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Procurement Of Fresh Fruits And Vegetables From Foreign Sources When Available At Lower Costs From Domestic Sources

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Department of the Army

BY THE COMPTROLLER GENERAL OF THE UNITED STATES

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

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C/R
Dear Senator Hollings:

On July 19, 1971, you requested that we investigate the Department of the Army's procedures for purchasing food for U.S. personnel in Europe. You requested a general investigation on the basis of a specific situation--the Army's rejection of a shipload of fresh South Carolina peaches. In September 1971 we reported to you on the shipment of peaches.

Various food items are procured from foreign rather than U.S. sources due to cost differences and their perishability. We concentrated our review on the policies and procedures for procuring fresh fruits and vegetables which were susceptible to direct comparison between offshore and U.S. procurement. In ~~the~~ ~~year~~ 1971 the Army purchased offshore about \$6 million worth of fresh fruits and vegetables for troop issue and for sale in commissaries in Europe.

We found that the instructions issued by subordinate Army commands in Europe--the U.S. Theater Army Support Command and the U.S. Army Materiel Command--implementing the latest Department of Defense (DOD) policies had resulted many times in their procuring from foreign sources certain fresh fruits and vegetables that could have been procured from domestic sources at lower prices.

As a result of these instructions:

- The Materiel Command has discouraged the use of U.S. sources in favor of foreign sources for procuring produce for resale in commissaries.
- The serviceman and his dependents in some cases now pay more for foreign produce than for comparable U.S. produce.
- The Army in some cases pays more for foreign produce for troop issue than for comparable U.S. produce.

We discussed our observations and conclusions with officials in the Office of the Army Deputy Chief of Staff for

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Logistics, and they agreed that the instructions were not consistent with the stated DOD and Army policies. These officials agreed that corrective action was needed.

DEPARTMENT OF DEFENSE POLICY

From August 1967 to March 1970, DOD required that all subsistence items, except for highly perishable items, be purchased from U.S. sources unless the cost would exceed that for items purchased from foreign sources by 50 percent. The objective of this policy was to improve the Nation's balance-of-payments position by reducing offshore procurements. In March 1970 DOD revised its policy to permit normal, competitive procurement of subsistence items for resale in overseas commissaries. Subsistence procurement for troop issue was still subject to the 50-percent differential.

The purpose of this change was to align the prices paid by servicemen in overseas commissaries with prices in local foreign markets for comparable items. However, this change was not intended to detract from the basic DOD policy of promoting the sale of U.S. items.

DEPARTMENT OF THE ARMY POLICY

In April 1970 the Assistant Secretary of the Army (Installations and Logistics) advised the Theater Command of the change in DOD policy. Army Regulations 31-100 was revised in May of 1970 to provide that, to meet customer preference or price advantage, subsistence items authorized for resale in commissaries could be procured from either domestic or foreign sources.

On June 15, 1970, the Theater Command set forth its plan for implementing the new DOD policy. This plan, which was approved by U.S. Army, Europe, on July 11, 1970, provided for maximum offshore procurement of fresh fruits and vegetables commencing in August 1970.

The Materiel Command, which was a subordinate of the Theater Command and which was responsible for procuring most

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subsistence items for the military departments in Europe, issued its general policy on fresh fruits and vegetables, which stated:

"FF&V [fresh fruits and vegetables] will be supplied to the greatest extent possible from CONUS [continental United States] sources for troop issue.

"All fresh fruit and vegetable products procured for resale in the commissaries will be purchased to the greatest extent possible offshore." [Under-scoring supplied.]

EFFECT OF POLICY CHANGES ON COMMISSARIES

The implementing instructions issued by the two commands were inconsistent with DOD policy and discouraged the use of U.S. sources in favor of foreign sources. After DOD relaxed its restriction on offshore procurement of subsistence items, the amount of fresh fruits and vegetables procured from foreign sources increased from \$4.5 million in fiscal year 1970 to \$5.9 million in fiscal year 1971.

