

GAO

Report to the Ranking Minority Member,  
Committee on Governmental Affairs, U.S.  
Senate

June 1987

# PROCUREMENT

## Navy Implementation of the Spare Parts Initiatives



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**National Security and  
International Affairs Division**

B-220528

June 1, 1987

The Honorable William V. Roth, Jr.  
Ranking Minority Member  
Committee on Governmental Affairs  
United States Senate

Dear Senator Roth:

In response to your request, we have assessed the Department of Defense's (DOD's) progress in implementing its spare parts initiatives. The Secretary of Defense announced the initiatives in July and August 1983 to improve the procurement of spare parts. A more detailed discussion of these initiatives and the results of our review are provided in the appendixes.

We previously reported to you on spare parts procurement at the San Antonio Air Logistics Center, Aviation Systems Command, Ships Parts Control Center (SPCC), and Defense Electronics Supply Center.<sup>1</sup> Our follow-up review was performed at these same activities. This report presents the results of our review at SPCC and the Aviation Supply Office (ASO). ASO was not part of our previous report. Our work at SPCC included the following:

- Information on price growth during the two periods we examined. (See app. III.)
- An evaluation of the adequacy of the price analysis procurement officials performed during each of these periods. (See app. IV.)
- An assessment of the personnel changes made in response to the initiatives. (See app. V.)

Although ASO was not included in our earlier review, we expanded our follow-up audit to obtain additional coverage on Navy spare parts procurement. (See app. VI.)

Our methodology is described in appendix II. Separate reports are being issued on the results of our work at the other locations.

We compared the prices on 34,440 procurements totaling \$509.6 million to determine the changes that occurred at SPCC during the 12-month period ending March 31, 1985. Our review showed that 10.7 percent of

<sup>1</sup>DOD Initiatives to Improve the Acquisition of Spare Parts (GAO/NSIAD-86-52, Mar. 11, 1986).

the procurements experienced price increases of 25 percent or more while 59.6 percent had either no price change or a price decrease. At ASO, we made 11,840 comparisons totaling \$419.3 million for the same period. Our review showed that over 7 percent of the procurements experienced price increases of 25 percent or more while 58 percent had either no price change or a price decrease. We could not quantify how much the initiatives, as opposed to other factors,<sup>2</sup> helped achieve these results; however, we found evidence that the initiatives are being implemented and it is likely that they have had an effect. SPCC, for example, has increased the proportion of procurements involving larger quantities, thereby supporting the initiative to avoid frequent buys of small quantities. SPCC and ASO have revised their personnel evaluation systems for contracting personnel and have established systems to reward persons achieving significant cost reductions or increases in competition. SPCC has also provided supplemental and specialized training to its buyers.

While these efforts provide reasons for optimism, at SPCC there were inadequate price analyses on 16.3 percent of our sampled procurements with price increases of 25 percent or more. Price increases of this magnitude should prompt close scrutiny, particularly during periods of low inflation. Further, inadequate analyses occurred on 18.4 percent of sampled procurements with price increases up to 25 percent.

At ASO we found that price analyses performed on procurements with severe price increases required improvement. About one in four of the sampled procurements with price increases of 25 percent or more were inadequately analyzed. Another category where analyses needed improvement was procurements where prices did not change. Of the 25 procurements in this category, price analyses on 6, or 24 percent, were inadequate. While procurements with no change in price would receive less priority than those with price growth, the fact that the price remained unchanged should not be the sole basis for accepting a price change as reasonable. The Armed Services Pricing Manual (also known as Small Purchasing Manual) states that:

"A price previously paid should not be accepted as a basis for determining that the offered price is reasonable unless it can be determined that the previous award was

<sup>2</sup>Changes in spare parts prices may have been the result of several factors. Certainly lower inflation and improvement in the economy played major roles. The attention given spare parts by top DOD officials and efforts by contractors to minimize price increases and avoid adverse media publicity may have also contributed.

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based on adequate competition or some other valid method of establishing that the price was reasonable."

We also found procurement officials at ASO were not taking advantage of opportunities to consolidate purchase requests. We found seven contracts in our sample where consolidation should have occurred and also found additional contracts where consolidation could have occurred. In the latter cases, procurement officials awarded the first contract rather than wait for the necessary documents on the second buy that would have permitted consolidation.

In April 1986, the Navy began to include a "voluntary refund clause" in contracts where competitive procedures were not followed. The clause was subsequently modified, but provides a contractual basis for voluntary refund action and sets out contractor responsibilities for spare parts prices. The Council of Defense and Space Industry Associations protested the Navy's action in a November 18, 1986, letter to the Assistant Secretary of the Navy (Shipbuilding and Logistics). The Defense and Space Industry Associations pointed out that a policy on a contractually binding refund clause should be department-wide. The Defense and Space Industry Associations expressed other reservations and stated companies have voluntarily taken action to provide the government with voluntary refunds. Because the Defense Acquisition Regulatory Council is considering a proposal to address the spare parts refund issue, the Defense and Space Industry Associations recommended the Navy rescind its guidance pending issuance of department-wide guidance.

A department-wide policy on spare parts voluntary refunds is appropriate. However, we see no need for the Navy to rescind its policy until such action is taken. Moreover, since the Navy provides more specificity and guidance on the terms and conditions of voluntary refunds than the other services, its regulations provide a framework for the Defense Acquisition Regulatory Council's use in developing a department-wide policy.

DOD agreed with our report. DOD also pointed out that since our review, substantial progress has been made, including increased analyses of items that show price increases of 25 percent or more since the last procurement.

As arranged with your Office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from

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the date of the report. At that time we will send copies to interested parties and make copies available to others upon request.

Sincerely yours,

A handwritten signature in cursive script that reads "Frank C. Conahan".

Frank C. Conahan  
Assistant Comptroller General



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**Abbreviations**

ASO	Aviation Supply Office
DLA	Defense Logistics Agency
DOD	Department of Defense
FAR	Federal Acquisition Regulation
SPCC	Ships Parts Control Center

# Background

In July and August 1983, the Secretary of Defense set the tone for the DOD position on unwarranted price growth and excessive pricing on spare parts procurement. In two memorandums, the Secretary announced a series of initiatives such as

- pursuing refunds on a voluntary or legal basis;
- strengthening procedures for debarring or suspending contractors;
- refusing to do business with contractors guilty of excessive pricing; and
- identifying alternate sources, including foreign sources.

The Secretary of Defense asked each service and the Defense Logistics Agency (DLA) to initiate comprehensive programs to fully address the problem. In addition, the Secretary asked for efforts by the DOD Inspector General and the Deputy Secretary of Defense and established an Office of Spares Program Management. The Secretary's memorandums and the responses from the services and DLA have produced a corrective action plan commonly referred to as the "spare parts initiatives."

