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THESIS

TRAINING SHORTCOMINGS IN
THE DEPARTMENT OF THE NAVY'S
SMALL PURCHASE SYSTEM

by

Clark D. Willcox

June, 1990

Thesis Advisor:

David. V. Lamm

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TRAINING SHORTCOMINGS IN THE DEPARTMENT OF THE NAVY'S SMALL PURCHASING SYSTEM

Willcox, Clark D.

Master's Thesis

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This thesis explores training weaknesses and requirements of civilian (GS-1105 series) mid-level personnel in the Naval Supply Systems Command (NAVSUP) small purchase arena. The purpose of the study is to identify the training inadequacies and to recommend alternative methods and forums to evaluate and correct training shortcomings. The thesis analyzes informal training plans and training methods of the Naval Supply Centers. In addition, formal small purchase mid-level GS-1105 training is examined. To establish a baseline for the research, the existing training documents in this area were evaluated to determine their currency, completeness, and effectiveness. The thesis proposes a revision and expansion to the Small Purchasing Professional Development: Training Course for Mid-Career Personnel as one means to fill training shortfalls.

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Training Shortcomings in
the Department of the Navy's
Small Purchase System

by

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Submitted in partial fulfillment
of the requirements for the degree of

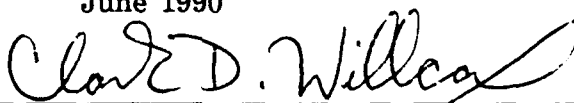
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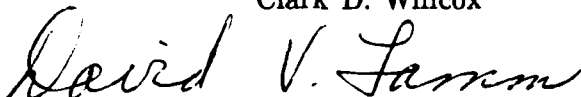
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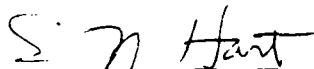


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ABSTRACT

This thesis explores training weaknesses and requirements of civilian (GS-1105 series) mid-level personnel in the Naval Supply Systems Command (NAVSUP) small purchase arena. The purpose of the study is to identify the training inadequacies and to recommend alternative methods and forums to evaluate and correct training shortcomings. The thesis analyzes informal training plans and training methods of the Naval Supply Centers. In addition, formal small purchase mid-level GS-1105 training is examined. To establish a baseline for the research, the existing training documents in this area were evaluated to determine their currency, completeness, and effectiveness. The thesis proposes a revision and expansion to the Small Purchasing Professional Development: Training Course for Mid-Career Personnel as one means to fill training shortfalls.



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I. INTRODUCTION

A. FOCUS OF THIS STUDY

Acquisition regulations, Navy directives, and local activity instructions provide the basis of small purchase procedures. The procurement procedures, if exercised effectively, are designed to lessen administrative expenditures. In addition, the procurement regulations provide guidance to the mid-level personnel at the core of the Navy Field Contracting System (NFCS). In today's environment of rapid procurement reform and Congressional reactions, a current and effective training program is essential to keep mid-level small purchase personnel up-to-date and provide an avenue to professional development.

The thesis focuses on the training requirements of civilian GS-1105 series non-entry level personnel in the Naval Supply Systems Command (NAVSUP) small purchase arena. In particular, the research explores the training weakness in these civil service areas.

The research involved the collection of the key training requirements of mid-career purchasing personnel in the NFCS small purchase surroundings. The existing training documents in this area were evaluated to determine their currency, completeness, and effectiveness.

B. SCOPE OF RESEARCH

This thesis is a study of small purchase procurement training. It is not within the scope of this thesis to provide a detailed explanation or discussion of task requirements. It is, however, designed to produce a clear and concise explanation of the key training areas to provide advanced training plans in the policies and practices of NFCS acquisitions.

The thesis includes a recommended revision and expansion to the Small Purchasing Professional Development: Training Course for Mid-Career Personnel as Attachment A [Ref. 1].

C. RESEARCH QUESTIONS

This study addressed the following primary research question: What are the key training requirements of mid-career purchasing personnel in the Navy Field Contracting System (NFCS) small purchase environment and how might these training needs be most effectively achieved?

Subsidiary research questions in support of the primary question included:

1. What are the specific training needs of mid-career purchasing personnel in the Navy Field Contracting System (NFCS) small purchase environment.
2. What are the current training weaknesses within the small purchase field organizations?
3. What training plans would fulfill these specific training needs?

4. What training method or framework would be most effective to execute the delivery of the training plans?
5. How have the training weaknesses, methods, and availability changed in the past six years?

D. RESEARCH METHODOLOGY

The methodology of this thesis is as follows:

1. Information was obtained through personal, telephone, and correspondence interviews with personnel at various field purchasing activities, and Naval Supply Systems Command Headquarters.

2. An extensive examination of purchasing directives and policies was undertaken.

3. A review of various small purchase training guides was incorporated into the study.

4. Training discrepancies from Procurement Management Reviews (PMR) were explored to identify areas of personnel training shortcomings.

The literature used was compiled from Defense Logistics Studies Information Exchange (DLSIE), Defense Technical Information Center (DTIC), Defense regulations and supplementary directives, previous theses, and a review of current publications and periodicals relating to small purchase training.

E. LIMITATIONS AND ASSUMPTIONS

The thesis does not address the procurement of construction or facilities items. The thesis does not evaluate the costs or potential productivity gains of implementing any training programs. It is assumed that the reader is familiar with the Federal Procurement System as well as the particular elements of Navy small purchasing, including Naval and basic contracting terminology.

F. ORGANIZATION OF THE THESIS

The thesis first provides the general background and framework of the common working environment and problems encountered in a typical Navy small purchase shop. Training weaknesses and requirements are addressed in this context. The study recommends several methods to increase the training level of mid-level GS-1105 personnel.

Chapter II provides the background and focus of the small purchase training environment. Here, general factors that effect the training atmosphere and are attributed to training difficulties are identified. The chapter examines why training is being accomplished in the current manner. This leads to a discussion of the prevailing condition of small purchase mid-career personnel in terms of training.

Chapter III identifies specific training area weaknesses. The chapter provides the data and findings developed from the thesis primary research and interviews

involving small purchase training weaknesses and needs. These findings are compared to data collected in a similar study conducted in 1984 [Ref. 2].

Chapter IV describes training plans and methods. This encompasses how training needs might be identified and incorporated into the training plans and methods. The chapter delineates how the Navy currently develops training methods and training plans.

Chapter V is an analysis of mid-career small purchase training requirements. This consists of an analysis of the research data of the mid-career small purchase requirements which explores how the Navy should develop training plans and methods.

Chapter VI is a summary of the conclusions and recommendations of the thesis. Appendices, selected references, interview questions, and a recommended revised training guide constitute the remainder of the report.

II. BACKGROUND

A. INTRODUCTION

This chapter provides background information focusing upon the small purchase training environment. The chapter identifies general factors that effect the training atmosphere and are attributed to training difficulties. This includes a general description of how training is currently being accomplished. A discussion of the training requirements and opportunities for small purchase mid-career personnel is presented.

B. BACKGROUND/ENVIRONMENT

For the last two hundred years the Federal purchasing system has been growing and changing to accommodate the demands of the various Defense agencies. In 1809, Congress mandated that all purchases and contracts for both supplies and services be made by either open purchase, or by advertising for proposals. During World War II the Defense agencies realized that formal advertising was too cumbersome. This brought about the Armed Services Procurement Act of 1947 in which Defense agencies were authorized seventeen exceptions to formal advertising. The waiver of formal advertising for small purchase was one of

the exceptions that led to the small purchase authority and procedures used today. [Ref. 3]

In the procurement office, small purchase is often both separate and distinct from large purchase. As a result, the small purchase shop operates in a different environment -- stressful and production oriented. The full realm of small purchase duties are normally assigned to GS-1105 series civilian personnel. This thesis focuses on GS-1105's with mid-level experience levels. For the purposes of this study, mid-level is defined as three or more years of experience in a Government small purchase environment. As such, these mid-level personnel are familiar with the basic small purchase functions and have generally completed the Defense Small Purchase Basic training.

GS-1105 buyers are responsible for performing the full spectrum of small purchase tasks. This includes the use of all small purchase simplified acquisition methods and procedures. Blanket purchase agreements, imprest fund, purchase orders, oral and written quotes are some of these methods. The GS-1105 needs to be a skilled negotiator, able to understand and describe a variety of purchase descriptions and technical specifications. In addition, the GS-1105 must insure legal conformity of the purchase actions. [Ref. 4]

Naval Supply Center, San Diego's GS-1105 general Position Description (PD) incorporates the same basic

elements addressed above. However, the first sentence of the description was recently updated to include the requirement of working with the Automation of Procurement and Accounting Data Entry (APADE) system. This recent advance into the automated procurement environment makes computer skills essential for the effective mid-level GS-1105. [Ref. 5] The APADE system is fully integrated, assisting the buyer from requisition entry through procurement award.

Procurement regulations are "simplified" to streamline the process of completing numerous low value orders. Competition is one example of the simplified small purchase process. Purchases less than \$2,500 can be made without competition, however the Contracting Officer or buyer must make sure that business is rotated in an impartial fashion, and that the prices paid in the absence of competition are "fair and reasonable." [Ref. 6]

Small and disadvantaged businesses dominate the small purchase arena. With few exceptions, the opportunity for small and disadvantaged businesses are reserved exclusively in all open market purchases with an anticipated dollar value under \$25,000. The primary exception to this unilateral set aside is when the Contracting Officer expects to receive less than two bids from small or disadvantaged businesses. Federal Prison Industries, Industries for the Blind and Severely Handicapped, and mandatory Federal Supply

Schedule contracts are also exceptions to the small business set aside. [Ref. 7]

C. SMALL PURCHASE PROCEDURES AND PRIMARY PURCHASE METHODS

Major categories of small purchase are divided by the dollar value of the requirement. Competition is not required if the procurement is less than \$2,500. If the range is from \$2,500 to \$5,000, some competition is dictated (three calls for quotes). Over \$5,000 generally requires posting the purchase description in a public place for ten days. If the purchase exceeds \$10,000 as a sole source, a synopsis is advertized in the Commerce Business Daily (CBD) to possibly attract competition. The purchasing office then waits at least fifteen days to release the solicitation and at least an additional 30 days for the vendors to submit their proposals or quotes. In all cases, the Contracting Officer must determine and document that the price of the award is reasonable [Ref. 8].

Various exceptions effect the purchase actions within these dollar divisions. Perhaps the most commonly used exception to the posting requirement involves oral solicitations. Oral solicitations exempt any posting requirement. Even if the solicitation is not oral, when the purchase is between \$5,000 and \$10,000 award can be made before the end of the ten day posting period. It is interesting to note that the contracting office must keep

the requirement posted for the full ten days even if an award was made early. This oral solicitation exemption does not apply to the sole source CBD synopsis procedure.

Finally, an unusual and compelling urgency also constitutes an exemption to the competition requirements. This urgent requirement can be awarded before the end of the ten day posting period. As before, the requirement remains posted for the full ten days in spite of an early award.

Blanket purchase agreements, purchase orders, and imprest fund are the methods used in the small purchase sphere [Ref. 9]. Although not identified as a small purchase method in the Federal Acquisition Regulation, delivery orders provide an additional small purchase tool. A brief summary of each of these small purchase options follows:

1. **Blanket purchase agreement**

The daily grind of small purchase is often repetitive and the items are of low dollar amounts. To help reduce many of the clerical duties that are called upon there are a few purchasing vehicles that are available. One of the methods that is often used is the Blanket Purchase Agreement (BPA). This agreement can be executed either orally or by written orders by the Government, to buy repetitive items from the same vendor without a formal purchase order [Ref. 10].

2. Purchase order

A purchase order is the most indispensable tool used by small purchase personnel. The purchase order is used for purchases that cannot be awarded through BPAs. A purchase order is prepared for a particular item or items after a determination has been made that it is advantageous to the Government to use that method. The terms are usually agreed upon before the order is formally written up, however it does not become a legal document until the goods or services have been delivered or a considerable amount of work has been completed [Ref. 11].

3. Imprest fund

Another small purchase method is the imprest fund. It is used primarily to purchase immediate requirements and are relatively low dollar items. The imprest fund method is limited to \$500. Although competition is not required, it is still essential for the price to be fair and reasonable. Cash is the usual mode of payment. Due to the savings of not having to place an order, the price controls are slightly eased [Ref. 12].

4. Delivery order

The delivery order is another method used by small purchase personnel. This is an order for supplies placed against an pre-existing and established base contract. Its purpose is to keep administrative costs as low as possible

by providing a simple and effective ordering method. Delivery orders can satisfy requirements in many purchasing offices using a single contract. The General Services Administration (GSA) establishes many of the delivery order contracts for use by all the Services. This approach enables the Government to receive volume discounts on the numerous small purchases placed separately by purchasing activities around the world [Ref. 13].

Orders are placed using delivery orders against an existing contract, obligating individual funding on each delivery order. Indefinite Delivery Type Contracts (IDTC) are used to establish this base contract. These IDTCs can take one of three forms: 1) definite-quantity contracts, 2) indefinite-quantity contracts, or 3) requirements contracts [Ref. 14].

Delivery orders placed agency indefinite-quantity contracts must fit within the contract's minimum and maximum limits, ordering specific supplies or services allowed in the contract. The contract's period is also fixed. Indefinite-quantity contracts allow ordering of supplies or services to be flexible, adjusted and executed with delivery orders after the requirements materialize [Ref. 15].

Definite-quantity contracts are similar to indefinite-quantity contracts. The difference is that definite-quantity contracts allow delivery orders to be place for a definite quantity of specific supplies or services. These

contracts are also established for a fixed time period [Ref. 16].

Requirements contracts allow deliver orders to be placed to fill all purchase requirements of designated Government activities for specific supplies or services over a specific period of time. This type of contract is useful when the exact quantities of supplies or services are unknown (such as a ship's laundry), but a recurring demand exists [Ref. 17].

D. TRAINING FACTORS AND DIFFICULTIES

1. Introduction

Department of Defense (DoD) Directive 5000.48 of December 1986 identifies experience, education, and training requirements for small purchase personnel [Ref. 18]. The Directive mandates that all small purchase agents (GS-1105 Series) complete the one week Defense Small Purchase Course. This is currently the only training requirement for all levels of GS-1105 personnel. At this point it is appropriate to ask why further training is not required in the Navy and explore what factors are holding back the development of more advanced levels of formal training.

During the interview process of this thesis, the researcher became aware that many of today's training difficulties generally relate to one of the following categories:

- Funding/manning
- Training availability

2. Funding/manning

Funding has become a predominant difficulty, as the defense budget continues to shrink. The severity of the reduced funding is apparent by current civilian personnel hiring freezes, proposals to cut 42,000 procurement related personnel, and the call for a smaller/smarter procurement workforce [Ref. 19].

This momentum to trim the workforce is complicated by the nature of the small purchase agent's job. The GS-1105 buyer processes a sizable number of pertinent low dollar value requisitions. They are evaluated on their production output. As the workforce shrinks, the need for increased production will become even more critical.

It is important to understand why the Navy has let funding and workload get in the way of advanced training. During interviews, supervisors agreed that Defense Small Purchase Basic training and Automation of Procurement and Accounting Data Entry (APADE) training are essential to bring new employees to an acceptable level of production and quality. However, the defense cutback has left many positions unfilled. Backlogs of requisitions are high. This presents the small purchase director with a troublesome

decision regarding the Defense Small Purchase Advanced Course. Small Purchase Directors must weigh the prospect of increased quality and production and career development against the one week lost while attending advanced training. This problem becomes even more pointed considering the 10-30% average annual turnover rate of GS-1105 personnel at the major supply centers surveyed during the thesis research [Ref. 20]. Interviews also indicate that high cost areas generally have higher turnover levels. The dichotomy of providing advanced training to improve production also contributes to turnover since personnel become more marketable for higher salaries available outside the Federal Government.

3. Training availability

The Navy's Procurement Manage Review (PMR) teams regularly teach the Defense Small Purchase Basic Course at each major supply center. This is not the case for the Defense Small Purchase Advanced Course. Only the United States Army Logistics Management College at Fort Lee, Virginia, currently teaches the Defense Small Purchase Advanced Course, making availability to Naval Supply Centers relatively expensive and limited.

The availability of the Defense Small Purchase Advanced Course was virtually unknown to those surveyed in this research effort. Only three people surveyed were aware that

the course even existed. None of those surveyed had attended the course, although one Small Purchase Deputy Director planned to attend in the near future. This is surprising considering that the Defense Small Purchase Advanced Course is required for all GS-1105s by the Department of Defense Acquisition and Education Training Course, FY-90 catalog [Ref. 21]. This catalog, however, has no authority to dictate required training which differs from agency policy directives and instructions. Nonetheless, the Army is generally supporting this requirement and even plans to add a one week Defense Small Purchase Pricing Course in fiscal year 1991 [Ref. 22].

The new course requirements may soon be imposed upon the Navy as DoD moves towards increased formal training opportunities for small purchase personnel. The recent emphasis was initiated by the Defense Management Report (DMR) to the President. Here the Secretary of Defense calls for "a more capable workforce" in defense procurement. To do this, Secretary Cheney summons increased training and to "set civilian acquisition personnel policies DoD wide." [Ref. 23] The DMR prompted work to begin on DoD Directive 5000.52, which is intended to supercede DoD Directive 5000.48. The DoD Directive 5000.52 (not released as of this writing) is attempting to set common minimum training requirements for acquisition personnel, including policy and specific training requirements for small purchase personnel.

Until 1989, only one formal DoD training course existed. This was the Defense Small Purchase Basic Course. Now two formal small purchase courses are available at the Army Logistics Management College. These are the Defense Small Purchase Basic and Defense Small Purchase Advanced Courses.

The Defense Small Purchase Basic Course was a one week correspondence course until November 1987. The revised Defense Small Purchase Basic Course material is now presented during a formal two week classroom setting. The instructional level is designed for GS-5 and below entry level personnel. The Army Logistics Management College also introduced a one week Defense Small Purchase Advance Course. The Defense Small Purchase Advanced Course is designed as a follow-on to the Basic Course, structured to provide formal classroom training for Contracting Officers and GS-9 (or above) 1105 personnel. The Army Logistics Management College plans to develop a Defense Small Purchase Pricing Course for GS-6,7,8 1105 buyers [Ref. 24]. The Defense Small Purchase Advanced Course covers the full range of requirements of the mid-level GS-1105 in only one week. This curriculum was developed to cover many of the 96 tasks and 38 competencies identified by several studies conducted over ten years by the Federal Acquisition Institute [Ref. 25].

E. SUMMARY

This chapter discussed the origin of small purchase in the Navy's acquisition environment. It stressed the fast-paced production based working environment. The implications of the recent trend towards shrinking personnel funding and resources were then addressed.

The chapter described the function of the mid-level GS-1105 small purchase buyer. The competition environment was introduced along with the primary small purchase methods and tools. These are (1) blanket purchase agreements, (2) purchase orders, (3) imprest fund and (4) delivery orders.

The chapter also introduced the current training environment for the GS-1105. This included a discussion of the mandatory Defense Small Purchase Basic and as well the Defense Small Purchase Advanced Course. Several training difficulties were introduced in order to lay the groundwork for further analysis in Chapter III.

III. SMALL PURCHASE TRAINING WEAKNESSES AND NEEDS

A. INTRODUCTION

This chapter presents the data and findings developed from the primary research involving small purchase training weaknesses and needs. It is intended to identify and assess the training shortcomings perceived by personnel at selected Naval Supply Center small purchase organizations.

The research involved the study of a collection of key training requirements of mid-career purchasing personnel in Navy Field Contracting small purchase activities. Examination of the data collected in a similar study conducted in 1984 established a baseline for comparison [Ref. 26]. The present-day small purchase training environment was then explored using the primary research from this study for parallel analysis.

B. CONDITION OF SMALL PURCHASE TRAINING IN 1984

In order to develop an appreciation for the progress the Navy has made in the area of small purchase training, it was first necessary to establish a baseline for comparison. This comparison base was taken from a previous study relative to the same subject. To summarize, this study was made in 1984 by Lieutenant Commanders Huff and Bales who felt it was very important to explore and measure both the

effectiveness and the then-current efforts existing in the area of small purchase training. In their study, based on interviews with a sampling of small purchase buyers and supervisors, Huff and Bales found present the purchase training to be very inadequate and in critical need of close scrutiny. The common causes of this inadequacy as cited to them by buyers and supervisors were as follows:

1. Due to operational workloads, insufficient time is allocated to training.
2. Formal instruction for small purchase personnel is usually combined with that for large contracting personnel.
3. Training is of a general nature and is seldom directed to the particular problems of a particular activity.
4. Training seldom addresses emerging specialty issues, such as Automatic Data Processing (ADP) buying under expanded thresholds.
5. Training materials are usually not suitable as reference materials.
6. No specific training exists for supervisors of small purchase personnel.
7. Training materials are often outdated and are difficult to comprehend and use.
8. No attempt is made to relate small purchase to the overall Government procurement effort. Buyers do not know why they fail to accomplish the purchases for which they are trained. [Ref. 27]

In 1984 a decided training shortcoming existed; Huff and Bales reported that approximately 20 percent of the

personnel in Navy small purchase shops had not attended even the most basic small purchase training [Ref. 28]. At that time, the Defense Small Purchase Basic Course was not offered formally but was instead provided as a four-day correspondence course. The Navy sponsored a formal two-day small purchase course that was primarily directed towards afloat supply personnel. The majority of procurement training in 1984 was conducted by the Army at Fort Lee, Virginia, and no formal advanced small purchase training was available as a follow-up to the entry level correspondence course. In addition, buyers commonly complained that the training materials used were not practical for everyday general use. Local shops attempted to supplement the inadequate training materials by providing local training programs; however, lack of funds made this attempt futile. [Ref. 29]

In their thesis, Huff and Bales proposed that the training programs in use in 1984 would be more valuable if supplemented with refresher courses designed to help with day-to-day problems. Recommended for inclusion in this enhanced program were:

1. A specific list of topics relevant to the efforts involved in each individual activity, this list to be developed jointly by both buyers and managers.
2. Modularized training materials specifically designed for small purchase refresher training.

3. Supplemental material designed by the administering activity.
4. Specialized training for small purchase supervisory personnel, emphasizing their unique responsibility.
5. Dedicated training time set forth in a published schedule.
6. A formal feedback program to assess training effectiveness.
7. Formal recognition and documentation of completed training.

C. RECURRING PROCUREMENT MANAGEMENT REVIEW DISCREPANCIES

Procurement Management Review (PMR) discrepancies provide an indication of potential training weaknesses. A comprehensive review of small purchase PMRs was conducted by the researcher in order to develop a list of the most frequently recurring problems in 1989. This review consisted of 50 PMR reports covering the entire country. The most common discrepancies observed during the year were:

- Purchase request screening was not completed before reaching buyers.
- Requirements were not accurately stated on purchase requests.
- Mandatory sources were not sought despite the requirement for small business set-aside.
- The optional purchase method was not used.
- Exceptions to Federal Supply Schedule (FSS) were not followed.
- Proper procedures in multiple award FSS were not taken into consideration.

- Waivers of FSS were not completed.
- Mandatory sources for Blanket Purchase Agreements (BPAs) were not used.
- BPA competition procedures were not followed.
- BPA documentation was not placed on a work abstract sheet.
- Mandatory clauses in unilateral purchase orders were not used.
- Administration authority for government procurements was lacking.
- Inadequate documentation of contracting officer/ordering officer appointments existed.
- Procedures for use of imprest fund were not followed or were not completed properly.
- Procedures for purchase orders involving confirmation of oral awards were not followed.
- Unauthorized commitments were not resolved.
- Proper procedures were not used to modify purchase orders.
- Cancellations were not made using proper forms or procedures.
- Clauses requiring the contractor's written acceptance were not included or were not completed.
- Competition exceptions were not documented.
- Proper documentation of competition for purchases in excess of \$2,500 was not completed.
- Competitive bids were inadequately pursued.
- Small purchase exceptions were not properly documented.
- Small businesses were not considered for all open market purchases under \$25,000.
- Accounting data were not correctly cited.

- Improper procurement of Automatic Data Processing Equipment (ADPE) took place.
- Procurement Administrative Lead Time (PALT) was excessive.
- Clauses were omitted from BPAs and other documents.
- Prohibited items were purchased.
- Fair and reasonable price determinations were incorrectly made.
- Required certifications were missing from purchase folders.

The next section discusses in more detail specific training shortfalls currently associated with the above PMR discrepancies.

D. SPECIFIC TRAINING WEAKNESSES

The researcher conducted interviews with 48 personnel, including mid-level GS-1105 buyers, small purchase directors, deputy small purchase directors, procurement analysts, course directors, instructors, contracts directors, and other personnel familiar with the Navy small purchase environment. These interviews were conducted in person as well as by telephone and through correspondence.

During the course of the study, it became apparent to the researcher that current training weaknesses and concurrent poor PMR performance can be loosely classified into the same twelve specific areas of training weakness identified in the 1984 Huff and Bales study. In addition,

the researcher found that today's most common PMR discrepancies are very similar to the common Contract Management Review (CMR) discrepancies found six years ago in the study conducted by Huff and Bales. [Ref. 30] Having passed the test of time, these problems unfortunately still remain as major contributing factors to today's weaknesses.

During the interviews and surveys conducted for this thesis, the researcher found the major focus of training weaknesses converging on the related and important areas of competition and price reasonableness. In this area, small purchase supervisors strongly expressed the need to provide more training for their mid-level personnel in the area of fair and reasonable price determination. Purchase directors concurred with the supervisors, also stressing that training in the area of competition was notably weak. These two areas of weakness were augmented by the need for increased documentation, as well as of other elements in the purchase file. Because of its effect on the rest of the purchase process, priority determination was another area in which buyers, supervisors and directors expressed great concern about the necessity of proper training.

Another area which the researcher found introduced problems into the purchase process is determining the requirement, and subsequently selecting the optimal purchase method. Specifically, this included BPA, imprest fund and purchase order (priced and unpriced) procurement methods.

Finally, buyers indicated some confusion in the areas of social programs, accounting data and ADPE.

A relatively new training area involves Automation of Procurement and Accounting Data Entry (APADE). Although not identified separately as a training subject weakness or common PMR discrepancy, APADE interacts with each of the areas mentioned above.

Each of the above areas will now be addressed in more detail.

1. Requirements determination

a. Problems

Small purchase buyers are responsible for converting the customer's requirement statement into a purchase action. However, some buyers do not understand the myriad of components which make up the purchase request. In addition, buyers have difficulty determining the adequacy of the requirements description.

PMR discrepancies and common problems in this area include:

- Purchase request screening is not completed before reaching buyers.
- Requirements are not accurately detailed on purchase requests.
- Required information on purchase requests is missing.
- Unauthorized or prohibited purchases involving certain types of material and/or services are made.

- Buyers are unfamiliar with the customer's requirements and are therefore unable to discriminate between routine and mission essential purchase requests.
- Document screening at the supervisory level is ineffective.

b. Change in past six years

The PMR discrepancies and buyer-identified problems indicate little improvement in this area over the past six years. This topic is therefore recommended for inclusion in any mid-level GS-1105 training.

2. Optimal purchase methods

a. Problems

Buyers face a constant challenge in selecting the optimal procurement method for a given situation. However, they often lack the necessary understanding or knowledge to make the optimal selection of BPA, imprest fund, purchase order or delivery order. As a result, the purchase method often does not fit the buy and thus ends up costing the Navy more than it should. These extra expenses are reflected not only in the actual purchase price, but also in administrative costs.

PMR discrepancies and common problems in this area include:

- Ineffective purchasing methods are selected.
- BPAs and imprest funds are not utilized to the fullest extent.

- Buyers do not fully understand the variety of methods, forms and other options available.

b. Change in past six years

The PMR discrepancies and buyer-identified problems demonstrate only a small improvement in this area over the past six years. Automation of the small purchase system has not affected this area, as even in the APADE environment, the buyer must select the most effective purchase method. This topic is therefore recommended for inclusion in any mid-level GS-1105 training.

3. Blanket Purchase Agreements

a. Problems

BPAs are the preferred purchase method for an open market small purchase buy. It is therefore essential that buyers be thoroughly familiar with the regulations associated with BPAs. However, buyers are frequently confused about the reasons behind the policies and procedures concerning BPAs. In addition, buyers tend to become familiar with a small number of the most commonly used BPAs. Poor rotation is the result, which in turn causes the less used BPAs to become inactive due to lack of activity.

PMR discrepancies and common problems in this area include:

- Calls are not rotated properly.
- Mandatory sources for BPAs are not used.
- BPA and competition procedures are not followed.
- BPA documentation is not placed on a work abstract sheet.
- BPAs are not established correctly or frequently enough.
- Review of active BPAs is not conducted.
- Documentation of calls and solicitations is inadequate.
- Insufficient numbers of BPAs are available for use.
- Required clauses are not present in the BPA.
- Potential BPAs and individual calls are not synopsisized.

b. Change in past six years

The PMR discrepancies and buyer-perceived difficulties indicate little advancement in this area over the past six years. In addition, buyers feel that APADE has considerably reduced the value of BPAs in the automated procurement environment. In fact, a purchase order now takes almost the same amount of time to award as does a BPA. APADE automatically produces a DD-1155 for the BPA, which the buyer must then throw away. Taking into consideration the extra time spent administering a BPA in periodic review, it can be concluded that a BPA is actually more administratively time consuming than a purchase order.

The billing process encounters the same situation since the establishment of APADE. Frequently vendors submit

invoices for each call because their system is also automated to perform that way. These bills must then be reconciled by the Navy to match the BPA monthly billing format.

This topic is therefore recommended for inclusion in any mid-level GS-1105 training.

4. Purchase orders

a. Problems

Purchase orders are the fundamental instrument for executing a small purchase buy. They are also used to complete most of the higher dollar and more complicated purchases. Many GS-1105s are confused about all the possible uses of the purchase order. A substantial number of PMR discrepancies arise because purchase orders are technically the most difficult small purchase document to prepare. The sheer volume of purchase orders contributes significantly to the difficulties observed in this area. Modifications, terminations and unpriced orders further add to the potential for error. Such complexity only serves to underscore the need to insure that buyers are fully aware of all facets of this commonly used purchase method.

PMR discrepancies and common problems in this area include:

- Mandatory clauses used in unilateral purchase orders were not used.

- Purchase order documents were improperly prepared.
- Bids, oral solicitations, sole source justifications and fair and reasonable prices were inadequately documented.
- Required clauses and provisions were not incorporated into purchase orders.
- Unpriced orders were improperly administered and documented.

b. Change in past six years

The small purchase community is in general agreement that APADE has greatly reduced the work involved in generating the purchase order. However, careless key strokes on the computer terminal still produce very costly mistakes for the customer, as well as for the buyer's reputation. The old saying, "Garbage in - garbage out," has never been more accurate than in today's computer generated purchase orders. Although APADE is helping to reduce many common clerical errors, buyers must be given the training necessary to insure a timely and accurate final product.

This topic is therefore recommended for inclusion in any mid-level GS-1105 training.

5. Documentation

a. Problems

Laws and regulations require small purchase buyers to obtain and file numerous certifications, justifications and other documents. These requirements vary widely from one purchase to another because of price,

competition, type of procurement and many other factors. Many buyers do not fully understand the reasoning behind these requirements and therefore, are often uncertain as to which conditions warrant completion of the applicable documentation requirements.

PMR discrepancies and common problems in this area include:

- Administration authority for Government procurements was lacking.
- Documentation of contracting officer/ordering officer appointments was inadequate.
- Unauthorized commitments were not resolved.
- BPA documentation was inadequate.
- Purchase requests and other required documents were missing from purchase files.
- Fair and reasonable price determinations were not documented.
- Forms were prepared improperly.
- Sole source justification was not completed.
- Documentation of written bids and oral solicitations was either inadequate or missing.
- Justification for awards made to other than small business was either inadequate or missing.
- Regular review of BPAs and cancellations where warranted did not take place.
- Current clauses and provisions were not used in BPAs and purchase orders.
- Inadequate specifications were used in purchase descriptions.
- Excessive delays occurred in document preparation.

- Purchase orders were improperly modified.
- Imprest fund transactions were improperly documented.
- Incorrect paying office was cited on various forms.

b. Change in past six years

The researcher understands from comments made by small purchase personnel that improvements in this area have been made. These can be primarily attributed to the enhanced organizational impact of the APADE system. It is worthy of note, however, that certifications and other required documents are maintained in hard copy even when they are included in the APADE system folder; the researcher believes that such duplication of paperwork is of dubious merit in the small purchase environment.

In spite of the improvements which have taken place in this area, numerous PMR discrepancies provide evidence that problems exist and that document management and buyer understanding training are needed. This topic is therefore recommended for inclusion in any mid-level GS-1105 training.

6. Determination of fair and reasonable price

a. Problems

Although it is the responsibility of the contracting officer to determine that supplies and services are being purchased at a fair and reasonable price, in reality the work and research involved in this determination fall upon the GS-1105 mid-level buyer. However, mid-level

buyers are frequently confused regarding how to make the determination.

