119345

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

GENERAL GOVERNMENT DIVISION

B-114874

SEPTEMBER 2, 1982

119345

The Honorable William F. Bolger
Postmaster General
United States Postal Service

Dear Mr. Bolger:

Subject: An Opportunity to Continue Increasing Competition and Saving Money on Large Postal Service Procurements (GAO/GGD-82-67)

This report summarizes our review of large, repetitive, open-market purchases of essential commodities by the Postal Service's Procurement and Supply Department. Since February 1981 we have issued five reports which focus on unduly restrictive contract conditions and product specifications which have limited competition for awards and increased procurement costs. In each of the five cases, adequate market research could have provided a better knowledge of industry capabilities and limitations, enabling the Service to make better use of available commercial products and to ask only for what the industry is able to provide.

We estimate that the Service, by implementing the recommendations in these five reports, has saved about $1.7 million in fiscal year 1982. When the remaining recommendations are implemented in fiscal year 1983, these savings will increase significantly. We believe that by expanding competition and improving product specifications Service-wide, the Service will continue to reduce procurement costs.

The Service shares with the Federal Procurement Regulations a policy of maximizing competition. The Postal Contracting Manual also emphasizes the need to consider the marketplace for its producers' capabilities and limitations so that Service needs can be effectively met without incurring unnecessary costs. For most of the contracts we reviewed, this could have been done more effectively.

SCOPE AND METHODOLOGY

The Service spent about $1.7 billion in fiscal year 1981 on goods and services. These purchases were made for real estate ($203 million), transporting mail ($639 million), and operations ($888 million). For this review we excluded the first two categories of specialized procurements and concentrated on the procurement of the basic commodities used in Service operations.

023261

(019009)

Our work was done in accordance with generally accepted Government auditing standards. To accomplish our review objectives, we limited our sample to purchases of commodities which met all of the following criteria:

--Contracts awarded recently or to be awarded shortly by Washington, D.C., Headquarters procurement officials.

--Contracts awarded by and for the Service on the open market with competition the preferred procurement method.

--Contracts over $2 million (large repetitive awards).

Using these criteria the Service identified eight commodities for our consideration. We reviewed the procurement actions for six of these commodities and found problems affecting competition in four cases. The procurement of stamp booklet kits was also reviewed as the result of a congressional request. This ($1.8 million) procurement met all but the $2 million factor in our selection criteria.

We reviewed reports and data provided by the Service, private industry, and Federal procurement and technical experts and officials. We also interviewed these officials in order to identify restrictive contract conditions and product specifications and to develop alternative requirements that provided for more competition, less cost, and an equal or better product.

The five contracts we reported on involve frequently purchased commodities. We believe that the problems affecting these awards are significant and most likely affect smaller Service purchases (under $2 million).

RESTRICTIVE CONTRACT REQUIREMENTS REDUCE COMPETITION

The Service's procurement goals are to get the best product to meet its needs at the lowest possible cost. To achieve these goals, competition is the preferred procurement method. When competition is limited, fewer companies can bid, and the opportunity to get the best product at the lowest price is diminished. We have found that costs are significantly reduced when competition is expanded.

One way to help achieve these goals is to thoroughly research the market before defining product needs and contract conditions. This market analysis should be used to determine (1) what is already commercially available to meet Service needs and (2) what industry

capabilities and limitations must be considered when preparing the contract and product requirements. Without this important knowledge, even apparently competitive awards can result in only limited competition and increased product costs.

The following examples illustrate how solicitations which appear to be competitive can be unnecessarily restrictive and thus limit the actual competition for an award. The first involves contract conditions that cannot be met by most companies. Such restrictions can be placed on production and delivery schedules, plant location, size of company, and any other factors not involving the physical product being purchased. Some examples of unnecessarily restrictive contract conditions initially required by contracts we reviewed were:

--Mail trays: Bidding was limited to the few firms with multiple plants which could produce all Service-required mail trays and deliver them to the geographically scattered delivery points. This requirement precluded bidding by over 500 local plants which could provide these mail trays in their own geographical area at very competitive prices. (GGD-81-39)

--Stamp collecting kits: The supplier was required to give the Service a credit on all unsold kits of one topic to be applied to the cost of the next kit's topic. This condition was not financially practical because the industry is composed of mostly small businesses which could not afford this condition. It also was contrary to prior Service experience which showed most kit topics sold out. (GGD-82-45)

A second way to restrict an apparently competitive award involves the product description (specifications). This can be done by defining the composition, configuration, or even manufacturing process that is required to produce an acceptable product. Some examples of unnecessarily restrictive product specifications initially required by contracts we reviewed were:

--Electronic mail scales: Service specifications for such factors as keyboard configuration, weight tolerance, and maintenance were unique, and the desired product was not commercially available. The Service failed to consider industry technology and capabilities for manufacturing the product and determined its need without sufficient field testing. (GGD-81-53)

--Vehicle batteries: Service size/capability designations followed only one nationally accepted standard

which precluded bidding by firms that produce batteries following a second, equally accepted national standard, more commonly used by the industry. (GGD-82-14)

CONCLUSIONS

The Postal Contracting Manual indicates that Service needs should be based on adequate market research and, when practicable, should be satisfied by competitively awarded contracts. The intent of these procedures is to procure the best product for the least cost. However, because of insufficient market research on the contracts we reviewed, the resulting contract conditions and product specifications unnecessarily limited competition and increased product costs.

The Service has either implemented or plans to implement, during the next procurement cycle, all of our recommended actions. The following enclosure gives a brief description of the recommendations made in our five prior reports, the subsequent Service actions, and the resulting savings. In fiscal year 1982 we estimate that these savings exceed $1.7 million. By implementing the remaining recommendations in fiscal year 1983, the Service will significantly increase these savings.