The Congress, also concerned with spare parts procurement, enacted the Defense Procurement Reform Act of 1984<sup>1</sup> requiring DOD to address spare parts pricing problems by

- refusing to enter into contracts unless the proposed prices are fair and reasonable;
- continuing and accelerating ongoing efforts to improve defense contracting procedures to encourage effective competition and ensure fair and reasonable prices;
- using standard or commercial parts whenever such use is technically acceptable and cost effective;
- acquiring replenishment parts in economic order quantities and on a multiyear basis whenever feasible, practicable, and cost effective; and
- reexamining the policies relating to acquisition, pricing, and management of replenishment spare parts and technical data related to such parts.

In 1984, several congressional requesters asked us to analyze growth in spare parts prices and to discuss DOD's improvement initiatives and their

<sup>1</sup>Section 1201 of the Defense Authorization Act of 1985 was designated the Defense Procurement Reform Act of 1984.

status. Our previous report<sup>2</sup> on these matters indicated that from January 1980 through August 1983,

- significant price growth occurred in the procurement of spare parts at four DOD locations;
- contractors' prices were, in many cases, accepted by DOD procurement officials (buyers and principal contracting officers) without challenge;
- management emphasized the number of awards made rather than the quality of prices obtained;
- procurement officials were encouraged to limit the amount of analysis done on low dollar value procurements; and
- DOD announced the spare parts initiatives and established a system for monitoring their progress.

In 1985 the Chairman, Senate Committee on Governmental Affairs, requested a follow-up review. As agreed with the Committee's representatives, we did the follow-up at the same DOD locations where we did our earlier work and are reporting the results separately by location (Air Force, Army, DLA, and Navy). This report presents the results of our follow-up review at SPCC, as well as our work at ASO, which was not included in our earlier review.

## SPCC

SPCC functions as the Navy's inventory control point responsible for the management of repair parts for ships. As such, SPCC establishes requirements, procures material, and directs distribution of items to satisfy requirements.

SPCC manages more than 500,000 items, and has responsibility for identifying almost 2 million parts used in 400,000 different pieces of Navy equipment. SPCC items are stocked at 40 principal stock points; more than 90 other naval activities, and on board various supply ships. Every ship in the Navy carries SPCC supported repair parts necessary for limited maintenance and repairs at sea.

SPCC employs about 4,000 civilian and military personnel, including 395 buyers, contracting officers, and other employees in the contracting department. For fiscal years 1983, 1984, and 1985, SPCC obligated about \$4.2 billion for fleet support items, as follows:

<sup>2</sup>DOD Initiatives to Improve the Acquisition of Spare Parts (GAO/NSIAD-86-52, Mar. 11, 1986).

**Appendix I  
Background**

**Table I.1: SPCC Contract Actions**

Dollars in billions		
<b>Fiscal year</b>	<b>Contract actions</b>	<b>Value</b>
1983	83,508	\$1.480
1984	58,041	1.322
1985	52,786 <sup>a</sup>	1.424 <sup>a</sup>
<b>Total</b>	<b>194,335</b>	<b>\$4.226</b>

<sup>a</sup>Represents number of actions through July 1985. Value is for entire fiscal year.

**ASO**

ASO functions as the Navy's inventory control point responsible for the management of repair parts for aviation equipment. It is responsible for estimating requirements, procuring material, and directing the distribution of items.

ASO manages about 257,000 items and its inventory is valued at about \$13.6 billion. Almost all items are stocked at 40 activities. ASO distributes items to Navy Supply Centers, Naval Air Stations and Marine Corps Air Stations in the United States, afloat units, Marine air groups, and small overseas activities.

There are about 2,700 civilian and military personnel employed at ASO, including 330 buyers, contracting officers, and other employees in the purchase division. For fiscal years 1983, 1984, and 1985, about \$8.6 billion was spent for aviation material as follows:

**Table I.2: ASO Contract Actions**

Dollars in billions		
<b>Fiscal year</b>	<b>Contract actions</b>	<b>Value</b>
1983	53,980	\$2.445
1984	66,983	2.567
1985	47,364 <sup>a</sup>	3.606 <sup>a</sup>
<b>Total</b>	<b>168,327</b>	<b>\$8.618</b>

<sup>a</sup>As of August 31, 1985.

# Objectives, Scope, and Methodology

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Our objectives were to determine whether

- growth in spare parts prices had improved;
- the improvement shows that the initiatives were working;
- the adequacy of price analyses performed by procurement officials on individual procurements had improved as compared with the results shown in our earlier report;
- personnel changes required by the initiatives had been implemented; and
- changes, other than personnel related changes, showed that various initiatives are being followed.

To meet these objectives, we did the following:

- Identified price changes that occurred in procurements made during the 12-month period ending March 31, 1985, and grouped these changes into four categories: price decreases, prices that remained unchanged, price increases of up to 24.9 percent, and price increases of 25 percent or more.
- Analyzed whether factors such as competition, changes in quantity, and dollar value influenced price behavior. (We performed the same analyses during our previous review.)
- Selected a statistical sample of 182 procurements (contract files) from a universe of 58,423 procurements to evaluate the adequacy of price analyses performed by procurement officials on individual procurements and compared the results to those from our previous review.
- Determined if SPCC had made changes in its personnel evaluation system as required by the initiatives.
- Determined the number of competitive awards and the number of procurements for which quantities had increased from previous buys. (The initiatives emphasize the need for competition as well as buys in larger quantities to avoid frequent buys of small quantities.)

To make unit price comparisons, we obtained the SPCC automated procurement history file. This file contains detailed procurement information on all SPCC procurements. Since we were concerned only with replenishment spare parts, we eliminated procurements that did not meet that definition from the data file.

We also excluded unpriced orders because price comparisons cannot be made on spare parts procured under such agreements.<sup>1</sup> We included basic ordering agreements<sup>2</sup> and other similar agreements in our sampling unless the final price determination was made by government representatives at contractor plants or other locations. We excluded those procurements because our objective was to assess the adequacy of price analyses at SPCC.

We used computer analysis to compare price changes for each item. This analysis compared the most recent unit price within our time frame (April 1, 1984, through March 31, 1985) to the second most recent unit price and then compared the second most recent unit price to the third most recent unit price. If an item was procured only once during our review period, no comparison was made unless a procurement occurred between January 1, 1980, and April 1, 1984.

This process resulted in 34,440 unit price comparisons. We adjusted percentage price changes if the interval between purchases exceeded 1 year by dividing 365 days by the number of days between procurements and multiplying this amount by the actual percentage price change:

$$\text{Annual percentage price change} = \frac{365}{\text{Number of days between procurements}} \times \text{Actual percentage price change}$$

If the interval between procurements was less than 1 year, we made no adjustment.