Many tools are available to aid the buyer in his determination of what is a fair and reasonable price; he can make use of internal information, previous purchase history, published price lists, catalogs, advertisements, competition, negotiations, value analyses, personal knowledge, as well as other factors. The preferred method, however, is competition, and special emphasis is placed on this through the regulations.

PMR discrepancies and common problems in this area include:

- Fair and reasonable price determinations were not made correctly.
- Buyers did not utilize readily accessible pricing information to evaluate the vendor's prices.
- Available catalog prices were not used and higher prices were negotiated.
- Past procurement records were not used to determine price increases.
- Large price increases were not questioned.
- Fair and reasonable price determinations were based upon competition when in fact competition did not exist.
- Unpriced purchase orders were not properly used, resulting in unreasonable prices.
- Price reasonableness was not established on the billing of unpriced orders.

b. Change in past six years

The PMR discrepancies and buyer recognized issues have shown only minor improvement in this area in the past six years, and training weaknesses were still identified in almost every interview. Buyers stated they were unfamiliar with the range of tools available to aid in making their determination. This topic is therefore recommended for inclusion in any mid-level GS-1105 training.

7. Competition

a. Problems

The Competition in Contracting Act (CICA) of 1984 (Public Law 98-369) sparked increased interest in competition within the Federal Government. As stated earlier, competition is the preferred method for the contracting officer to use in his determination of a fair and reasonable price.

The Competition Advocate General (CAG) promotes competition and serves as the competition focal point for the Navy. Closely monitoring Navy programs, the CAG implements policies and procedures designed to enhance competition.

Although small purchase is not affected by FAR subpart 6 Justification and Approval (J & A) requirements, there are other competition requirements which make the process difficult. Buyers are sometimes uncertain about the many

small purchase competition and advertising requirements which vary considerably from one purchase to another depending on price, type of solicitation and urgency. Problems also arise when GS-1105s lack a full understanding of the basic principles of competitive buying and do not have a good grasp of such factors as the essentials of competition, regulations affecting competition, the rationale behind the Navy's policy, common problems encountered in competition and potential solutions to these problems.

PMR discrepancies and common problems in this area include:

- Competition exceptions were not documented.
- Inadequate competition was obtained.
- No competition was obtained in BPA calls greater than \$2,500.
- Walk-through requirements exceeding \$2,500 sometimes slipped through without competition.
- Splitting BPA calls and purchase orders was done solely for the purpose of avoiding competition.
- Rotation of vendors was inadequate.
- Sole source justifications were not completed when required.

b. Change in past six years

The PMR discrepancies and buyer identified problems indicate little change in this area over the past

six years. Buyers consistently indicated to the researcher that they desire more training; based on the consistency of their comments, this area is recommended for inclusion in any mid-level GS-1105 training.

8. Small businesses and other social programs

a. Problems

Even though socioeconomic programs are involved in almost every small purchase buy, many GS-1105s find the multitude of interests and objectives entangled within these programs perplexing. Buyers generally perceive the program requirements as a hindrance to the small purchase production process, adding no value to the instant buy. They understand neither the reasons nor the objectives which prompted Congress to mandate the various socioeconomic programs.

PMR discrepancies and common problems in this area include:

- Small purchase exceptions were not properly documented.
- Purchase orders, BPAs and imprest fund purchases were issued to large businesses when small businesses were available.
- Small businesses were not considered for all open market purchases under \$25,000.
- Buyers failed to keep abreast of the small business certification status of potential vendors.
- Awards were knowingly made to large businesses when such awards should have made to small business.

- Buyers were unfamiliar with the procedures to follow when there was no reasonable expectation that two or more responsible small business concerns would bid.
- Small purchases were accomplished without regard to other potentially relevant socioeconomic considerations.
- The Buy American Act was not understood or considered when appropriate.

b. Change in past six years

The PMR discrepancies and buyer identified areas of training concern again indicate very little improvement in this area over the past six years. Regulations as well as goals continue to change rapidly in this area, but training programs have not been provided to keep mid-level buyers abreast of the new issues. This topic is therefore recommended for inclusion in any mid-level GS-1105 training.

9. Accounting and appropriations

a. Problems

Appropriations vary in longevity and allowable uses. Although most of the small purchase accounting authority expires on an annual basis, multiple-year appropriations are commonly used. Certain funds have "colors" and can only be used to purchase limited types of materials or services. This mix of money longevity and color complicates the buyer's task. Considering the ramifications of the Anti-deficiency Act, buyers must insure that the funds cited are sufficient and available before contract award. Unfortunately, this does not always occur.

PMR discrepancies and common problems in this area include:

- Accounting data were not correctly cited.
- Legal restrictions attached to various appropriations were misunderstood.
- Procurements violated the expenditure limitations.
- End-of-fiscal-year spending sprees cause numerous problems, including lost funds, incorrect cancellation of multi-year funded requisitions and inappropriate citing of accounting data.

b. Change in past six years

The PMR discrepancies and buyer identified-problems suggest inconsequential progress in this area over the past six years. As funding throughout the Navy shrinks, the buyer will need to be increasingly more knowledgeable in this area; this topic is therefore recommended for inclusion in any mid-level GS-1105 training.

10. Imprest fund

a. Problems

Imprest fund is a streamlined small purchase instrument which uses cash to buy supplies or services of \$500 or less. Although the procedures and regulations governing the imprest fund are relatively simple, the use of actual cash dictates strict compliance.

PMR discrepancies and common problems in this area include:

- Procedures for imprest fund were not followed properly.
- Imprest fund was used to procure unauthorized supplies or services.
- Imprest fund cashiers held funds in excess of authorization.
- Purchases were split in order to avoid dollar thresholds.
- Imprest fund cashiers were not authorized in writing by the proper authority.
- Imprest fund purchases were not adequately documented.

b. Change in past six years

Based on the lessened frequency of PMR discrepancies, the researcher has determined that the imprest fund operation is less of a problem today than it was in 1984. However, the potential for abuse still warrants management concern, as it is important to maintain the positive trend in this area. This topic is therefore recommended for inclusion in any mid-level GS-1105 training.

11. Automatic data processing equipment

a. Problems

The process of obtaining new Automatic Data Processing Equipment (ADPE) involves a separate set of directives, regulations and procedures. Unlike traditional small purchases, these regulations require additional approvals and certifications, which increase the difficulty of the small purchase task. Most buyers do not understand

the requirements and feel that ADPE purchases are complicated, time consuming and often frustrating.

ADPE buys are often handled separately from other small purchase requirements, by a separate group of buyers. As a result, many mid-level GS-1105s have no experience with and little understanding of ADPE purchase requirements.

PMR discrepancies and common problems in this area include:

- ADPE was improperly procured.
- Buyers and supervisors generally lacked knowledge of ADPE and associated peripheral equipment.
- Many buyers did not understand ADPE terminology.
- Proper authorization for ADPE purchases was not obtained.
- Supportive documentation was not placed in purchase files.
- Improper funding was used for acquisition of ADPE.
- The unique legal and regulatory requirements of ADPE purchases were not generally understood by buyers.

b. Change in past six years

The PMR discrepancies and buyer identified problems have again shown no signs of meaningful improvement in this area over the past six years. The researcher was surprised to find an extreme lack of knowledge in this area within the small purchase community. This lack became even more apparent during interviews with supervisors of ADPE

buying sections, some of whom seemed to be completely unaware of the regulations which currently affect the small purchase ADPE procurement process. This topic is therefore recommended for inclusion in any mid-level GS-1105 training.

12. Prioritization of requirements

a. Problems

The prioritization of small purchase requirements is identified through the Uniform Material Movement and Issue Priority System (UMMIPS). This system is used throughout the Department of Defense to provide a common basis from which to determine the relative importance of competing demands. However, some mid-level GS-1105s do not comprehend UMMIPS' significance in the small purchase process. This training weakness can result in the assignment of inaccurate relative priorities to the customers' requirements, potentially reducing UMMIPS' effectiveness.

PMR discrepancies and common problems in this area include:

- Control of walk-through purchase requests was inadequate.
- Requisition priorities were inflated.
- UMMIPS priorities were inconsistent with the customer's need.

b. Change in past six years

The PMR discrepancies and buyer identified problems exhibited some improvement in this area over the past six years, as relatively few PMR discrepancies were focused on this subject area. However, mid-level GS-1105s commonly displayed a weak understanding of prioritization, and they were also unable to make the distinction between prioritization of customers' requirements and the purchasing Command's PALT goals. This topic is therefore recommended for inclusion in any mid-level GS-1105 training.

13. Automation of Procurement and Data Entry

a. Problems

Now that the small purchase process is fully automated at Naval Supply Centers, mid-level GS-1105s are computer system operators as well as buyers. Production and quality are directly linked to their competency in operating the system.

The Navy provides a required three-week introductory APADE class for entry level buyers. This class is an APADE operator class and is not designed to teach procurement. It is attended by buyers soon after they complete the Defense Small Purchase Basic Course.

Although buyers and directors feel generally competent, they contend that the power of APADE should not be overlooked in advanced small purchase training courses.

APADE has now become the small purchase system at Naval Supply Centers, and treating APADE and procurement independently is absurd. It would be more realistic to integrate APADE into advanced training courses by incorporating advanced user APADE concepts and exercises.

The researcher found no specific APADE PMR discrepancies and few common complaints from buyers. Therefore, APADE will not be treated as a separate subject area in this study; however, it must be considered as an integrated part of this study in the context of the total small purchase training environment.

b. Change in past six years

APADE has completely changed the small purchase environment over the past six years. In 1984, Naval Supply Centers relied primarily on manual systems, but APADE today has essentially automated the small purchase and bill paying process.

APADE should not be addressed separately, but rather, where appropriate, included as a sub-group within the other subjects in advanced training programs. This topic is therefore recommended for inclusion as an integrated subject in any mid-level GS-1105 training.

E. CURRENT TRAINING PRACTICES IN THE SMALL PURCHASE ENVIRONMENT

The extent of local in-house training conducted by individual Naval Supply Centers was found by the researcher to vary greatly among the various activities. At one extreme are Commands which rarely conduct, plan or schedule any in-house training lectures. (It is significant to note here that the Naval Supply Systems Command's (NAVSUP's) PMR teams have correlated this type of training program to poor PMR performance) [Ref. 31]. At the other extreme is Naval Supply Center Jacksonville Florida, which invests 20 percent of its production time in training. Here buyers attend classes for college credit during paid working hours in order to enhance their skills in purchasing.

The average Command in the research group conducts training sessions once or twice per month. This average training level is generally accomplished by scheduling in-house lectures once per week but actually conducting the lessons less frequently. The scheduled lectures are often skipped to meet recurring unplanned purchase or management emergencies, to attend meetings or for personnel absences; and sometimes the personnel at all levels of the activity simply "forget" to conduct the planned training.

The researcher found that training topics are generally assigned by the Small Purchase Director according to some sort of informal training schedule. While various buyers

and supervisors are often assigned as instructors for these training topics, in numerous instances the supervisors or the Deputy Small Purchase Director conduct the training exclusively.

The researcher also found that most Naval Supply Center small purchase shops do not use formal lesson plans; instead, lesson plans range from individually prepared guides to direct readings of Naval Supply Systems Command Instruction (NAVSUPINST) 4200.85. In the most informal in-house situation, training lessons are conducted in the form of spontaneous instruction and completely without lesson plans. This latter situation was found to be most prevalent when the instructors are buyers who, although experienced in the topic, are not specifically prepared to teach it [Ref. 32].

Mid-level buyers expressed their feeling that the most effective training takes place when the presentation leads to group discussion of the points under consideration. Controlled and logical discussion was felt to be a key element in conducting this type of informal training. It is unfortunate, however, that productive discussions are usually a hit or miss proposition, as the buyers surveyed felt that most local instructors could not direct the training sessions skillfully enough to yield a productive discussion. When good discussions did erupt spontaneously

during the training sessions, the material was well received and perceived as useful.

Formal training of mid-level buyers was found by the researcher to consist almost universally of the Defense Small Purchase Basic Course and APADE training (phases one through three). Any other aspect of training is generally delivered through local informal or on-the-job training. Buyers as a whole felt that although the formal training courses are well presented and adequate, they fall short of meeting all their training needs. Some felt that the training was repetitive.

Funding was cited as the primary reason that more formal or in-house training was not conducted. NAVSUP funds formal training and sets the minimum training requirements for buyers, and without exception, the mid-level buyers interviewed had completed the required training as funded. However, this is not the case at all Commands. PMRs frequently find that buyers have not completed the required Defense Small Purchase Course [Ref. 33].

The researcher found that Naval Supply Centers are generally unwilling or unable to provide funds for formal training beyond the mandatory NAVSUP sponsored level. As mentioned earlier, the NAVSUP PMR team has established a correlation between the level of in-house training and an activity's performance on PMRs. Good in-house training programs were generally ongoing at activities exhibiting

better grades on PMRs. With this fact in mind, it can only be speculated why NAVSUP does not mandate a specific level or frequency of in-house training and does not currently follow the other Services' moves toward making small purchase advanced training a mandatory requirement for mid-level GS-1105s [Ref. 34].

Funding for local in-house training programs comes solely from the activity's operating budget. Already tight, this budget is getting ever tighter in the face of today's shrinking defense dollar. The hours which buyers expend attending, preparing for and conducting locally sponsored weekly training sessions are cut right off the top of production hours. This situation creates a negative incentive for locally funded training because NAVSUP funds Naval Supply Centers based upon their level of production in the Productive Unit Resource System (PURS). Small Purchase Directors are keenly aware that every hour of training is one less hour of production. As any possible long-term gain resulting from local training programs is difficult to measure it. It is easily overshadowed by the immediate backlog of requisitions necessary for the emergency requirements of deploying ships.

In areas of high buyer turnover, the return on investment in training becomes even more questionable. Oakland and Long Beach, California serve as examples of a high cost of living, high turnover environment. In these

areas, the personnel turnover rates average 20 to 30 percent a year, due partly to the fact that a GS-5-7 buyer can frequently receive a substantial increase in pay by seeking employment outside the Government [Ref. 35]. In theory and in the corporate world, increased levels of formal training make a buyer more valuable because of perceived increased capabilities and knowledge. In the small purchase environment this is not always the case. Although a limited number of higher level management positions exist, advancement beyond GS-9 in small purchase is very difficult; this remains true even in the case of a buyer who has completed advanced training. The more educated buyer who has completed some form of advanced training program faces a monetary compensation gap in a Government small purchase organization's and is thus more tempted to seek employment either outside the Government or within the Government but outside the small purchase shop's limited rate structure.

A similar situation exists when a buyer receives a higher level of training in a low cost of living area. Naval Supply Center, Jacksonville serves as an example. Here buyers attend college level classes during paid working hours. Although the cost of living is relatively low in Jacksonville, opportunities exist for trained buyers outside the Government. During the past year, about 30 percent of the buyers left the Command to seek higher pay and more perceived job security (in the face of the shrinking defense

budget) [Ref. 36]. Many small purchase buyers are also motivated to escape lower paid small purchase pay levels by moving into Government large purchase offices.

F. CONTENT AND FORM OF LOCAL TRAINING

The researcher found that local training is usually very specific and overlooks the underlying concepts necessary for a full understanding of the topic. Some buyers complained that their training focused primarily on a long list of "don't do this" items and completely skipped over any explanation of why not, leading to training sessions devoid of interest. Several buyers stated that list reading training was useless to them because they consistently check applicable references to insure compliance with changing regulations. This same group of interviewees contended that ineffective buyers generally don't listen during training sessions and also do not consistently review current references. In either case, the researcher found that most buyers are not motivated to remember the "don't do" list presented in their local training forum.

Consolidated small purchase training guides are not commonly used at Naval Supply Centers today during in-house training sessions. Although several activities do maintain local training guides, the majority either have not updated their handbook at all or are only in the process of slowly developing their local reference guide. [Ref. 37] This

forces some Commands to rely exclusively on NAVSUPINST 4200.85, local Command generated procurement directives and the Defense Small Purchase Correspondence Course to serve as lesson plans for in-house training. None of these manuals was designed for this purpose.

The shortage of informal training material can be attributed to the recent major change in small purchase reference documents. As a result, training guides updated prior to August 1989 are now out of date. The reference changes began with the April 1989 cancellation of Navy Acquisition Regulation Supplement (NARSUP) and Supply Acquisition Regulation Supplement (SUPARS) and their replacement with the Navy Acquisition Procedures Supplement (NAPS). NAPS reference to small purchase states that Naval Supply Systems Command (SUP02) will issue "specific policy procedures and guidance." [Ref. 38] Correspondingly, NAVSUP released Instruction 4200.85 dated 25 July 1989, which, although thorough, lacks explanations of the reasons for various small purchase policies and does not contain an index for easy reference.

G. SUMMARY

This chapter presented the data and findings developed from the primary thesis research. Small purchase training weaknesses and needs which were identified during the research were specifically addressed.

Extraction of data from a previous study made it possible in this chapter to describe the condition of small purchase training in 1984. The 1984 data were then used to form a comparison with today's common small purchase PMR discrepancies.

The chapter then examined PMR discrepancies and interview findings in order to establish common areas of training weaknesses. The training weaknesses identified in this chapter were found to correspond to similar weaknesses identified in the 1984 study.

The chapter next described each of the topic areas in the context of related PMR discrepancies and interview comments.

Finally, the chapter discussed current training practices in the small purchase environment, followed by an examination of the content and form of local training.

The information provided in this chapter forms the background for the next chapter's description of how training plans and methods are currently developed to fill the needs of the Navy small purchase environment.

IV. TRAINING PLANS AND METHODS

A. FOCUS

1. Introduction

Chapter IV provides a description of how training plans and methods are currently developed to fill the needs of the Navy small purchase environment. It encompasses a discussion of how small purchase training needs are currently identified and incorporated into training plans and methods. Both formal and in-house training methods are considered.

Before beginning the discussion, it is worthwhile to distinguish between the terms "training plans" and "training methods."

2. Description of terms

a. Training plans

For purposes of this study, a training plan is defined as the systematic arrangement or layout of what training will be accomplished, when it will be conducted, what method will be used to execute the training, and who will conduct the training. In the Training and Development Handbook, Richard Johnson contends that training plans are the answer to effective use of training people and resources. [Ref. 39] He explains that training plans should

be referenced to goals and needs. The handbook provides a list of questions which should be addressed by a training plan:

- What should be done?
- In what sequence?
- When?
- By whom?
- In what ways?
- At what cost?
- What specific results can be expected? [Ref. 40]

b. Training methods

For purposes of this study, a training method is defined as the means or manner used to conduct the training. It is the actual training delivery avenue which was conceived and outlined in the training plan. For example, the method could be formal or in-house, in small groups or large, in groups containing buyers with various levels of experience or all at a similar experience level. It is clear that training plans and methods are closely linked. Therefore, the chapter discusses both of these elements together, concentrating on the Navy's current state of mid-level GS-1105 training. It is, however, useful to distinguish between plans and methods in the more detailed analysis found in Chapter V.

B. TRAINING PLANS AND METHODS OF FORMAL TRAINING

1. Introduction

This section discusses how training plans and methods have been developed for the existing small purchase advanced formal training available for mid-level GS-1105s. Traditionally the Navy uses formal instructional settings to satisfy the training needs of entry level GS-1105s. The Defense Small Purchase Basic Course and the Automation of Procurement and Accounting Data Entry (APADE) course, for example are required for all entry level GS-1105s and are typically presented on site.

After attending these courses, the mid-level buyer officially requires no further training. Earlier chapters of this thesis explained that there is only one advanced small purchase course available for the mid-level buyer; that is the Defense Small Purchase Advanced Course taught by the Army Logistics Management College (ALMC). Therefore, discussions of formal training in this section are limited to this single course.

In contrast to the Army, where the Defense Small Purchase Advanced Course is required for mid-level GS-1105s, it is neither required nor extensively used by the Navy. However, it does offer a possible avenue for filling the training needs of Navy mid-level buyers. It is therefore valuable to examine the advanced course development before

discussing the course plans and methods. Understanding the advanced course development philosophy reveals the reasoning behind the plans and methods of the course. This discussion also establishes a basis for examination of the advanced in-house training, which will be addressed in the next section.

2. Formal advanced course background and development

The advanced course training plan (curriculum) was developed to support GS-1105 competencies identified in the Federal Acquisition Institute's Blueprints [Ref. 41]. The blueprints provide a learning objective for every task which a small purchase buyer could possibly undertake in the course of his job. The Federal Acquisition Institute began developing this all encompassing list of competencies and tasks in 1977 with an analysis of 20,000 Federal employees. From 1980 to 1985, these training tasks were studied by small groups of subject matter experts. The study concluded by developing Training Blueprints for Selected Tasks. This last phase of the Federal Acquisition Institute's effort covered the period from 1985 to 1987 and employed the services of ten procurement specialists and 19 consultants. [Ref. 42]

ALMC used the Federal Acquisition Institute's blueprint competencies to produce the Defense Small Purchase Advanced Course. Training objectives and lesson plans were developed around the 96 competencies, focusing specifically on 14

competencies and 21 tasks. [Ref. 43] The pilot advanced course was completed by ALMC in 1989, and an updated version of this pilot is currently being taught six times per year. ALMC recently undertook an extensive revision of the advanced course, incorporating pilot class feedback. The revised advanced course is scheduled to appear in the classroom sometime in 1990.

3. Formal advanced course training plan, method, and composition

The ALMC Defense Small Purchase Advanced Course can be characterized as an all encompassing review of the basic course with some additional insights of interest to the average small purchase buyer. The course provides ". . . complex small purchase acquisitions to assist the contracting officer in making determinations." [Ref. 44] Topics include policies and procedures on purchase options, internal controls, and fraud, waste and abuse. The ALMC Defense Small Purchase Advanced Course was developed to fill the perceived need for advanced training of mid-level Army GS-1105s. ALMC's original training plan scheduled two weeks in the classroom; this was later shortened to one week because of time and cost factors [Ref. 45]. The shortened course length prompted ALMC to cut and condense the training plan. This 50 percent time reduction particularly affected the depth and range of theory provided.

4. Advanced course basic composition

The Defense Small Purchase Advanced Course includes extensive references/readings from the Federal Acquisition Regulation interspersed with small purchase theory. The advanced course also interjects manual practical purchasing exercises; these are referred to as "In Basket" exercises. Serving as the primary link to practical reality, the "In Basket" closely resembles the work which a mid-level buyer might encounter on his desk in a Naval Supply Center, with one notable exception: while "In Basket" exercises are manual, the Naval Supply Centers are completely automated with APADE. The exercises include requisition-to-award purchase requirements, requiring the student to complete the full array of manual purchase forms and records. [Ref. 46]

5. Advanced course responsiveness to Navy needs

The advanced course does not specifically address the Navy's small purchase environment; it provides general service-wide GS-1105 instruction. One specific Navy unique course omission is the buyer's interaction with the APADE system. In addition, the curriculum does not reference the Navy specific Naval Supply Systems Command Instruction 4200.85. These two shortfalls reduce the responsiveness of the advanced course to the needs of the Navy's mid-level buyer. It is valuable to consider the impact in more detail.

APADE is a standardized automated procurement system which is Navy unique, and has revolutionized the entire procurement process with a full range of document preparation support, signature techniques and document flow. Some of its features include:

- Automated bidders mailing list
- Recommended consolidation of requisitions with existing in-process requirements
- Terms, conditions, certifications, clauses, and other requirements to actually generate the solicitations, amendments, award and modification documents
- Computer generation of purchase orders, delivery orders and other required purchase instruments. [Ref. 47]

This revolution has permanently changed the face of the small purchase shop, becoming the key to production at Naval Supply Centers. Purchase directors wonder how they survived without this major improvement. The old manual small purchase methods are now outdated -- a thing of the past. Manual small purchase training exercises thus have limited value and application in today's Naval Supply Center.

Like APADE, the Navy has unique regulations and references. In addition, most of the Navy's small purchase references have changed in the past year. Chapter III described how Navy unique references have changed significantly during the past year. To summarize, the Navy Acquisition Regulation Supplement (NARSUP) and the Supply Acquisition Regulation Supplement (SUPARS) were replaced by

the Navy Acquisition Procedures Supplement (NAPS) in April 1989. NAPS briefly mentions small purchase, deferring all guidance to FAR subpart 13 and Naval Supply Systems Command (NAVSUP). [Ref. 48] NAVSUP provides new procedural and policy guidance for small purchase in NAVSUPINST 4200.85 dated 25 July 1989.

C. IN-HOUSE TRAINING PLANS AND METHODS

1. Introduction

The previous section described existing formal training courses for mid-level GS-1105s. Using this information as a background, this section describes the existing informal/in-house training plans and methods. Specifically, the researcher is referring to local Command training sessions and on-the-job small purchase training of mid-level buyers. The discussion will begin by examining the Navy's official small purchase in-house training policy.

2. In-house training policy

Naval Supply Systems Command Instruction 4200.85 states:

All personnel involved in the purchasing function (e.g., contracting officers, storekeepers, buyers, BPA callers, etc.) shall attend a NAVSUP authorized Small Purchase course. In addition, the Management of all activities performing a purchasing function shall ensure that personnel are adequately trained to maintain and improve the quality of the purchase function. [Ref. 49]

In other words, NAVSUP does not provide specific requirements for in-house training. Instead, the policy is

results oriented. The training program selected by a Command is not at issue -- the quality of the product is what counts. The researcher contends that NAVSUP's policy is a refreshing break from the frequently mandated and unyielding guidance commonly found in the Federal bureaucracy. The freedom to adjust the training program to the Command's specific needs offers Commands the opportunity to develop unique and innovative local training plans and methods responsive to their needs and workload.

Nevertheless, one cannot overlook the potential for shortsightedness in the decision of training versus production which a small purchase director must make during his two or three year tour. Training is a long term investment. Gains in production and quality derived from training are difficult to measure. It could conceivably take many months or even years to recoup the lost production time required to conduct training, and in some cases, the time may never be recovered. Since no specific in-house training requirements exist, the small purchase director may be inclined to minimize training during the last year of his tour; this in turn tends to place the emphasis on short term production statistics and quick fixes to recurring problems rather on than a long term training program.

Chapter III illustrated that a wide range of in-house training programs are currently in place at the various Naval Supply Centers. Interviews identified no exclusive

in-house training method. At one extreme, buyers attended Command sponsored college classes during working hours and conducted weekly training sessions. At the other extreme, training was seldom conducted. This range was also evidenced during determination of the differences apparent in training methods and plans.

3. In-house training methods and plans

During the interview process, the researcher quickly discovered that in-house training methods and plans are usually not at the top of the small purchase director's priority list. Nonetheless, purchase directors generally believe that training is important. It is instead the planning process which frequently takes a back seat to the daily emergencies which commonly drive the operation of the small purchase shop. Training plans and methods receive minimal consideration relative to the total time investment in the in-house training program.

Typically, the purchase director is also the training programs coordinator and advocate. When asked what training methods and plans his Command uses, the typical small purchase director indicated that training is scheduled in advance and conducted per the schedule (unless something more important supersedes the training).

Normally the plans are derived by rotating topics from a list of small purchase subject areas. Although changes are

periodically made to the training plan, the method used to deliver the training generally remains constant. Buyers are extensively trained all in one large group within which all experience levels are combined. Training session quality also varies greatly. The researcher found this to be particularly true in the area of training aids and materials. Frequently, training aids are incorporated into the training sessions. Buyers sit passively, listening as the instructor reads directly from directives or messages.

As a general rule, a direct correlation exists between the quality of a training session and the instructional skills and preparation of the training session leader. Buyers indicated that the individual leading the instruction of in-house training sessions has a profound effect on the training material provided as well as on the quality of the training. Considering the potential impact on training effectiveness of a poor instructor, it is interesting to discover how instructors are selected.

The selection process for in-house instructors varies greatly between Commands. At one Command for example, only the Supply Department Head conducts small purchase training. This training is scheduled three to six months in advance and conducted weekly. Buyers as well as the Supply Officer feel the training is effectively delivered and indicated that it may have been a contributing factor to recent

improvements in performance as noted in Procurement Management Reviews (PMRs). [Ref. 50]

At the opposite end of the spectrum, other Commands do not assign any instructors for their in-house training sessions. Supervisors use their own devices and discretion in conducting on-the-job training when they feel it necessary. Buyers indicated that training is frequently cut short or forgotten all together. [Ref. 51]

In yet another approach, at some Commands buyers act as instructors, and over time, each one is rotated to take his turn instructing. Advocates for this method contend that buyers gain substantially during their preparation for the instructional experience. Although some lesson plans are available to these buyers, they were not systematically collected, reviewed or updated. During the course of the interviews, the researcher was unable to locate any buyers who had completed either formal or informal instructor training, although one buyer was found who had completed a college speech class.

The researcher was unable to locate a complete book of in-house lesson plans which had been updated to reflect the recent changes in small purchase references. Considering the total time invested in the typical training program, the researcher found this surprising. In addition, local lesson plans were found to frequently reference cancelled publications and instructions. The collection of local

lesson plans was usually found to be either incomplete or nonexistent for topics listed in training plans.

D. INCORPORATING BUYERS' NEEDS INTO TRAINING PLANS AND METHODS

1. Introduction

This section discusses the need determination process used to incorporate training weaknesses of mid-level buyers into training plans and methods. The discussion includes both formal and in-house training. It is necessary at the onset to understand what constitutes a training need. The Training and Development Handbook presents the training need issue in this context:

[A training need exists] any time an actual condition differs from a desired condition in the human or 'people' aspect of organizational performance or, more specifically, when a change in present human knowledge, skills, or attitudes can bring about the desired performance. [Ref. 52]

With this in mind, one must not lose sight of why in-house training is conducted. The reason is a simple one: training is conducted to satisfy a definable need. Without such a need, there is no reason to conduct training. This brings up the question of how the Navy currently identifies training needs of mid-level buyers and how these needs are incorporated into training plans and methods.

One then asks "How are the training needs and identification of the weaknesses incorporated into the training plans and methods?"

2. Formal training need determination process

Earlier sections of this chapter explored the use of training blueprints and competencies to develop the curriculum for the formal Defense Small Purchase Advanced Course. This study identified all the skills which a GS-1105 requires. Although this undertaking produced a collection of valuable data, the data cannot be directly applied to informal/in-house training programs, as individual Commands are likely to have limited training resources, and training bases on numerous blueprint competencies would be an enormous task yielding questionable results. More direct in-house training would consist of a program centered around the Command's unique training needs.

3. In-house training need determination process

A wide disparity among the various Commands was also apparent in the need determination element of training. Naval Supply Center, San Diego employs one of the most aggressive need determination methods. The Deputy Director uses a systematic, need-oriented approach in developing their training schedule, with the choice of training topics predicated upon PMR identified weaknesses, as well as on the results of their internal review program. Senior buyers

assemble weekly to review files and identify problem areas, and the problems so identified are then used to revise the topics in their specifically tailored training schedule.

[Ref. 53]

Other Naval Supply Centers use less systematic approaches. In one case, topics are selected by rotating through the table of contents in Naval Supply Systems Command Instruction 4200.85. Other Commands let their supervisors select topics and conduct whatever training they deem necessary [Ref. 54].

James Morrison argues that training should not merely be a reaction to a problem; rather, it should be a response to a real need. This loosely translates to the statement that training is not always the best answer; management should also consider solutions which incorporate other production elements, for example, better materials, improved methods, newer machines, or more money. The resources and potential outcomes involved in implementing these and other production elements must then be weighed against the prospect of reaching the solution through training. Morrison concludes that "training programs for training programs' sake" [Ref. 55] produces a costly mistake in terms of wasted resources.

E. SUMMARY

This chapter described how training plans and training methods are developed to fill the needs of the Navy small

purchase environment. Both formal and in-house training were addressed.

Also discussed were the ways which training plans and methods were developed for the existing small purchase advanced formal training available for mid-level GS-1105s. The discussion focused on the Defense Small Purchase Advanced Course and included an overview of the course development and composition.

The chapter then discussed how training plans and methods were developed for the existing small purchase advanced in-house/informal training available for mid-level GS-1105s in local Command training sessions.

Finally the chapter discussed how training needs and identification of the weaknesses were incorporated into in-house training plans and methods.

V. ANALYSIS OF MID-LEVEL SMALL PURCHASE TRAINING REQUIREMENTS

A. INTRODUCTION

Chapter V will explore how the Navy should develop training plans and methods for mid-level buyers. It analyzes how small purchase training needs and weaknesses can be identified and incorporated into the training plans and methods. Both formal and in-house training methods are considered in the analysis. Recommended course development framework for formal and in-house training programs are then provided. These recommended course structures include only the development concept and methodology; they do not incorporate the actual course sequence, lesson plans or the fine details which would be necessary for full implementation of the recommendations.

The analysis is based on data collected during interviews with small purchase buyers and supervisors. The researcher's perceptions of the interviewees' attitudes and approaches toward training were also incorporated into the study.

A brief summary of previous chapters is now provided in order to set the groundwork for further analysis. Chapters II and III illustrated that the training needs of mid-level

GS-1105 buyers were not completely satisfied by existing training programs. Only a small improvement has been observed since 1984. Chapter IV described how training needs are currently identified and how training plans and methods are developed. Chapter V will explore this information in depth with an analysis of mid-career small purchase training requirements. The analysis consists of an examination of the primary thesis research data covering mid-career small purchase needs.