Since our review dealt with only a few of the larger, repetitive Service contracts, there is an opportunity for saving much more on other procurements. In addition to an increased use of market research, by using a methodology similar to that used in our review, the Service can work with the private sector to identify and develop alternatives to any costly restrictions found in these contracts.

RECOMMENDATIONS

To fully implement Service contracting policy and to achieve continued savings, we recommend that the Postmaster General provide for:

--Increased supervisory reviews of procurements to ensure that contract requirements consider commercially available products and recognize the industrial capabilities and limitations concerning the product being purchased.

--Continuing comprehensive reviews of procurements that will identify restrictions to competition and work with Federal and private sector experts to develop less restrictive and costly alternatives.

AGENCY COMMENTS

In commenting on our draft report, the Postmaster General stated that the recommendations regarding the five contracts discussed were helpful and have already been implemented. He also stated that the two general recommendations in the report were also in effect on a continuing basis.

- - - -

Copies of this report are being sent to the Chairmen, House Committee on Post Office and Civil Service; Senate Committee on Governmental Affairs; House Committee on Government Operations; and the House and Senate Committees on Appropriations.

As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement of actions taken on our recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations not later than 60 days from the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

Please convey my thanks to your staff who have been most cooperative in providing information and technical assistance during this assignment.

Sincerely yours,

W. J. Anderson

William J. Anderson
Director

ACTIONS TAKEN/PLANNED IN RESPONSE TO GAO RECOMMENDATIONS

REPORT

1. "Contract Conditions and Specifications Unduly Restricting Competition" GGD-81-39, issued February 12, 1981.

RECOMMENDATIONS

--Allow multiple awards for different geographical areas.

--Delete the requirement for using only a specific type of papercutter.

--Permit a composition/configuration that offers the best tradeoff between strength, durability, and cost.

RESPONSE

--The fiscal year 1982 requirements were divided into eight geographical areas with potentially eight separate awards.

--Production methods for mail trays were left to the vendor's discretion.

--Currently the Service is field testing a "new" configuration with lighter weight. If tests are positive new mail trays will be used in fiscal year 1983.

ESTIMATED SAVINGS 1/

--$521,000 saved to date. Additional savings in fiscal year 1983 (by using the lighter tray) are estimated at about $1 million.

REPORT

2. "Electronic Scale Procurement Needs Revision" GGD-81-53, issued March 23, 1981.

RECOMMENDATIONS

--Assemble a top-level team to determine if the current contract should be continued.

1/Savings estimated by GAO, for all five contracts, were based primarily on the difference between Service estimated and actual contract costs.

--If continuing current contract, limit the number purchased to that needed for comparison testing against other commercial scales.

--Allow regions to gain more experience by using commercially available electronic mail scales so Service needs can be better defined.

RESPONSE

--A team was assembled which determined that the current contract had a reasonable chance of success.

--The number of scales to be bought on this contract was limited to 300 instead of the original 1,500.

--After a series of extensions, the Service finally terminated the original contract.

--The Service has purchased over 2,000 commercial electronic scales from several manufacturers for field testing.

ESTIMATED SAVINGS

--$800,000 saved to date. Additional savings will be achieved if the final contract settlement is below the vendor's proposed termination charges.

REPORT

3. "Procurement Costs of General Purpose Mail Containers Can Be Reduced" GGD-81-99, issued September 23, 1981.

RECOMMENDATION

--Group future requirements in a way that minimizes freight costs.

RESPONSE

--Current contract awards are set to minimize freight costs.

ESTIMATED SAVINGS

--Had freight costs been minimized on the prior contract, over $60,000 could have been saved.

REPORT

4. "The Postal Service Should Increase Competition and Reduce Costs When Buying Vehicle Batteries" GGD-82-14, issued November 6, 1981.

RECOMMENDATIONS

--Allow separate awards for all battery types in each geographical area or Service region.

--Limit awards to a single year or use a periodic price adjustment clause.

--Allow bids for batteries using either the Society of Automotive Engineers or Battery Council International size/capability designations.

--Collect data on current contracts' battery performance to validate or delete warranty requirements for 2 year/24,000 mile free returns.

RESPONSE

--The fiscal year 1983 battery solicitation will also allow separate awards for each region.

--Current battery contracts were awarded for 1 year.

--Bids using either common battery size/capability designations were acceptable on the current contracts.

--Data is now being collected on fiscal year 1982 battery contracts for evaluating current warranty requirements.

ESTIMATED SAVINGS

--$116,000 saved to date. Additional savings will be achieved in fiscal year 1983 by using multiple awards in each region. Also if battery warranty requirements are reduced further savings could result.

REPORT

5. "Stamp Collecting Kits Bought By the U.S. Postal Service" GGD-82-45, issued March 10, 1982. 1/

1/This contract was not selected by sampling methodology. It was added later as the result of a congressional request concerning a Service procurement.

RECOMMENDATIONS

--Open the bidding list, especially to major philatelic companies.

--Reduce the contract term to 1 year or divide the award into parts.

--Eliminate the requirement crediting the Service for any unsold kits.

--Eliminate the "additional order" clause and lengthen delivery schedules.

RESPONSE

--The latest contract notice went out to 100 percent more firms including all major philatelic companies.

--Contract term was reduced to 1 year (for eight kits) as opposed to the original requirement for a 5-year, 32-kit award to one supplier.

--The requirement for credits on unsold kits was eliminated.

--The additional order clause was eliminated and delivery schedules lengthened.

ESTIMATED SAVINGS

--$300,000 saved to date. Additional savings are possible as competition for future awards increases.