Our review covered replenishment spare parts procurements for 1 year and compared them with procurements which had occurred in that same year or earlier, as far back as January 1, 1980. Our earlier report covered procurements for 3-1/2 years between January 1, 1980, and June 30, 1983, in which both procurements had to occur. Because of the differences in design, the earlier study contained a higher proportion of more frequently purchased items and used a shorter period for developing comparisons. These differences could affect the proportion of items purchased at relatively longer intervals included in the two

<sup>1</sup>We performed a separate review of unpriced orders for the Senate Committee on Governmental Affairs.

<sup>2</sup>Basic ordering agreements are written agreements that provide the contract provisions that will apply to orders subsequently issued under the agreements. Orders under these agreements may be issued as priced or unpriced. Priced orders occur before issuance, unpriced orders are not priced until some time after issuance.

periods. Thus, the results of the two studies cannot be directly compared.

Our results show price growth within each period for those procurements that met our selection criteria. They also indicate some price growth differences, but because of the design differences noted above, the exact differences between periods are not known. However, because of the large number of procurements involved, we believe the results provide an indicator of change between periods.

To measure improvement, if any, in the adequacy of price analyses, we randomly sampled procurements from five categories: single procurements (or buys), those procurements with price decreases, those without price change, those with price increases up to 24.9 percent, and those with price increases of 25 percent or more.

Price analysis is defined as the process used to determine whether the offered price—before making a contract award—is fair and reasonable. To evaluate the adequacy of the price analyses performed, we used criteria contained in the Federal Acquisition Regulations (FAR), the DOD FAR Supplement, and the Armed Services Pricing Manual, Number 2.

We based our analyses on the information contained in the SPCC automated procurement data base. Although we did not perform a formal reliability assessment, we compared dates, quantities, unit prices, and contractor identities recorded on SPCC's procurement tapes to the same information recorded in the contract files. Since we found numerous errors in the data recorded on the tapes, we did not project the results of our sample. We did, however, make changes when required because of errors, and adjusted the various categories to accurately reflect the results of our sample.

Our scope and methodology for the additional coverage at ASO was essentially the same. However, since we did not perform an earlier review, we have no data on the adequacy of individual price analyses in the earlier period. We did randomly sample 150 procurements from a universe of 17,989 procurements awarded between April 1, 1984, and March 31, 1985, to assess adequacy during our second review period.

We do have data on price increases at ASO during the two periods. We made 55,701 comparisons valued at \$1.8 billion for the period January 1, 1980, through June 30, 1983. We also made 11,840 comparisons valued at \$419.3 million for the period April 1, 1984, through

March 31, 1985. Some data was also obtained on whether changes in quantity and dollar value influence price behavior.

Data extracted from the procurement information system at ASO also contained errors that required correction. Therefore, no projection of the data was attempted.

We did not review the implementation of each initiative nor could we identify improvement in relation to specific initiatives. Although we did not evaluate the implementation of each initiative, we attempted to identify, based on discussions with procurement officials and a review of procurement files, those instances where it was evident that selected initiatives were not being adequately implemented.

Our review was performed in accordance with generally accepted government auditing standards.

# Spare Parts Prices at SPCC and Factors That Influence Price

## Spare Parts Prices

Our review indicated that spare parts prices have moved in the right direction. The figures shown in table III.1 reflect an 11-percent increase in procurements with decreased or unchanged prices, and a 40.6-percent decrease in procurements with price increases of 25 percent or more over data from our previous review. Table III.2 presents this data in terms of dollars and shows a 22.5-percent increase in decreased or unchanged prices, fewer (18.9 percent) with higher prices, and a 31-percent decrease in price increases of 25 percent or more.

**Table III.1: SPCC Spare Parts Procurements by Price Change Category in Transactions**

Category	During the 42-months ended June 30, 1983		During the 12-months ended March 31, 1985	
	Number	Percent	Number	Percent
Price decrease	43,533	33.4	15,406	44.7
No change in price	25,960	19.9	5,025	14.6
0 to 24.9% increase	37,480	28.7	10,332	30.0
25% or more increase	23,496	18.0	3,677	10.7
<b>Total</b>	<b>130,469</b>	<b>100.0</b>	<b>34,440</b>	<b>100.0</b>

**Table III.2: SPCC Spare Parts Procurements by Price Change Category**

Dollars in millions				
Category	During the 42-months ended June 30, 1983		During the 12-months ended March 31, 1985	
	Awards	Percent	Awards	Percent
Price decrease	\$624.4	41.5	\$248.3	48.7
No change in price	108.9	7.3	56.8	11.2
0 to 24.9% increase	596.0	39.6	163.5	32.1
25% or more increase	174.8	11.6	41.0	8.0
<b>Total</b>	<b>\$1,504.1</b>	<b>100.0</b>	<b>\$509.6</b>	<b>100.0</b>

These changes in spare parts prices could have been the result of several factors. Certainly, lower inflation and improvement in the economy have played major roles. The attention given spare parts pricing by top DOD officials and efforts by contractors to minimize price growth and avoid adverse media publicity may also have contributed. DOD's initiatives were also likely to have had a favorable effect on spare parts prices because:

- SPCC has increased the proportion of procurements involving large quantities, thereby supporting the initiative to take advantage of economic order quantities and avoid frequent buys of small quantities.

- SPCC has revised its evaluation system for people working in procurement and has established a system of rewards that is designed to recognize employees who obtain competition on spare parts that had been procured sole source.

Another initiative calls for “instituting actions to identify disparities in spare parts prices . . .” SPCC performed two studies to identify factors and conditions that influence prices. These studies indicated that quantity was a major factor in unit price determination. SPCC also briefed its contracting personnel on the Navy’s “Price Fighter” program held by the Naval Supply Center, Norfolk. SPCC also has a standard price analysis program and reviews “out-of-tolerance” prices.

We believe that the spare parts initiatives, as reflected in the various actions taken by SPCC, have contributed to the favorable changes in pricing. However, we could not separate the effects of the initiatives from the effects of other factors that have impacted favorably on SPCC procurement activities.

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## Factors That Influence Spare Parts Prices

As in our previous review, we analyzed two factors to determine if they influenced price behavior. These factors are quantities procured and dollar value of procurements. The following are the results of both our previous and current reviews. We also discuss the matter of competitive versus noncompetitive procurements which, because of SPCC procedures, we were unable to assess.

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### Purchase Quantity

Our previous review showed that for 67.6 percent of the procurements, unit prices decreased or remained unchanged when purchase quantities were increased. In our current review, the unit price decreased or remained unchanged for 70.4 percent of the procurements where quantities increased. On the other hand, procurements with quantity decreases showed price increases in 59.8 percent of the comparisons. (See table III.3.)