B. HOW SHOULD FORMAL TRAINING PLANS AND METHODS BE DEVELOPED?

1. Introduction

In today's rapidly changing small purchase environment, an ongoing and up-to-date training program should be designed to enhance production and quality in the automated small purchase shop. This program will require training plans and methods which are responsive to the training needs of mid-level buyers.

This section studies why formal training for mid-level GS-1105s has not satisfied the Navy's training needs. The study is accomplished by investigating formal training shortcomings to determine how formal methods and plans could be developed to more effectively meet the needs of the Navy's small purchase environment.

2. Causes of formal training shortcomings

The researcher interviewed small purchase buyers and directors to determine their perceptions of what caused mid-level training shortcomings in the formal training setting. Their most common explanations are summarized below:

1. Time allowed for formal training: Training inadequacies are caused by the insufficient time allocated for formal training. Activities generally cannot support daily operational requirements when mid-level buyers leave the workplace to attend more advanced formal training.
2. Availability of formal advanced classes: Advanced classes are usually not offered locally, and activities do not have sufficient funding to send buyers on Temporary Additional Duty (TAD) out of the local area to participate in formal advanced training courses.
3. Return on investment: Purchase directors generally question the return on investment for advanced training of mid-level GS-1105s. They believe that the lost production time during training combined with rapid turnover of the most talented buyers offsets any gain derived from advanced training.
4. Personnel awareness of available courses: Personnel are generally unaware that a formal small purchase advanced training course exists.
5. Course content: Personnel who are familiar with the Defense Small Purchase Advanced Course and its content question its relevance to the Navy's small purchase automated procurement environment.

3. Analysis of contributing factors

The causes identified above will be analyzed in more detail on the following pages in order to establish the validity of the comments. The development of this analysis

will form the foundation for recommended solutions proposed later in this chapter.

Earlier chapters discussed the limited availability of advanced training courses, due partly to their remote location. The only avenue available for completion of formal small purchase advanced training is through Army Logistics Management College (ALMC) classes. ALMC is scheduled to teach six remote advanced classes during fiscal year 1990 [Ref. 56].

Quotas fill in October for the entire fiscal year, and course sites are located to satisfy the Army's needs throughout the world [Ref. 57]. Unlike the basic small purchase course, the advanced course is not offered locally by Procurement Management Review (PMR) training teams. Therefore, activities must factor out-of-area travel expenses into the breakeven equation of training cost versus potential production gain.

Lost production during the buyer's absence can be difficult for a purchasing director to justify in the face of large work backlogs [Ref. 58]. The advanced course is one week in duration -- one week away from the job. Mid-level buyers form the heart of the small purchase shop, and those buyers interviewed stated that their work would likely remain untouched on their desk for one extra week, as a one-week absence rarely receives management attention when remaining buyers have a requisition backlog.

Course relevance was also mentioned as a formal training shortcoming. As explained in Chapter IV, the Defense Small Purchase Advanced Course is not Navy specific. Not only does the curriculum not include the Navy's unique Automation of Procurement and Accounting Data Entry (APADE) system; it also fails to reference the Navy specific Naval Supply Systems Command Instruction 4200.85. Although the one week Defense Small Purchase Advanced Course is the product of a great deal of time and research, it may now be prudent for the Navy to determine if the current course structure fully meets its needs.

During interviews with small purchase directors at Naval Supply Centers, it was perceived that the existing advanced course does not fit mid-level buyers' needs, as it omits the primary tool of the trade today - APADE. Having completely changed the character of the small purchase environment, APADE has made manual exercises functionally obsolete.

Now entry level buyers attend a three-week introductory APADE course after completing the Defense Small Purchase Basic Course. The APADE course teaches only APADE, not procurement. Small purchase directors contend that advanced training should be integrated with the APADE system in an attempt to improve future production and quality. ALMC's advanced course does not attempt this.

4. What can be done to improve formal training?

In considering the above factors and their relevance to the formal training weaknesses discussed in Chapter III, the existence of a cause and effect correlation became apparent to the researcher. This correlation forms the basis for a recommended action to improve the Navy's advanced formal training of GS-1105 mid-level personnel.

The researcher recommends that the Navy develop a formal version of AlMC's Defense Small Purchase Advanced Course. This proposed course should be designed to fit the specific needs of mid-level GS-1105s at automated Naval Supply Centers. Provided on-site, the proposed course should be taught interactively with the APADE system. The course length should equal that of the existing Defense Small Purchase Advanced Course.

Although the proposed Navy advanced course would cover a broad topic base, the preponderance of time should be devoted to those areas with identified training needs. These needs, outlined in Chapter III of this thesis, as well as in a previous study, dictate the twelve topics which should form the core of the initial formal training plan. Each topic should include exercises involving Navy and other applicable references, as well as an active discussion of the underlying reasons behind the regulations. Directly after completing the theory of a topic, expert APADE instructors should assist buyers in perfecting their

production and knowledge skills by means of practical exercises. These exercises could either be conducted in the APADE training rooms or on the actual APADE system, depending on the complexity of the interaction. Their focus should be directed toward helping the mid-level buyer understand the fine points of APADE in light of the classroom theory instruction. The desired outcome would of course be increased overall theory comprehension, faster APADE interaction and a better appreciation of quality.

The new Navy advanced course cannot be allowed to become static. Although the initial core of the course would be the twelve training needs identified in Chapter III, it must be recognized that training needs do change. It is therefore essential for the course director to conduct semi-annual surveys of small purchase directors and buyers in order to quickly identify new needs. In addition, the course director should examine PMR results for signs of changing needs. Once new and changing needs are identified, the new advanced course will have to be responsive to them and flexible enough to keep pace with the changing environment.

The course should be required and should be offered by a mix of Navy APADE Training Team (NATT) and PMR instructors. This blend of talent is unavailable in any other form and provides an unequalled learning opportunity for all fortunate enough to have it available to them.

5. Effectiveness of the recommended Navy advanced course

The researcher's proposed Navy advanced course should be precisely designed to meet both the Navy's requirements and the needs of mid-level buyers. The goal of the course should be to improve production as well as to enrich the mid-level buyer's understanding of the concepts behind the regulations. The course should be developed around the specific training shortcoming topics listed in Chapter III, taking into consideration the causes of the weaknesses which were analyzed in that chapter. As described earlier, the course should be Navy specific, relevant to the Naval Supply Center's small purchase environment and responsive to changing needs.

Although time allocation was found to be a concern of small purchase directors, the researcher feels this will not be as much of an issue due to local availability of the course. Personnel will quickly become aware of the course because of the visibility of locally conducted classes. As for return on investment, another area of concern to small purchase directors, the course design itself, with its emphasis on increasing production, understanding and quality, should readily allay this concern. The APADE expert instructors would assist buyers with their individual purchase needs, passing along short cuts, tips and ways to

avoid traps. This course would not be the purely "APADE" training which is available today; rather, it would be advanced small purchase training which incorporates the buyer's primary tool, the APADE system. Theory and real-world factors would be combined by the PMR instructors into the APADE production elements.

It is entirely possible that the researcher's proposed Navy advanced course will never be funded. Even if funds were to become available, the course could not possibly satisfy the full spectrum of every Command's training needs. It is therefore necessary to develop an in-house training program.

C. DEVELOPING IN-HOUSE TRAINING PLANS AND METHODS

Chapter IV described how training plans and methods are currently developed for in-house training. This section considers the in-house training shortcomings and explores how these methods and plans could be developed to effectively meet the needs of the Navy's small purchase environment. For the purpose of this analysis, it is assumed that in-house training is independent, without support of advanced formal training.

During interviews, the researcher learned that mid-level buyers are generally very receptive to local training which focuses on problems relevant to their work. However, buyers indicated they are not receptive to training which covers

rarely encountered conditions irrelevant to their work environment. As mentioned in Chapter III, they also dislike training which does little more than read aloud "don't do" lists, "don't buy" lists or regulations.

The researcher ascertained that much in-house training failed to satisfy the needs of the mid-level GS-1105. This became evident in the general perceptions conveyed by buyers during the interview process.

The researcher found that small purchase personnel generally agree that the performance of the in-house training leader is a key factor in the success of a training session. The instructor has the potential either to make a training session valuable or to render it a waste of time for everybody. This issue surfaced in Chapter IV.

In review, some Commands rotate all buyers as in-house training leaders, and thus, over time every buyer has a chance either to excel or to fail. The purchase director's argument in favor of this method is that inexperienced buyers learn from the instructional experience; however, the researcher found that buyers have a different perception. Those interviewed suggested that training was sometimes ineffective because of poor instructional quality. Poor instructional quality stems from the inconsistent caliber of performance by the various buyers who acted as training lesson leaders. It is clear that the rotation of numerous buyers as instructors introduces unknown factors into

training. The researcher contends that the risk of incurring a poor instructional session increases with the unknown instructional skill factor of each new buyer/instructor.

The following example illustrates what is at stake in a training program. Assume for purposes of this illustration that a one hour training session is conducted weekly. Forty people normally attend this session. Also assume that approximately one out of four training sessions is substandard. One man day equals eight man hours, and forty man hours equal one man week in this illustration. The example uses four weeks per month for simplicity in calculation.

One poor training session per month does not sound serious, but the hours add up quickly. For each inadequate lesson, forty man hours are lost, or one man week. In the example, unsatisfactory training occurred approximately one out of four times (about once per month). Therefore, roughly one man week per month is wasted, and over the course of a year, approximately twelve man weeks lost. This illustration does not consider the unproductive training preparation or management time which are also wasted by the poor quality training.

The factors which can affect a lesson leader's performance during a training session are almost limitless. Experience on the job is a factor; too little could cause

loss of confidence. Perhaps the lesson leader is not well prepared. Another important factor is training material. Perhaps the lesson leader does not provide training aids which will make the lesson easier to understand. Neither should experience as an instructor be underemphasized; not everyone has the natural talent to build a dynamic learning environment without experience or background in the field of education.

The researcher submits that the investment in quality instruction clearly pays dividends. The calculation above illustrates the importance of using only "first string" management or supervisors to provide in-house training. Even then, the researcher believes it pays to be selective, as some people are naturally better at teaching than are others of equal experience or knowledge.

The mission of an in-house training program should be to develop buyers, not to develop instructors. Therefore, the Command should strive to use only those supervisors and management personnel who can consistently provide exciting, informative and interactive in-house training.

D. ADVANTAGES OF IN-HOUSE TRAINING

In-house training offers several potential advantages over formal training. Craig discussed the advantages of informal training in his Training and Development Handbook. [Ref. 59] Some benefits addressed included:

1. Cost
2. Less lost production
3. Availability
4. Content/controllable subject matter
5. Controllable group size
6. Educational method
7. Type of instructor

The cost of in-house training is generally less than that of formal training. In-house training costs include only preparation time and the lost production time of the training itself. For example, an informal in-house training plan typically schedules one hour per week rather than the one full week required for the formal advanced course. In addition, the training is always available. The training content can be tailored to fit current identified training needs or to discuss common problems relevant to the activity.

The next two sections will analyze how training needs should be identified and implemented into training plans and methods. The analysis begins with the need determination process.

E. NEED DETERMINATION PROCESS OF IN-HOUSE TRAINING

Walter Mahler discussed need determination in Craig's Training and Development Handbook. He propounded that formal educational programs often fail in the ". . . need determination process which governs the choice of subject matter, size of group, educational method, and instructor." [Ref. 60] He went on to say that those individuals whom the activity can afford to send away, rather than the real "comers", attend formal training. [Ref. 61] This section will now analyze need determination in more detail.

The question, "How should in-house training needs be identified?" may now be posed. Small purchase problem areas should provide management with a good clue when training is needed. Many problem areas are already known; others are brought to light by inspection discrepancies. Supervisors and mid-level buyers can also point out potential items which warrant consideration. Heeding the caution in Chapter IV regarding blindly selecting training as the solution to every problem, it is important to consider funding, materials, procedures and other factors along with training.

Frequently, however, training is the most effective solution to a common problem in small purchase, and increased funds or better materials may not be an option. Many of the procedures are beyond the Naval Supply Center's control.

Chapter III illustrated that common inspection discrepancies offered information which could be used to select topics for a training plan. Interviews with GS-1105s, supervisors and small purchase managers also provide valuable information during the need determination process. Chapter III reconfirmed the relevance of twelve areas of common weaknesses which were first identified in a 1984 Bales and Huff thesis study [Ref. 62]. These twelve topics form a foundation for classifying major topic areas of newly discovered weaknesses.

F. HOW SHOULD PLANS AND METHODS BE DEVELOPED FOR IN-HOUSE MID-LEVEL ADVANCED TRAINING?

1. Introduction

This section will explore how in-house training plans and methods could more effectively incorporate training needs of Navy mid-level GS-1105 personnel. It will build on the discussion introduced in Chapters II, III and IV concerning the in-house/informal training needs of mid-level GS-1105s which established that the training needs of these mid-level buyers have remained unfilled, with little change since 1984. Reasons for the existence of these conditions will be explored, along with examination of some of the reasons why both formal and in-house advanced small purchase training fall short of satisfying the Navy's needs.

2. Incorporating needs into training plans

Even after training needs are identified, it remains difficult to develop training plans which are responsive to those needs. The primary factors contributing to this difficulty are the time and the resources required in order for each Command to develop new training materials and references. When these time and resource requirements are added to the research necessary just to identify the training needs, revamping an in-house training program looms as a very large project, the complexity of which only reinforces the value which would be derived through the development of a Navy-wide in-house small purchase training guide. Such a Navy-wide guide should be current and responsive to the needs of mid-level GS-1105s and readily available for use as a reference.

In 1985, Commander Dean Guyer, instructor at the Naval Postgraduate School, Monterey, California directed a Principles of Acquisition and Contracting (MN3303) class project which developed a training handbook to meet the Navy-wide mid-level GS-1105 needs. The handbook had its basis in the twelve topics identified in the 1984 thesis research mentioned earlier.

At that time, the handbook provided a valuable reference for the most common problem areas and described the reasoning behind the regulations. Understanding the reasoning behind the policies helped mid-level buyers build

a foundation for understanding the applicable regulations. [Ref. 63] Unfortunately, over the past five years the handbook has become out of date, thereby greatly reducing its training utility.

The researcher believes that a revised small purchase handbook (such as the one described above), would provide a valuable resource and common focus for training plans.

3. Incorporating needs into training methods

An alternative training method to help alleviate some of the problems is discussed by B. Babington-Smith and B.A. Farrell who contend that the size of a training group can be readily adjusted to fit the topic and the level of the students [Ref. 64]. The researcher believes that this method warrants consideration for the Navy's small purchase requirement. Worksection training could be alternated with the traditional division-wide in-house training, and each method could be further tailored to satisfy individual buyers' needs and experience levels.

The researcher suggests that these smaller worksection groups could model the APADE training format. A group of about twelve buyers could conduct training in their work space, using the APADE system to specifically address distinct training needs. Unlike on-the-job training, this smaller section-wide training could be scheduled in advance and would take priority over the work at hand. This is not

to say that the training should not address actual current requisitions under action. In fact, this would be a valuable curriculum option for the section's training instructor, as all buyers in a section could work through a selected requisition step or problem during the scheduled training.

Instructors of worksection training groups may find the "coaching" approach effective. In this situation, the supervisor acts as a sort of coach during the section's training session by allowing buyers to work on the educational task with only periodic intervention. This approach builds teamwork among the buyers, fosters active participation and stimulates thought processes, resulting in increased team spirit and enhanced performance, as well as an interesting training session. [Ref. 65]

G. SUMMARY

This chapter investigated how the Navy could develop more effective training plans and methods for mid-level GS-1105 buyers. The analysis also explored how training needs might be more effectively identified and incorporated into training plans and methods.

First discussed were some of the reasons why formal training for mid-level GS-1105s has not satisfied the Navy's training needs. Included was an investigation of formal training shortcomings.

The chapter then undertook a more detailed examination of the causes which underlie formal training shortcomings. The researcher recommended a new Navy advanced course to improve formal small purchase training, a course which would respond to Navy specific mid-level GS-1105 needs.

Next in-house training shortcomings were studied and an analysis made of how methods and plans could be developed to more effectively meet the needs of the Navy's small purchase environment. The potential advantages of in-house training over formal training were weighed during this study.

The chapter then looked at how the Navy might more effectively identify in-house training needs.

Lastly, the chapter examined how in-house training plans and methods could more effectively incorporate identified training needs.

VI. CONCLUSIONS AND RECOMMENDATIONS

A. CONCLUSIONS

1. The vast majority of persistent small purchase Procurement Management Review (PMR) discrepancies center around a limited number of subject areas. Chapter III described these areas which included:

- Requirements determination
- Optimal purchase methods
- Blanket purchase agreements
- Purchase orders
- Documentation
- Determination of fair and reasonable price
- Competition
- Small businesses and other social programs
- Accounting and appropriations
- Imprest fund
- Automatic data processing equipment
- Prioritization of requirements

During interviews, GS-1105 buyers and supervisors identified the very same areas as critically weak.

2. Current training weaknesses and concurrent poor PMR performance can be loosely classified into the same twelve

specific areas of training weakness identified in the 1984 Huff and Bales study. In addition, the researcher found that today's most common PMR discrepancies are very similar to the common Contract Management Review (CMR) discrepancies found six years ago in the study conducted by Huff and Bales [Ref. 66]. These problems remain as major contributing factors to today's weaknesses.

3. The predominant focus of training weaknesses converges on the related and important areas of competition and price reasonableness. Small purchase supervisors strongly expressed the need to provide more training for their mid-level personnel in the area of fair and reasonable price determination. Purchase directors concurred with supervisors, stressing that training in the area of competition was also notably weak. In addition, PMR discrepancies supported this finding.

4. The existing Automation of Procurement and Accounting Data Entry (APADE) training course accomplishes the objective of training entry level buyers to operate the APADE System. Small purchase personnel universally agreed that their entry level buyers could operate the APADE system after completing the course. It is important to note that the APADE course is not a procurement course; it is an operators' course. The separate Defense Small Purchase Basic Course is a prerequisite to the APADE course and provides the entry level small purchase knowledge base.

5. The Army Logistics Management College (ALMC) Defense Small Purchase Advanced Course, although comprehensive, fails to address some of the unique elements of the Navy's small purchase environment. It does provide general service-wide GS-1105 instruction. One specific course omission is the buyer's interaction with the APADE system. In addition, the curriculum does not reference the Navy specific Naval Supply Systems Command Instruction 4200.85.

6. The root causes of existing mid-level GS-1105 formal training difficulties center are:

1. Not enough time is allowed for formal training.
2. Advanced courses are generally not offered locally.
3. Purchase Directors question the return on investment for advanced training.
4. Most small purchase personnel are unaware that a formal small purchase advanced training course exists.
5. Personnel who are familiar with the Defense Small Purchase Advanced Course and its content question its relevance to the Navy's unique automated small purchase environment.

7. Informal small purchase training is not consistently provided at Naval Supply Centers. Some Commands conduct almost no small purchase training. The average Command in the research group conducts informal training once or twice per month. Purchasing activities themselves do not regularly conduct small purchase training.

8. Naval Supply Center purchasing directors cite funding as the primary reason that more in-house training is not conducted. NAVSUP funds Naval Supply Centers based on production. As informal training time remains unfunded and counts directly against production hours, a negative incentive for informal training is provided.

9. The quality and effectiveness of informal small purchase training is inconsistent. The researcher found that most Naval Supply Center small purchase shops do not use formal lesson plans; instead, lesson plans range from individually prepared guides to direct readings of Naval Supply Systems Command Instruction (NAVSUPINST) 4200.85. In the most informal in-house situation, training lessons are conducted in the form of spontaneous instruction and completely without lesson plans.

10. Consolidated small purchase training guides are not commonly used at Naval Supply Centers today during in-house training sessions. Although several activities do maintain local training guides, the majority either have not updated their handbook at all or are only in the process of slowly developing their local reference guide.

B. RECOMMENDATIONS FOR PROCUREMENT ACTIVITIES

1. Develop a specifically tailored but comprehensive small purchase training guide to fit each activity's needs.

As a core, the guide should address the following areas of common weakness:

- Requirements determination
- Optimal purchase methods
- Blanket purchase agreements
- Purchase Orders
- Documentation
- Determination of fair and reasonable price
- Competition
- Small businesses and other social programs
- Accounting and appropriations
- Imprest fund
- Automatic data processing equipment
- Prioritization of requirements

2. Actively identify training needs and changes in regulations. This should not be done in reaction to problems, but as a proactive approach. Training needs should be actively identified as they occur.

3. Quickly incorporate new needs into training plans. Training coordinators should adjust plans as often as necessary to incorporate newly identified needs. At the same time, they should strive to create in-house training plans which are dynamic. Updated and improved continually, existing lesson plans and training plans can be quickly

adapted to include regulation changes and newly discovered training weaknesses.

4. Design specific training methods to fit the requirement exactly. Activities should adjust the size and experience level of in-house training groups to fit the topic at hand. More precise parameters will help the training leader to focus the lesson on the distinct needs and abilities of a specific training group.

5. Identify and use the most experienced and skilled instructors for in-house training. At the same time, frequently review lesson plans and monitor training sessions to insure the highest possible training quality at all times.

6. Involve the Small Purchase Deputy and/or Director in active participation in planning and monitoring informal training. Interviews revealed that training does not always transpire as planned. This is most likely to occur when management ignores the conception of the training plan or the method of delivery. As examples, some Commands do not assign instructors for their in-house training sessions. Some supervisors use their own discretion in conducting on-the-job training as they deem necessary. Frequently training is cut short or forgotten altogether.

C. RECOMMENDATIONS FOR UPPER ECHELON MANAGEMENT

1. Develop a Navy specific formal small purchase advanced course. Provide the course locally and require all mid-level GS-1105s to complete it. Chapter III outlined twelve topics which should form the core curriculum of the Navy advanced course. The course should be further tailored to fit precisely the needs of mid-level GS-1105s at automated Naval Supply Centers. Chapter V explained that the course should be provided on site and should be taught interactively using advanced APADE exercises.

2. Establish an ongoing method which identifies specific training needs based on PMRs and on feedback from small purchase personnel at Navy Field Contracting Activities. Update the recommended Navy advanced course annually to reflect these changing needs. In addition, summarize emerging training weaknesses quarterly and provide this information to field activities for immediate incorporation into their informal training programs.

3. Establish a specific minimum level of informal small purchase training and monitor compliance for the purpose of insuring the existence of at least some sort of ongoing small purchase training program. Monitoring should be accomplished through a combination of efforts: one, a review of training records during PMRs, and the other, random selection of individuals for testing and interviewing by PMR inspection teams. The information gleaned would provide a

valuable data base of identified training needs for use in updating both formal and informal training programs. It would also provide an indication of the effectiveness of an activity's informal training program.

4. Specifically fund Naval Supply Centers for at least a minimum informal training level. Funding was cited as the primary reason that more in-house training was not conducted. NAVSUP should consider funding some minimum monthly level of informal training. As an incentive to train, the funding should be "use it or lose it" in nature.

5. Implement the revised guide provided as Appendix A. Appendix A contains a revised comprehensive training guide for small purchase personnel. As part of his thesis effort, the researcher revised this guide to reflect current directives, references and problems.

Activities will find the guide unique in its focus. Originally developed at the Naval Postgraduate School in 1985, the revised guide now contains only the most current small purchase information as well as the reasons behind the policies and regulations. The twelve most frequently troublesome small purchase topics as described in Chapter III are covered by the revised guide.

6. Re-evaluate the applicability of various regulations and procedures in light of the APADE small purchase environment. As APADE has radically changed the way automated Naval Supply Centers operate, several previously

logical rules and regulations no longer achieve their original intent in this automated environment.

Unnecessary duplication of effort produces administrative expenses the Navy can no longer afford to ignore. For example, certifications and other required documents are maintained in hard copy even when they are included in the APADE system folder; the researcher believes that such duplication of paperwork is of dubious merit in the small purchase environment. A second example involves the current policy of using Blanket Purchase Agreements (BPAs) as the preferred purchase method. Chapter III explained how a purchase order is now as fast to execute as a similar BPA call. Taking into consideration the extra time spent administering a BPA in periodic review, it can be concluded that a BPA is actually more administratively time consuming than a purchase order.

The billing process has also been changed as a result APADE. Frequently vendors submit invoices for each call because their system also is automated to perform in that manner. These bills must then be reconciled by the Navy to match the BPA monthly billing format.

D. SUMMARY OF ANSWERS TO RESEARCH QUESTIONS

Question #1. What are the specific training needs of mid-career purchasing personnel in the Navy Field Contracting System (NFCS) small purchase environment?

This researcher found a strong need for formal advanced training which refreshes knowledge and upgrades the skills of mid-level small purchase personnel. Purchasing personnel require an advanced course which considers the production aspects of APADE and focuses on the Navy specific need of getting the job accomplished. Mid-level buyers expressed a need for an in-house training program designed especially to discuss advanced small purchase issues, problems and potential solutions. An additional function performed by this training would be the sharing of small purchase experiences and ideas within the mid- and upper-level workforce.

Question #2. What are the current training weaknesses within the small purchase field organizations?

As cited in Chapter III, the major focus of training weaknesses converges on the related and important areas of competition and price reasonableness. These two areas of weakness were augmented by the need for improved documentation within the purchase file. Because of its effect on the rest of the purchase process, priority determination is another source of concern to buyers, supervisors and directors with regard to the necessity for proper training. Another area which the researcher found introduces problems into the purchase process is determining the requirement and subsequently selecting the optimal purchase method. Specifically included are BPA, imprest

fund and purchase order (priced and unpriced) procurement methods. In addition, buyers indicated some confusion in the areas of social programs, accounting data and Automatic Data Processing Equipment (ADPE). Although not identified separately as a training subject weakness, Automation of Procurement and Accounting Data Entry (APADE) interacts with each of the areas mentioned above.

Question #3. What training plans would fulfill these specific training needs?

All formal and informal training plans should be flexible in order to respond to specific training needs. Research indicates that the more effective training plans are specifically designed to meet the changing needs of buyers; although grounded in a core group of universal subject areas, the effective plan is quick to incorporate changes. It does not simply respond to problems, but instead, actively solicits buyers to identify surfacing needs before they become major issues.

Question #4. What training method would provide the most effective method of executing the delivery of training plans?

The study found that both formal and informal training methods are needed to effectively maintain a quality training program for the mid-level GS-1105.

Formal training: Formal training would be most effective in a combined classroom/computer lab framework. Here,

expert APADE instructors could assist buyers with their individual purchase needs, passing along short cuts, tips and traps. This would not be the pure "APADE" training which is available today, but rather, advanced small purchase training which incorporates the buyer's primary tool, the APADE system. Optimally, instructors would parallel this training with theory and other small purchase insight. This combination of theory and real-world instruction would also focus on the APADE production elements.

Informal training: The study shows that the most effective in-house training framework is one designed to fit the specific situation. This of course means smaller training groups which segregate mid-level buyers from entry level and large contract personnel. Whenever feasible, the training method should embrace group discussion of the issues. The researcher found that the single most important factor influencing the success of today's informal training is the combined level of skill, preparation and experience of the instructor. It is therefore most prudent that management select the highest quality instructors and that lesson plans be reviewed on a regular basis.

Question #5. How have training weaknesses, methods, and availability changed in the past six years?

Although the Navy small purchase training environment has made substantial progress over the past six years, the

researcher found that training shortcomings persist. Interviews with various small purchase personnel and evaluations of common PMRs demonstrate that areas of training weakness found today remain essentially unchanged from those prevailing in 1984.

E. AREAS FOR FURTHER RESEARCH

The research completed for this thesis could be used as a basis for the following areas:

1. Further refinement of the revised small purchase guide (Appendix A) to include practical exercises and advanced APADE related examples.
2. Development of a set of generic small purchase lesson plans for mid-level GS-1105 personnel in the NFCS.
3. Development of a course outline of the recommended Navy small purchase advanced training described in this thesis.
4. A cost/benefit study of the return on investment of small purchase training versus production and quality.
5. A collection of ideas, methods, tips and traps on how to improve production in the automated small purchase environment.
6. A detailed study of how to better exploit APADE's production potential for the purpose of determining how to bring existing small purchase policies and regulations into step with today's automated environment.

APPENDIX A
SMALL PURCHASE TRAINING GUIDE
(REVISED JUNE 1990)

The original format and topics for the guide were conceived in 1984 by Kurt Huff and Randle Bales. Their masters thesis Professional, Organizational, and Training Weaknesses in Small Purchase within the Department of the Navy set the groundwork for further study. In 1985, Commander Dean Guyer, instructor at the Naval Postgraduate School, Monterey, California directed a Principles of Acquisition and Contracting (MN3303) class project which actually compiled the original training handbook to meet the Navy-wide mid-level GS-1105 needs.

As part of this thesis effort, the researcher revised and updated the guide to reflect the 1990 small purchase environment and references.

**SMALL PURCHASING
PROFESSIONAL DEVELOPMENT
TRAINING GUIDE FOR
MID-CAREER PERSONNEL**



NAVAL POSTGRADUATE SCHOOL
Monterey, California

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I. REQUIREMENTS DETERMINATION

A. SUBJECT AREA

Small purchase buyers have the important responsibility of translating the customer's requirement statement into a purchase action. To do this successfully, the buyer must have an understanding of the various elements of the purchase request format, as well as an ability to evaluate the adequacy of the requirements description. The buyer's work is made much more difficult if customers are not careful to submit correct and/or sufficiently detailed purchase requests. When this happens, small purchase personnel frequently take on the added responsibility of contacting the customer to discuss the requirement or to solicit additional information. If buyers and/or supervisors fail to notice that information is incorrect or missing, the document will either be delayed within the system or the wrong material or services will be purchased. In either case, the customer activity will not receive material or services vital to its mission.

The material in this module will address practices associated with screening purchase request documents to check for inclusion of all relevant data. Reasons for existing policies as well as recommendations intended to improve internal requirements determination procedures will also be discussed. The primary purpose of the material is to foster a better understanding of purchase request elements, and to emphasize potential problems faced by all small purchase professionals. This module is intended to broaden the awareness of purchasing personnel concerning the essential role they play in providing requirements to customer activities, and to stimulate thought as to how to improve or reinforce existing requirements determination procedures in their own work areas.

It is hoped that by stimulating constructive self-evaluation and by offering some simple recommendations, the material will:

- Contribute to the smooth flow of documents through the small purchase system.
- Reduce inefficiency caused by failure to detect and/or attempt to correct apparent errors and problems associated with purchase requests.
- Encourage buyers and supervisors to become familiar with customer requirements and vendor products.

- Stimulate supervisors to take a more active role in screening purchase request documents and take appropriate action to correct deficiencies.
- Enhance the self-confidence and evaluated professional performance of the buyer in the area of requirements determination

B. DEFINITIONS

The definitions and interpretations of the following terms are provided to ensure a common frame of reference when discussing requirements determination.

1. **Contracting Officer:** A person with the authority to enter into, administer, or terminate contracts and make related determinations and findings.
2. **Field Contracting Activity:** Any field activity of the naval establishment, including offices and detachments, which contracts for supplies or services under the delegated authority of the Commander, Naval Supply Systems Command (NAVSUP).
3. **Force/Activity Designator (F/AD):** A Roman numeral designator established by each military service or the Joint Chiefs of Staff which relates to the military mission of the force or activity.
4. **Inventory Control Point (ICP):** The organizational element within a distribution system which is assigned responsibility for system-wide control of material. Ship's Parts Control Center (SPCC) and Aviation Supply Office (ASO) are examples of ICPs.
5. **National Stock Number (NSN):** A 13-digit stock number assigned by the Defense Logistics Services Center (DLSC) to identify an item of material in the supply distribution system of the United States. It consists of a four-digit Federal Supply Class (FSC), and a nine-digit national item identification number (NIIN).
6. **Naval Supply Systems Command (NAVSUP):** The organization responsible for administering the Naval Supply System.
7. **Navy Item Control Number (NICN):** A 13-character identification number which is assigned by an Inventory Control Point (ICP) or other Navy item

manager to control an item which has not yet been (or will not be) assigned a National Stock Number (NSN).

8. **Purchase Order:** A document signed by a Contracting Officer and addressed to a supplier requesting the future delivery of supplies, or the future performance of nonpersonal services, in accordance with the terms of the purchase order and in exchange for a promise by the Government to pay the price stated in the purchase order for such delivery or performance.
9. **Purchase Request:** A document or other notification by which the using/requiring activity makes its purchase requirements known to the Contracting Officer. A purchase request must be prepared and approved before the Contracting Officer initiates purchase action.
10. **Requisition:** The document submitted to a supply source to obtain material. Requisitions may be transmitted by message, telephone, or radio when time is of the essence.
11. **Small Purchase:** The acquisition of supplies, nonpersonal services, and construction in the amount of \$25,000 or less using small purchase procedures.
12. **Small Purchase Procedures:** The means and methods prescribed for making small purchases using imprest funds, purchase orders, blanket purchase agreements, and small purchase set asides. The term excludes:
 - Requirements obtained through the use of delivery orders,
 - Contracts with the Small Business Administration (SBA) under Section 8(a),
 - Contracts awarded under FAR subpart 14 sealed bidding or FAR subpart 15 negotiation procedures,
 - Special small business or labor surplus area set-asides under FAR subparts 19 and 20.¹.
13. **Type Commander (TYCOM):** An organization responsible for the administrative control of particular types of ships.

