that its commissaries procured about 29 and 22 percent of their beef in 1989 and 1990, respectively, using blanket purchase agreements, all from small businesses.

Not Practicable to Make Price and Quality Comparisons

The items contracted for under each acquisition method are not generally comparable, and an analysis of the differences in price and quality was, therefore, not practicable. Beef purchased under IDTCs must adhere to specifications based on the Institution Meat Purchasing Specifications, which describe particular cuts of beef in detail. The services modify the specifications to reflect their preferences. Conversely, brand-name supply bulletin beef is based on commercial standards, which may be unique to individual vendors.

DPSC procurement officials, a vendor representative, a Department of Agriculture official, and the Executive Director of the Western States Meat Association concurred that price and quality comparisons of commissary beef purchases would be difficult to make. Some of these individuals said that the assistance of a meat expert would be required to examine samples of beef delivered under current contracts. Nevertheless, we believe that such an approach would not necessarily result in a resolution of the issue or be economical because of

- the lack of a centralized data base covering supply bulletin orders,
- the variety of cuts of beef purchased, and
- the large number of commissary visits and the amount of resources that would have to be expended to obtain a representative sample.

Performance of IDTC Suppliers Reportedly Improved

Differences exist in reporting of non-conforming or poor quality beef delivered under each method. Based on IDTC contract provisions, commissary officials are required to report to DPSC any unauthorized deviations from Institutional Meat Purchase Specifications. Under supply

bulletins, because commercial standards are used, commissaries are required to document and report to DPSC only gross non-conformances, such as spoilage. Because of these different reporting requirements, we were unable to compare the performance of vendors under the two acquisition methods.

According to officials at DPSC's Quality Assurance Division, the quality of beef supplied to commissaries in the last 2 to 3 years by IDTC contractors has improved as a result of various efforts to enforce compliance. However, DPSC records do not provide a baseline to measure or compare the current and past performances of IDTC vendors.

Recognizing problems in the last 5 years, DPSC Quality Assurance management teams have visited commissaries to educate commissary beef inspectors and commissary managers on standards and actions to take on nonconforming products. DPSC also has used various administrative and contractual remedies to enforce compliance. These have included (1) in some cases, conducting an inspection prior to shipment for compliance with specifications (at the cost of the contractor), in addition to the required inspection upon delivery; (2) issuing notices that give a contractor 10 days to correct the problems or be subject to termination for default; and (3) terminating contracts for default because of the vendors' inability to deliver.

Services Satisfied With Method They Are Currently Using

Army, Navy, Air Force, and Marine Corps officials responsible for the overall management of the commissaries said that they are satisfied with the price and quality of the beef ordered under the contracting method they are currently using. Officials from the Navy and the Air Force, which predominantly use IDTCs, said that this method offers better prices—because IDTCs are competitive—and better quality control, including the ability to use specifications to order the cuts and quality of beef desired.

In contrast, Army officials believe that prices and quality are better under supply bulletins. The Army and Marine Corps officials prefer supply bulletins because ordering officials can change suppliers every 3 or 4 weeks if customers are not satisfied with the product or service provided, whereas IDTCs, in effect, lock customers into a 6-month contract. A Marine Corps official added that supply bulletins allow the service to order new products or change requirements more easily.

Some Army Commissaries Have Switched From Supply Bulletins to IDTCs

Although Army officials believe that prices and quality are generally better under supply bulletins, three Army commissaries that previously used supply bulletins have switched to IDTCs at the direction of the Army's Troop Support Agency, which has responsibility for overseeing Army commissary operations. In explaining the change, a Troop Support Agency official told us that the agency's policy is to use brand-name supply bulletins; however, the agency constantly assesses the market to determine if it is getting the best quality and price under this method. According to this official, the agency believed that IDTCs would provide better price and quality to these commissaries.

Officials at two of these three commissaries indicated a preference for supply bulletins for beef. In terms of price an official at one commissary reported paying 5 cents per pound more under an IDTC than under a supply bulletin for similar items. The other official stated that the quality of beef under supply bulletins was better. An official at the third commissary expressed a preference for IDTCs because they are competitive. *Although he had not made specific cost comparisons, he said he believes that IDTCs have resulted in slightly lower prices.*

Recent Developments May Change the Procurement Process

Two recent developments are likely to change the beef procurement process. DPSC officials said that they are testing a "best value" acquisition approach, using IDTCs, for certain commissaries in the United States. This method, which DPSC has used to buy beef for its European commissaries, is intended to streamline the government's acquisition process and to take better advantage of the price and quality benefits available in the commercial market. If successful, this method may replace, at least partially, the current IDTC acquisition method. Best value offers are based on each offeror's commercial standards and are evaluated based on the offeror's past performance, product quality, and delivery capabilities, as well as on price. These contracts will be competitively awarded.

In April 1990, DOD established the Defense Commissary Agency as the single agency responsible for managing all commissaries. This agency, which is scheduled to be fully operational in early fiscal year 1992, will have full authority over the beef procurement process. Agency officials said that they did not know yet how future acquisition methods would be changed. They added that any changes in the procurement process will be evaluated based on the results of the best value test.

Scope and Methodology

In performing our review, we examined the policies and procedures that DPSC follows for awarding contracts under which commissaries order beef. We obtained data on the amount of beef ordered by the individual services in 1989 and 1990 and determined what percentage of this total was purchased from small businesses. We discussed the two primary acquisition methods and the advantages and disadvantages of each with officials from the Army Troop Support Agency, Navy Resale Services and Support Office, Air Force Commissary Service, and Marine Corps. We also visited and discussed price and quality with commissary officials at the Army's Southeast Commissary Region and Forts Belvoir and Lee in Virginia. In addition, we interviewed commissary officials in the Army's Western Commissary Region and spoke with officials at three Army commissaries in the region that changed procurement methods to obtain information on price and quality of beef ordered under each method. These commissaries were Fort Lewis, Washington; Fort Ord, California; and Schofield Barracks, Hawaii.

We held discussions concerning differences in the cuts of beef under both acquisition methods with representatives from three vendors who supply beef under both methods and from the U.S. Department of Agriculture. As requested by your committee staff, we also contacted the Executive Director of the Western States Meat Association, which represents small businesses, to obtain information on the beef procurement issues. In addition, we reviewed files at DPSC to evaluate IDTC contractor performance and discussed the performance of IDTC suppliers with DPSC's Quality Assurance representatives.

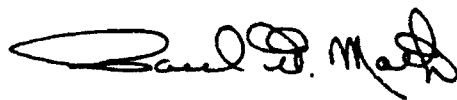
We visited the Defense Commissary Agency in Vienna, Virginia, to discuss any planned changes in beef acquisition methods.

We performed our review from June through November 1990 in accordance with generally accepted government auditing standards. The views of responsible program officials were sought during the course of our work and are incorporated where appropriate. However, as you requested, we did not obtain written agency comments on a draft of this report.

We are sending copies of this report to the Secretaries of Defense, the Army, the Navy, and the Air Force and to the Director of the Defense Logistics Agency. We will make copies available to others upon request.

Please contact me at (202) 275-8400 if you or your staff have any questions concerning this report. Major contributors to this report were Michael E. Motley, Associate Director, and Kevin M. Tansey, Assistant Director, of our National Security and International Affairs Division, Washington, D.C.; and James A. Przedzial, Evaluator-in-Charge, Audrey M. Petit, and Grace M. Bennett, Evaluators, of our Philadelphia Regional Office.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Paul F. Math". The signature is stylized with a large, sweeping initial "P" and a cursive "F" and "M".

Paul F. Math
Director, Research, Development,
Acquisition, and Procurement Issues