**Appendix III  
Spare Parts Prices at SPCC and Factors That  
Influence Price**

**Table III.3: Price Change by Purchase Quantity**

Category	Previous review				Current review			
	Quantity decrease	Percent	Quantity increase	Percent	Quantity decrease	Percent	Quantity increase	Percent
Price decrease	7,985	16.9	30,527	52.7	2,611	25.0	11,427	60.1
No change in price	7,543	15.9	8,636	14.9	1,581	15.2	1,954	10.4
0 to 24.9% increase	16,374	34.6	13,539	23.3	4,061	38.9	4,491	23.6
25% or more increase	15,433	32.6	5,255	9.1	2,184	20.9	1,129	5.9
<b>Total</b>	<b>47,335</b>	<b>100.0</b>	<b>57,957</b>	<b>100.0</b>	<b>10,437</b>	<b>100.0</b>	<b>19,001</b>	<b>100.0</b>

As pointed out in our earlier report, a requisite for buying in quantity is accurate requirements data. Sufficient quantities must be procured to meet needs yet excesses must be avoided. If a large quantity is procured but is not enough to meet total needs, a subsequent procurement of a small quantity is quite likely to experience price growth; in some instances, 25 percent or more. As was shown in table III.3, 20.9 percent of the procurements with decreased quantities experienced price increases of 25 percent or more.

There were a larger number of procurements where quantity increased during our current review. As shown in table III.4, 64.5 percent had quantity increases.

**Table III.4: Increased Quantity Procurements**

	Previous review		Current review	
	Number	Percent	Number	Percent
Quantity decrease	47,335	45.0	10,437	35.5
Quantity increase	57,957	55.0	19,001	64.5
<b>Total</b>	<b>105,292</b>	<b>100.0</b>	<b>29,438</b>	<b>100.0</b>

**Dollar Value**

Severe price increases occurred on procurements in all dollar ranges and their occurrence was proportionate. Table III.5 shows 7.3 percent of the procurements for \$1,000 or less experienced severe price increases and 5.5 percent of the procurements for \$100,000 or more had severe increases. Dollar value, therefore, did not significantly influence the likelihood of price increases except in the lowest dollar range. However, increases in this range would be less significant than those in the higher dollar ranges.

**Appendix III  
Spare Parts Prices at SPCC and Factors That  
Influence Price**

**Table III.5: Total Procurements and  
Procurements Increasing in Price by 25  
Percent or More (In Dollar Ranges)**

Dollar ranges	Total procurements	Procurements increasing in Price by 25 percent	
		Number	Percent
0 - 1,000	24,544	1,796	7.3
1,001 - 10,000	24,102	1,331	5.5
10,001 - 25,000	5,443	316	5.8
25,001 - 50,000	1,897	112	5.9
50,001 - 100,000	1,317	60	4.6
over - 100,000	1,120	62	5.5
<b>Total</b>	<b>58,423</b>	<b>3,677</b>	<b>6.3</b>

**Competition**

In our previous review, we reported that SPCC had erroneously programmed the automated procurement information system to record all procurements as competitive without regard to the actual method of procurement. As a result, we could not analyze the effect of competitive versus noncompetitive procurements. SPCC told us that it would no longer record the data in the automated system. SPCC also pointed out that competitive statistics were reported to a higher naval command to be included in DOD-wide statistics under a different system, the DD Form 350. Data in this system are reported under a different format—statistics on each procurement of \$25,000 or more are provided while statistics on procurements of less than \$25,000 are provided in summary form. To maintain consistency in our analyses, we did not analyze competition during our current review.

# Adequacy of Price Analyses on Individual Procurements at SPCC

The number of inadequate analyses performed by SPCC officials on procurements with price increases of 25 percent or more had a minor increase. Table IV.1 shows that 16.3 percent of such procurements did not have adequate price analyses. When price increases of this magnitude occur, it should prompt close scrutiny. Another category where analyses needed improvement was price increases up to 25 percent. Of the 38 procurements where prices increased up to 25 percent, price analyses on 7, or 18.4 percent, were inadequate.

To determine the adequacy of price analyses, we reviewed 182 procurements randomly selected from the universe of 58,423 contracts awarded between April 1, 1984, and March 31, 1985. We concluded that price analyses were adequate on 135 contracts and inadequate on 18 contracts, as shown in table IV.1. We were unable to reach a conclusion on the remaining 29 contracts for a variety of reasons.<sup>1</sup> Our conclusions were based on a review of the documents contained in contract files and interviews with appropriate buyers and contracting officers. The interviews were made to resolve any questions resulting from our review of the documents and to provide an opportunity for procurement officials to comment on aspects involving individual procurements.

**Table IV.1: Summary of SPCC Price Analyses on 182 Sample Contracts Awarded During the 12-Month Period Ended March 31, 1985**

Category	Total sample	Adequate price analysis		Inadequate price analysis		No conclusion reached	
		No.	Percent	No.	Percent	No.	Percent
Single buy <sup>a</sup>	26	25	96.2	•	•	1	3.8
Price decrease	40	33	82.5	1	2.5	6	15.0
No change	35	23	65.7	3	8.6	9	25.7
Price increase 0 to 24.9%	38	26	68.4	7	18.4	5	13.2
Price increase over 25%	43	28	65.1	7	16.3	8	18.6
<b>Total</b>	<b>182</b>	<b>135</b>	<b>74.2</b>	<b>18</b>	<b>9.9</b>	<b>29</b>	<b>15.9</b>

<sup>a</sup>Single-buy items were procured only once since January 1, 1980.

<sup>1</sup>SPCC was not responsible for establishing unit prices on 14 contracts. Seven contracts were in transit and unavailable for review, five contracts should have been eliminated during edit and were not, and the remaining three were inappropriate for our review.

## Buyer Actions Adequate

In determining that 135 contracts received adequate price analyses, we relied on guidance in the FAR, the DOD FAR Supplement, and the Armed Services Pricing Manual, Number 2. These documents state that procurement officials are responsible for selecting and using price analysis techniques that will ensure a fair and reasonable price. For example, the Armed Services Pricing Manual states that:

“For every procurement, the contracting officer must decide as to the fairness and reasonableness of the price he is going to pay for a product or a service. The obligation to contract at fair and reasonable prices does not diminish as we move down the scale from multi-million dollar contracts for systems acquisition to the nickel and dime item prices for nuts, bolts, and screws . . . . The conclusion that a price is fair and reasonable must be based on some form of analysis . . . . How detailed the analysis is will depend on the dollars and the nature of the product . . . being purchased.”

To determine that a price is fair and reasonable, a procurement official may do one or more of the following:

- compare competitive price quotations received in response to a solicitation,
- compare prior quotations and contract prices with current quotations for the same or similar items,
- compare proposed prices with independent government cost estimates,
- compare proposed prices with competitive published price lists, and
- exercise personal knowledge that the price quoted reflects the value of the item being purchased.

## Buyer Actions Inadequate

In some cases, we found that buyers were not soliciting potential sources, taking advantage of procurement history data, or verifying catalogue quotes. Table IV.2 presents our reasons for concluding that procurement officials did not perform adequate price analyses on 18 contracts.