¹ FAR subpart 13.101.

C. GOVERNING RULES AND REGULATIONS

The following regulations relate to requirements determination:

<u>Reference</u>	<u>Subject</u>
1. P-485, Afloat Supply Procedures, Chapter 3	Military Standard Requisitioning and Issue Procedure
2. P-485, Chapter 3, A, III	Uniform Material Movement Section Part Issue Priority System (UMMIPS)
3. P-485, Chapter 3, Part B, to Section 1	Requirements Submitted Supply or Contracting Activities Ashore
4. NAVSUPINST 4200.85, encl (2), chapter 1	Receipt, Audit, Screening, Control and Routing of Purchase Requests
5. FAR 1.602-1(b)	Contracting Officer's Authority
6. FAR 25.102 & 25.108 NAPS 25.102	Exceptions to the Buy American Act
7. DOD FAR Supplement	DOD amplifying regulations
8. NAVSUPINST 4200.85	NAVSUP amplifying instructions

D. RATIONALE AND REASONS FOR POLICIES AND PROCEDURES

Small purchases comprise a significant amount of the needs of fleet activities and are of vital importance to the overall readiness of forces. Since the requirements for small purchase material and non-personal services are somewhat repetitive in nature, small purchase procurement procedures have been specifically

designed to avoid the long procurement time and high administrative costs frequently associated with large procurements.

To ensure that needed material is purchased and delivered in a timely manner, the customer must submit current, accurate and complete data on the purchase request and small purchase personnel must accurately reflect the requirement in the purchase. These two conditions are prerequisite to successfully satisfying the customer's needs and, unfortunately, cause the majority of problems associated with small purchase procedures.

Interpreting the customer request is the most important part of making any type of procurement. The purchase request is the vehicle utilized by the customer to communicate to the buyer what is desired. In many cases, what is needed and described by the customer and what is interpreted as the requirement by the buyer share no similarity. This misinterpretation of the requirement causes the purchase of the wrong material, the waste of public funds, the inefficient utilization of man power, and the continued need by the customer. Correct determination of the customer's requirements must be established by the purchase personnel and the customer. After an agreement concerning the customer's need is reached, meaningful effort can be expended in satisfying the customer's purchase request.

Understanding local, Naval Supply Systems Command (NAVSUP), and Federal regulations is as important as understanding the customer's requirement. As stated in the FAR:

No contract shall be entered into unless the Contracting Officer ensures that all requirements of law, executive orders, regulations, and all other applicable procedures, including clearances and approval, have been met.²

Simply stated, prior to issuing a contract to satisfy a customer's need, all requirements to enter that contract must be met. Aspects which must be considered include competition, higher level purchasing approval, required sources of supply, and purchase request documentation. The legal requirements concerning small purchase procedures not only reflect the policies and philosophy of the Federal Government, but also have the same legal implications as any other law. Once these legal requirements have been assessed, efforts can be made to satisfy a customer's request via small purchase procedures.

Since small purchasing is a vital link in providing purchasing support to customer activities, an important relationship is created between small purchase

² FAR subpart 1.602-1(b).

personnel and the fleet and shore customers. The small purchase "shop" is an extension of the customer's supply department. This relationship results in a team of equally important players. Understanding one another in terms of missions and needs will not only aid in the requirements determination phase of the small purchase cycle, but will also improve the entire purchase process. Sharing information and developing open communications will accrue many benefits to both parties in this team effort.

E. COMMON PROBLEMS AND DISCREPANCIES

The following problems are those most frequently experienced by small purchase professionals:

1. Required Information on Purchase Requests

Buyers often encounter requisitions or other purchase requests that are deficient. Deficiencies include inadequate item descriptions, lack of authorization signatures or priority assignment, and incomplete delivery address information. Buyers and supervisors are sometimes not familiar with all elements of purchase request documents and may fail to recognize when a purchasing problem will be caused as a result of incomplete or inaccurate information.

2. Unauthorized Procurements

Procurement of certain types of material and/or services may be prohibited, may require higher authority approval, or may require appropriate justification. Procedures for readily identifying material or services which qualify as unauthorized procurements are frequently not established or effectively utilized by small purchase personnel.

3. Familiarization with Customer and Customer Requirements

Small purchase buyers are sometimes not familiar with the basic missions and functions of customer organizations, or with the characteristics of goods and services utilized by the customer. As a result, the purchase of critical material may be delayed or non-mission essential material may be purchased at a higher priority because purchasing personnel cannot determine if a requirement is extravagant, routine or mission essential.

4. Formal Screening Methods

The lack of effective document screening methods at the supervisory level sometimes forces buyers to spend a greater proportion of their time correcting purchase request documents or contacting customers to clarify purchase intentions. Little time remains for the buyer to work on his/her primary job: contacting vendors and placing orders for customers.

F. SUGGESTED SOLUTIONS

All activities have differing internal organizational structures with specific procedures designed to expedite document flow between departments. Buyers may find that purchase requests are screened by personnel from other departments before they are received in the small purchase area. For example, preliminary screening of any one particular portion of the document may be performed by Customer Services (document number), Financial (accounting data), and Technical (cross to stock number, provide additional technical information). Regardless of the path that the document takes within the larger organization, small purchase personnel are responsible for the bulk of the screening necessary to ensure that the document is correct and should be processed. Small purchase professionals should be able to develop a number of effective solutions to the problems previously discussed, bearing in mind that these solutions must be appropriately tailored to their specific activities and working environments. To stimulate thought, a discussion of possible solutions is offered below.

1. Required Information on Purchase Requests

Though the information on documents or from telephone calls may appear to vary in format, there is specific information which must be provided to purchase personnel regardless of chosen submission method. Most requests will follow the Military Standard Requisitioning and Issue Procedure (MILSTRIP) format which is based upon a coded, single-line item document for each supply transaction.

The DD Form 1348-6, for example, is used for MILSTRIP requisitioning. MILSTRIP procedures are designed to enable activities to requisition material available within the supply system; however, the codes are versatile enough to enable performance of open purchase procedures. A summary of the most significant

information, as well as a brief background as to its origin and importance, is presented below. Bear in mind that this information is needed to ensure that the buyer is able to identify and purchase the correct item, and that purchase orders can be prepared properly. A sample 1348-1 is provided as Figure 1-1.

The Form 1149 is also used to requisition non-standard open purchase items. Figure 1-2 provides an example.

a. Document Number

The document number is comprised of the customer's service designator code and Unit Identification Code (UIC), the Julian date of the requisition, and the serial number. For example, R52192 9033 3014 is a typical document number. The various components are as follows:

- The service designator code is a single character code that identifies a service or element of a service. The letters R, V, and N have been established to provide identification of naval requisitioning activities. The service designator code R is used by Pacific Fleet operating units, V by Atlantic Fleet operating units and N generally by shore activities.
- The Unit Identification Code (UIC) is a five-digit code assigned by the Navy Accounting and Finance Center to identify a specific Navy activity for supply and accounting purposes. Unit identification codes are listed in the Navy Comptroller Manual, Volume 2, Chapter 5.
- The Julian date indicates the date the requisition was transmitted to the supply source. The first position represents the last digit of the calendar year. The last three positions represent the numeric consecutive days of the calendar year. For example, 9001 represents 1 January 1989. The numeric consecutive days of the calendar year can easily be determined by referring to any government issue calendar.
- Serial numbers are assigned by individual activities based on specific material or service identification criteria. Buyers should be especially alert to the first position of the four-digit serial number. If a W or G is in this position, the requirement is considered of highest priority because it represents a Not Operationally Ready/Not Mission Capable-Supply (NORS/NMCS) requisition. A NORS requisition is any requisition submitted for a Casualty Report (CASREP) requirement. The capability of a ship to deploy or a plane to fly is threatened unless the requirement is filled as soon as possible.

b. Priority Assignment

An integral and vital part of MILSTRIP is the requirement to assign priorities under standards set forth in the Uniform Material Movement and Issue Priority System (UMMIPS). In the movement and issue of material, it is necessary to establish a common basis to determine the relative importance of competing demands for resources of the logistics systems such as transportation, warehousing, requisition processing, and material assets. The basis of expressing the military urgency of a requirement is the priority designator (PD), which ranges from 01 (highest) to 15 (lowest). The priority assigned to a requisition determines the time frame within which the requirement normally will be processed by the supply system. Not all activities are allowed to use all 15 of the priority designators. The priority assignment is determined by a combination of the requisitioner's assigned force activity designator and the applicable urgency of need designator, per paragraphs 3046, 3047, and 3048 of NAVSUP P-485.

c. Accounting Data

In some activities, purchase personnel may be responsible for screening documents to determine whether the accounting data is complete, current, and identifies the correct funds. Please refer to the accounting data and appropriation section of this training guide for detailed information and guidance.

d. Other Cost Considerations

The statement, "TOTAL COST NOT TO EXCEED \$ ___" may be conspicuously displayed on the document. This statement precludes the possibility that unexpected additional charges will be made to the customer's account if the buyer discovers that the cost will exceed the amount indicated on the purchase request. If this statement is not included on the purchase request, the buyer is not to exceed the price that the customer has indicated by more than 10%.

e. Authorization Signature

The purchase request must be signed by a responsible representative of the requisitioning activity, generally the Supply Officer. The purchase request must not be processed without this signature as it may result in the obligation of funds or purchase of material without proper command authority.

f. Description of Required Item

An adequate description of requested supplies and services must be provided so that the buyer and the supplier are able to understand exactly what is required. The request document must include sketches, drawings, specifications and/or samples of required items, if appropriate. A careful description of the requirement will facilitate competition as well as insure that the customer receives exactly what he/she believes is being ordered.

Quantity, price and extended price must be indicated on the document, and each line item must be identified by a separate requisition number. A point of contact and phone number from the customer activity must also be provided. This is essential to ensure that the buyer can contact a knowledgeable person from the activity to obtain additional information, if required.

g. Justification

In many cases, customers are required to justify the request for purchase of particular items. Common justification formats include those for sole source procurement, brand name or equal, and buy American.

Sole source items also require justification. If the requisition is for a sole source item over \$2,500, full justification for single source procurement must be provided. As a minimum, the requisition will contain the following information:

- The intended use of the material or services;
- The critical or unique characteristics of the material or services which are mandatory for the intended use;
- reasons why only the selected source can furnish the requirements to the exclusion of other sources.

Brand name or equal items also require special documentation. When adequate descriptions cannot be furnished in purchase requests, the item will be identified by brand name, or other identification of a representative manufacturer's product, followed by the words "or equal" so as not to limit competition to the particular brand name. In addition, the purchase request should state the essential requirements and specific features (salient characteristics) necessary to meet the minimum needs of the intended user.

The Buy American Act requires that only domestic end products be acquired for public use. There are several exceptions to this act in the FAR. It is important to be familiar with this act so that requests which are not exempted from the Buy American Act can be identified. These requests must be removed from the procurement cycle and carefully investigated to determine if any of the exceptions listed in the FAR might apply. If not, a domestic equivalent of the item probably must be procured. NAVSUPINST 4200.85, enclosure (2), chapter 1 provides a procedure for calculating the determining adjusted evaluation price of foreign products.

Other types of justifications include providing proof that the purchase of particular items has been approved by the appropriate office, bureau, or command; and that items requiring mandatory screening have been screened. These will be discussed in the in unauthorized procurement section of this module.

h. Delivery Dates

Required Delivery Dates (RDDs) on purchase requests reflect the date material is actually needed by the user and allow, insofar as possible, sufficient time for procurement action by the purchasing activity. If the numbers "999" appear in the RDD field, the buyer should be aware that these numbers are only used for critically needed "CASREP" requisitions requiring the most expeditious handling possible.

Delivery instructions should be clearly indicated on the purchase request. If MILSTRIP format is used, the interpretation of the supplementary address field and the signal code field becomes crucial:

- **Supplementary Address.** This field is used by the requisitioner to designate another activity by its unit identification code for such purposes as "Ship to" or "Bill to" if either shipment or billing is to other than the requisitioner.
- **Signal Code.** The signal code "J" indicates that the requisitioner will be billed, and "K" indicates that the supplementary address will be billed.

2. Unauthorized Procurements

Requests for prohibited material or for material which requires higher authority approval prior to purchase must be identified as quickly as possible in the

procurement cycle. The best opportunity to identify requests of this nature is during initial purchase request screening procedures.

To make a determination of a purchase request's legality, purchasing personnel must have access to a cumulative file and ready reference guide containing all known prohibited procurements and those procurements that are authorized subject to higher level approval, conditions, or limitations. This list, often known as the "don't buy" list, should be locally compiled from various sources. NAVSUPINST 4200.85, enclosure (3) provides one list of items that require special attention before a purchase is made. The inclusion of the various governing directives and references applicable to these items is also essential. The availability of this information facilitates additional internal investigation, and provides the customer with a reference if a purchase request is rejected.

Customers should also be provided with a copy of the "don't buy" list, as far as practicable. Sometimes requests for unauthorized procurements have been submitted and processed simply because no one knew any better. Extensive efforts to educate all parties concerned are essential.

3. Familiarization with Customer and Customer's Requirements

The first step in providing quality services to any customer is knowing the customer and the material and services that the customer considers important. This step is most relevant in the procurement environment: *the benefits that will accrue with this familiarization are substantial, both from quantity and quality standpoints.*

Knowing the answers to a few basic customer related questions is essential to truly understanding specific customers and their requirements.

- What is the customer's mission?
- What equipment is utilized in performing the mission?
- What equipment is critical to the mission?
- Who is the point of contact for purchase requests?

Such questions as those above will aid purchasing personnel in recognizing extravagant from mission-essential requests. Once a requisition is identified as mission essential, the buyer can avoid delay and rapidly resolve procurement problems which may have previously occurred.

Visiting the customer's work place and receiving briefings on the mission and equipment has proven to be an excellent way to take the first step towards becoming familiar with the customer. Visiting the customer's work place also spawns open communication and a close team relationship between purchasing and the customer.

Another effective method often used in addition to visiting the customer is hosting a "Vendor Day Fair." Vendors are invited to set up a display of their products on the base. Purchasing personnel and customers are invited to view the displays, exchange information, ask questions, and become familiar with the products. Purchasing personnel will then have the opportunity to discuss with vendors and customers any questions concerning the products and to gain an appreciation of the product, the supply perspective concerning essential products, and customer concerns.

The key to becoming familiar with customers and customer requirements is the exchange of information. Visiting the customer and arranging "Vendor Day Fairs" will contribute to this objective and increase the amount and quality of purchase actions handled.

4. Formal Screening Methods

A system of internal control and routing of purchase requests is necessary to adequately control the progress of requisitions, provide status information, and assign priority action to urgent requests. Routing systems vary depending on the type of activity involved, but common elements require that all purchase requests be date-time stamped and be preliminarily screened to ensure inclusion of the following:

- Authorization signature
- Accounting information
- Priority designator
- Clearances and approvals as required
- Attached specifications, drawings or blueprints

The checks listed above can be performed quickly by personnel not directly associated with small purchasing, such as customer services personnel. The document can then be routed to technical personnel to verify that the required item

cannot be crossed to a stock number, to check mandatory screening requirements, or to provide additional technical information so buyers can intelligently interpret the requirement.

Ideally, an intensive screen by a qualified individual in the purchasing department should take place before the document is assigned to a buyer. For system efficiency, the buyers must be free to work entirely on the mechanics of purchasing without being delayed by vague, confusing specifications or missing information. The purpose of the "pre-buyer" screen is to determine if:

1. The item falls within the small purchase dollar threshold;
2. Required justifications are provided;
3. The document contains all necessary information to enable the buyer to make the buy, and the purchase order to be typed;
4. The description of the required item is sufficient to enable the buyer and the suppliers to understand exactly what is required.

Action taken when any of the above deficiencies are identified varies in different commands. When specifications or purchase descriptions are not sufficient or adequate to enable requirements to be identified with certainty, the buyer should contact the customer immediately. Ideally, problems of this nature are identified before the requisition is accepted for processing. If not, the purchasing command is faced with the decision of whether to cancel the requisition or try to work with the customer to resolve deficiencies. The later decision may not always be the best answer because the ticking Procurement Administrative Lead Time (PALT) clock keeps ticking while the buyer and customer work out the requisition's difficulties. On the other hand, cancelled requisitions can eventually damage customer relations.

Local policy should be established to determine how, when and for what reasons purchase requests should be returned to customers for correction or rejection. Some commands feel a strong desire to provide as much customer service as possible and make an effort to contact the customer by phone or message to accomplish minor changes without delaying the document's progress through the system. Other commands have originated a check-off form which lists reasons for rejection, requests that the customer correct and resubmit the document, or informs the customer that the request cannot be processed due to the nonmission-essential nature of the requested items.

Regardless of the chosen range of acceptance or rejection possibilities, supervisors should be more active in establishing and maintaining screening systems at the supervisory level, in providing support for such actions as returning purchase requests for clarification or completion, in challenging sole source requests, and in denying procurement of unauthorized or extravagant items.

G. TRAINING MATERIAL AND RECOMMENDED GUIDES

Naval Supply Systems Command Instruction 4200.85 of 25 July 1989.

Defense Small Purchase Correspondence Course ALM 33-0017, United States Army Logistics Management College, Fort Lee, Virginia, October 1989.

H. SUMMARY

It is crucial to evaluate the customer's requirements and quickly determine the appropriate action immediately after receipt of the purchase request. This requires an accurate evaluation of the requirements description using well-developed procedures to determine if the purchase request is deficient. It is within the scope of small purchase professionals' responsibilities to dramatically improve requirements determination procedures within their particular working environments. Basic steps are to:

1. Provide buyers with detailed samples of request documents most commonly encountered at their particular activity;
2. Compile a comprehensive listing of unauthorized items and items commonly requested which are usually considered beyond mission need;
3. Arrange buyer meetings with major vendors and customers;
4. Establish formal screening mechanisms at the supervisory level to assist buyers with item descriptions, priorities, sole source requests and questionable items.

Though small purchase personnel are ultimately responsible for accurate requirements determination, a team effort is evident during the entire purchasing process. The "team" consists of customers, vendors, small purchase personnel, and relevant areas of the purchasing command working together to accomplish the important mission of procuring vital requirements for operating forces and support activities. Care must be taken to ensure that all team members work effectively together. Small purchase professionals are in an ideal position to contribute to this goal.

SAMPLE FORM DD 1348

A seven six part form used primarily in small purchase for:

- Requisitioning open purchase items
- Providing detailed description for identification and delivery of open purchase items

DOCUMENT IDENTIFIER							ROUTING IDENTIFIER							M & S	ITEM IDENTIFICATION* (NSN FSCM Part No Other)														UNIT OF ISSUE		QUANTITY					DOCUMENT NUMBER				
															FSCM							PART NUMBER														REQUISITIONER				
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35						
A	Ø	E	N	D	Z	S																E	A	Ø	Ø	Ø	Ø	1	R	5	2	1	9	2						
DOCUMENT NO (Cont)							DATE	SERIAL	D E M A N D	S E R I A L	SUPPLEMENTARY ADDRESS	S I G N A L	FUND CODE	DISTRIBUTION CODE	PROJECT CODE	PRIORITY	REQUIRED DELIVERY DAY OF YEAR	ADVICE CODE	BLANK																					
36	37	38	39	40	41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	68	69							
9	0	3	3	3	0	1	4	R	Y	N	E	B	1	3	A	N	R																							
										REJECT CODE (FOR USE BY SUPPLY SOURCE ONLY)	IDENTIFICATION DATA																													
										65	66	*1 MANUFACTURER'S CODE AND PART NO (When they exceed card columns 8 thru 22) Ø5Ø73 N3-12291-P104																												
										1	5	Ø	Ø	*2 MANUFACTURER'S NAME BABCOCK & WILCOX CO., NEW YORK, NY																										
3 MANUFACTURER'S CATALOG IDENTIFICATION										4 DATE (YYMMDD)										5 TECHNICAL ORDER NUMBER																				
6 TECHNICAL MANUAL NUMBER NAVY TECH MANUAL 351-ØØ48										7 NAME OF ITEM REQUESTED ELEMENT S007 BLOWER UNIT A																														
8 DESCRIPTION OF ITEM REQUESTED										8a COLOR										8b SIZE																				
9 END ITEM APPLICATION BABCOCK & WILCOX CO., NY, NY, BOILER, STEAM MN, 634 PSI, 4617 CUFT, 1393 TB										9a SOURCE OF SUPPLY										9c SERIAL NUMBER																				
9b MAKE										9d MODEL NUMBER										9e SERIAL NUMBER																				
10 REQUISITIONER (Clear text name and address) USS JOHN PAUL JONES (DDG-32) FPO SAN FRANCISCO CA 96601 1791804.702D/000/53824/0/060957/2D/R52/92/0090333014NR										11 REMARKS PROVIDE ANY ADDITIONAL SPEC DATA AVAILABLE																														

FOLD LINE

FOLD LINE

DD Form 1348-6, FEB 85 Edition of Apr 77 may be used until exhausted. S/N 0102-LF-013-2273 **DOD SINGLE LINE ITEM REQUISITION SYSTEM DOCUMENT (MANUAL - LONG FORM)**

Figure 1-1

SHIPPING CONTAINER TALLY → 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33 34 35 36 37 38 39 40 41 42 43 44 45 46 47 48 49 50

REQUISITION AND INVOICE/SHIPPING DOCUMENT

1 FROM: RS2192 USS JOHN PAUL JONES (DDG-32)
 2 TO: N000244 NSC SAN DIEGO, CA

3 SHIP TO - MARK FOR: SUPPLY OFFICER
 USS JOHN PAUL JONES (DDG-32)
 FPO SAN FRANCISCO, CA

4 APPROPRIATION AND SUBHEAD: 1791804.702D
 OBJ CL: 000
 BUL. CONT NO: 53824
 SUBAL. LOT: B

5 AUTHORITY OF PURPOSE: N000244 NSC SAN DIEGO, CA

6 REQUISITION DATE: 10 FEB 1989
 7 DATE MATERIAL REQUIRED: 13

8 REQUISITION NUMBER: R52192-9041-2067
 9 PRIORITY: 13

10 SIGNATURE: _____
 11 VOUCHER NUMBER AND DATE: _____

12 DATE SHIPPED: _____

13 MODE OF SHIPMENT: _____

14 BILL OF LADING NUMBER: _____

15 AIR MOVEMENT DESIGNATOR OR PORT REFERENCE NO: _____

PROPERTY ACCTG. THY	COUN. THY	COST CODE	AMOUNT
R52192		0090410067NU	SEE BELOW

ITEM NO (e)	FEDERAL STOCK NUMBER, DESCRIPTION AND CODING OF MATERIAL AND/OR SERVICES (h)	QUANTITY REGULATED (d)	SUPPLY ACTION (f)	TYPE CODE (j)	UNIT PRICE (h)	TOTAL COST (i)
	SERVICES AND MATERIALS FOR REPAIR OF:					
3001	MARCHANT CALCULATORS, Ser. Nos. 441067, 441255	1				\$ 60.00
3002	FRIDEN ADDING MACHINE, Ser. No. 56432	1				40.00
3003	IBM ELECTRIC TYPEWRITERS, Ser. Nos. 14-667471, 15-667441	1				60.00
3004	REMINGTON ELECTRIC TYPEWRITER, Ser. No. 14-336601	1				40.00
TOTAL COST NOT TO EXCEED \$200.00						

16 TRANSPORTATION AND STORAGE COSTS CHARGEABLE TO: _____

17 SPECIAL MARKING: _____

18 REUSED BY: _____
 19 CHECKED BY: _____
 20 PICKED BY: _____

21 TOTAL CONTAINER: _____
 22 TOTAL WEIGHT: _____
 23 TOTAL CUBIC FEET: _____

24 RECEIVED BY: _____
 25 DATE: _____

26 RECEIVED BY: _____
 27 DATE: _____

28 RECEIVED BY: _____
 29 DATE: _____

30 SHEET TOTAL: _____
 31 GRAND TOTAL: _____
 32 RECEIVER'S VOUCHER NO: _____

DD FORM 1 MAR 59 1149 (9 PT) 51 52 53 54 55 56 57 58 59 60 61 62 63 64 65 66 67 68 69 70 71 72 73 74 75 76 77 78 79 80 81 82 83 84 85 86 87 88 89 90 91 92 93 94 95 96 97 98 99 100

REPLACES EDITION OF 1 MAY 58 WHICH MAY BE USED

S/N 0102-LF-011-1801

ORIGINAL

Figure 1-2

SAMPLE FORM DD 1149

II. OPTIMAL PURCHASE METHODS

A. SUBJECT AREA

Buyers face a constant challenge in selecting the optimal procurement method for a given situation. However, they often lack the necessary understanding or knowledge to make the optimal selection of BPA, imprest fund, purchase order or delivery order. As a result, the purchase method often does not fit the buy and thus ends up costing the Navy more than it should. These extra expenses are reflected not only in the actual purchase price, but also in administrative costs.

This module will address the various small purchase methods and tools available to the small purchase buyer. These are blanket purchase agreement, imprest funds, purchase orders, and delivery orders. The module discuss applicable regulations, rationale and reasons for policies and procedures, common problems, and suggested solutions.

The primary goal of this training guide is to help the buyer determine which procurement method is best for a given situation. This requires consideration of each of the following:

- The customer's needs,
- Price reasonableness,
- Procurement administrative costs and processing time,
- The dollar amount or complexity of the material or service requested,
- Current rules and regulations.

B. DEFINITIONS

The definitions and interpretations of the following terms are provided to ensure a common frame of reference when discussing optimal purchase methods.

1. **Blanket Purchase Agreement (BPA):** An agreement between buyer and seller which provides a simple method of filling future repetitive needs for supplies and services through the use of low administrative involvement, such as placing orders by telephone. BPAs are often referred to as "charge accounts" established with qualified sources of supply. Orders are placed against the BPA as needs arise and payment is made on a periodic basis for all orders placed and received during the period.
2. **Contracting Officer:** A person with the authority to enter into, administer, or terminate contracts and make related determinations and findings.
3. **Delivery Order:** An order for supplies placed against an established contract or with Government sources of supply.
4. **Imprest Fund:** A cash account of a fixed amount which is established in advance, without charge to an appropriation, for disbursement as needed in making payment in cash for small dollar amount purchases.
5. **Purchase Order:** A document signed by a Contracting Officer and addressed to a supplier requesting the future delivery of supplies, or the future performance of non-personal services, under the terms of the purchase order and in exchange for a promise by the Government to pay the price stated in the purchase order in the event of such delivery or performance.
6. **Purchase Request:** A document or other notification by which the using/requiring activity makes its purchase requirements known to the Contracting Officer. A purchase request must be prepared and approved before the Contracting Officer initiates purchase action.
7. **Requisition:** The document submitted to a supply source to obtain material. Requisitions may be transmitted by message, telephone, or radio when time is of the essence.
8. **Small Purchase:** The acquisition of supplies, non-personal services, and construction for \$25,000 or less using small purchase procedures.
9. **Small Purchase Procedures:** The methods prescribed for making small purchases using imprest funds, purchase orders, blanket purchase agreements, etc.

C. GOVERNING RULES AND REGULATIONS

The following regulations were used for assembling this module:

1. Small Purchase Procedures

<u>Reference</u>	<u>Subject</u>
a. FAR 13.101	Definitions
b. FAR 13.102	Purpose
c. FAR 13.104 DFARS 213.104	Procedures
d. FAR 13.105	Small Business and Small Purchase Set Aside
e. FAR 13.106 DFARS 213.106	Competition and Price Reasonableness
f. NAVSUPINST 4200.85 25 July 1989	Naval Supply Systems Command's Policies and Procedures

2. Blanket Purchase Agreements

<u>Reference</u>	<u>Subject</u>
a. FAR 13.201	Defined, General
b. FAR 13.203-1	Establishment
c. DFARS 213.204	Purchase
d. NAVSUPINST 4200.85 25 July 1989	Naval Supply Systems Command's Policies and Procedures

3. Imprest Funds

<u>Reference</u>	<u>Subject</u>
a. FAR 13.401	Definition
b. FAR 13.402 DFARS 213.402	General
c. FAR 13.404 DFARS 213.404	Conditions for Use
d. FAR 13.405 DFARS 213.405	Procedures
e. NAVSUPINST 4200.85 25 July 1989	Naval Supply Systems Command's Policies and Procedures

4. Purchase Orders

<u>Reference</u>	<u>Subject</u>
a. FAR 13.501	General
b. FAR 13.502 DFARS 213.502	Unpriced
c. FAR 13.505 DFARS 213.505	Forms
d. FAR 13.505-3	Std Form 44
e. FAR 13.506	Telecommunication
f. NAVSUPINST 4200.85 25 July 1989	Naval Supply Systems Command's Policies and Procedures

5. Indefinite Delivery

<u>Reference</u>	<u>Subject</u>
a. FAR 16.501 DFARS 216.501	General
b. FAR 16.502 DFARS 216.502	Definite Quantity
c. FAR 16.503 DFARS 216.503	Requirements
d. FAR 16.504	Indefinite Quantity
e. NAVSUPINST 4200.85 25 July 1989	Naval Supply Systems Command's Policies and Procedures

6. Federal Supply Schedules

<u>Reference</u>	<u>Subject</u>
a. FAR 8.001	Priorities for Use of Gov't Sources
b. FAR 8.002 DFARS 208.002	Use of Other Gov't Sources
c. FAR 8.403-1 FAR 38.102	Types of Schedules
d. FAR 8.404 FAR 38.101	Schedule Use
e. FAR 8.404-1 DFARS 208.404-1	Mandatory Use
f. DFARS 208.404-2	Optional Use
g. FAR 8.404-3 DFARS 208.404-3	Request for Waiver

h.	FAR 8.405 NAPS 8.7002	Ordering Office's Responsibility
i.	DFARS 208.404-70	List of Mandatory Supply Schedules
j.	FAR 8.405-1 DFARS 208.405-1	Multiple Schedules
k.	FAR 8.405-2 DFARS 208.405-2	Order Placement
l.	FAR 8.406	BPA (in lieu of FSS)
m.	DFARS 208.470-1	Applicability (GSA)
n.	DFARS 208.470-2	Procurement from GSA
o.	DFARS 208.470-6	Mandatory Sources for Maintenance, Repair, Rehabilitation, and Reclamation of Personal Property
p.	DFARS 208.470-8	FSS, Order for Services
q.	NAPS	Navy Acquisition Procurement Supplement
r.	NAVSUPINST 4200.85 25 July 1989	Naval Supply Systems Command's Policies and Procedures

D. RATIONALE AND REASONS FOR POLICIES AND PROCEDURES

The Federal Acquisition Regulations states:

Contracting Officers shall use the small purchase procedure that is most suitable, efficient and economical in the circumstances of each acquisition.³

In order for the professional Government purchasing agent to choose the optimal small purchase method for a given acquisition, he or she must be aware of more than just the different methods available.

³ Federal Acquisition Regulations subpart 13.104.

This section will examine each purchase method individually and will provide information about each method that should enable the buyer to make a rational and analytic choice among the methods. Specifically examined will be the:

- Basic objectives of each method.
- Conditions appropriate to each.
- Relative economies of time and effort.
- Relative protection offered the Government the vendor.
- Peculiar documentation.
- Provisions that either promote or inhibit future flexibility.

The first step for the small purchase buyer in selecting the optimal method is to determine where the item or service may be available: this step may in fact determine the purchase method used. Requirements should be satisfied from the following sources, in order of priority:

Material:

1. Agency inventories
2. Excess from other agencies
3. Federal Prison Industries, Inc.
4. Procurement lists of products available from the Committee for Purchase from the Blind and Other Severely Handicapped
5. Wholesale supply sources such as stock programs of the General Services Administration, Defense Logistics Agency, Veterans Administration and military inventory control points
6. Mandatory Federal Supply Schedules
7. Optional use of Federal Supply Schedules, and
8. Commercial sources (including educational and non-profit institutions).

Services:

1. Procurement lists of services available from the Committee for Purchase from the Blind and Other Severely Handicapped
2. Mandatory Federal Supply Schedules and mandatory General Services Administration term contracts for personal property rehabilitation
3. Optional use of Federal Supply Schedules when not mandatory
4. Federal Prison Industries, Inc. or other commercial sources

In addition, the following supplies or services must be purchased from mandatory specified sources:

1. Jewel bearings and related items
2. Public utility services
3. Printing and related supplies
4. Automatic data processing and telecommunications acquisitions
5. Leased motor vehicles
6. Strategic and critical materials from excess General Services Administration inventories
7. Helium

This discussion assumes that the supplies or services are not available through the agency's inventories, General Services Administration, Federal Prison Industries, Inc., Blind or Other Severely Handicapped, Defense Logistics Agency, or the military inventory control points.