EFFECT OF POLICY CHANGES ON ACQUISITION OF SUBSISTENCE ITEMS FOR TROOP ISSUE

Although subsistence items for troop issue are to be supplied from U.S. sources, the Materiel Command sought approval for exceptions to the DOD policy and justified these requests on the basis of economy and of the perishability of certain subsistence items. The Theater Command approved the following exceptions for fresh fruits and vegetables.

Potatoes, cabbages, and watermelons were authorized for offshore procurement because U.S. prices exceeded those of foreign sources by 50 percent; other highly perishable items, such as cucumbers and romaine lettuce, also were authorized for offshore procurement because significant losses had been incurred when they were shipped from the United States.

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An official of the Department of Agriculture told us that many of the products which the Materiel Command considered too perishable for shipment from the United States could be, and had been, shipped successfully. He stated that specifications for crating and shipping individual items should be improved to minimize losses incurred in shipping from the United States.

POOR MANAGEMENT PRACTICES

The Materiel Command did not take advantage of savings available by purchasing fresh fruits and vegetables in the continental United States through the Defense Personnel Support Center. In March 1971 the Materiel Command stated that in 1971 it would gradually expand the offshore procurement program. The Materiel Command frequently made offshore procurements of fresh fruits and vegetables for troop issue and resale in commissaries at costs that were higher than those available through the Support Center.

Procurement of items for troop issue

The Materiel Command's policy for procuring fresh fruits and vegetables for troop issue is that fresh fruits and vegetables be supplied, to the greatest extent possible, from CONUS sources. The Materiel Command, however, had sought approval of exceptions to this policy on the basis of (1) the perishability of the items and (2) economy.

We examined the documents for nine fresh fruits and vegetables between November 1970 and October 1971. The procurement of these items from CONUS sources ranged from 47 to 89 percent and averaged 72 percent.

<u>Item</u>	<u>Troop requirements (pounds)</u>	<u>Acquired through Support Center</u>	<u>Percent</u>
Apples	803,607	473,418	59
Celery	1,769,494	1,400,713	79
Carrots	1,492,706	1,175,476	79
Grapefruits	519,276	458,240	88
Lemons	417,202	372,811	89
Dry onions	948,881	483,214	51
Pears	148,754	129,660	87
Oranges	952,548	659,820	69
Radishes	321,674	150,710	47
	<u>7,374,142</u>	<u>5,304,062</u>	72

Although the Materiel Command justified the exceptions from its policy on the basis of economy, we found that the prices offered by the Support Center in many cases were lower than those paid for offshore sources.

From November 1970 to May 1971, the Materiel Command ordered about 65 percent of its troop-issue requirements for apples from the Support Center. During June through October 1971, following the pronouncement of expanded offshore procurements, about 26 percent of troop-issue requirements were obtained from the Support Center. The balance was supplied from offshore sources generally at higher prices. For example:

In July 1971 the Materiel Command ordered 660 pounds of apples from the Support Center at \$0.11 a pound, excluding transportation.¹ The total requirement for troop issue was about 25,000 pounds. The balance was procured offshore at an average price of \$0.169 a pound. Also the Materiel Command contracted with Netherlands firms to store

¹The cost for transportation in chilled containers was about \$0.06 a pound during that period.

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475,000 pounds of Australian apples, to meet its future needs during an anticipated shortage of apples in Europe. Delivery of these apples was made between July and August 1971 at prices which exceeded the Support Center prices by \$0.063 to \$0.069 a pound even before considering the 50-percent differential.

According to Army officials U.S. apples during this period were inferior. We found no indication, however, that procurement of U.S. apples had even been considered or that U.S. apples during that period were, in fact, inferior.