**Table IV.2: Reasons for Inadequate Price Analysis**

Inadequate competition	7
Procurement histories not always used	3
Effect of larger quantity on price not always considered	4
Other	4
<b>Total</b>	<b>18</b>

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## Inadequate Competition

In 7 of the 18 cases of inadequate price analyses, the buyers justified accepting the contract prices based on adequate competition. Although DOD procurement regulations state the adequate competition is presumed to establish a fair and reasonable price, the regulations also state that the following conditions must exist to satisfy the adequate competition requirement:

- Proposed prices must be similar enough to be considered truly competitive.
- Responsive offers must be received from two or more independent offerors.
- Qualified offerors must not be denied an opportunity to compete.

We questioned six procurements because buyers did not solicit potential sources identified in the contract files or ignored the competitive code. We questioned another award because the buyer did not follow up on an unsolicited proposal. For example, SPCC procured a unit at a cost of \$10.65 each for 11 units. Three months earlier, SPCC had purchased 12 units for \$3.69 each. The unit was coded for competition; however, since the buyer's normal practice was to solicit only one source when the procurement is under \$500, only one source was solicited.

We recognize that buyers must balance the amount of time spent on an individual procurement with the dollar value of the award. However, in the above example, the item was coded for competition, available sources were identified, and simplified purchasing procedures could have been used. Under these procedures, the buyer solicits bids, usually three, by telephone and awards the contract to the lowest bidder. The next time this item is bought, the historical record will show the buyer that the item was procured noncompetitively at \$10.65. Buyers generally look at the most recent previous buy to see how it was procured (competitive or noncompetitive) and to compare offered prices to the previous price. The buyer's action in the above example could, therefore, lead to additional high prices in the future.

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## Buyers Did Not Always Use Available Procurement Histories

SPCC maintains an automated procurement information system that provides information on past procurements of the same and interchangeable items. In addition to providing statistical data to SPCC management, the system also provides a readily available source of information to buyers, such as quantity procured, price paid, date of last award, how the item was procured, and the identity of the last supplier and other qualified sources. A buyer can use the procurement history to compare a

proposed price to previous prices paid and, in many cases, this is the only price analysis performed. When the available price history is not used, a buyer does not have a basis for comparison. For example, SPCC procured 12 units at a price of \$3.14 each from a local retail store. Three days later, another contract was awarded to a local manufacturer for the same item at a unit price of \$32.50 each for two. The buyer who awarded the contract for two units was unaware of the retail store as a potential source. Had this buyer obtained the procurement history record, the previous buys, including the identity of the retail store, would have been known.

**Buyers Did Not Always  
Consider Effect of Quantity  
on Price**

As indicated by our review and studies by SPCC, quantity has a major influence on price. Buyers, therefore, should be keenly aware of this influence and alert to unexpected behavior such as increases in unit prices, although quantities have increased. We did not find this awareness in all cases. For example:

- SPCC procured 250 units at a price of \$290.44 each. About 6 months earlier another procurement of the same unit was made for a quantity of 86 at \$187 each. The buyer for the most recent buy requested proposals from several sources, including the previous supplier. The previous supplier did not respond, and all proposals received were significantly higher than the previous price paid for a smaller quantity. The buyer did not attempt to find out why the price had increased by 55 percent in 6 months during a period of low inflation nor did the buyer try to find out why it increased so severely while the quantity procured tripled. Since the total value of the procurement was \$72,600, we believe further analyses and inquiry was warranted by the buyer.
- SPCC procured three units at a unit price of \$4,571. In an earlier buy, the same unit was procured at a unit price of \$3,361.65 for a quantity of four. In short, SPCC paid more for three units, the more recent buy, than it had paid for four units. Because of our interest in this item, SPCC contacted the contractor and questioned the large variation in the price break of this item. The contractor later refunded \$3,628.05, in essence, selling SPCC the three units at the earlier unit price of \$3,361.65.

**Other**

We questioned the price analyses on 3 of the 18 cases, because of buyer error. In one case, no price analysis was performed; in another, the buyer did not provide an adequate item description; and in the third, the analysis was incomplete.

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**Appendix IV  
Adequacy of Price Analyses on Individual  
Procurements at SPCC**

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We questioned a fourth analysis because the buyer did not verify or confirm the catalog quote. For example, SPCC procured eight units at \$31.34 each. On an earlier buy for the same unit, SPCC paid \$22.20 each for eight units. Both buys were from the same contractor. The contractor furnished a copy of its catalog to support its quote. The buyer, however, did not verify the quoted price to the catalog. A comparison would have shown that the price quoted was in error and not for the requested item. The catalog price for the requested unit was \$22.20—the same as the previous buy.

The acquisition regulations permit buyers to accept contractor offered prices based on catalog prices. The catalog must be published, available to the public, and represent prices based on substantial sales to the public. When these conditions are met, acceptance of catalog prices instead of price analyses seems reasonable. However, we believe buyers should confirm or verify the catalog quote to assure its existence and accuracy.

# SPCC Personnel Changes and Other Programs Related to Spare Parts Initiatives

SPCC made a number of changes in personnel policies and practices related to the initiatives. For example, SPCC made changes in its performance appraisal system to highlight competition and price reasonableness. It also established an awards program designed to recognize accomplishments for increasing competition or achieving significant price reductions. In addition, SPCC provides supplementary and specialized training to contracting personnel, and has initiated a number of other programs aimed at improving its ability to obtain reasonable spare parts prices.

## Performance Appraisals

The spare parts initiatives required the services and DLA to

“revise performance evaluation factors for acquisition and logistics managers to include emphasis on spare parts pricing, breakout, and competition. . . .”

At SPCC, performance standards ranging from highly satisfactory to marginal were revised to include the following:

- Work reflects high level of awareness and application of seeking out meaningful competition to attain high level of quality, ensure best possible price, and expand industrial base supporting SPCC. Recognizes and applies practical and sound judgment in ensuring best value plus optimized prices, considering relative importance of quality, timely delivery, and competition in each case.
- On at least two occasions in the rating period, price reasonableness determinations were found to be inadequate or indicative of poor judgment. The failure to seek meaningful competition, without proper justification, was evidenced on two occasions during the rating period.

Before this revision, employee performance appraisals were based on other elements which did not specifically address competition or price reasonableness.

SPCC's policy calls for the performance standards to be discussed with each employee so expected performance is understood. The standards are then used as yardsticks to measure how well work has been accomplished and expressed in quantitative terms to the extent possible.

## Incentive Awards Program

SPCC designed an incentive awards program to recognize employees who achieve significant price reductions. One of the Secretary's initiatives suggested “reward of employees who rigorously pursue cost savings.”

SPCC's program provides for awards ranging from \$50 up to \$1,000. Awards can be made to employees on an individual basis or group basis. During fiscal year 1985, SPCC presented 62 awards totaling \$28,350. In the first quarter of fiscal year 1986, 18 awards were made totaling \$15,050.