1. **Blanket Purchase Agreement**

The Blanket Purchase Agreement is an extremely valuable tool of the small purchase buyer. It is a simplified method of filling repetitive requirements for

goods or services by setting up "charge accounts" with various vendors who have been qualified and agree to conduct business under the terms specified in the BPA contract.

The goal or objective of the BPA is to bring the administrative price of buying the item into line with the price of the item and the complexity of the specifications of the transaction. Many times the processing or administrative costs associated with getting the material or service to the user is higher than the price of the item. Often this will be the case regardless of the method of purchase used, but we must try to bring the cost of buying down to at least a reasonable level if possible. In many cases, the use of the BPA is the correct method to employ.

The BPA is appropriate for practically all purchases of \$25,000 or less. BPA calls for subsistence items are not limited in dollar value. One point to remember is that just because an item is on a Federal Supply Schedule doesn't mean that it will not be available through a BPA. Many of those contractors are in fact qualified vendors and are listed under current BPAs.

Among the various small purchase methods, the BPA is one of the most efficient from both a buyer and a customer standpoint. From the buyer's view, reduced processing time equates to reduced administrative costs and Procurement Administrative Lead-Time (PALT) and also increased buyer productivity. The customer quickly receives his/her required material.

Since BPAs are most often confirmed orally, the Government must ensure that some safeguards are in place. For example, each supplier currently listed on a BPA is required to have a list of names of those individuals who are authorized to place orders under that BPA. In addition, a dollar limitation is set for each of these authorized individuals. If it is necessary to communicate with the supplier in writing, the buyer should prepare a purchase order (DD Form 1155) for that particular transaction.

The Government also stipulates that the price quoted by the vendor is guaranteed to be his lowest price offered to any customer for comparable quantities and conditions in addition to any discounts. The vendor can sell a good or service to the Government at a lower price than to other buyers, however he cannot quote a price which is higher.

As a further protection against fraud, the vendor must provide a delivery ticket for all shipments except subscriptions for periodicals. These sales slips must contain as a minimum the vendor's name, BPA number, date of purchase, call or purchase number, and an itemized list of items or services provided. The invoices must be

priced and extended with applicable discounts. If unit prices and extensions are not compatible with automated systems, they may be omitted.

The BPA, if correctly used and maintained, allows for great flexibility in promoting new sources of supply and increasing competition. It does not limit the buyer to particular vendors as do delivery orders but it opens up the door to vendors who may initially have avoided dealing with the Government because of all the extra paperwork and slow payment. BPAs are as helpful to the vendor as they are to the buyer for the same reasons.

Because of the ease of use, the buyer must be constantly aware of the pitfalls associated with BPAs. BPAs are not meant to circumvent small purchase limitations nor are they a justification for sole source. Small purchase procedures must be strictly adhered to, mandatory schedules must be used if in effect, and competition must still be solicited. The buyer should ensure that vendors are rotated equitably and that small business and small purchase set asides are handled in accordance with regulations. The best advice of all is to ensure good business sense in applying BPAs. They are one of the most useful and productive tools available to the buyer as long as they aren't abused.

2. Purchase Orders

Purchase orders should be used to contract for goods and services when the:

- Award exceeds dollar limitations of BPAs and imprest funds
- Final price is not yet determined
- Buyer wants to ensure that the vendor has written record of what is being purchased
- A change to the order is a possibility
- Additional clauses are required to properly execute the purchase

Because of their many uses, purchase orders are widely used. The dollar limitation on purchase orders is not set as with BPAs and imprest funds, therefore the buyer can obligate up to the purchase authority using this document. Purchase orders can be either priced or unpriced depending on the situation. Ideally, all requirements should be priced before releasing an order for a good or service.

However, if unavoidable, the unpriced purchase order may be required. An unpriced purchase order is appropriate when a final price is not known until equipment is torn down and the repair parts are identified. Another suitable use of an unpriced order is when the total extent of a job cannot be fully determined.

Probably the most flexible feature of a purchase order is the ability to make changes and/or modifications without rewriting the complete order. The vendor does not have to be notified of a change if the change is of minor or administrative nature such as changing the paying activity or appropriation data. Other unilateral changes require the contractor's confirmation but not necessarily written acceptance. Modifications which are outside of the scope of the contract require written acceptance by the contractor.

Of the various small purchase tools available, the purchase order should be used only if either no other small purchase or expedited procedure method can be used or it might otherwise be inappropriate. Purchase orders require some additional clerical effort. This effort includes distributing copies and ensuring payment is made in a timely manner, taking advantage of discounts and avoiding interest expenses for late payment. Fortunately, Automation of Procurement and Accounting Data Entry (APADE) has greatly reduced this administrative burden.

The purchase order is unquestionably the safest small purchase method available. The item or service requested is fully identified in writing and, if the price is known, fully priced. In the case of unpriced purchase orders, the unit price must be realistically estimated and reviewed upon receipt of the invoice.

The buyer should be familiar with the relatively few documents in using purchase orders. The three basic documents that are used are the DD Form 1155 and its ancillary forms, Standard Form 44 (Purchase Order-Invoice-Voucher), and Standard Form 30 (Amendment of Solicitation/Modification of Contract).

The DD Form 1155 can be used for any good or service purchased up to the small purchase limitation of \$25,000. The Standard Form 44 can be used if the dollar amount does not exceed \$2,500. Standard Form 30 must be used with any change to a contract and must be filed with the purchase order. Local forms are not authorized to replace the Standard Form 30.

3. Imprest fund

The objective of the imprest fund is to provide cash payment at the time of purchase for inexpensive items or services. This eliminates administrative processing time and costs, ensuring prompt receipt of the items or services.

Imprest funds may be used when:

- The transaction does not exceed \$500 with estimated monthly payments of \$10,000 or less. On ships with Supply Corps Officers, the amount will not exceed \$1,000 (ships without a Supply Corps Officer must not exceed \$500).
- Use of the imprest fund is considered to be advantageous to the Government.
- The supplies or services are available within sixty days whether at the supplier's place of business or at destination.
- The purchase does not require detailed or technical specifications.
- For charges for local delivery, parcel post (including C.O.D. postal charges) and inter-city transportation charges provided the charges are determined to be reasonable and acceptance is in the best interest of the Government.

Imprest fund orders may be placed orally and without competition as long as prices are considered fair and reasonable. Orders shall be equitably distributed among qualified suppliers.

The favorable attributes of using the imprest fund are often overlooked when selecting a small purchase method. Some suppliers are reluctant to provide supplies or services to the Government citing delays in payment. The imprest fund guarantees the supplier immediate payment and administrative savings in the form of reduced accounts receivable. From the purchasing agent's perspective, the imprest fund facilitates transactions quickly and efficiently, thereby enhancing responsiveness with both the customers and suppliers. The imprest fund also allows the buyer increased flexibility with the ability to provide business with more firms than those on blanket purchase agreements, and indefinite delivery type contracts.

4. Delivery Orders

Delivery orders allow the purchasing agent to utilize existing contracts established by the General Services Administration and other contracting agencies or activities to satisfy purchasing requirements. The overriding objective and advantage of delivery orders is that in this era of scarce resources (particularly funding), delivery orders provide savings to the Government by permitting a minimum level of stock to be Government owned and maintained and a method of

direct shipment to the user. Delivery orders are particularly useful to purchasing agents by providing a readily available supply of sources, prices and delivery terms.

Definite Quantity Contracts provide for delivery of a definite quantity of specific supplies or services (as its name implies) for a fixed time period. Deliveries are scheduled at designated locations upon placement of the order. Its applicability may be limited, but should be considered if the required item or service is covered by this type of contract.

Requirements Contracts provide for filling all purchase requirements of designated Government activities for specific supplies or services during a fixed time period, with deliveries to be scheduled by placing orders with the contractor. This type of contract is applicable when the precise quantities of commercial supplies or services that will be required for a specific time period cannot be determined, but there will be recurring demand. Funds are obligated by each delivery order.

In addition to the advantages stated earlier, requirements contracts permit flexibility in both quantities and delivery scheduling and for ordering supplies or services after the requirements materialize. Requirements contracts may permit faster deliveries when production lead time is involved. This is because contractors are required to respond under the contract terms. The terms may require maintenance of shelf stocks, knowing that the Government will obtain all purchase requirements from the contractor. Purchasing agents should be aware of all requirements contracts covering their activity as they may take procurement precedence.

Indefinite Quantity Contracts provides for delivery of an indefinite quantity, within a stated minimum and maximum, of specific supplies or services to be furnished during a fixed time period. Deliveries are scheduled when placing orders with the contractor. Funds for other than the minimum quantity are obligated by each delivery order. Indefinite quantity contracts also permit flexibility in both quantities and delivery scheduling and for ordering of supplies or services after the requirements materialize. This type of contract also limits the Government's obligation to the minimum quantity specified in the contract. The indefinite quantity contract is distinguished from the requirements contract, as several indefinite quantity contracts may exist with different contractors for the same supply or service. The requirements contract stipulates the designated activities will buy all of their requirements for the specific supplies or services from the one contractor.

Delivery orders are most commonly encountered when using the Federal Supply Schedules. The FSC program provides federal agencies with a simplified process of acquiring commonly used supplies or services in varying quantities at lower prices while obtaining discounts associated with volume buying. Publications

containing ordering information are issued by each schedule's contracting office. Each schedule identifies specific agencies in definite geographical areas that are required to use the schedule contracts as a primary source of supply. The DOD FAR Supplement (208.404-70) also lists mandatory schedules. If the customer is located within a geographical area of coverage, the schedule contract must be used, unless an exception applies.

Exceptions to the mandatory use requirement pertain when the:

- Delivery time stated in the schedule is too long to meet the customer's requirements.
- Requirement is below the quantity or price minimum stated in the schedule.
- Requirement is above the quantity or price maximum stated in the schedule.
- Customer is located outside the geographic area of coverage.
- Another source offers an identical product (make and model) at a price lower than that listed in a multiple-award schedule.
- Schedule contract expires before renewal.

When using the schedules, the ordering office performs the following: issues orders directly to the contractor, receives shipment, pays the contractor, and administers the order.

There are three types of schedules:

1. Single-award
2. Multiple-award
3. New-item introductory

The single-award schedule lists contracts made with one supplier at a stated price for delivery to the geographic area stated in the schedule. If the schedule is mandatory, the single-award schedule is to be the primary source of supply.

The multiple-award schedule is based upon negotiated contracts established with more than one contractor for delivery of comparable supplies or services at

varying prices for delivery within the same geographical areas. The contractors are required to prepare and distribute catalogs and price lists to be used in preparing orders. Orders should be placed with the contractor offering the lowest price, or when two or more items at the same price offered by different contractors, preference should be given to the small business and/or labor surplus area contractor.

The New Item Introductory Schedule (NIIS) is used to introduce new or improved products into the Federal Supply Schedule program. The NIIS is published quarterly. The user must request catalogs and price lists from the contractors who are required to provide them upon request.

Orders are to be made from FSC contracts using the Optional Form 347 or other agency approved form.

The delivery order is probably the most under used tool of small purchase. Even when not a mandatory source, they can be a valuable tool. They offer pricing as if procuring in volume with its attendant terms and provisions. Catalogs and price lists are readily available for price analysis. Other advantages were discussed earlier. Disadvantages include more effort in administering the orders and the quantity and/or total price limitations stated in the contract, which may inhibit flexibility.

One special category of delivery orders to keep in mind is centralized blanket delivery orders under which contractors grant quantity discount prices based upon Navy-wide orders. Individual activities under the Navy Field Contracting System issue suborders against these blanket delivery orders which are issued by Naval Regional Contracting Center (NRCC) Philadelphia. The DD Form 1155 is used as the suborder document. All the attributes of the other delivery orders are present with blanket delivery orders.

E. COMMON PROBLEMS AND DISCREPANCIES

A recent review of several small purchase activities revealed three problems which were prevalent among most of those small purchase organizations examined.

Those problems are:

1. Small purchase buyers choose purchasing methods which are not the most economical for a particular transaction.

2. Activities tend to under utilize both BPAs and imprest funds.
3. Small purchase buyers are not always cognizant of the variety of methods, forms, and thresholds applicable to small purchase.

The first problem gets to the heart of what the small purchase procedure is all about -- making purchases for goods and services as quickly as possible using the most proper and economical method available for the buy. The prime reason for problem one is delineated in problem two. As a result of not using BPAs and imprest funds more fully, procurement administrative costs are higher. The underlying cause of this problem is that small purchase buyers are not always aware of the tools available to them and therefore make inappropriate choices of purchase methods. Hopefully, this module, along the other modules in this training program, will enable the buyer to make the correct judgments based upon sound "business sense."

F. SUGGESTED SOLUTIONS

Suggested training begins with a review of the basic considerations in choosing a purchasing method. Such a review should include discussion of the relative economies of time and effort, the protection offered both the Government and the vendor, the peculiar documentation, and provisions promoting or denying future flexibility.

Activities may develop, perhaps in matrix form, a decision table to describe the conditions appropriate to each available method of purchase. Table 2-1 is provided below to provide a relative comparison of the purchase methods.

Table 2-1

SMALL PURCHASE ORDER MATRIX

	BPA	IMPREST FUND	PURCHASE ORDER	DELIVERY ORDER
ADMIN COSTS:	LOW	LOW	HIGH*	MED
TIME TO PROCES:	LOW	LOW	HIGH*	MED-HIGH
DOLLAR THRES- HOLDS:	\$25,000	\$500	UP TO PURCHASE AUTHORITY	UP TO PURCHASE AUTHORITY
GOV'T PROTECTION:	MED	LOW	HIGH	MED-HIGH
QTY DISCOUNTS:	LOW	LOW	LOW	HIGH
PROMOTES COMPETITION:	HIGH	LOW	HIGH	HIGH
PALT & DELIVERY LEAD TIME:	LOW	LOW	MED-HIGH	LOW-MED

* APADE greatly reduces, essentially equalling a BPA.

Further, the research in this area contends that the activities should attempt to establish ratios of methods appropriate to the experience of the activity, and to monitor performance against those ratios. Finally, buyers have indicated a need for regular exposure to current references and to examples of current documentation.

G. TRAINING MATERIAL AND RECOMMENDED GUIDES

Naval Supply Systems Command Instruction 4200.85 of 25 July 1989.

Defense Small Purchase Correspondence Course ALM 33-0017, United States Army Logistics Management College, Fort Lee, Virginia, October 1989.

H. SUMMARY

The buyer has various small purchase methods and tools available for satisfying the customer's requirement. The importance of making the optional choice of these purchase interments can not be over-stressed because of the total impact on the purchase process. Substantial administrative and other cost implications result from using inappropriate small purchase methods. It is therefore essential to understand the correct uses, advantages and disadvantages of available purchase methods, selecting the purchase method which best fits the transaction's characteristics. Always use the small purchase procedure that is most suitable, efficient and economical for the circumstances of each acquisition. Consistently making the proper choice increases productivity and enhances professionalism.

III. BLANKET PURCHASE AGREEMENTS

A. SUBJECT AREA

The material in this module will address practices associated with blanket purchase agreements, regulations associated with these agreements, reasons for existing policy and procedures concerning BPAs, and common problems associated with their implementation and use. The primary purpose is to gain a better understanding of the nature of BPAs and potential pitfalls faced by all small purchase professionals. This is not an attempt to teach experienced buyers the nuts and bolts of BPA documentation or procedure. The training material is designed on a level which assumes a basic background and professional experience as a small purchase buyer.

As an experienced small purchase professional, the usefulness of BPAs has undoubtedly been seen first hand. In a non-automated purchase environment, correct handling of BPAs can considerably simplify the purchasing process under a wide variety of circumstances. This guide will later explain how BPAs are relatively less valuable in an automated purchase organization using Automation of Procurement and Data Entry (APADE). Lack of attention, however, can rob a buyer of much of a BPAs utility in either an automated or manual purchasing structure. For this reason, material in this module will concentrate on possible areas for improvement in administration of BPAs. It is hoped that by stimulating constructive self-evaluation, and by offering simple recommendations, the materials will:

- Reduce the number of BPA-related discrepancies reported in Procurement Management Reviews (PMRs) and other audits or evaluations
- Improve the level of service that small purchase professionals can provide
- Reduce the inconvenience and inefficiency associated with error detection and correction
- Enhance self-confidence and evaluated professional performance of the buyer in the area of BPAs
- Allow buyers to obtain maximum benefit from savings in time and effort afforded by BPAs, thereby allowing concentration on other essential tasks

B. DEFINITIONS

The definitions and interpretations of the following terms, which will be used throughout the material, are provided to ensure a common frame of reference when discussing BPAs:

1. **Adequacy of Terms:** Whether or not the terms and conditions specified in a BPA are in the best interests of the Government and contractor or vendor. Conditions change over time, so the buyer must regularly evaluate adequacy of terms to protect the Government.
2. **Administration of BPAs:** All actions taken by small purchase personnel to maintain, review, and use active BPAs. Establishment and disestablishment of BPAs will often be included under the heading of administration also.
3. **Administrative Costs:** All costs associated with translating a purchase request into goods or services to satisfy the need. Essentially, this consists of all the time and materials expended by the small purchase buyer over the life of the action.
4. **Agreement:** A written document which expresses an understanding reached between the Government and a contractor regarding possible future contracts. The agreement is not a contract itself and does not provide that any contracts will actually materialize. Its primary purpose is to identify terms and clauses to be part of any future contract.
5. **Blanket Purchase Agreement:** An agreement which provides a simple method of filling future repetitive needs for supplies and services. BPAs are often referred to as "charge accounts" established with qualified sources of supply. Orders are placed against the BPA as needs arise, and payment is made on a periodic basis for all orders placed during the period.
6. **Call:** An order placed under terms and conditions of an existing BPA. Such an order is really an offer by the Government to purchase, and becomes a binding contract when accepted by the contractor or vendor.
7. **Competition:** The process of allowing prospective vendors or contractors to contend against one another to determine which can most satisfactorily meet some objective requirement. Government policy establishes this as the preferred method to meet Government and social interests.

8. **Documentation:** All written records associated with an individual BPA throughout its life. This would include copies of the BPA with all included clauses, purchase requests that have been satisfied through the BPA, records of all written or oral quotations and bids, sole source justifications, copies of actual orders, records of any contacts with the vendor, copies of invoices where applicable, and records of any other buyer action related to the BPA. If any matter relates to a BPA, it should be enclosed as part of the documentation package.
9. **Equal Vendor Opportunity:** A condition resulting from each vendor or contractor, in the long run, having the same number of chances to receive orders as any other vendor or contractor. Equal opportunity does not mean that each vendor will experience the same success rate.
10. **Mandatory Sources of Supply:** Those sources from which a buyer must, by regulation, obtain goods and services if they are available (eg. supply system and Federal Supply Schedules). Both Government and non-Government sources may be classified as mandatory, such as Federal Supply Schedules, and there is a specified order in which they must be approached.
11. **Required Clauses:** Those clauses required by regulation to be included in a particular BPA. It is important to note that some clauses must be in all BPAs, while others must be used only under certain circumstances. Further, clauses required by the Federal Acquisition Regulation (FAR) may be supplemented, but not replaced, by other clauses specified by various levels in the chain of command. These clauses are addressed in sections which follow.
12. **Review:** The process of examining, on a regular basis, the BPA itself, calls placed, and procedures employed on a day-to-day basis. Such an examination must be objective and designed to improve the buying process.
13. **Rotation:** The practice of regularly and systematically changing contractors or vendors who receive calls or are asked to submit quotations or bids. Proper rotation implies that all qualified sources have an opportunity to do business.

C. GOVERNING RULES AND REGULATIONS

The following regulations relate to BPAs:

<u>Reference</u>	<u>Subject</u>
1. FAR 13.201	BPAs, General
2. FAR 13.203	Establishment of BPAs
3. FAR 13.204 DFARS 213.204	Purchases Under BPAs
4. FAR 13.205	Review Procedures
5. FAR 13.206	Completion of BPAs
6. FAR 52	Clauses
7. FAR 4.8 DFARS 204.8	Documentation
8. DFARS 204.7004-4	Numbering
9. FAR 13.106	Competition and Price Reasonableness
10. FAR 13.107	Solicitation and Evaluation of Quotations
11. FAR 13.105	Small Business-Small Purchase Set Asides
12. FAR 5.1	Dissemination of Information
13. FAR 5.2	Synopses of Proposed Contracts
14. FAR 8	Required Sources of Supply
15. FAR 22 NAPS 22	Applicability of Labor Laws
16. NAVSUPINST 4200.85	NAVSUP policy and procedures

D. RATIONALE AND REASONS FOR POLICIES AND PROCEDURES

The small purchase organization is a hectic arena, characterized by a seemingly endless stream of purchase requests and required actions. The buyer's time and efforts are the price that the Government pays to accomplish this essential task: a price that can be measured in dollars as well as in office activity. For a large percentage of these requirements, time and efforts are greater than the worth of items procured. Reduction of these administrative costs is the purpose of the BPA. The preparation of individual purchase orders is replaced by simple call procedures. Invoices may be processed in a batch rather than one at a time. The vendor realizes similar savings in administrative costs through simplification of his/her paper work procedures. The BPA, then, serves to reduce time and effort, and hence cost, of routine and repetitive orders to a single vendor.

Once a BPA is established with a qualified vendor, the Government has opened the door for possible future contractual relationships with that vendor. How does the professional small purchase buyer, as a representative of the Government, ensure that prices will be reasonable and quality acceptable? Common sense and Government policy indicate that competition will accomplish both goals. In order to compete for individual orders, multiple BPAs must be in effect for the same types of items. This is the reason that buyers are required to seek out and establish BPAs with several qualified vendors in each commodity group.

All BPA agreements are to be issued as bi-lateral two-party signature documents (per NAVSUP). BPAs should be established with contractors from which numerous individual purchases will likely be made. To the maximum extent possible, BPAs for items of the same type should be placed concurrently with more than one contractor. Business can then be distributed among BPA holders for purchases less than \$2,500 and competition from them for purchases more than \$2,500.

For example, a requirement is estimated to be in excess of \$2,500 and only one contractor has a BPA for this type of material. The buyer must solicit quotations from two other sources who do not have BPAs. All general policies related to small purchase procurements (e.g., competition requirements, small business, etc.) apply to BPAs. BPAs may also be established with federal supply schedule contractors, if not inconsistent with terms of the applicable schedule contract. Except for subsistence, no individual item shall exceed \$25,000 using a BPA. In addition, dollar limitation for each individual call or order under the BPA cannot exceed the limit of the calling activity.

Small businesses, even those with established BPAs, cannot maintain contact with Government customers and their needs as well as larger businesses can. Becoming aware of potential business too late, or not noticing potential contracts at all, could put many eligible vendors in a disadvantageous position. This defeats the goal of meaningful competition. The practice of synopsisizing anticipated requirements in the Commerce Business Daily (CBD) helps small firms stay abreast and stay competitive. For this reason, the synopsis requirement may apply to BPAs and even calls.

Another purpose served by Government procurement in general, and small purchase in particular, is maintenance of a strong business base in America. This means that a sufficient number of firms in all industry groups remain healthy enough to provide our country's needs under all conditions. The Government must protect itself from becoming too reliant on any one source. Commercial businesses, at the same time, can only be vital and interested in doing Government work if they benefit from awards and the resultant funds. Rotation of calls and bid solicitations among qualified vendors on a regular basis will accomplish these vital purposes.

Many things other than provision of a good or service can and do result from a small purchase action. A determination of fairness and reasonableness of a price may become the basis of price analysis in some future action. Actions taken in a particular buy may be used to evaluate the small purchase professional. Practices at a particular activity will almost certainly be the subject of periodic reviews, inspections, and audits by various organizations. Internally, reviews are made to ensure that the best possible buying decisions are being routinely made. Finally, if things do not go smoothly, a small purchase action may result in unpleasant litigation. The only certain way to protect interests of both the buyer and the Government in all these situations is to keep complete and detailed records of everything related to an action. This is the basis for concern with documentation.

A BPA is an expression of a relationship between organizations over time. As the Government's needs and the vendors' situations change over time, so must the terms and conditions of a BPA. Clauses may change. The scope of an activity's requirements may change. The capabilities of a vendor may change. In order to ensure that current needs are served, and the Government's interests are protected, the Federal Acquisition Regulation requires that BPAs be reviewed regularly. Specific review requirements are as follows: the contracting officer placing orders under a BPA, or designated representative of the contracting officer, shall review a sufficient random sample of BPA files at least annually to ensure that procedures are being followed. The contracting officer that entered the BPA shall ensure that each BPA is reviewed at least annually and, if necessary, updated at that time; and maintain awareness of changes in market conditions, sources of supply, and other pertinent factors that may warrant making new arrangements with different suppliers

or modifying existing arrangements. If "circumstances warrant," review can be limited to 50% of the BPAs, reviewing all BPAs at least every two years.⁴ If an office other than the purchasing office that established a BPA is authorized to make purchases under that BPA, the agency that has jurisdiction over the office authorized to make the purchases shall ensure that the procedures above are being followed. All reviews are accomplished using NAVSUP Form 1328 which is provided as Figure 3-1.

Every year the Government expends enormous numbers of dollars and hours attempting to provide a responsive system of internal supply. Additionally, Congress has identified specific groups of people as deserving of special help in the form of reserved Government business opportunity. Along with Federal Supply Schedules (FSS), these sources constitute mandatory sources of supply. By using these sources whenever possible, the buyer assists in achieving three important goals:

- Tying up fewer scarce procurement dollars in duplicated items
- Using supply channels to gain more effective prediction of future demand
- Supporting the Government's social policy through small purchase actions

E. COMMON PROBLEMS AND DISCREPANCIES

At this point, it should be noted that the majority of BPA-related actions are handled correctly and efficiently by small purchase professionals. There are, however, a limited number of weaknesses that appear on a regular basis at a large number of activities. PMR reports and interviews with small personnel revealed the following recurring problem areas:

1. BPA's are not established when appropriate.
2. Review of active BPAs is inadequate.
3. Disestablishment of BPAs is not completed when necessary.
4. Documentation of calls and solicitations is inadequate. Purchase requests, written records of solicitations, bids, and quotes are not being maintained

⁴ NAVSUPINST 4200.85, 25 July 1989, enclosure 2, pp. 2-15, 2-16.

in BPA files. This is particularly true with regard to oral transactions, and records associated with unsuccessful vendors. Specific examples of PMR documentation related discrepancies are also observed when:

- Calls are to be placed by authorized personnel.
 - Calls are not distributed properly.
 - Regular supply channels are circumvented.
 - Requirements are split.
 - Calls are inadequately documented.
 - Calls are not in Government's best interest
5. Insufficient numbers of BPAs are in use. The number of BPAs established for qualified vendors in a particular commodity group does not permit meaningful competition over time. Too few vendors are involved, denying price protection to the Government and growth to the business base.
 6. Call rotation is not accomplished evenly. Rotation practices do not promote equal vendor opportunity. A small group of vendors often get an inordinate number of solicitations and/or awards. An unsuccessful vendor does not always receive another opportunity within a reasonable period of time.
 7. Screening of mandatory sources is not completed. Attempts to acquire requested materials from mandatory sources are not always made and/or documented. This is a particularly sensitive area in light of the negative publicity surrounding the spare parts issues. Individual requirements must be screened through mandatory sources of supply before being ordered from vendors.
 8. Required clauses are omitted. Original BPAs often do not contain all clauses required by regulation, or the clauses are incomplete.
 9. Synopsizing is not accomplished when required. Potential BPAs and, where required, individual calls are not synopsized, or are improperly synopsized.

10. Automation of Procurement and Accounting Data Entry (APADE) has introduced several difficulties into the BPA process. APADE automatically produces a DD-1155 for the BPA that the buyer then must throw away. Taking into consideration the extra time spent administering a BPA in periodic review, it can be concluded that a BPA is actually more administratively time consuming than a purchase order.

F. SUGGESTED SOLUTIONS

It is expected that small purchase professionals will be able to generate a number of effective and creative solutions to problems discussed on their own. Buyers are encouraged to develop and share these techniques to improve overall performance at the activity. A brief discussion of some possible solutions follows, not as guidance, but merely to stimulate directed thought. Individual activities will determine the degree or approach to standardization.

1. Establishment of BPAs

Be aware of the signals which commonly indicate the desirability of BPA use. A wide variety of items in a broad class are commonly ordered, but specifics are not immediately known. Offices or projects in a given area do not have purchase authority, but do have routine needs. The writing of routine purchase orders, often to the same sources, becomes troublesome. A vendor or group of vendors consistently charges less or offers better performance. All of these circumstances may hint at the possibility of time and effort savings through use of a BPA.

Consider the practice of conducting a monthly commodity review. Review purchase orders in each major commodity group to determine if vendor patterns are evident. This procedure may be accomplished using a separate BPA log for each commodity group. Figure 3-2 provides a sample Blanket Purchase Agreement Log.⁵

It may also be useful to analyze the frequency with which purchase orders go to individual vendors. A simple card or listing for each vendor could be kept indicating the date and general items on each purchase order. These listings could

⁵ NAVSUPINST 4200.85, 25 July 1989, enclosure 2, p. 2-13.

be reviewed on a quarterly basis. If three to four purchase orders in a single quarter go to a particular vendor, it may be wise to consider a BPA. Figure 3-3 illustrates how to establish a BPA using DD Form 1155.

2. Review of Active BPAs

The first step in any review should be to determine what items to look for in a review. When reviewing BPAs, some suggested items include continued need, currentness of clauses, adequacy of terms, discount provision, etc. Once this decision is made, it is suggested that all existing BPAs be divided up into 12 equal groups according to any convenient criteria: for example, alphabetically or by major commodity groups. Each group, and every BPA file in that group, would then receive a number from 1 to 12. Each month, one group would be pulled for review according to established items. A simple record of the number of BPAs assigned to each numbered group should be maintained so that new establishments can be assigned to groups in such a way that group sizes remain relatively equal. It is also advisable to note the date of each review directly on individual files.

A number of similar methods follow this organizational pattern. Reviews may be conducted by commodity groups. If there are a manageable number of active BPAs, it may be possible to schedule one block of time to conduct the review.

3. Disestablishment of BPAs

The usefulness of individual BPAs may be examined using an analysis of order frequency, conducted much the same as the frequency analysis described for establishing BPAs. A card or similar record is kept for each vendor, and calls are simply noted. These cards may be reviewed quarterly to determine if the BPA is still vital as indicated by the number of calls during the quarter. Alternatively, individual call dates may be noted on a sheet attached to the BPA folder, and the vitality of the BPA may be addressed during the regular annual review previously described.

An individual BPA is considered complete when purchases under it equal its total dollar limitation, if any, or when its stated time period expires.⁶

⁶ FAR subpart 13.206.

4. Documentation of Calls and Solicitations

The best advice concerning documentation may be to document whenever there is a question or doubt. This equates to the establishment and meticulous maintenance of a complete BPA file. Such a file may be arranged in chronological order of individual calls. At a minimum, it is suggested that the file contain:

- The latest copy of the BPA
- Any records concerning negotiation of BPA terms and content
- Copies of all purchase requests filled using the BPA
- Records of all written or oral communications with the vendor, whether resulting in a call or not
- Copies of all vendor invoices or statements if processed through the buyer
- Paying office reports indicating payments

The best buyer and Government protection is afforded by thorough familiarity with the general documentation requirements cited in the references section. It is also essential, however, to be aware of local requirements for documentation.

5. Insufficient numbers of BPAs

The determination of an adequate number for BPAs is a judgement call, and will be different for every buyer in the absence of activity guidance. Remember that at least two BPAs in a given commodity group are needed to have competition. Two, however, is seldom an adequate number. At the other extreme, the buyer must strike a balance between manageability and competition. The existence of too many BPAs may lead to shortcuts in rotation that also deny meaningful competition.

In general, it is recommended that one BPA be established for each 100 anticipated calls against a commodity group at larger activities. For smaller activities, the ratio may be reduced to about one BPA for each 30 anticipated calls. While performing review procedures, the list must be groomed and unneeded BPAs disestablished. New BPAs may be established to maintain the ratio, or the buyer may find that the list will tend toward some "natural level" of volume. This equilibrium position is suitable, however, only if proper rotation and review procedures are being followed.

6. Call Rotation

When the value of an individual call is below the threshold requiring competition, proper rotation is really just a matter of a conscientious attempt to run through available BPAs in order. A list indicating the name of the last vendor to receive a noncompetitive call should be kept. When the call requires competition, the situation becomes only a little more complicated. The object becomes to rotate opportunities rather than actual calls. It is suggested that after the first selection of one vendor from among three bidders, the following system be used where practical:

<u>Call</u>	<u>Vendors</u>
1	A, B, C*
2	C, D*, E
3	D*, F, G
etc.	

* successful bidder

Additionally, buyers are encouraged to utilize vendor frequency cards, as described, and review them on a regular basis.

7. Screening of Mandatory Sources

In order to utilize mandatory sources of supply, the buyer must know what they are. A basic familiarity with references cited under this topic will establish that knowledge. It is also helpful to keep a listing, constructed by the buyer or the activity, with BPA files. These sources do change. Each purchase request should be screened against this list before the call is placed to a vendor under a BPA. It is useful to note that BPAs may be established with vendors listed on Federal Supply Schedules.