Procurement of items for commissaries

The Materiel Command issued instructions that all fresh fruits and vegetables for resale in commissaries be purchased offshore to the greatest extent possible. As a result U.S. produce was virtually eliminated even when Support Center prices for the produce were lower than offshore prices. At times during the year it was more economical to buy from the Support Center, because the United States was the primary source for fresh fruits and vegetables for the European commercial market. The Materiel Command did not take advantage of the lower prices from the Support Center during these seasonal periods; in some cases it bought the U.S. produce from foreign sources, passing on to the commissary customers the costs of foreign transportation and vendor profits.

We reviewed the prices paid for nine fresh fruits and vegetables during the period November 1970 through October 1971. The offshore procurement of these items totaled \$1,225,800, including transportation costs. Had the Materiel Command obtained these items from the Support Center, the price would have been about \$306,000 less, exclusive of transportation costs. Transportation costs from the United States for subsistence items ordered through the Support Center were paid by the Government and were not absorbed by the commissary customers.

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Following are examples of certain fruits and vegetables that could have been bought at lower prices from the Support Center.

Lemons

Over 80 percent of the lemons purchased from European vendors during August and September 1971 had been grown in California. The Materiel Command, rather than purchasing its commissary requirements of lemons from the Support Center at \$0.19 a pound, plus about \$0.05 a pound for transportation in chilled containers, purchased U.S. lemons from European vendors for as much as \$0.349 a pound. Similar purchases of lemons had been made during August and September 1970.

Radishes

The Materiel Command, instead of buying radishes for the commissaries directly from the Support Center at \$0.16 a pound, plus about \$0.06 a pound for transportation in chilled containers, bought Florida radishes from local markets in Europe at \$0.42 a pound.

Grapefruits

During July through September 1971, most of the grapefruits for the commissaries were purchased and shipped from South Africa at from \$0.187 to \$0.307 a pound. At the same time, the Materiel Command was requisitioning U.S. grapefruits for troop issue from the Support Center at \$0.09 a pound, plus about \$0.06 a pound for transportation in chilled containers.

Oranges

During July through September 1971, oranges purchased for resale in commissaries came from Africa, the Near East, Australia, South Africa, and South America.

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Prices paid, including transportation costs and vendor profits, ranged from \$0.125 to \$0.219 a pound; the Support Center prices were \$0.10 or \$0.11 a pound, plus about \$0.05 a pound for transportation in chilled containers.

Procurements from foreign sources have caused quality control problems. For example:

In November 1971 a contract was awarded to two vendors in Turkey for about 150,000 pounds of grapefruits, lemons, oranges, and tangerines. Over 90 percent of the requested quantity did not meet the color specifications at origin; nevertheless the items were permitted to be shipped. Upon their arrival in Germany, none of the lemons or tangerines met the required specifications.

For one lot of 445 cases of lemons, an inspection made before shipment showed that the lemons did not meet the specifications for damage, decay and mold, or color. Reinspection on their arrival in Germany showed that 6.9 percent had decay or mold and that 84 percent were "not fairly well colored." The allowable tolerances for decay and mold and for poor color were 1 percent and 10 percent, respectively. The lot was accepted without any adjustment in price or weight.

RECOMMENDATIONS

We recommend that, to decrease costs of produce for resale in commissaries and to insure that troop-issue produce is obtained at the lowest cost compatible with balance-of-payments objectives, the Department of the Army:

- 1 --Direct the Theater Command and the Materiel Command to revise their implementing instructions for offshore procurements to conform to DOD policies.
- 2 --Direct the Materiel Command to improve its methods of estimating and managing troop-issue requirements for

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perishables to insure maximum use of U.S. suppliers and to rely less on emergency procurements from foreign sources.

4 -- Cooperate with the Defense Supply Agency and the Department of Agriculture in developing improved crating and shipping specifications for perishables, to improve the quality and economy of U.S. perishables for troop issue and for resale in commissaries in Europe.

We trust that this information is responsive to your request. We plan no further distribution of this report unless copies are specifically requested and then only after your agreement has been obtained or you have publicly announced its contents.

Sincerely yours,



Comptroller General
of the United States

The Honorable Ernest F. Hollings
United States Senate