We also inquired as to whether any procurement personnel had been disciplined because of negligence or lack of adherence to the spare parts initiatives. The Secretary's initiatives had provided for disciplinary action as well as rewards. An SPCC official stated that it was not necessary to take such action against any contracting department employees.

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## Training

The spare parts initiatives also called for

"expanded training to ensure proper emphasis, understanding, and skill levels for personnel engaged in the acquisition of spare parts."

In addition to mandatory training required of all contracting department personnel, SPCC offered supplementary or special training. The training consisted of the following:

- Product familiarization seminars for buyers to acquaint themselves with products being procured. Through December 1985, four seminars had been held.
- Contracting personnel were briefed on the Navy's "Price Fighter" program. The program is held at the Naval Supply Center, Norfolk, and consists of detailed government estimates of what selected items should cost. These estimates are then made available to SPCC personnel.
- A special course on small purchases (\$25,000 or less) was held with 58 personnel, or about 15 percent of the contracting department employees in attendance.

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## Other Programs

SPCC has instituted a number of other actions to improve spare parts prices. Some of these require contractors to provide selected information. Others, such as value engineering and price analyses filters, are to avoid or prevent overpricing or achieve more reasonable prices. Some of these actions are briefly summarized in the following paragraphs.

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## Breakout

SPCC is including a clause in its solicitations requiring contractors to certify as to whether they manufacture, buy, assemble, or test the items

being procured. This information can then be used to determine if breakout<sup>1</sup> is feasible and appropriate. SPCC has also developed procedures to implement Naval Audit Service recommendations to obtain lists from administrative contracting offices located at contractor plants. These lists, screened for breakout, consist of Navy managed items that contractors purchase completely from subcontractors.

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### Contract Management

SPCC includes a value engineering<sup>2</sup> clause in all contracts for spare parts and repair kits of \$25,000 or more, unless the items are standard commercial parts. SPCC has also assigned personnel to do value engineering reviews of spare parts purchases.

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### Voluntary Refund Policy

The Navy adopted regulations in April 1986 which required including a refund clause in all contracts that could require spare parts. The clause provided a contractual basis for voluntary refunds. Contracts awarded as a result of competitive small business procedures were excluded. The basis for a voluntary refund was the difference between the item's price and the item's intrinsic value. Intrinsic value was defined as the price one would expect to pay based on the cost to manufacture, using standard labor, material, and shop costs.

The regulation also cited examples of conditions that could lead to a refund request or pricing adjustment. They were:

- A technical or engineering analysis, such as that done by "Price Fighter," results in a determination that the intrinsic value is significantly lower than the historical price.
- The price paid for an item bought competitively in similar quantity and circumstances (e.g., urgency, delivery terms) is significantly less than the former sole-source price.
- Prices paid to the manufacturer of an item indicate the amount previously charged by the prime contractor for the item significantly exceeded the value added by the prime contractor's efforts in providing the item.
- Postaward audit reports identify overcharges.

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<sup>1</sup>The term breakout has two meanings. One involves buying parts directly from manufacturers that were previously bought from prime contractors that did not actually manufacture the part. The second involves seeking alternate sources for parts previously furnished by only one source.

<sup>2</sup>Value engineering examines how costs can be reduced when a product is redesigned using different materials, applying new technology or more efficient production processes, or by eliminating unnecessary parts of the product.

The Navy has modified its refund policy several times. The regulations have been changed to

- exclude contracts awarded on the basis of adequate price competition,
- revise the definition of intrinsic value to “the price one would expect to pay for an item based on the cost to manufacture the item in economic production quantities,”
- expand the definition of intrinsic value to recognize established catalog or market prices,
- establish a 4-year time limit for obtaining voluntary refunds (the original regulations did not have a time limitation), and
- include provisions for a contractor to certify that the proposed price would exceed intrinsic value. If the contractor certified and met other specified conditions, the liability would be eliminated.

The Council of Defense and Space Industry Associations protested the Navy’s revised spare parts refund rule in a November 18, 1986, letter to the Office of the Assistant Secretary of the Navy (Shipbuilding and Logistics). The letter indicated that any policy on voluntary refunds should be on a department-wide basis. The letter also noted that the Defense Acquisition Regulatory Council was considering a proposal to address the spares refund issue. The Defense and Space Industry Associations recommended that the Navy rescind its refund rule until a department-wide policy is established.

We agree that the refund issue should be considered on a department-wide basis. Now each service has its own procedures which differ markedly from each other. For example, the Air Force refund policy is somewhat less aggressive and more informal than the Navy’s. However, we do not believe the Navy should rescind its refund policy until a department-wide policy is established. Moreover, since the Navy provides more specificity and guidance on the terms and conditions of voluntary refunds than the other services, its regulations provide a framework for the Defense Acquisition Regulatory Council’s use in developing a department-wide policy.

## Pricing

SPCC has taken action to provide buyers with visibility of all interchangeable part numbers within a given family group. It has also developed a formal program to do in-depth reviews of out-of-tolerance prices. In addition, efforts to establish price analyses filters in the standard

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**Appendix V**  
**SPCC Personnel Changes and Other Programs**  
**Related to Spare Parts Initiatives**

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price analysis program were ongoing. Contractors were also being monitored to ensure they were meeting their commitments not to bid on spare parts when they do not add value.

# Spare Parts Procurements at ASO

## Spare Parts Prices

Our review at ASO indicated that spare parts prices are moving in the right direction. The figures shown in table VI.1 reflect a 22.1-percent increase in procurements with decreased or unchanged prices, fewer (11.3 percent) procurements with higher prices, and a decrease of 45.5 percent in procurements with price increases of 25 percent or more over data from the previous period. Table VI.2 presents this data in terms of dollars and reflects a 28.6-percent increase in decreased or unchanged prices, fewer (6.4 percent) with higher prices, and a decrease of 66 percent in price increases of 25 percent or more.

**Table VI.1: ASO Spare Parts Procurements by Price Change Category in Transactions**

Category	During the 42-months ended June 30, 1983		During the 12-months ended March 31, 1985	
	Transactions	Percent	Transactions	Percent
Price decrease	19,688	35.4	5,690	48.1
No change in price	6,765	12.1	1,173	9.9
0 to 24.9% increase	21,802	39.1	4,111	34.7
25% or more increase	7,446	13.4	866	7.3
<b>Total</b>	<b>55,701</b>	<b>100.0</b>	<b>11,840</b>	<b>100.0</b>

**Table VI.2: ASO Spare Parts Procurements by Price Change Category (Dollars in Millions)**

Category	During the 42-months ended June 30, 1983		During the 12 months ended March 31, 1985	
	Awards	Percent	Awards	Percent
Price decrease	\$616.9	34.2	\$215.1	51.3
No change in price	202.4	11.2	29.8	7.1
0 to 24.9% increase	698.6	38.7	151.9	36.2
25% or more increase	287.4	15.9	22.5	5.4
<b>Total</b>	<b>\$1,805.3</b>	<b>100.0</b>	<b>\$419.3</b>	<b>100.0</b>

Changes in spare parts prices could have been the result of several factors. We could not, however, separate the effects of these factors from the effects of the initiatives. Nonetheless, we believe the initiatives are likely to have had a favorable effect on spare parts prices because ASO:

- Beginning in fiscal year 1986, included an evaluation of individuals' efforts to maximize competition in performance appraisals. It also designed a system of incentive awards to recognize individuals who achieve significant cost reductions.
- Implemented a program to obtain voluntary refunds from contractors that have overcharged the Navy.
- Has an ongoing effort to do in-depth reviews of out-of-tolerance prices.