As the buyer becomes acquainted with the kinds of items available from each mandatory source, this screening process becomes less cumbersome. Requesting activities should be encouraged to do as much of this screening as possible. At a minimum, the small purchase professional should insist that the requestor search the supply system.

8. Required Clauses

APADE systems add some "boiler plate" clauses for BPAs and is expected to further automate clauses in later phases. However, there is no real substitute for a small purchase buyer's knowledge of applicable regulations. This knowledge should encompass both standard clauses required in all BPAs, and those clauses that apply under limited circumstances.

The initial BPA should include all foreseeable clauses that will be used for placing future calls. This is because the requirement for additional clauses associated with a particular call preclude the option of making verbal orders under the BPA. As a result, much of the BPA's advantage is lost through increased administrative requirements, producing and distributing DD 1155s which contain extra clauses to support the individual call.

9. Synopsis

Become familiar with requirements for synopsisizing as they pertain to BPAs. The module on Competition included in this training guide discusses synopsis in some detail. Once the principles are understood, the buyer should generate examples of BPA and call synopses to be kept with BPA files for reference.

10. Automation of Procurement and Accounting Data Entry

APADE is the automated procurement system that is now operating at all Naval Supply Centers. It completely automated the small purchase process. Some buyers feel APADE has considerably reduced the value of BPAs in the automated procurement environment. In fact, a BPA take almost exactly the same time to award as does a purchase order.

The billing process is no exception to the change since APADE. Frequently vendors send in invoices for each call because their company's accounting system also is automated to perform this way. These bills must then be reconciled by the Navy to match the BPA monthly billing format.

The billing controversy is further intensified considering the Productive Unit Resource System (PURS) rate structure. Supply Centers receive funding from Naval Supply Systems Command based upon their PURS production. Paying one monthly consolidated BPA bill (cumulated from the entire month's calls) receives the same

PURS credit as paying an individual invoice which is received under a single purchase order. The negative incentive is obvious if the BPA requires Government consolidation and leg work before paying. Therefore it is essential for buyers to enforce the Government's rights, requiring vendors conform to the terms of the BPA agreement.

There are still values to using BPAs in the APADE environment. It is likely that future program changes to APADE will eliminate the need for buyers to throw away unneeded DD-1155s. Even in a world of automation, BPAs cultivate good vendor relationships and offer an opportunity to formalize agreements, terms and understandings in advance of requirement. These prearranged agreements speed up delivery dates and reduce time spent obtaining quotes.

G. TRAINING MATERIAL AND RECOMMENDED GUIDES

Naval Supply Systems Command Instruction 4200.85 of 25 July 1989.

Defense Small Purchase Correspondence Course ALM 33-0017, United States Army Logistics Management College, Fort Lee, Virginia, October 1989.

H. SUMMARY

For a large percentage of small purchase buys, time and efforts expended by the buyer often are more costly than the worth of items procured. Reduction of these administrative costs is the purpose of the BPA. The preparation of individual purchase orders is replaced by simple call procedures. Invoices can be processed in batches rather than one at a time. And the vendor realizes similar savings in administrative costs through simplification of his/her paper-work procedures.

There are, however, a number of small purchase BPA procedural discrepancies and organization weaknesses that appear on a regular basis in many of our activities. The need to deal continually with these problem areas adds an unneeded burden to buyers. But, if small purchase personnel address themselves as a corps of professionals, discrepancies and weaknesses can be identified and be eliminated or minimized; then the individual's emergencies may be focused on the primary objective of small purchase buying: cost effective procurement which satisfies the customer's needs at minimal administrative expense.

BLANKET PURCHASE AGREEMENT (BPA) CALL REVIEW REPORT

ACTIVITY		NOTE: This form is to be used for conducting and reporting the semi-annual review of BPA files required by paragraph 5130 of Field Purchasing, NavSup Publication 487, and by Section 3, Part 8, of the Defense Acquisition Regulation (DAR).
ACTIVITY WHICH ISSUED BPA (IF OTHER THAN ABOVE)		
BPA NUMBER	TOTAL CALLS PLACED DURING PERIOD REVIEWED	
PERIOD COVERED BY REVIEW	DATE OF REVIEW	

INSTRUCTIONS: The completed form shall be retained in the BPA file and, for those BPA's utilized and reviewed by personnel outside the jurisdiction of the command of the contracting office issuing the BPA, a signed copy of the completed form shall be forwarded to the contracting office. If any unsatisfactory conditions are found during the review (as evidenced by a "No" answer below) an explanation must be provided which includes action taken or to be taken to correct the noted condition.

1.	ARE REGULAR SUPPLY CHANNELS BEING SCREENED PRIOR TO PLACING CALLS (EXCEPT WHERE THE SCREENING REQUIREMENT IS EXPRESSLY WAIVED)?	YES	NO
2.	ARE CALLS BEING PLACED ONLY BY PROPERLY AUTHORIZED PERSONNEL?		
3.	ARE THE ESTABLISHED MONETARY LIMITATIONS OF DESIGNATED CALLING INDIVIDUALS BEING ADHERED TO?		
4.	DO INDIVIDUAL CALLS REPRESENT THE TOTAL KNOWN AND FUNDED REQUIREMENTS FOR THE SUPPLIES BEING PURCHASED? (I.e., REQUIREMENTS ARE NOT BEING SPLIT TO CIRCUMVENT ESTABLISHED MONETARY LIMITATIONS.)		
5.	IS PROPER ATTENTION BEING GIVEN TO PRICING AS EVIDENCED BY THE APPARENT REASONABLENESS OF PRICES PAID?		
6.	IS THE FILE BEING ADEQUATELY DOCUMENTED, e.g., CALL RECORD INFORMATION AND SIGNATURE JUSTIFICATION FOR EXCEPTION TO MANDATORY SUPPLY SOURCES, AND (FOR CALLS OVER \$1,000.00) RECORD OF FIRMS SOLICITED AND RESPONSES RECEIVED OR JUSTIFICATION FOR SOLE SOURCE?		
7.	DOES THIS BPA CONTRACTOR APPEAR TO BE RECEIVING AN EQUITABLE PORTION OF THE CALLS OF \$1,000.00 OR LESS PLACED FOR SUPPLIES IN HIS CATEGORY?		

REMARKS

I CERTIFY THAT THE ABOVE LISTED BPA FILE HAS BEEN REVIEWED, AND THE FINDINGS NOTED ABOVE ARE COMPLETE AND ACCURATE TO THE BEST OF MY KNOWLEDGE AND BELIEF.	NAME AND TITLE OF REVIEWING OFFICIAL
SIGNATURE	DATE

Figure 3-1

ORDER FOR SUPPLIES OR SERVICES				Form Approved OMB No. 0704-0187 Expires Jul 31, 1989	PAGE 1 OF
1. CONTRACT / PURCH ORDER NO. (Your UIC)-89-A-Digit#		2. DELIVERY ORDER NO.		3. DATE OF ORDER (Effective Date)	
4. REQUISITION / PURCH REQUEST NO.		5. CERTIFIED FOR NATIONAL DEFENSE UNDER DMR REG 1 See Par. XII		6. ISSUED BY Your activity and complete address plus name, code, and telephone number of person issuing BPA	
7. ADMINISTERED BY (if other than 6)		8. DELIVERY FOB <input type="checkbox"/> DEST <input type="checkbox"/> OTHER See Par XIII (See Schedule if other)		9. CONTRACTOR NAME AND ADDRESS (Insert appropriate contractor's name and address)	
10. DELIVER TO FOB POINT BY (Date) As indicated by each call		11. MARK IF BUSINESS IS <input checked="" type="checkbox"/> SMALL <input type="checkbox"/> SMALL DISADVANTAGED <input type="checkbox"/> WOMEN-OWNED Complete		12. DISCOUNT TERMS (Show in whole numbers, e.g. 1.00% 30 days)	
13. MAIL INVOICES TO As indicated in list of authorized BPA ordering activities		14. SHIP TO Indicated by person placing each call		15. PAYMENT WILL BE MADE BY (Insert appropriate paying office) [UIC]	
16. TO ORDER DELIVERY <input type="checkbox"/> This delivery order is issued on another Government agency or in accordance with and subject to terms and conditions of above numbered contract		17. ACCOUNTING AND APPROPRIATION DATA / LOCAL USE			
PURCHASE <input checked="" type="checkbox"/>		Reference your Blanket Purchase Agreement furnish the following on terms specified herein ACCEPTANCE. THE CONTRACTOR HEREBY ACCEPTS THE OFFER REPRESENTED BY THE NUMBERED PURCHASE ORDER AS IT MAY PREVIOUSLY HAVE BEEN OR IS NOW MODIFIED, SUBJECT TO ALL OF THE TERMS AND CONDITIONS SET FORTH, AND AGREES TO PERFORM THE SAME.			
NAME OF CONTRACTOR		SIGNATURE		TYPED NAME AND TITLE	
<input checked="" type="checkbox"/> If this box is marked, supplier must sign Acceptance and return the following number of copies: 2		DATE SIGNED			
18. ITEM NO.	19. SCHEDULE OF SUPPLIES / SERVICE	20. QUANTITY ORDERED, ACCEPTED*	21. UNIT	22. UNIT PRICE	23. AMOUNT
I	<u>Description of Agreement.</u> This is a blanket purchase agreement for electrical supplies and services for which the contractor may deliver to the Government if and when requested by the contracting officer or his authorized representative, for an indefinite period commencing (insert effective date).				
II	<u>Extent of Obligation.</u> The Government is obligated under this blanket purchase agreement only to the extent of authorized calls actually placed against this agreement.				
III	<u>Contractor's Billing Period.</u> As agreed, contractor will submit his bill on or about the (insert day of each month here) of each month.				
* If quantity accepted by the Government is same as quantity ordered, indicate by X. If different, enter actual quantity accepted below quantity ordered and enclose		24. UNITED STATES OF AMERICA (Signature of Contracting Officer)		25. TOTAL	
26. QUANTITY IN COLUMN 20 HAS BEEN <input type="checkbox"/> INSPECTED <input type="checkbox"/> RECEIVED <input type="checkbox"/> ACCEPTED AND CONFORMS TO THE CONTRACT EXCEPT AS NOTED		27. SHIP. NO.		28. D.O. VOUCHER NO.	
DATE _____ SIGNATURE OF AUTHORIZED GOVERNMENT REPRESENTATIVE _____		<input type="checkbox"/> PARTIAL <input type="checkbox"/> FINAL		29. DIFFERENCES	
36. I certify this account is correct and proper for payment.		31. PAYMENT <input type="checkbox"/> COMPLETE <input type="checkbox"/> PARTIAL <input type="checkbox"/> FINAL		30. INITIALS	
DATE _____ SIGNATURE AND TITLE OF CERTIFYING OFFICER _____		32. PAID BY		33. AMOUNT VERIFIED CORRECT FOR	
37. RECEIVED AT		38. RECEIVED BY		34. CHECK NUMBER	
39. DATE RECEIVED		40. TOTAL CONTAINERS		35. BILL OF LADING NO.	
41. S/R ACCOUNT NUMBER		42. S/R VOUCHER NO.			

DD Form 1155,

Previous editions are obsolete.

CONTRACTOR MUST SUBMIT FOUR COPIES OF INVOICE

Figure 3-3

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IV. PURCHASE ORDERS

A. SUBJECT AREA

The purchase order is the principal tool by which non-repetitive purchases are made. Purchase orders account for nearly all small purchases that are not covered by Blanket Purchase Agreements (BPA). A purchase order is an offer on the part of the Government to a seller, to provide goods and services under terms and conditions specified in the order.

Technically, a purchase order is not a contract, however, it is essentially considered a contract since the buyer and seller have usually agreed to terms and conditions before it is prepared. Legally, the purchase order is not a contract until the vendor accepts the offer, furnishes supplies or services ordered, or proceeds with work to the point where substantial performance has occurred.

This document will address practices associated with the purchase order. It is assumed that the professionals involved are familiar with procurement processes, regulations and terminology regarding small purchase. This document is not intended to explain the mechanics of a purchase order nor how to complete the purchase order document; but, rather to provide a more in-depth understanding of background, principles, and reasoning for use of the purchase order.

B. DEFINITIONS

The definitions and interpretations of the following terms are provided to ensure a common frame of reference when discussing purchase orders:

1. **Adequacy of terms:** Whether or not terms and conditions specified in a purchase order are in the best interests of the Government and contractor.
2. **Competition:** The process allowing prospective vendors or contractors to contend against one another to determine which can most satisfactorily meet some objective requirement.

3. **Delivery order:** An order for supplies placed against an established contract or with Government sources of supply.
4. **Documentation:** All written records associated with a purchase order, throughout its life. This would include copies of the purchase order with all included clauses, records of all written or oral quotations and bids, sole source justifications, copies of actual orders, records of any contacts with the vendor, copies of invoices, and records of any buyer action related to the purchase order. If any matter relates to the purchase order, it should be written and included as part of the document package.
5. **Equal vendor opportunity:** A condition resulting from each vendor or contractor, in the long run, having the same number of chances to receive orders as any other contractor.
6. **Mandatory sources of supply:** Those sources from which a buyer must, by regulation, obtain goods and services if they are available. Both Government and non-Government sources may be classified as mandatory and there is a specific order in which they must be approached.
7. **Purchase order:** An offer by the Government to buy certain supplies or non-personal services and construction from commercial sources, upon specified terms and conditions, the aggregate amount of which does not exceed the small purchase limit.
8. **Required clauses:** Those clauses, required by regulation to be included in a specific purchase order. Particular clauses must be in all purchase orders, while others must be used only under certain circumstances. Agencies may add other clauses as appropriate, to supplement, not replace, clauses prescribed by the Federal Acquisition Regulation (FAR).
9. **Review:** The process of examining on a regular basis the purchase order itself, calls placed, and procedures employed on a day-to-day basis. These examinations must be objective and designed to improve the buying process.
10. **Rotation:** The practice of regularly and systematically changing contractors or vendors who receive an offer or are asked to submit quotations or bids. Proper rotation implies that all qualified sources have an equal opportunity to do business.
11. **Small purchase:** An acquisition of supplies, non-personal services, and construction for \$25,000 or less.

12. **Unpriced purchase order:** An order for supplies or services, the price of which is not established at the time of issuance of the order.
13. **Vendor/contractor/supplier:** The terms vendor, supplier, and contractor are parties that provide goods and services.
14. **Written telecommunicated purchase order:** An order for supplies or services that is electronically transmitted to a supplier and is not signed by the contracting officer.

C. GOVERNING RULES AND REGULATIONS

The following regulations were used for assembling this module:

<u>REFERENCE</u>	<u>SUBJECT</u>
1. FAR 13.101	Small purchase, general
2. FAR 13.501	Purchase orders, general
3. FAR 13.502 DFARS 213.502	Unpriced purchase order
4. FAR 13.503 DFARS 213.503	Contract acceptance, modification
5. FAR 13.504	Termination of purchase order
6. FAR 13.505 DFARS 213.505-2 DFARS 213.505-3 DFARS 213.505-70 DFARS 213.505-71	Purchase order and related forms
7. FAR 52 DFARS 213.507	Clauses
8. FAR 4.8 DFARS 204.8	Documentation

9. FAR 13.106	Competition/price reasonableness
10. FAR 13.107	Solicitation/evaluation of quotations
11. FAR 13.105	Small business set asides
12. FAR 5.1	Dissemination of information
13. FAR 5.2	Synopses of proposed contracts
14. FAR 8	Required sources of supply
15. FAR 22	Applicability of labor laws
16. DFARS 13.5005-70	Instruction for Form DD-1155

D. RATIONALE AND REASONS FOR POLICIES AND PROCEDURES

The legacy of procurement regulations has been unfolding ever since the Revolutionary War. In the mid-18th century, when American colonies were still politically tied to England, and the American legal system was based on English common law. This system of common law was largely non-legislative in character and consisted of rules and principles derived from previous judicial decisions. As such, common law developed gradually as new legal situations unfolded. Consequently, evolution of the contract in this common law system was slow. The concept of the purchase order was not new. The premise of relying on agreements with regard to future conduct conveys the idea that a promise given for a promise received is legally binding. This idea evolved more fully during the 16th century.

The birth of Federal purchasing regulations occurred with the authorization to build and provision ships for the Revolutionary War. During these developmental stages, various problems emerged. Principle among these was profiteering, which initiated the role of Congress in enacting laws to meet special situations concerning purchasing. The efforts of Congress and the President in controlling Federal procurement are rooted in the democratic sovereign's responsibility to consider the welfare of its people and to maintain an unbiased attitude towards competing groups. In June, 1777 Congress passed a purchasing regulation which provided detailed guidance to the Army's Quartermaster Corps.

Additional highlights in the evolution of purchasing regulations were:

1. The Department of Treasury was given responsibility for purchasing and contracting in 1792. The Treasury Department established a Purveyor of Public Supplies in 1795 to act as the Government's purchasing agent.
2. In 1798 Congress authorized purchases for military supplies and services to be made under direction of the Department of War and Department of the Navy.
3. In 1808 Congress passed a law prohibiting its members from benefiting in Government contracts.
4. Procurement during the Civil War was conducted under the Civil Sundry Appropriations Act of March 1861 which later was amended into Revised Statute 3709.
5. Revised Statute 3709 was again revised in 1910 to emphasize formal advertising as the required method of procurement.
6. Shortly after Pearl Harbor, the First War Powers Act of 1941 authorized agencies to enter into contracts without regard to existing regulations to facilitate prosecution of the war. During this time, formal advertising was prohibited unless specifically authorized.
7. On May 19, 1948, the Armed Forces Procurement Act of 1947 was passed, giving rise to the Armed Services Procurement Regulations (ASPR). It made formal advertising the preferred method of procurement, but listed 17 exceptions for use of negotiation.
8. In 1974 the Office of Federal Procurement Policy Act was enacted. This act established the OFPP office within the Office of Management and Budget and mandated development of a single Government-wide procurement regulation.
9. In 1979, the ASPR received a title change to the Defense Acquisition Regulations (DAR).
10. On April 1, 1984, the DAR and other Federal procurement regulations were consolidated into a single, Government-wide regulation entitled the Federal Acquisition Regulations (FAR).

11. In July 1989, Dick Cheney, Secretary of Defense, submitted the "Defense Management Report to the President," again calling for a single Government-wide acquisition regulation (the FAR did not achieve this 1984 objective as hoped).
12. During 1989, major Navy small purchase reference changes transpired. The reference changes began with the April 1989 cancellation of Navy Acquisition Regulation Supplement (NARSUP) and Supply Acquisition Regulation Supplement (SUPARS) and their replacement with the Navy Acquisition Procedures Supplement (NAPS). NAPS references Naval Supply Systems Command (SUP02) for specific small purchase policy, procedures and guidance. NAVSUP released Instruction 4200.85 dated 25 July 1989 which is now the primary small purchase procedural manual.

E. COMMON PROBLEMS AND DISCREPANCIES

Purchase orders are the basic tool of small purchase personnel, and as such, their use often results in a fair number of significant discrepancies. The use of delivery orders coupled with purchase orders comprises a significant portion of purchases made by small purchase personnel. These purchase actions are generally executed via a DD Form 1155, however, they may be transmitted by written telecommunications, or executed on agency approved forms, such as Standard Form 44. Figure 4-1 shows a properly completed Standard Form 44. Purchase orders are a unilateral offer to a supplier and therefore are not binding contracts until the vendor accepts the order. This may be accomplished by shipping supplies, performing a significant portion of the order, or by written acceptance of the order. In general, terms and conditions that are included in purchase orders are negotiated by the Government and vendor before the purchase order is prepared, and written acceptance is therefore not normally requested by the Government.

Purchase orders are the most technically difficult small purchase documents to prepare. Each time one is issued and accepted, it becomes a legally binding contract. The use of purchase orders is not conceptually different from contracting in the private sector nor from contracting in the Government above the small purchase threshold. As these purchases sometimes take a relatively long time to be completed, there is increased opportunity for modifications or terminations as a result of changing requirements or capabilities. Each time a purchase order is modified or terminated, the contract demands further administrative and legal considerations. A typical modification is illustrated on Figure 4-2.

The following discrepancies are most commonly cited by Procurement Management Reviews (PMRs):

- Documents were improperly prepared.
- Documentation of bids, oral solicitations, sole source justifications, and fair and reasonable prices was inadequate.
- Non-current clauses and provisions were used.
- Unpriced orders were improperly administered.

The primary cause of discrepancies in the use of the purchase orders is that they are the most complex and time consuming purchasing vehicles available to small purchase personnel. As such, there are a plethora of administrative and legal rules governing their preparation and use. Purchase orders may be modified or terminated, hence additional effort and expertise is required in order to execute these functions properly. Purchase orders may also be issued as unpriced purchase orders, and there are a host of administrative requirements that govern use of unpriced orders.

The FAR has several different sections that deal with purchase orders, and as a result, small purchase personnel have a difficult time ascertaining exactly what requirements must be met. The administrative burdens coupled with a paucity of training in proper use of purchase orders have combined to make their use one of the most difficult and error-prone aspects of small purchasing.

F. SUGGESTED SOLUTIONS

The image of Government purchasing is in the eye of the beholder. Whenever examples of errors are discovered they are widely publicized. Recent public and congressional images of Government purchasing agencies range from the infamous \$400 hammer and toilet seat to apparent wide-spread organized collusion such as "Ill Wind." However limited or out of proportion those images may be, Government purchasing has gained notoriety as an organization that is inefficient and requires close attention.

Improvement of this conception can only come from within the organization of purchasing professionals. The small purchase professional, armed with the

purchase order, is a key element in the overall success or failure of operations. The use of technology, electronic information systems, interchange of ideas, and individual ingenuity combined with attention to detail will enhance the overall system of acquisition. Efficient and effective acquisition leads to the achievement of purchasing goals and to the achievement of the ultimate goal which is continued success of the organization and its mission.

Each buyer must strive to take personal responsibility to make purchase orders efficient and effective procurement tool.

The following discussion is designed to assist the buyer in dealing with purchase order problems addressed in the last section.

1. Improper preparation of the documents

Purchase orders are executed via DD-1155, agency approved forms, or transmitted by written telecommunication. As defined, a purchase order is a unilateral offer to a supplier and is not a binding contract until the vendor accepts the offer. Once accepted by the vendor, the purchase order generally becomes a firm fixed price contract.

Many mistakes can be cut out by simply taking time to insure accurate entries on the DD Form 1155. Figure 4-3 provides an example of a properly completed first page of a DD Form 1155. It is useful to refer to DFARS 213.505-70 in order to properly complete a DD Form 1155. Each block is described in detail, and carefully explained.

The facsimile (fax) machine is becoming an ever increasing document transmission tool of the 1990s. Although courts have ruled that a faxed signature can be adequate to bind a contract, original signatures should be obtained for the contract file whenever possible. These original documents can eliminate potential problems that produce disputes and protests. In addition, signatures must generally be original to conform with FAR requirements. The fax is, however, very useful to speed up the process of obtaining quotes. Original signatures are not needed for these quotes because they are later confirmed in the purchase order.

Automated Procurement and Accounting Data Entry (APADE) has greatly reduced the work involved in actually generating the Purchase Order. However, it is still easy to make careless key strokes on the computer terminal that can result in a very costly mistake for the customer (and the buyer's reputation). The old saying "garbage in -- garbage out" has never been more accurate than it is in today's computer generated purchase orders. Although APADE is helping to reduce many of the common clerical errors, buyers require the necessary training to insure the

timely and accurate final product. This is the buyer's ultimate responsibility in manual or automated small purchase systems.

From the buyers perspective, the fixed-price purchase order is the most preferable type of contract. Simply stated, it is an agreement for the buyer to pay a specified price to the seller when the seller delivers the purchased material. The fair and reasonable price of goods or services is determined by the buyer (in advance) through competition or price/cost analysis. The fixed-price purchase order is advantageous to the buyer, since it requires minimum administration when compared to other contracts; provides incentive to the seller (produce-deliver-get paid); and shifts all financial responsibility to the seller (buyer pays when seller delivers).

2. Inadequate documentation or bids, oral solicitations, sole source justifications, and fair and reasonable prices

The time spent and costs incurred in preparing the purchase order, soliciting bids, justifying a sole source, determining fair and reasonable price and documenting the procedure seem to be time wasted on relatively unimportant items. It is difficult to justify a situation where the cost of buying an item is greater than the cost of the item itself.

The importance of an item does not necessarily have a high degree of correlation with its value. One small maintenance part worth \$50 can become quite critical if lack of that part causes machinery to remain idle or ships not to sail. Clearly, that low cost part would be in the small purchase category, but the need for that part is so great that time spent and cost incurred become insignificant by comparison.

The goal of the Government or private purchasing professional is to buy materials and services of the desired quality, in the right quantity, at a reasonable price, from the proper source, and in the correct time-frame.

Buying the right materials means buying competitively and wisely. To buy competitively, the buyer must be aware of factors (supply and demand) that regulate prices and availability of materials. To buy wisely involves a constant search for better values that give the best combination of price, quality and service. The desired quality is that which can be purchased at the lowest cost to fulfill the need or satisfy the intended function for which the material (or service) is being purchased. A purchase order or contract that contains incorrect or vague specifications will generally result in improper quality as the purchased item fails to fulfill the need or satisfy the intended function.

In short, it pays to pay attention to the details and document requirements of your purchase. Each buyer is responsible to meet regulatory requirements and make quality purchases that satisfies the customer's needs.

3. Non current clauses and provisions

The myriad of clauses, regulations, requirements, prohibitions, exceptions and legalities concerning purchase orders, do little to ease administrative tasks. Although designed to simplify the process of non-repetitive purchases for \$25,000 or less, the complex and time consuming nature of purchase orders provide ample opportunity for error.

When the dollar maximum for small purchases increased to \$25,000, the scope and importance of small purchase increased as well. The terms " equal vendor opportunity, competition, sources of supply, rotation, review, unpriced purchase order, and documentation" now carry increased importance.

Congressional and public reaction to procurement of the "\$400 hammer" has shown that improper administration of purchase orders and contracts will not be tolerated. Increasing scrutiny from congressional committees demonstrate increased awareness to not only major acquisitions, but also all Government purchasing actions.

FAR 13.507(a) states that each purchase order shall incorporate all clauses applicable to the particular acquisition. Each agency or activity may prescribe clauses that are not in conflict with FAR/DFARS guidance. Examples would be for items or packaging requirements that are agency peculiar based on mission (i.e. packaging requirements of the Navy to prevent water damage) or an activity specifying when and where deliveries can be made. Clauses may be incorporated by reference or printed in full text. As indicated above, clauses from each regulatory level should be selected for each individual purchase order.

4. Improper administration of unpriced orders

An unpriced purchase order is like a letter contract. Letter contracts are used in limited situations where urgency makes it imperative that work begin (or procurement take place) immediately. Under letter contracts, the seller is guaranteed reimbursement for is costs up to a specified amount.

Advantages held by the buyer are lessened considerably when purchase orders are modified or an unpriced purchase order is used. Each time a purchase order is amended, it becomes a new contract with added considerations and complexities. The designed efficiency of the purchase order is lost as technicalities associated with a modified contract increase administrative burdens.

FAR explains that an unpriced purchase order is an order for supplies or services where the price of which is not established when issuing the order. An unpriced purchase order may be used only when the buyer believes the transaction will be within the small purchase limit. However, it is ineffective to acquire pricing before issuance of the purchase order in some cases. For example, if broken equipment needs to be disassembled to determine the nature and extent of repairs and if materials are only available from one source. Even though prices for supplies and services are known to be competitive the actual price may not be available at that time. When there is no exact price established, care must be taken so that the Government pays a fair and reasonable price. FAR also states that unpriced purchase orders may be dispensed by a written purchase order or written telecommunication. There must be a monetary ceiling on each unpriced purchase order and at the earliest occasion all letter contracts should be converted to fixed price contracts. To avoid problems certain procedures must be followed. DD Form 1155 is used for an unpriced purchase order.

A realistic monetary limitation either for each line item or for the total order shall be placed on each unpriced purchase order. This limitation will be adjusted when a fixed price is established. This "not to exceed (NTE) " limitation is estimated by the customer and annotated on the purchase request. The NTE placed on the order is a result of discussions between the storekeeper/buyer and contractor.

FAR Clause 52.213-3, notice to suppliers, must be inserted in unpriced purchase orders. Based on this clause, the contractor cannot exceed the NTE price in the schedule without first notifying the contracting officer.

It is at this point that circumstances that led to the unpriced purchase order again come into the picture. The contracting officer must weigh the requirement, reliability of the contractor, and availability of alternate sources. If he decides to approve the price increase, he should attempt to negotiate a firm, fair and reasonable price or definitize the purchase order at this time (incorporate the fixed price in the modification).

The contracting office should establish local procedures based on agency requirements to provide for follow-up of unpriced purchase orders to ensure that a firm price is determined in a timely manner.

The invoice price must be reviewed by the contracting officer or his representative, for price reasonableness prior to it being certified and forwarded to the paying office.

In Government or business, the dollar value of the procurement is generally considered to be the most important single factor in classifying a given purchase. The term "small purchase" may at times cause the small purchase professional to feel that the relatively small dollar value often dealt with is relatively unimportant in the overall scheme of Government acquisitions. This is by no means the case.

Establishing and maintaining good vendor relationships lessen problems that arise between buyers and sellers. Good vendor relationships can provide buyers with excellent insight into current prices, the availability of goods and services and generally promote better contract performance.

Buying at the right time is essential to support (Government or industry) operations by providing an uninterrupted flow of materials and services. Purchasing is a support function.

G. TRAINING MATERIAL AND RECOMMENDED GUIDES

Naval Supply Systems Command Instruction 4200.85 of 25 July 1989.

Defense Small Purchase Correspondence Course ALM 33-0017, United States Army Logistics Management College, Fort Lee, Virginia, October 1989.

H. SUMMARY

For the purchase order, the primary area of concentration in training regarding its use should focus upon legal aspects of its documents and resultant attention to detail that is required. Small purchase personnel should be trained in the detailed procedures of preparation of same, with emphasis placed upon each section of the document as regards to its importance and effect. Extensive training should be given in areas of modifying and/or terminating these documents, as well as proper use of unpriced purchase orders. As these documents are used for most non-recurring purchases, particularly those of a relative high dollar value, it is important to give small purchase personnel a good conceptual base upon which to draw when they do use these purchasing methods.

U.S. GOVERNMENT

PURCHASE ORDER—INVOICE—VOUCHER

DATE OF ORDER 89 December 14 ORDER NO. N00001-90-M-1234

NAME AND ADDRESS OF SELLER (Name, Street, City, and State)
PDO PARTS RADIO/TV
400 Main Street
CATKIN MT., MD

FURNISH SUPPLIES OR SERVICES TO (Name and address)
U. S. Naval Activity
Washington, D. C. 20001

SUPPLIES OR SERVICES	QUANTITY	UNIT PRICE	AMOUNT
TUBE	1	26.75	26.75
RX-593-02			

AGENCY NAME AND BILLING ADDRESS*
Department of the Navy
U. S. Naval Activity
Washington, D.C. 20001

TOTAL 26.75
DISCOUNT TERMS 1 % 10 DATE 89DEC14

ORDERED BY (Signature and title)

PURCHASER AND ACCOUNTING DATA
ACR
AA: 1791804.2910 26 12345 - 001 2D 001-
BPO4018

PURCHASER—To sign below for over-the-counter delivery of items
RECEIVED BY
TITLE 6413 DEC 89

SELLER—Please read instructions on Copy 2
 PAYMENT RECEIVED \$ PAYMENT REQUESTER \$
NO FURTHER INVOICE NEED BE SUBMITTED

SELLER DATE
BY (Signature)
I certify that the amount is correct and proper for payment in the amount of \$
ACCOUNT VERIFIED: CORRECT FOR

PAID BY CASH DATE PAID BY VOUCHER NO.
OR (Check No.)