ASO has a number of other efforts underway, many of which are similar to SPCC's. (See p. 25.)

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## Factors That Influence Spare Parts Prices

We obtained some data from ASO on the use of competition, quantities procured, and dollar value of the procurement.

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### Competition

ASO reported that, as part of its ongoing efforts, it had:

- Completed full screen breakout efforts on 7,711 items and identified 5,410 that could be procured competitively or directly from the manufacturer.
- Completed limited screen breakout efforts on 57,938 items and identified 5,457 items that could be procured competitively or directly from the manufacturer.

The terminology "full screen" and "limited screen" is used to indicate the amount of time and depth used to review items for breakout. A limited screen may indicate that a full screen is appropriate.

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### Purchase Quantity

Price changes at ASO appear directly related to quantities procured. Our analyses show that 60.1 percent of the procurements with an increase in quantity experienced decreases in price. In contrast, 25.8 percent of the procurements with a decrease in quantity experienced decreases in price. The same relationship exists with procurements experiencing severe price increases of 25 percent or more. Procurements with a decrease in quantity experienced severe price growth in 12.8 percent of the comparisons versus 4.8 percent when quantities increased.

These data indicate that consolidating purchase requests is beneficial. Although all requests cannot be consolidated, the potential for lower prices or avoiding severe price growth emphasizes the importance of this step.

---

### Dollar Value

Severe price increases occurred on procurements in all dollar ranges, but most frequently in the lower dollar value ranges. Table VI.3 shows 4.8 and 4.9 percent of procurements for \$10,000 or less experienced price

increases while 3.4 percent of procurements for \$100,000 or more experienced such increases. Thus, severe price increases are more likely to occur in low dollar value procurements, but when such increases occur in the higher dollar ranges they are apt to be more significant.

**Table VI.3: Total Procurements and Procurements Increasing in Price by 25 Percent or More (In Dollar Ranges)**

Dollar ranges	Total procurements	Procurements increasing in price by 25 percent or more	
		Number	Percent
\$0 - \$1,000	2,540	122	4.8
1,001 - 10,000	9,249	452	4.9
10,001 - 25,000	3,002	182	6.1
25,001 - 50,000	1,141	36	3.2
50,001 - 100,000	866	34	3.9
over \$100,000	1,191	40	3.4
<b>Total</b>	<b>17,989</b>	<b>866</b>	<b>4.8</b>

## Adequacy of Price Analysis

To determine the adequacy of price analysis, we sampled 150 procurements from the universe of 17,989 contracts awarded between April 1, 1984, and March 31, 1985. We concluded that price analyses were adequate on 130 contracts and inadequate on 20 contracts, as shown in table VI.4.

**Table VI.4: Summary of ASO Price Analyses on 150 Sample Contracts Awarded During the 12-Month Period Ended March 31, 1985**

Category	Total sample	Adequate price analysis		Inadequate price analysis	
		No.	Percent	No.	Percent
Single buys <sup>a</sup>	30	28	93.0	2	6.7
Price decrease	35	33	94.2	2	5.7
No change	25	19	76.0	6	24.0
Price increase 0 to 24.9%	35	31	88.6	4	11.4
Price increase over 25%	25	19	76.0	6	24.0
<b>Total</b>	<b>150</b>	<b>130</b>	<b>86.7</b>	<b>20</b>	<b>13.3</b>

<sup>a</sup>Single-buy items were procured only once since January 1, 1980.

Six, or 24 percent of the 25 sampled procurements with price increases of 25 percent or more were inadequately analyzed. There is ample opportunity, therefore, for improvement because price increases of this magnitude should prompt close scrutiny.

Another procurement category where analyses needed improvement was procurements where prices did not change. Of the 25 sampled procurements, price analyses on 6, or 24 percent, were inadequate. While procurements with no change in price should receive less priority than those with price growth, the fact that the price remained unchanged should not be the sole basis for accepting a price change as reasonable.

## Buyer Actions Inadequate

Table VI.5 summarizes our reasons for concluding that procurement officials did not perform adequate price analyses on 20 contracts.

**Table VI.5: Reasons for Inadequate Price Analysis**

Failure to consolidate purchase requests	7
Procurement histories not always used	4
Acceptability of price not supported	3
Potential sources not solicited	2
Other	4
<b>Total</b>	<b>20</b>

The first two categories, which account for over half of the inadequate analyses, are briefly discussed below.

### Failure to Consolidate Purchase Requests

We questioned the acceptance of proposed prices on seven contracts because buyers did not consolidate purchase requests. In each of these cases, purchase requests were open concurrently and documents for the second procurement were received in procurement before award of the first contract. For example:

- ASO awarded separate contracts for the same items to the same contractor on the same day. The buyer had accepted quotes for the contracts 1 week apart.

We identified other instances where two purchase requests were open concurrently. The contracting officer stated that the purchase requests could not have been combined because documents for the second contract were not received in the procurement department until after award of the first contract. Although we did not categorize these instances as inadequate, we believe that when purchase requests are received at a distribution point and indicate the existence of an earlier purchase

request for an item not yet procured, the second request should be expedited to the buyer rather than routinely processed. Of course, because administrative lead time and timely award of contracts is important, the potential for delay should be considered, along with potential savings, in deciding whether or not to consolidate requirements.

### Buyers Did Not Always Use Procurement Histories

We questioned the acceptability of proposed prices on four awards because the buyers did not obtain current procurement histories. As a result, they did not have information that could have been used to better analyze the proposed price. For example, ASO awarded a contract for 71 units at \$43.18 each. Three months earlier, another buy had been made for 58 units at \$36.94 each. The buyer did not obtain a current procurement history, and therefore, was unaware that ASO had paid 17 percent less for a smaller quantity 3 months earlier.

### Personnel Changes Related to Spare Parts Initiatives

ASO revised its performance appraisals for contracting personnel and adopted an incentive awards program to recognize persons who achieve significant cost reductions. Both of these actions were called for under the spare parts initiatives.