* PLEASE INCLUDE ZIP CODE 1. SELLER'S INVOICE (See instructions on Copy 2) STANDARD FORM 44 (Rev. 10-67) PRESCRIBED BY GSA, FAR (48 CFR) 53.213(c)

STANDARD FORM 44
Figure 4-1
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AMENDMENT OF SOLICITATION/MODIFICATION OF CONTRACT				1. CONTRACT ID CODE	PAGE OF PAGES
2. AMENDMENT/MODIFICATION NO. P00001		3. EFFECTIVE DATE 89JUN06	4. REQUISITION/PURCHASE REQ. NO. N00600-9341-3210		5. PROJECT NO. (If applicable)
6. ISSUED BY CODE		N00600	7. ADMINISTERED BY (If other than Item 6) CODE		
Contracting Officer Naval Regional Contracting Center Washington Navy Yard Washington, DC 20001			SAMPLE ADMINISTRATIVE CHANGE		
8. NAME AND ADDRESS OF CONTRACTOR (No., street, county, State and ZIP Code) XYZ Company 4321 Zero Street Washington, DC 20003				9A. AMENDMENT OF SOLICITATION NO.	
				9B. DATED (SEE ITEM 11)	
				10A. MODIFICATION OF CONTRACT/ORDER NO. N00600-89-M-4321	
				10B. DATED (SEE ITEM 13) 89MAY13	
CODE 13480		FACILITY CODE			
11 THIS ITEM ONLY APPLIES TO AMENDMENTS OF SOLICITATIONS					
<input type="checkbox"/> The above numbered solicitation is amended as set forth in Item 14. The hour and date specified for receipt of Offers <input type="checkbox"/> is extended, <input type="checkbox"/> is not extended. Offers must acknowledge receipt of this amendment prior to the hour and date specified in the solicitation or as amended, by one of the following methods: (a) By completing Items 8 and 15, and returning _____ copies of the amendment; (b) By acknowledging receipt of this amendment on each copy of the offer submitted; or (c) By separate letter or telegram which includes a reference to the solicitation and amendment numbers. FAILURE OF YOUR ACKNOWLEDGMENT TO BE RECEIVED AT THE PLACE DESIGNATED FOR THE RECEIPT OF OFFERS PRIOR TO THE HOUR AND DATE SPECIFIED MAY RESULT IN REJECTION OF YOUR OFFER. If by virtue of this amendment you desire to change an offer already submitted, such change may be made by telegram or letter, provided each telegram or letter makes reference to the solicitation and this amendment, and is received prior to the opening hour and date specified.					
12. ACCOUNTING AND APPROPRIATION DATA (If required)					
13 THIS ITEM APPLIES ONLY TO MODIFICATIONS OF CONTRACTS/ORDERS, IT MODIFIES THE CONTRACT/ORDER NO. AS DESCRIBED IN ITEM 14					
<input checked="" type="checkbox"/> A. THIS CHANGE ORDER IS ISSUED PURSUANT TO: (Specify authority) THE CHANGES SET FORTH IN ITEM 14 ARE MADE IN THE CONTRACT ORDER NO. IN ITEM 10A. <input checked="" type="checkbox"/> B. THE ABOVE NUMBERED CONTRACT/ORDER IS MODIFIED TO REFLECT THE ADMINISTRATIVE CHANGES (such as changes in paying office, appropriation date, etc.) SET FORTH IN ITEM 14, PURSUANT TO THE AUTHORITY OF FAR 43.103(b). <input type="checkbox"/> C. THIS SUPPLEMENTAL AGREEMENT IS ENTERED INTO PURSUANT TO AUTHORITY OF: <input type="checkbox"/> D. OTHER (Specify type of modification and authority)					
E. IMPORTANT: Contractor <input checked="" type="checkbox"/> is not, <input type="checkbox"/> is required to sign this document and return _____ copies to the issuing office					
14. DESCRIPTION OF AMENDMENT/MODIFICATION (Organized by UCF section headings, including solicitation/contract subject matter where feasible.) The appropriation symbol and subhead in Block 17 of subject purchase order is hereby changed: From: 1781804.2910 To: 1791804.2910					
...except as provided herein, all terms and conditions of the document referenced in Item 9A or 10A, as heretofore changed, remains unchanged and in full force and effect.					
15A. NAME AND TITLE OF SIGNER (Type or print)			15A. NAME AND TITLE OF CONTRACTING OFFICER (Type or print)		
			C. P. Hennigan		
15B. CONTRACTOR/OFFEROR		15C. DATE SIGNED	15B. UNITED STATES OF AMERICA		15C. DATE SIGNED
(Signature of person authorized to sign)			BY _____		89 JUN 06
			(Signature of Contracting Officer)		
SN 7540-01-152 8070 REVIDUS EDITION UNUSABLE		30-105		STANDARD FORM 30 (REV. 10-83) Prescribed by GSA FAR (48 CFR) 53.243	

TYPICAL CONTRACT MODIFICATION

Figure 4-2

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ORDER FOR SUPPLIES OR SERVICES				Form Approved OMB No 0704-0187 Expires Jul 31, 1989	PAGE 1 OF 4
1 CONTRACT/PURCH ORDER NO N00612-89-M-5345		2 DELIVERY ORDER NO		3 DATE OF ORDER 89JAN06	
6 ISSUED BY Regional Contracting Dept. Naval Supply Center Charleston, South Carolina 29408 Buyer/Symbol: H. Smith, 201.1Q Telephone: (803) 743-4755		7 ADMINISTERED BY (If other than 6) CODE		8 DELIVERY FOR <input checked="" type="checkbox"/> DEST <input type="checkbox"/> OTHER (See Schedule if other)	
9 CONTRACTOR NAME AND ADDRESS Vertex Systems, Inc. 1903 Ford Street Tucker, CA 30084		10 DELIVER TO FOB POINT BY (Date) 89JAN12		11 MARK IF BUSINESS IS <input checked="" type="checkbox"/> SMALL <input type="checkbox"/> SMALL DISADVANTAGED <input type="checkbox"/> WOMEN-OWNED	
14 SHIP TO Receiving Officer, Bldg. 198 N00612-89-M-5345 Naval Supply Center Charleston, SC 29408		15 PAYMENT WILL BE MADE BY CODE N00612		13 MAIL INVOICES TO Contracting Officer, Code 202L NSC Charleston SC29408	
16 DELIVERY PURCHASE X This delivery order is issued on another Government agency or in accordance with and subject to terms and conditions of above numbered contract Reference your <u>Teletype of 89JAN05 w/Mrs. Smith</u> furnish the following on terms specified herein ACCEPTANCE THE CONTRACTOR HEREBY ACCEPTS THE OFFER REPRESENTED BY THE NUMBERED PURCHASE ORDER AS IT MAY PREVIOUSLY HAVE BEEN OR IS NOW MODIFIED, SUBJECT TO ALL OF THE TERMS AND CONDITIONS SET FORTH, AND AGREES TO PERFORM THE SAME.					
17 ACCOUNTING AND APPROPRIATION DATA / LOCAL USE ACR AA: 17941804.2371 000 00612 0 00612 2D 281680 FP170979400 Not to Exceed \$1900.00					
18 ITEM NO	19 SCHEDULE OF SUPPLIES / SERVICE	20 QUANTITY ORDERED / ACCEPTED	21 UNIT	22 UNIT PRICE	23 AMOUNT
0001	1 NSN None Total Item Qty Services, labor and material for repair of one (1) Kretch model no. 31-1CW, IHPAC serial no. 3107. To include rewinding stator and rotor and replacing bearing. NOTICE TO SUPPLIER (APR 1984) This is a firm order only if your price does not exceed the maximum line item or total price in the schedule. Submit invoices to the procuring contracting officer. If you cannot perform in exact accordance with this order with old performance and notify your contracting officer immediately, giving your quotation.	1	Job		\$1900.00
24 UNITED STATES OF AMERICA BY R. D. DODGE CONTRACTING / ORDERING OFFICER				25 TOTAL	\$1900.00
26 QUANTITY IN COLUMN 20 HAS BEEN <input type="checkbox"/> INSPECTED <input type="checkbox"/> RECEIVED <input type="checkbox"/> ACCEPTED AND CONFORMS TO THE CONTRACT EXCEPT AS NOTED				28 DIFFERENCES	
27 SHIP NO				29 PAID BY	30 INITIALS
31 PAYMENT <input type="checkbox"/> PARTIAL <input type="checkbox"/> COMPLETE <input type="checkbox"/> PARTIAL <input type="checkbox"/> FINAL				32 AMOUNT VERIFIED CORRECT FOR	
36 Certify this account is correct and proper for payment				34 CHECK NUMBER	
37 RECEIVED BY				35 BILL OF LADING NO	
38 RECEIVED BY				40 TOTAL CONTRACT AMOUNT	41 SR ACCOUNT NUMBER
39 DATE RECEIVED				42 SR VOUCHER NO	

DD Form 1155,

Previous editions are obsolete

CONTRACTOR MUST SUBMIT FOUR COPIES OF INVOICE

PURCHASE ORDER CONTRACT AWARD ON DD FORM 1155

Figure 4-3

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V. DOCUMENTATION

A. SUBJECT AREA

Laws and regulations require small purchase buyers to obtain and file numerous certifications, justifications and other documents. These requirements vary widely from one purchase to another because of price, competition, type of procurement and many other factors. Many buyers do not fully understand the reasoning behind these requirements and therefore, are often uncertain as to which conditions warrant completion of the applicable documentation requirements.

This module first explores definitions of key documentation related terms in order to provide a foundation for further discussion. The module then supplies a list of applicable documentation related references as a desk guide. The material in this module ultimately focuses on:

- Reasons for existing policies and procedures regarding documentation
- Common documentation problems
- Recommended actions that can be taken to improve documentation in small purchasing divisions

This chapter does not attempt to list specific documents to be filed or describe how to fill out required forms. Rather, the intent is to portray why documentation exists, developing a deeper understanding of effective uses of documentation.

B. DEFINITIONS

The definitions and interpretations that follow will be used throughout this module and are provided here to ensure a common reference point for discussion of documentation.

1. **Blanket Purchase Agreement (BPA):** Simplified method for providing repetitive requirements for small quantities of supplies or services.

2. **BPA Rotation:** Equitable distribution of requirements among qualified BPA suppliers. This practice ensures the competitive nature of BPA's through continued review and evaluation of vendor's services and prices.
3. **Evidence of competition:** (a) For purchases under \$2,500, evidence of competition must include documentation that verifies equitable distribution of buys and documentation of price quotations received from other than the previous supplier. (b) For purchases over \$2,500, written evidence must include solicitation of at least 3 bids, documentation of price quotations, copies of publicity used to advertise the solicitation, sole source justification if applicable, statement of the vendor's small business status, copies of applicable pages from catalogs or printed price lists used for price quotations, documentation to justify minimum order quantities when necessary. The experienced small purchasing buyer can add extensively to this list based on experience.
4. **Fair and Reasonable Price:** The buyer's judgement, based on a comparison of the proposed price with previously accepted reasonable prices found in prior purchase files, current price lists, catalogs, advertisements, similar item prices, value analysis, personal knowledge, or any other means.
5. **Mandatory Sources of Supply:** Sources of supply that are required to be considered by law or regulation. As an example, small purchase procedures require the use of small business set aside rules for purchases of less than \$25,000.
6. **Optional Documentation for Small Purchasing:** Small purchasing regulations invoke simplified procedures for administering a small purchase contract. The simplified procedures in no way negate the necessity for comprehensive documentation. The "required documentation" for a major contract is redesignated as "optional documentation" for small purchase (except as defined above) to ease the administrative costs of processing the volume of transactions that fall into the small purchase category. Continued care should be taken to ensure that sufficient documentation is kept in a small purchase contract file.
7. **Required Documentation for Small Purchasing:** All written records required by regulations which must be kept in a contract file. Some examples are: written proof of determination of fair and reasonable price, written sole source justifications if applicable, and all written data associated with the small purchase.

8. **Small Business and other socio-economic concerns:** Firms owned and controlled by socially and economically disadvantaged individuals as defined by the Small Business Administration.
9. **Sole Source Justification:** Positive statement that documents the reasons for sole source procurement and establishes the authority for procuring requirements from one source without explicit price competition.

C. GOVERNING RULES AND REGULATIONS

The following regulations relate to documentation:

<u>Reference</u>	<u>Subject</u>
1. FAR 4.800	Contract Files
2. FAR 13.105(d)(1)	Small Purchase Set asides
3. FAR 13.106	Competition and Price Reasonableness
4. FAR 13.107	Solicitation and Evaluation of Quotations
5. FAR 13.108	Legal Effect of Quotations
6. FAR 13.203-1(j),(k)	Terms and conditions required in a BPA
7. FAR 13.204(e)	Documentation required for purchases under BPA's
8. FAR 13.205	BPA Review procedures and Requirements
9. FAR 13.206	Completion of a BPA
10. FAR 13.303	Preparation and Execution of Fast Pay Orders
11. FAR 13.1403(c)(2) DFARS 213.402	Imprest fund documentation

- | | |
|-------------------------------------|--|
| 12. FAR 13.505
DFARS 213.502 | Purchase Order and related forms |
| 13. FAR 13.502 | Unpriced Purchased Orders |
| 14. FAR 13.503 | Contractor Acceptance and Modifying Purchase Orders |
| 15. FAR 13.504 | Termination of Purchase Orders |
| 16. FAR 13.505-3
DFARS 213.505-3 | Uses of Standard Form 44 |
| 17. DFARS 213.505-70 | Uses of DD Form 1155 |
| 18. FAR 13.506 | Purchases Via Telecommunications Media |
| 19. NAVSUPINST 4200.85 | Specific policy and procedure. NAVSUP sample documentation |

D. RATIONALE AND REASONS FOR POLICIES AND PROCEDURES

The Small Purchase buyer is a skilled and knowledgeable professional with actual authority to procure goods and services for authorized customers of the U.S. Government. As an agent of the Government, the professional small purchase buyer is legally and morally responsible to execute his authority with diligent care and judgement to ensure that each purchase drawn against Government funds is legally correct and protective of the rights of all the parties to the order (the Government and the Supplier).

Although the full legal aspects of a contract are usually not emphasized in small purchasing because of the dollar size of procurements, basic contract law still requires documentation in any determination and finding for the legality of an agreement.

At this point, it is important to understand that contract law is an extremely complex subject and is only introduced here to show how some seemingly pointless rules have an important purpose in fulfilling the lawful requirements of a contract.

If there is a greater interest in the field of contract law, or in specific laws or cases that may apply to the Small Purchase division, the nearest Office of General Council can be helpful in answering questions or in directing research into specific areas of interest.

Documentation exists as written evidence of an agreement and supercedes all prior oral agreements. The professional small purchase buyer can appreciate where he fits into the legal picture: how many times has the small purchase shop expected one type of performance in its order and received quite a different one? And when the specifications that were written into the purchase order were reviewed, it was found that they were not specific enough to describe the performance that was actually needed. Or that they were missing altogether. In this last case, there is inadequate documentation of a contract in the small purchaser's operation. This situation could lead to legal trouble.

The professional small purchase buyer must become the contract specialist and the contract administrator for small purchases. He/she must ensure that the written agreement meets all legal requirements of a contract. As described in contract law, a contract must contain four basic elements to be valid and enforceable as a contract. The four basic elements and brief descriptions of each follow:

1. **Agreement resulting from an offer and an acceptance:** The offer must be definite and certain. If an offer is indefinite or vague or if an essential provision is lacking, no contract arises from an attempt to accept it because no court can tell what, specifically, the parties are to do. As long as both parties can understand specifically what is being requested, the offer is considered valid. An acceptance is the assent of the supplier to the terms of the offer. No particular form or words are required in order to indicate that the supplier agrees to be bound by the conditions of the offer.
2. **Consideration:** An obligation to reciprocate in some way that is mutually acceptable to both parties.
3. **Competent parties:** Every party to a contract is considered to have the legal capacity to enter that contract until the contrary is shown. The fact that a person does not understand a contract does not constitute lack of contractual capacity.
4. **Lawful purpose:** A mistake can be interpreted by the courts as being caused by fraud, undue influence, or duress, and may make the agreement

voidable or, in some instances, void. In all cases, the contract must be for a legal agreement and purpose.⁷

An analysis of the requirements of the Federal Acquisition Regulations and the Department of Defense FAR Supplement (DFARS) reveals that proper accumulation of documentation ultimately fulfills written requirements and satisfy basic legal elements of a contract. This documentation may be required or optional in nature.

The following is an illustration of typical documentation that may be accumulated for a Blanket Purchase Agreement (BPA). This examples demonstrates how individual pieces of the documentation file are used to satisfy the basic legal elements of a contract.

1. **The Offer:** Terms and conditions of the BPA must contain a specific description of what is being ordered, by whom, for how long, for what price and any limitations applicable.⁸
2. **The Acceptance:** The offer in this case is assumed to be accepted. If immediate shipment is not possible soon after the receipt of an offer, the supplier must acknowledge receipt and acceptance of the offer, and establish an estimated delivery date in writing which must then be agreed to by the buyer in writing in order to continue the legality of the contract. All of these transactions are included in the documentation file to record the history of agreements as they are made.
3. **Consideration:** The amount of consideration is agreed to on the face of the BPA. Payment under the payment procedures are also included. For this example, payment can be made via normal accounting channels or it can be designated "fast pay."
4. **Lawful Purpose:** No act or law is transgressed through the procurement action. BPA rotation is used to ensure that the number of BPA suppliers are responsible and that prices being offered are fair and reasonable.

⁷ Anderson, Ronald A. and Kumpf, Walter A., *Business Law Principles and Cases*, South-Western Publishing Co., Cincinnati, OH, 1975, p. 157-256.

⁸ Department of Defense, DoD FAR Supplement, Government Printing Office, Washington, D.C., subpart 3.605-2.

5. **Competent Parties:** Competency of parties is assumed unless reasonable judgment by one party should have indicated the opposite, and, as such, is difficult to document. If, at any time, a contract is consummated by a minor, someone who is insane, or someone who is intoxicated, then the contract is not legal or binding. The professional small purchase buyer must note any unusual behavior when dealing with unfamiliar sellers to preclude contracting with an incompetent party.

Documentation can be a very cumbersome and an easily neglected aspect of the high volume, high pressure daily routine of the small purchasing division. The small purchase buyer must strive to ensure that all required and optional documentation deemed necessary is accumulated. This is important because a legal contract is binding and enforceable between all parties.

Documentation provides an historical snapshot of the circumstances surrounding the offer and acceptance of a contract. It provides the written basis upon which the contract is executed and upon which changes can be made. It is used to confirm that future buys of similar goods or services are made at a price that is fair and reasonable. Complete and accurate documentation can preclude the temptation of petty fraud or of collusion.

Documentation is the most comprehensive communication tool in procurement and when used effectively, it can paint a picture of the organization, truly representing management's emphasis on procedures, details, controls and professionalism in the small purchasing organization.

Documentation is used extensively as the basis for assessing how well the small purchase division is achieving internal and external management goals of productivity. Documentation serves as the initial source of information and is the first impression for any internal review, audit, Procurement Management Review (PMR), internal or external investigation. Providing the best possible impression via complete, accurate, and thorough documentation goes a long way toward gaining the confidence of the auditors or inspectors. If it is perceived through the written contracting records that procedures and practices are being strictly adhered to, then there is little need to look further into the management practices of that contracting operation.

E. COMMON PROBLEMS AND DISCREPANCIES

Based on a review of various PMRs and interviews with small purchase personnel, documentation related PMR discrepancies and common problems include:

- Administration authority for Government procurements was lacking.
- Documentation of contracting officer/ordering officer appointments was inadequate.
- Unauthorized commitments were not resolved.
- BPA documentation was inadequate.
- Purchase requests and other required documents were missing from purchase files.
- Fair and reasonable price determinations were not documented.
- Forms were prepared improperly.
- Sole source justification was not completed.
- Documentation of written bids and oral solicitations was either inadequate or missing.
- Justification for awards made to other than small business was either inadequate or missing.
- Regular review of BPAs and cancellations where warranted did not take place.
- Current clauses and provisions were not used in BPAs and purchase orders.
- Inadequate specifications were used in purchase descriptions.
- Excessive delays occurred in document preparation.
- Purchase orders were improperly modified.
- Imprest fund transactions were improperly documented.
- Incorrect paying office was cited on various forms.

F. SUGGESTED SOLUTIONS

After reviewing the above problems, one can conclude that the largest problem a small purchase division faces is the degree of control being maintained while processing the large volume of transactions. It is often the tendency, when attempting to focus on the objective of service to the fleet, to forget about the details. As many will agree, it is more efficient to do a job correctly the first time than it is to do the job over again once a mistake has been found. Control of the details of documentation is essential to be able to fulfill the legal requirements discussed above, as well as to perform the internal and external reporting objectives.

Small Purchase buyers must establish a control system with checks and balances which can maximize the effectiveness of documentation the first time through and minimize the need to revise any documentation to correct errors or omissions. It is not feasible to address each of the above problem areas separately in this module. Instead, this section provides suggestions which outline solutions for the most severe problems and concepts to improve the quality of the overall documentation process.

1. Documentation of the contracting officer/ordering officer appointment

A contracting officer must be properly appointed before any contract can be legally awarded. This requires adequate documentation. NAVSUPINST 4200.85 has sample documentation records for all types of transactions and buys. Figure 5-1 provides Naval Supply Systems Command's recommended forms for completing this requirement.

2. Documentation using small purchase pricing memorandum

Figure 5-2 is a sample Small Purchase Pricing Memorandum. This is perhaps one of the most important documents in the purchase file. This sample document was extracted from NAVSUPINST 4200.85. It provides a history of the decision steps taken during the purchase process, documenting compliance with applicable laws and regulations that affected the buy. The necessary points which must be made when developing a local control system and suggestions for implementation follow:

3. Establish evidence of internal control

Include a locally prepared checklist that lists all required documents and entries for specific types of contracts in each small purchase contract file. Proper use of the checklist will ensure that all applicable features of the agreement have been filed and that entries are complete and accurate for that particular type of contract. Problems such as open purchase of items that are available in the supply system, inadequate purchase descriptions, inappropriate BPA use and/or rotation, and inadequate documentation for any type of procurement procedure, including the use of imprest funds, can be avoided by using checklists to ensure that adequate documentation is accumulated and filed.

4. Establish a file maintenance program to review the effectiveness of controls in place

Establishment of procedures whereby buyers can work as teams to accomplish audits of completed documentation should be developed and implemented to guarantee that documentation files are reviewed prior to being filed as complete. If the number of files to be reviewed is too voluminous, auditing a sample of completed files for accuracy will suffice to assess the effectiveness of the controls in place. Errors found must be corrected and recorded so that problem areas can be reviewed during training. If one buyer is having particular trouble with a specific aspect of documentation, others may well be having the same problem and can benefit from refresher training on the specific requirements of that topic. Confirm that problems discovered which result from weak controls are reviewed and that controls are established to resolve these problems or at least to highlight them for regular review.

5. Make time for paperwork

Of particular usefulness is the idea of establishing office hours that allow the small purchasing buyers catching up on the paperwork. The devoted hours must be constructively utilized to improve the effectiveness of small purchasing documentation and not for taking leave or socializing. Another possibility for reducing errors, omissions, and time wasted is to establish a customer service area where customers are screened for specific, checklist type information. Establish a preliminary screening position and rotate the job among the available buyers. The screener can interview the customer to establish, at the outset, the most complete, correct, and revealing information about the agreement to be made. In this way, the remaining buyers are free to go about their routine without interruption, thus more effectively utilizing their time to make and document legal agreements.

6. Zero defects

Establish goals for error free documentation which supports the legal agreements being made. Describe the goals to the entire Small Purchase division and have everyone input additional ideas to help improve the effectiveness of the documentation. Have all small purchasing buyers work toward meeting these goals and recognize outstanding achievement with a "Most Perfect Buyer of the Month" contest. Review completed documentation for accuracy and completeness. The buyer who most effectively achieves the error free goals at the end of the month can then be recognized.

Imagination is the key to reducing time wasted, increasing the small purchasing divisions' effectiveness, and increasing morale and recognition of self worth in the organization. Everyone has a vital role to play and no one can succeed without the help of at least one other person in the organization.

G. TRAINING MATERIAL AND RECOMMENDED GUIDES

Naval Supply Systems Command Instruction 4200.85 of 25 July 1989.

Defense Small Purchase Correspondence Course ALM 33-0017, United States Army Logistics Management College, Fort Lee, Virginia, October 1989.

H. SUMMARY

As an agent of the Government, the small purchase buyer is held responsible for executing his/her authority with diligent care and judgement. The professional small purchase buyer must become the contract specialist and the contract administrator for small purchase. And as such, he/she must insure that the written agreement meets all legal requirements of a contract: that there is agreement, that adequate consideration is provided, that all parties are competent, and that the action serves a lawful purpose. Documentation demonstrates the buyer's responsibility to supervisors and reviewing authorities.

Documentation provides an historical snap shot of the circumstances surrounding the offer and acceptance of a contract. It provides the written basis upon which the contract is executed and upon which changes can be made. It is used to ensure that future buys of similar goods or services are made at a price that is fair and reasonable. Complete and accurate documentation can preclude the temptation of petty fraud or of collusion.

CONTRACTING/ORDERING OFFICER APPOINTMENT DOCUMENTATION SHEET

NAME	CURRENT GRADE/RANK AND POSITION TITLE	ACTIVITY
------	---------------------------------------	----------

PART I - DUTIES AS CONTRACTING OFFICER

A. Number of Employees Supervised _____

B. Highest Grade of Employees Supervised _____

C. Limitations on Contracting Authority \$ _____
Other: _____

D. Brief Description of Duties as Contracting Officer, to include Quantity, Complexity Type, and Average Dollar Amount of Documents Obligated.

PART II - EXPERIENCE

A. Number of Years as Full-Time Contract Negotiator/Administrator: _____

<u>Dates</u>	<u>Position</u>	<u>Grade Held</u>	<u>Duties</u>
--------------	-----------------	-------------------	---------------

B. Number of Years as Supervisory Contract Negotiator/Administrator: _____

<u>Dates</u>	<u>Position</u>	<u>Grade Held</u>	<u>Duties</u>
--------------	-----------------	-------------------	---------------

C. Number of Years as Contracting Officer (May overlap other experience): _____

<u>Dates</u>	<u>Position</u>	<u>Grade Held</u>	<u>Duties</u>
--------------	-----------------	-------------------	---------------

D. Number of years of Other Directly Pertinent Experience: _____

<u>Dates</u>	<u>Position</u>	<u>Grade Held</u>	<u>Duties</u>
--------------	-----------------	-------------------	---------------

PART III - EDUCATION

A. High School Graduate	B. No. of Years College Completed	C. College Graduate Yes No	D. Type of Degree E. Major F. Minor
-------------------------	-----------------------------------	----------------------------------	---

G. Graduate Work

PART IV - TRAINING

(List any pertinent Civil Service Schools, Military Schools or Correspondence Courses)

A. School/Course Title	Hours	Date Completed
------------------------	-------	----------------

PART V - OTHER

A. The Appointee has reviewed SECNAVINST 5370.2H (Standards of Conduct).

B. The Appointee is/is not required to file the Confidential Statement of Affiliations and Financial Interests.

Typed Name and Title of Appointee	Signature	Date
--------------------------------------	-----------	------

Typed Name and Title of Appointing Official	Signature	Date
--	-----------	------

Effective Date of Appointment

Distribution:

Certificate of Appointment

Under authority vested in the undersigned and in conformance with
Subpart 1.6 of the Federal Acquisition Regulation

is appointed

Contracting Officer

for the

United States of America

Subject to the limitations contained in the Federal Acquisition Regulation and to the following:

Unless sooner terminated, this appointment is
effective as long as the appointee is assigned to:

_____ (Organization)

_____ (Agency/Department)

_____ (Signature and Title)

_____ (Date) _____ (MO)

FORM 700-01-152-0017
1-000-101

STANDARD FORM 100 (10-05)
Prescribed by GSA
FPMR (41 CFR) 101-11.6

Figure 5-1
Sheet 4 of 4

SMALL PURCHASE PRICING MEMORANDUM
(SAMPLE)

Purchase Request or Purchase Order Number _____

____ Commercial Catalog/Published Price List

Number _____ Date _____ Page _____

____ Established Market Price:

Means of verification _____

____ Comparison with Prior Purchase of Same or Similar Item:

Vendor _____

Order No. _____ Date Purchased _____

Quantity _____ Unit _____ Unit Price _____

Basis For Determining Prior Price Reasonable _____

____ Value Analysis By Buyer/User/Technical Personnel (incl.
review of technical data examination of sample, etc.)

(Specify): _____

____ Other (set forth specific reason, e.g., valid purchase
request estimate, minimum order quantity, high priority
and delivery, special packaging/markings):

B. Reasons for Soliciting Only One Source

Signature of Buyer

Figure 5-2

A-85

VI. DETERMINATION OF FAIR AND REASONABLE PRICE

A. SUBJECT AREA

This section is intended to expose the professional buyer to various factors which affect a price and to show how those factors also affect price reasonableness.

"Contracting officers shall purchase supplies and services from responsible sources at fair and reasonable prices."⁹ The primary objective behind determining a fair and reasonable price is to obtain highest possible fleet readiness with available funds.

Price reasonableness can be determined in a number of ways. This section will focus on three primary methods. The methods discussed are:

- Use of internal information or published price lists,
- Competition,
- Negotiations.

Special emphasis is placed on competition as the preferred method of determining a fair and reasonable price.

To begin this lesson on a positive note, it would be good to cite two of many examples where professional buyers, by exercising sound business judgement, have saved the Government money. The first example deals with a Navy buyer who obtained a price savings of 83.6%. He did this by opening up for competition a previously sole-source contract for the transformer on the MK 88 Gunfire Control System. He was able to purchase the transformer for \$650, rather than the previous price of \$3,958.

⁹ FAR 15.802.b.1.

The second example also involves a Navy buyer who was able to realize similar savings. After questioning a contractor's price of \$1,533 for each of seven springs, she opened the contract for competition and bought them for \$7.50 each.

B. DEFINITIONS

1. **Base price:** An estimated price derived from internal information which will serve as a standard to compare prices received from outside sources.
2. **Competition:** Rivalry between business firms having similar or substitute goods which compete for customers or markets, in a free-market environment.
3. **Cost:** Cost involves each element which goes to make up an ultimate price.
4. **Fair market value:** Current prices that are:
 - Established during ordinary and usual trade between buyers and sellers free to bargain.
 - Substantiated by data from sources independent of the manufacturer or vendor.
5. **Fair and reasonable (reasonableness):** An amount which does not exceed that which would be incurred by an ordinarily prudent person in conduct of normal competitive business practices.
6. **Market:** The potential buyers and sellers of some good or service (or a group of closely related goods or services) who are interacting for the purpose of exchange.
7. **Negative profit:** The item or services are provided at a loss to the supplier.
8. **Price:** The total amount paid to purchase an item.
9. **Price analysis:** The process of evaluating a proposed total price without regard to individual cost elements or proposed profit. The term refers to any actions taken by contracting personnel in order to reach a decision regarding price without recourse to cost analysis.
10. **Profit:** The return on investment to those who successfully engage in a risk-involving activity or undertake innovation.

11. **Risk:** The degree of uncertainty surrounding an undertaking. In economic terms risk refers to potential for economic gain or loss.
12. **Unpriced purchase orders:** An unpriced purchase order is a purchase order for supplies or services for which price is not established at time of issuance of the order.

C. GOVERNING RULES AND REGULATIONS

The following regulations concern the determination of fair and reasonable prices:

<u>REFERENCE</u>	<u>SUBJECT</u>
1. NAVSUPINST 4200.85 enclosure (2)	Navy Policy for determination of fair and reasonable price
2. Federal Acquisition Regulation (FAR)	
a. 13.104	Small purchase procedures
b. 13.106	Competition and price reasonableness
c. 13.502	Unpriced purchase orders
d. 15.805.2	Price analysis
e. 15.900	Profit
3. Navy Acquisition Procedures Supplement (NAPS)	
a. 15.6	Evaluation Factors

D. RATIONALE AND REASONS FOR POLICIES AND PROCEDURES

The first mention of "fair and reasonable" is found in Public Law 671 of June 28, 1940. Section 2(a) of this law states that when it is in the best interests of national defense, the Secretary of the Navy is authorized to negotiate contracts, with or without advertising or competitive bidding, upon determination that price is fair and reasonable.

To be concise, the rationale or reason so much emphasis is placed on determining a fair and reasonable price is to save money. To understand the nature of and reasons for determining a fair and reasonable price, it is necessary to review the mission of a purchasing department. The mission of any purchasing department is to purchase materials and services that satisfy the following:

- Right quality,
- Right quantity,
- Right price,
- Right source,
- Right time.

Only after each of the five Rs has been satisfactorily met can price be reviewed for reasonableness. It is valuable to discuss each of these elements in more detail.

1. Right quality

The first of the five Rs is quality. Dobler, Lee, Lamar and Burt discuss this element of the value analysis.

When buying for the fleet, quality is related to suitability and cost (not price), rather than to intrinsic excellence. The best quality is that which can be

purchased at the lowest cost to fulfill the need or satisfy the intended function for which the material is being purchased.¹⁰

In determining quality, a distinction needs to be drawn between price and cost. Price is the amount paid at time of purchase. Cost includes not only the price of acquisition, but cost incurred to use and maintain the item purchased. Price must be kept in proper perspective. The lowest priced item may not perform to specifications required and thus its purchase may lead to a greater failure rate which will require more replacement parts driving up the long run cost. With proper consideration given to quality, the initial price may not be the lowest. However, long run costs may be lowest considering other factors in the overall value analysis. Dobler, Lee and Burt explain:

In short, low price is one thing; low cost is something entirely different. Price is the figure appearing on the purchase order; however unless that figure is the result of a total cost evaluation, it is not necessarily the right price.¹¹

Quality is determined by the reconciliation of two inseparable considerations:

- Technical considerations of suitability and,
- Economic considerations of cost and availability.