### Revised Performance Appraisals

Beginning in fiscal year 1986, performance appraisals at ASO were to include an evaluation of the individual's efforts to maximize competition. Under ASO's performance appraisal system, standards for highly satisfactory and marginal levels of work were to be developed for critical job elements and discussed with employees. These performance standards were then used as yardsticks to measure how well the individual accomplished the desired goal. The following example for the position of Contract Specialist shows the revised critical elements in ASO's performance appraisal process.

- Previous standard: Reviews incoming purchase requisitions and all correspondence to determine appropriate course of action, takes appropriate actions, and issues solicitation or delivery order.
- Revised standard: Reviews incoming purchase requisitions and all correspondence to determine appropriate course of action, takes appropriate action, and issues solicitation or delivery order. Ensures action taken maximizes opportunity for competition.

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**Awards Program**

ASO gave monetary awards to employees to recognize their cost reduction achievements. In fiscal year 1985, 56 awards totaling \$10,775 were made to employees. Contracting personnel received 10 awards totaling \$2,325. The dollar value of awards ranged from \$100 to \$300.

# Letter From the Assistant Secretary of Defense for Acquisition and Logistics



ACQUISITION AND  
LOGISTICS  
L(SPM)

ASSISTANT SECRETARY OF DEFENSE

WASHINGTON, D.C. 20301-8000

14 APR 1987

Mr. Frank C. Conahan  
Assistant Comptroller General  
National Security and International  
Affairs Division  
US General Accounting Office  
Washington, DC 20548

Dear Mr. Conahan:

This is the Department of Defense (DOD) response to the General Accounting Office (GAO) draft report, "SPARE PARTS - NAVY: Follow-up on Initiatives at Ships Parts Control Center and Aviation Supply Office," dated February 17, 1987 (GAO Code 396411/396418) OSD Case 6851-D. The DOD agrees with the report.

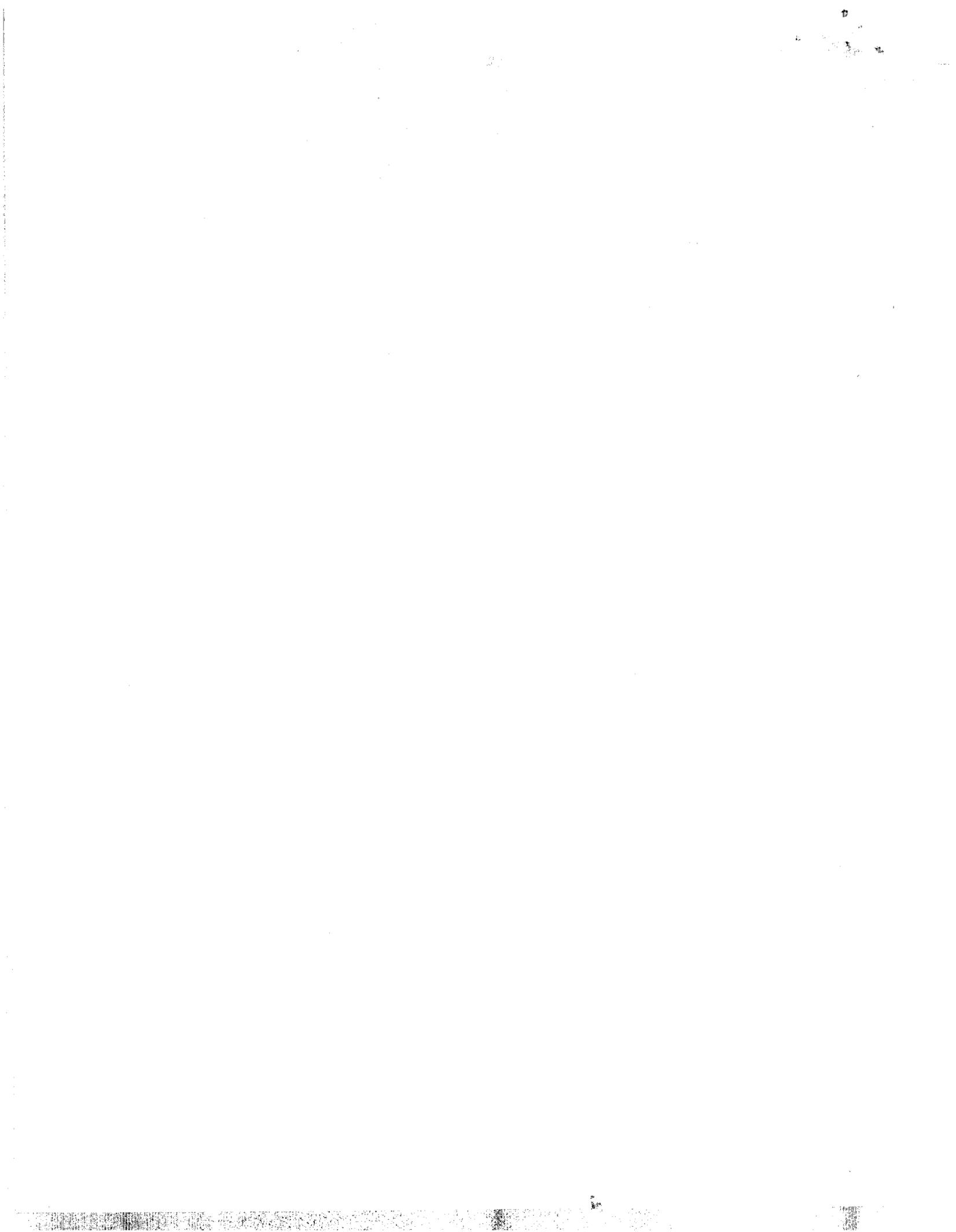
The Navy has been realizing significant reductions in the cost of spare parts. The Buy Our Spares Smart (BOSS) Annual Report for FY 1986 is a recent testament to the efforts that have been applied to spares issues. The DOD commends the Navy for its proactive program that saved \$902 million in FYs 1984-1986 on an investment of \$187 million. There is every reason to believe that these successes will continue.

Although the GAO examined data for the 12-month period ending March 31, 1985, additional, substantial progress has been made in the intervening two years, including increased analysis of items that show a price increase of 25 percent or more since the last procurement. Progress is also evident in the other Services and the Defense Logistics Agency, and recently confirmed by the DOD Inspector General in the "Summary Report on the Follow-up Defense-Wide Audit on Procurement of Spare Parts," dated February 17, 1987.

The DOD considers the Navy's spares program an unqualified success, and one that will continue to receive emphasis for years to come. The DOD appreciates the opportunity to comment on the draft report.

Sincerely,

*for Thomas P. Christie*  
Robert B. Costello



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# Letter From the Assistant Secretary of Defense for Acquisition and Logistics



ACQUISITION AND  
LOGISTICS  
L (SPM)

ASSISTANT SECRETARY OF DEFENSE

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- Revised standard: Reviews incoming purchase requisitions and all correspondence to determine appropriate course of action, takes appropriate action, and issues solicitation or delivery order. Ensures action taken maximizes opportunity for competition.