Small purchase buyers can help get the right quality through knowledge of the materials and the market. This requires buyers to know what they are buying, know current market/economic conditions and trends, as well as various sources of supply. During the course of business with suppliers, alternative items will sometimes be proposed. These alternative articles will frequently perform the same function at a lower price. Purchasing is not responsible for determining the required quality of an item; that rests with the requisitioner. Nevertheless, buyers should challenge specifications which seem uneconomical or limit competition.

2. Right quantity

¹⁰ Dobler, Donald W. and Lee, Lamar and Burt, David N., Purchasing and Materials Management, McGraw Hill, New York, NY, 1984, p. 40.

¹¹ Dobler, Lee, Burt, p. 46.

Purchasing the right quantity is just as important as obtaining the right quality and will also have an affect on the price paid. When determining the right quality, it is also the buyer's responsibility to review the quantity required. It is not uncommon for a requisitioner to submit requirements which are far in excess of current needs, stockpiling for the future. Such practice can be costly. Study show that 30 to 35% of the inventory value is frequently in carry costs. In addition, larger inventories increase losses potential from obsolescence and deterioration.

Maintaining a close liaison with the customer can help make the right quantity decision. This can be accomplished by working with the customer to minimize unnecessary expenditures and taking advantage of bulk purchases savings when the requirement exists. Manufacturers frequently offer discounts for purchasing a specific quantity of items at one time. Failure to take advantage of quantity discounts, when appropriate, results in a unreasonable price for the situation.

Buy Our Spares Smartly (BOSS) rationalizes this issue:

It is important to adhere to the basic precepts of requirements determination and procurement -- i.e., buy only what is needed and use good business judgement in negotiating the price. Common sense is the key to acquiring spare parts at a reasonable cost for even the most complex of weapons systems.¹²

3. Right price

Right price is the next R to consider. Contracting officers are required to purchase supplies and services from responsible sources at a price that is fair and reasonable. Exactly what constitutes a fair and reasonable price varies from buy to buy and is dependent upon the factors influencing the five Rs.

It is valuable to consider the overall objective of the pricing element of the equation. Dobler, Lee and Burt again clarify: "Professional buyers interpret the right price to mean a price that is fair and reasonable to both the buyer and the seller."¹³

¹² Buy Our Spares Smartly (BOSS), 23 Nov 1983.

¹³ Dobler, Lee, Burt, p. 149.

A very helpful equation in understanding price is:

$$\text{PRICE} = \text{COST} + \text{or} - \text{PROFIT}$$

This equation implies that price must cover costs to keep the supplier in business; it must be high enough to motivate acceptance of the order; and it must contain sufficient profit to motivate achievement of the five Rs.

As costs vary with circumstances, so do profits. What may be a fair profit in one instance may be a gross overstatement in another. Some of the things which must be considered when determining whether or not a profit is fair and reasonable are:

- Profit is the basic reward for risk taking as well as the reward for efficiency; therefore, higher profits should justifiably accompany extraordinary risk-taking.
- Due to higher relative expenses incurred with small special orders, higher profits are generally justified.
- Jobs which require highly skilled personnel should receive higher profits because of increased expense of training involved.
- Superior technical reliability warrants higher profits.
- In the price equation, profit may have either a positive or a negative sign. This may be due to market conditions in which a firm may have an excess supply and be forced to sell at a loss just to move material or to generate rapid cash. Under these conditions there will be a negative profit.
- A firm which produces an item according to the design of another firm would not be entitled to as large a profit as the developer because of the lack of risk involved.¹⁴

4. Right source

Once an order is placed, the buyer has to depend on the supplier to deliver the required quality and quantity on time. It is therefore of utmost

¹⁴ Dobler, Lee, Burt, p. 154.

importance that the buyer know his suppliers and be constantly seeking new ones. Selection of the wrong supplier can result in prices which are unreasonable or may result in late delivery. When choosing a source, the buyer should take into consideration reputation, capacity, and technological capabilities of a supplier. Maintaining a wide variety of suppliers permits the buyer to take full advantage of competition and minimizes risk that a required item may not be available. In making a decision between a distributor or a manufacturer, the buyer must answer the question, "Who can best fill my requirement at the least cost?" In many cases the distributor offers services which are not required by the buyer, and if purchased, would result in an unreasonable price.

5. Right time

Purchasing at the right time and delivering to the requisitioner on time are important aspects of the buyers job. The right purchase timing clearly affects the price paid. The actual importance of timing varies with the item being purchased. If purchased off-the-shelf, timing becomes less critical making a fair and reasonable price relatively simple to determine. If buying a "one of a kind" item or something that is not currently in production, the price may be higher than normally expected.

Just because the price is higher doesn't mean that it is not fair and reasonable. If the required delivery date is short, a supplier will typically charge extra to process and ship the order. These extra charges may be considered as fair and reasonable because of the urgent nature of the requirement.

With most purchases, the best means for determining if the sellers profit is fair and reasonable is through competition. The FAR summarizes the relationships of price, cost and profit and emphasizes the importance of maintaining a proper perspective. Profit or fee is only one element of price and normally represents a smaller proportion of total price than do such other estimated elements as labor and material. While the public interest requires that excessive profits be avoided, the contracting officer should not become overly preoccupied with particular elements of a contractor's estimate of cost and profit and overlook other factors. The most important consideration is the total price itself.

Once the buyer is satisfied that conditions specified by the five Rs will be met, the next step is to determine a fair and reasonable price. There are three methods a buyer can use to accomplish this:

- Published price lists (or other prices established under market conditions,
- Competitive buying,
- Negotiations.

Published price lists: Published price lists are frequently made available by suppliers; however, arbitrary use of them can cause problems. When using price lists a buyer must be aware that prices listed are generally asking prices and may or may not be selling prices. Furthermore, it is the responsibility of the buyer to insure that the price list or catalog being used is current. Recommendations from the technical division, the buyer's knowledge of material being purchased and information from previous purchases may be used when determining the right price.

When comparing prices with previous purchases the buyer must ensure that the quantities and circumstances of the purchase are similar. The Board of Contractor Appeals has ruled that unless the circumstances surrounding each procurement is known, the two contracts can not be compared for the purposes of determining a fair and reasonable price.

Competitive buying: Competition when properly used is a very good method for establishing a fair and reasonable price. There are three basic forms of competition within which our economy operates. They are:

- Pure,
- Monopoly,
- Imperfect.

Under pure competition the forces of supply and demand alone determine prices. Pure competition exists when the market contains a large number of buyers and sellers of approximately equal importance. Buyers and sellers always have full knowledge of the market. Pure competition also stipulates that buyers always act rationally, and sellers are free to enter and leave the market at will.

A monopoly exists when one seller controls the entire supply of an item. In this environment, the seller's actions (not the market) determines the supply and demand relationships. As a result, the seller can demand the most favorable price in a monopoly.

Between pure competition and monopoly is imperfect competition. This form of competition is characterized by either markets with few sellers or markets with sellers producing products which are close, but not exactly the same. This is the type of market where the majority of the small purchases are made.

Competitive bidding is the process by which prospective suppliers are given the opportunity to quote the price at which they can perform the service or provide the item required. For purchases over \$2,500 the buyer needs to solicit quotations from a reasonable number of qualified sources (three or more) to ensure that the purchase is advantageous to the Government. Price and other factors considered, including the administrative cost of the purchase all are part of determining what is advantageous. Competitive bidding is not a guarantee that a fair and reasonable price will be obtained. In fact when the prerequisite conditions for competitive bidding do not exist, using the procedure can result in unreasonable prices.

- For competitive bidding to be effective, five conditions must be met.
- The dollar value of the purchase must be large enough to justify the expense to both the buyer and seller.
- The specifications must be clear to both the buyer and seller and supplier must be able to determine the cost of providing the service either from actual experience or accurate estimates.
- There are an adequate number of sellers in the market.
- The sellers in the market are technically qualified and want the business.
- There is sufficient time available for using this method of pricing.

Negotiations: Negotiation is a buying and selling process. It is the process of determining a price which is mutually agreeable to both the buyer and seller. The price must be sufficiently high to allow the seller a reasonable profit and to provide incentive to perform. Conversely, it is the lowest price that must be paid to purchase the desired product or service given the circumstances surrounding the buy. In a productive negotiation both the buyer and seller "profit" because each has identified something that it wants from the other party that has greater value than what is being given up in exchange.

Not all purchase transactions require negotiations. As a rule, negotiations should be limited to cases where competition is lacking, standard merchandise is not available or when it is expected that the purchase requirement may cover a long

period of time. Negotiation is also sanctioned when the purchase involves procurement of a "one of a kind" item, a sole source supplier or high tooling or setup costs.

A well prepared negotiator must be cognizant that price is affected by a myriad of forces. Specifically, quality, number of suppliers, current market trade, quantity required, timeliness of delivery, standardization, risk involved in production, manufacturer set up costs, all play an active role in negotiating for a fair and reasonable price. What might have been fair and reasonable during the last purchase may not be so now. Each purchase should be considered unique and must be negotiated based upon its own particular circumstances.

It is important to understand that knowledge is the best weapon a buyer has in obtaining a fair and reasonable price. Prior to entering negotiations, the buyer must fully understand the requisitioner's requirement and be thoroughly prepared to discuss anticipated known and unknown elements of the procurement with the contractor.

Obtaining knowledge of the buy begins by understanding the requirement. This compels the buyer to ask the requisitioner for clear, concise descriptions; seek assistance from technical personnel; try to gain knowledge of the vendor's capabilities; and develop an understanding of the relationship between cost, value, profit, price and the economic market place. When it comes to actual negotiations, success or failure depends on sound business judgement.

E. COMMON PROBLEMS AND DISCREPANCIES

A typical buyer will process thousands of requirements during the course of a year. The large majority are processed properly with full consideration being given to the determination of a fair and reasonable price. However, several recurring difficulties became apparent during interviews with small purchase personnel and in various Procurement Management Reviews (PMRs). These discrepancies and common problems in this area include:

- Fair and reasonable price determinations were not made correctly.
- Buyers did not utilize readily accessible pricing information to evaluate the vendor's prices.
- Available catalog prices were not used and higher prices were negotiated.

- Past procurement records were not used to determine price increases.
- Large price increases were not questioned.
- Fair and reasonable price determinations were based upon competition when in fact competition did not exist.
- Unpriced purchase orders were not properly used, resulting in unreasonable prices.
- Price reasonableness was not established on the billing of unpriced orders.

The above discrepancies illustrate areas where small purchase organizations have had complications. Hopefully the suggested solutions will reduce future occurrences of these problems.

F. SUGGESTED SOLUTIONS

In reviewing any proposals or recommendations, it is important not to lose sight of the reason for obtaining a fair and reasonable price. The general objective of small purchasing is to satisfy the customer's requirement efficiently by considering price and administrative cost. Only after the requirements of the five Rs have been met can we review the price for fairness and reasonableness.

The procedures to follow when determining a fair and reasonable price are:

1. Review all internal information to develop a base price against which comparisons can be made.
2. If there is insufficient internal information to determine if a price is fair and reasonable or if the purchase is greater than \$2,500, pursue competition.
3. When it has been determined that the available internal information is not sufficient and competition does not exist, negotiate.

Each step of the process requires that the buyer make a decision. It is important for the buyer to review the available information and then, based upon sound business judgement, determine whether or not the price is fair and reasonable or if more information should be gathered. Document every step of the process.

Figure 6-1 provides an easy form for the buyer to document the method used to establish that the price was fair and reasonable. This sample form was extracted from the Defense Small Purchase Basic Correspondence Course book. It is also an excellent desk guide and buyer checklist.

To reduce administrative costs, small purchases valued at less than \$2,500 may be awarded without competition. Internal information available to the buyer includes, but is not limited to, personal knowledge of the item and market conditions, price estimates provided by the technical division, commercial catalogs and published price lists, and finally the valuable, often forgotten source of past procurement records for the same or similar item.

After the information has been reviewed, determine the best base price and document it; being sure to list at least three reviewed sources, if possible. If the purchase is less than \$2,500 and the regulations permit, a fair and reasonable determination can now be made based upon the information reviewed. If not, your established base price will now serve as a guide in reviewing competitive bids.

When using past procurement records be particularly wary of abnormal price increases. The extent of what constitutes an abnormal price is a matter for the buyer's and Contracting officer's judgement based on the current business environment and other factors. If an abnormal price increase exists, obtain additional information to determine the circumstances. Document both the fact that it exists and the reasons behind it. If a price increase does exist, a fair and reasonable determination should not be made without an explanation.

When it appears necessary to solicit competitively, it is the responsibility of the buyer, using sound business judgement, to determine if the criteria for competition exists. If it is determined that competition does exist then the buyer should attempt to obtain at least three priced quotations, being careful to record each source and the price quoted. When all the quotations have been received, compare them with the base price. If there is a noticeable difference, determine and document the reasons for it. A buyer should be leery of a price that is unreasonably low. As was mentioned earlier a price must be high enough to get the supplier to accept the contract in the first place and to provide enough incentive for him to perform on time. If his quote is unreasonably low in comparison with the other quotes, it may mean that the supplier has a technological advantage, that he may have excess stock, or that he may be trying to sell something which isn't what you ordered. In these

cases, if the low bid is accepted, the reasons and circumstances surrounding the decision should be clearly annotated on the small purchase pricing memorandum.

When it has been determined that internal information is not sufficient to determine a fair and reasonable price and competition does not exist, the next step is to negotiate a price. When negotiating a price, the buyer must exercise good judgement, drawing on his or her knowledge of the materials being purchased, the prevailing market conditions, technical evaluations and previous purchases of the same or similar material. When price reasonableness is determined through the negotiations process, it is extremely important to document all the things that were considered in making the determination at the time the buy is made.

The importance of proper documentation has been emphasized repeatedly for two very good reasons. First, we are obligating public funds and are required by law to document each purchase so as to provide an audit trail. Secondly, and of equal importance, prior purchases will be used when establishing a base price for current buys. If the circumstances of a previous buy are not clearly and concisely documented, the usefulness of the information in determining a fair and reasonable price has been rendered useless. Or it may serve to perpetuate an unreasonable price. The documentation required is not complicated and takes just a few minutes to complete.

The buyer should remember that FAR 13.106 requires data supporting small purchases be retained to the *minimum* extent and duration necessary for management review purposes. This minimum will include the Small Purchase Pricing Memorandum or a locally prepared form to document a fair and reasonable price. NAVSUPINST 4200.85 of 25 July 1989 has a sample form in enclosure (2) page 1-46. The form follows the basic decision steps which a buyer must follow in determining price reasonableness and helps to reinforce the concept of competition by providing space to record three catalog prices and three vendor quotes. When properly filled in, the form will provide all the information required by an auditor and more importantly, it will provide accurate information on which future price determinations may be based.

G. TRAINING MATERIAL AND RECOMMENDED GUIDES

Naval Supply Systems Command Instruction 4200.85 of 25 July 1989.

Defense Small Purchase Correspondence Course ALM 33-0017, United States Army Logistics Management College, Fort Lee, Virginia, October 1989.

H. SUMMARY

In general the mission of any purchasing department is to purchase materials and services of the right quality, in the right quantity, at the right price, from the right source, and at the right time. Only after each of the five Rs has been satisfactorily met can the price be reviewed for reasonableness.

Government procurement is primarily concerned with the reasonableness of the price. The secondary considerations are cost and profit.

Exactly what constitutes a fair and reasonable price varies from buy to buy and is dependent upon the factors influencing the five Rs. There are several ways a buyer can begin to establish price reasonableness. These include published price lists, (or other prices established under market conditions), competitive bidding and, negotiations. The buyer can use the following procedures when making the fair and reasonable price determination:

- Review all internal information to develop a base price against which comparisons can be made.
- If there is insufficient internal information to determine if a price is fair and reasonable or if the purchase is greater than \$2,500, pursue competition.
- When it has been determined that the available internal information is not sufficient and competition does not exist, negotiate.
- DOCUMENT THE FILE to explain how price reasonableness was established.

In actuality, the "reasonable" price is the "lowest" price in most competitive small purchase buys over \$2,500 (assuming the low price buy fills the need) under FAR competition requirements.

1. Request for Quotation Number: DAALMC-89-Q-0076

2. Contractor: John Jones Co.

3. Price determined fair and reasonable based on:

- Adequate competition
- Commercial catalog price 21, XX Apr 01, P. 64 (part only)
Number, date, and page
- Price set by law or regulation.
- Comparison to prior award of same or similar item.
(If comparing to a similar item note differences and similarities in item 4).

Vendor _____

Order No. _____

Date Purchased _____

Quantity _____ UI _____ Unit Price _____

- Comparison to yardstick (Document in item 4).
- Comparison to Government estimate.
(Document verification of validity of Government estimate in item 4).
- Other (Document in item 4).

4. Calculations/Documentation.

Estimated repair costs are fair and reasonable based on: (1) Analysis of the informal cost breakdown (see attached MFR); (2) Repair cost will not exceed replacement cost of the item; (3) Concurrence of Contracting Officer and customer.

J. Conduit
Signature

(Current)

Date

SAMPLE FAIR AND REASONABLE PRICE DOCUMENTATION FORM
Figure 6-1

A-101

VII. COMPETITION

A. SUBJECT AREA

The purpose of this module is to assist the small purchase professional in understanding the basic elements of competitive buying. In particular, the module explores what constitutes competition, the regulations affecting it, the rationale behind the Navy's policy, and common problems and solutions associated with this subject. This section first shows how competition has developed since the Competition in Contracting Act. The section then deals with competition in the Navy's current competition initiatives.

With the ever increasing emphasis on competition, it is imperative that small purchasing professionals gain a better understanding of competition and how to incorporate it into their jobs.

As small purchasing professionals, everyone is aware of the importance of competition in Government purchasing. Competition has become the cornerstone of the Navy's business strategy for two reasons: Congress has enacted laws requiring competition and it is the preferred tool utilized for acquiring and supporting reasonably priced, quality products.

The Competition in Contracting Act (CICA) of 1984 (Public Law 98-369) sparked increased interest in competition in the Federal Government. CICA opened a new era in Government procurement competition. Before CICA, large purchase procurement procedure stressed formal advertising and looked for two or more bids. CICA now mandates full and open competition from all qualified vendors.

The Competition Advocate General (CAG) is responsible for promoting competition and serves as the competition focal point for the Navy. Closely monitoring Navy programs, the CAG implements policies and procedures designed to enhance competition.

This direction and guidance has apparently been very successful. The "Procurement Competition Report to Congress" quantifies the results below:

The change has had dramatic results. Statistically, the percentages of Navy procurement dollars competed has increased from 26.7% in FY 1982 to 56.1%

in FY 1988. In terms of dollars, we have increased from \$9.4 billion in FY 1982 to \$28.2 billion in FY 1988.¹⁵

The 1989 goal was 59% of procurement dollars and 61.67% was actually received. This year's goal is 61% of total direct purchase dollars and 77% of contract advisory assistance dollars.¹⁶ Every indication is that the goals will continue to rise each year.

These statistics should clearly indicate the emphasis the Navy is placing on competition. This emphasis is not only directed towards major systems acquisition, but also to all facets of Government purchasing. Today, competition and the reduction of unnecessary costs is clearly everyone's responsibility.

It will take every buyer's support in order to continue the upward trend in competition. This is apparent by evaluating the statistics. The 1989 goal of increasing competition by only another 2.9% is not nearly as significant as the 29.4% advance between 1982 and 1985. Apparently, new approaches to increased competition will be necessary to continue the upward trend.

The remainder of this module is designed to help the small purchasing professional by:

1. Increasing awareness of the intent and importance of fostering competition.
2. Reducing the number of competition-related discrepancies reported in Procurement Management Reviews (PMRs) and other audits.
3. Allowing the Government to reap the benefits of lower pricing through competition.
4. Assisting small purchasing personnel in further developing their professional knowledge in an area of new found importance.

¹⁵ Office of the Competition Advocate General, "Procurement Competition Report to Congress," Fiscal Year 1988, p. IV-8.

¹⁶ "Competition Communique 1-90," Washington, D.C., November 1989.

B. DEFINITIONS

The definitions and interpretations of the following terms, which will be used throughout the material, are provided to ensure a common frame of reference when discussing competition:

1. **Brand Name or Equal:** A purchase description wherein a requisition specifies a particular brand name of product or one that is of equal quality and/or capable of performing the function intended.
2. **Commerce Business Daily:** A Department of Commerce publication synthesizing Government contracting and subcontracting opportunities.
3. **Competition:** The process of allowing prospective vendors or contractors to contend against one another to determine which can most satisfactorily meet some objective requirement. Government policy establishes this as the preferred method to meet Government and social interests.
4. **Fair and Reasonable:** Describes a conclusion as to the fairness and reasonableness of a price the buyer, after adequate evaluation, is willing to pay and the vendor is willing to accept.
5. **Mandatory Federal Supply Schedule:** GSA sources of supply from which a buyer must, by regulation, obtain goods and services available.
6. **Offer:** In small purchasing, this term is used interchangeably with "quotations."
7. **Optional Federal Supply Schedule:** Non-mandatory GSA sources of supply which buyers may access to obtain goods and services.
8. **Public Place:** Normally refers to a bulletin board or other suitable location for posting notices of intended procurements.
9. **Quotation:** Price, delivery or other terms and conditions offered by a potential supplier for supplies or services to be rendered.
10. **Solicitation:** The act of seeking competitive bids, quotations or offers from potential suppliers.

C. GOVERNING RULES AND REGULATIONS

The following regulations relate to competition:

<u>REFERENCE</u>	<u>SUBJECT</u>
1. FAR 8.404	Using Federal Supply Schedules
2. FAR 13.204	Purchases under BPAs
3. FAR 13.106	Competition and Price Reasonableness
4. FAR 10.002	Policy (Specifications, Standards and Other Purchase Descriptions)
5. FAR 12.101	Delivery of Performance Schedules
6. FAR 15.105	Competition
8. FAR 13.108	Legal Effect of Quotations
9. Public Law 98-369	CICA of 1984
10. <u>Navy Competition Handbook</u> , Annually produced	
11. Public Law 98-577	Procurement Act of 1984 Small Business and Federal Procurement
12. Public Law 98-525	Defense Procurement Reform Act of 1985
13. NAVSUP Ltr. 88-55	Policy letter Concerning Competition under \$2,500
14. NAVSUPINST 4200.85	Specific policy and procedure

D. RATIONALE AND REASONS FOR POLICIES AND PROCEDURES

Competition in Government procurement is required by statute, regulation and policy. The requirement to seek competition is a continuing legal obligation that all of us must follow.

What are the reasons for competition? Foremost, competition is utilized to help the Government reduce costs. As is the case with any organization, the Navy is faced with the basic economic fact that its resources are limited both by nature and productive capability and by the funding authorized by Congress. To be able to afford our defense requirements, we must keep costs at a minimum. One of the most effective ways of doing this is by increasing competition.

Competition in Federal procurement is not a new idea. In 1809, Congress enacted the first in a long series of laws requiring the use of formal advertising. It directed that all purchases or contracts made by the Government would be "open purchases." In 1829 the Attorney General stated that the purpose of these statutes was to prevent favoritism, and benefit the Government through formal advertising.

A basic responsibility of our form of democratic Government is to consider the welfare of its people and to maintain a fair attitude towards competing groups. The problem with this responsibility is that it can be contradictory. For example, in "considering the welfare of its people" does the Government act in the best interest of the taxpayer or to some competing group?

The concept of a competitive market is rooted in free market economic theories that were developed by such theorists as Adam Smith, who in 1776 published the "Wealth of Nations," and John Maynard Keynes who published "The General Theory of Employment, Interest, and Money" in 1935. "Keynesian Economics" and its emphasis on supply and demand has been a significant influence on American economic policy. The notion of a competitive market is based on three assumptions. The first is that a large number of buyers and sellers exist in the same market. Each buyer and seller has the same degree of influence in the market. The second assumption is that each buyer and seller is absolutely free to enter or leave the market at his discretion. The third assumption is that only one homogeneous commodity is sold in any given market. Think of the market for hand soaps and imagine having only Ivory soap to buy or to sell.

Under these three assumptions, a competitive market is seen as desirable because it performs the democratic task of an equitable distribution or allocation of goods to all individuals. Basically, it efficiently allocates limited resources. The efficient allocation of resources occurs at a point that Keynes called market

equilibrium. According to Keynes, one of the key ingredients in achieving market equilibrium is the process of competitive bidding.

Theories are interesting to study. However, their practical application to the realities of life can be extremely limited. Keynes recognized this when he published his theory. Critics of his theory assert that the three assumptions are rarely satisfied and therefore, the theory cannot be used to solve the economic problems of the world. Keynes was not trying to present an economic model of the real world, but rather to focus upon describing how governments could alter their economic practices and policies to allocate scarce resources more efficiently. Given the impact of Keynesian economics on American economic policy, it's not surprising that great emphasis has been placed on promoting a proper competitive environment within Federal procurement.

The notion of a competitive market asserts that a buyer can acquire goods at a lower price than the price the buyer would pay if only one supplier existed. In a homogeneous market with many buyers and sellers, in the long run, the market price for that item will stabilize at a price which represents market equilibrium.

The Federal Government purchases significant amounts of goods and services and therefore has a significant influence on the nation's overall economy. In some markets for common-use consumables, the Government is only one of a large number of buyers. However, in markets for specialized services or advanced electronics, the Government may be the only buyer. Government participation in a particular market has a significant impact on that market's price structure and on the number of suppliers in that market. Hypothetically, for the Government to promote competition in all markets it interfaces with, separate rules would have to be made for each commodity. Given the vast number of commodities that the Government procures, this is an impossibility. Instead, a more general type of guidance has been developed which is based on the dollar value of the purchase.

Competition also introduces the principle of fairness to the procurement arena. It further provides the incentive for business to seek Government contracts, hopefully saving hard-earned tax dollars.

1. Seeking true competition

Seeking competitive bids from various sources comprises a large portion of the small purchasing professional's day. Current policy requires the solicitation of at least three priced quotations from qualified sources. The time spent soliciting these quotations depends upon several thresholds that govern the amount of competition required.

a. Purchases Under \$2,500

Competition in purchases not in excess of \$2,500 may be accomplished without soliciting competition when prices are considered fair and reasonable, but that such purchases will be equitably distributed over time among qualified suppliers.

In an effort to keep administrative costs to a minimum, the buyer should only verify prices when he or she suspects that the price may not be reasonable or purchases an item for which no comparable pricing information is available. To ensure fairness to all qualified suppliers, purchasing personnel should solicit a quotation from someone other than the previous supplier before placing follow-on orders for like material. This ensures the Government is fair with its suppliers and helps to expand the supplier base.

If the buyer believes that the prices are not reasonable or if comparable pricing information is not available, competitive quotes may be required.

b. Purchases over \$2,500 but less than \$5,000

These purchases require that quotations from a reasonable number of sources be solicited to ensure the Government receives a fair and reasonable price. The reasonable number is generally three or more suppliers. The buyer should include two sources not in the previous solicitation if practicable.

c. Purchases over \$5,000 but less than \$10,000

Requirements for these purchases are similar to those between \$2,500 - \$5,000 except that purchasing activities are required to post a notice of the intended procurement. Buys in the \$5,000 to \$10,000 range require posting the purchase description in a public place for ten days. This allows time for the vendors to respond and increases competition.

Oral solicitations exempt any posting requirement. Even if the solicitation is not oral, when the purchase is between \$5,000 and \$10,000 award can be made before the end of the ten day posting period. It is interesting to note that the contracting office must keep the requirement posted for the full ten days even if an award was made early.

d. Purchases over \$10,000 but less than \$25,000

Competitive: Competitive purchases over \$10,000 must be posted for ten days before award unless oral solicitations are conducted. Then the posting requirement is exempted. The Contracting Officer must determine and document that the price of the award is reasonable.

Sole Source: If the purchase exceeds \$10,000 as a sole source, a synopsis is advertized in the Commerce Business Daily (CBD). The purchasing office then waits at least fifteen days to release the solicitation and at least an additional 30 days for the vendors to submit their proposals or quotes.

This dollar range requires that purchasing personnel follow virtually the same rules that one would for a large purchase in excess of \$25,000. This is done to ensure that the maximum number of suppliers are aware of the upcoming purchase. These procurements must be synopsisized in the Commerce Business Daily (CBD) and posted on bulletin boards in the contracting office and/or at additional public places at least ten (10) days prior to the last date for receipt of offers (FAR 5.101).

U.S. Department of Commerce
Commerce Business Daily
P.O.Box 5999
Chicago, IL 60680

Synopsizing is not required when any of the following are involved:

- Classified matters.
- Perishable subsistence.
- Utility services (except telecommunications).
- Unusual or compelling emergencies in which the Government would be seriously injured if offers were permitted to be made more than 15 calendar days after issuing the solicitation. The circumstances involved shall be documented in the contract file by the contracting officer.
- Orders placed under existing contracts which were themselves synopsisized.
- Contracts from or through another Government agency.

- Acquisitions from a mandatory source of supply.
- Solicitation of offers from foreign sources only.
- Modifications to existing contracts that were previously synopsisized, or for which new funds are not obligated for additional supplies and services.

When a synopsis is required for a sole source requirement, the Contracting Officer must include a reference to note code 22. This identifies the synopsis as an intent to make an award of a sole source contract.

The format for a synopsis is the same as in large purchase buys over \$25,000:

1. Contracting office and address. Begin the first line of text with the name and address of the contracting office. Do not abbreviate except for the names of States. The address will include an attention phrase identifying the person to contact for further information (include the person's title, code and telephone number).
2. Description of the supply/service. Type the following elements:
 - a) Supply/service classification code (refer to the listing in FAR 5.207(f)).
 - b) Name of supply/service.
 - c) National stock number (NSN), if assigned.
 - d) Specification (include notation "QPL" if the specification requires a qualified product).
 - e) Manufacturer (include part number, drawing number, etc.).
 - f) Size or dimensions.
 - g) Basic material from which fabricated.
 - h) Quantity (include options for addition quantities).
 - i) Unit of issue.

- j) Destination information.
- k) Delivery schedule.
- l) Solicitation number.
- m) Solicitation opening and closing dates.
- n) Duration of the contract.
- o) Numbered Notes. Include note code 22 for sole source as well as any other applicable notes. The first issue each week of the CBD lists all current numbered notes. The notes describe how to respond to the synopsis of a proposed contract; the qualifications a prospective contractor must have to be considered for an award; and the availability of plans, specifications and other information. When one or more of the notes applies to a synopsis, contracting officers should incorporate the content of the note(s) by reference at the end of the synopsis.

2. Determining true competition

As described above, competition must exist for all purchases over \$2,500. How does the Small purchasing professional know when he has true competition? Four conditions must be met to ensure all aspects of competition have been met. These qualifications are:

- There must be at least two offerors.
- Sellers must be technically competent and should have the capacity and financing to complete the order.
- The offerors must be contending independently for the award.
- Offers submitted must be responsive to the expressed requirements of the quotation.

Common sense dictates that for competition to exist there must be more than one offeror. In determining the exact number of quotations, the buyer must consider the:

- Number of potential responsible offerors,
- General availability of the product or service,
- Urgency of the purchase,
- Dollar value of the purchase.

The buyer must also consider that a successful bidder must have the capacity, must have the know-how and must actively seek the contract. Considering this the buyer must be aware of situations in which there is no real competition. Backlogs of work in some sellers' facilities may cause them to be unwilling to accept additional work. In these cases, if bids are made at all, they may be inflated to discourage consideration of their offer.

Buyers must watch for collusion between offerors. When competing firms are subsidiaries or affiliates, free-market competition does not exist.

For competition to be fair and effective, the specifications of the item being purchased must be clear to both parties. Comparison of technical specifications, discounts, delivery schedules and quantities can help identify misunderstandings of contract terms.

Contracting personnel must assure all of the above criteria have been met before competition can exist. Furthermore, they must insure that conditions exist which do not deny potential bidders an opportunity to compete. Some of these conditions are: insufficient time for submitting offers, short delivery schedules or use of brand names. Additionally, the Government (you the buyer) must also demonstrate that the lowest price obtained is reasonable.

3. Pseudo-competition

In this situation all offerors are quoting on a Government requested proprietary item, i.e., brand name item. Here the price of the item in question is controlled by the manufacturer. The various offerors must base their selling price on the purchase price from the manufacturer plus a mark-up for profit. The price quoted by each dealer is therefore dependent upon the price charged by the manufacturer thus precluding true competition.

To avoid this trap, solicitations, if at all possible, should not be restricted to a single brand name product. Solicitations for brand name products should only be requested when the need is fully justifiable by the customer.

4. Evaluation factors other than price

Factors other than price must be taken into consideration when determining the reasonableness of an offer. The terms of technical specifications, delivery schedules, quantity and discounts are all important factors to be considered. The required delivery date of a particular requisition may be crucial and the low bidder may not be able to meet the required time frame. A supplier may take exception to certain specifications causing the buyer to reject his proposal. In any event, when an award is made to other than the low bidder, the buyer must have a valid reason and must document his reasoning for not selecting the low bidder. Other factors considered, if the buyer determines it is in the interest of the Government not to accept the low bid, he or she has the authority to make that decision.

5. Navy initiatives aimed towards increasing competition

a. BOSS

One program concerning competition of particular interest to small purchasing professionals is Project BOSS (Buy Our Spares Smart). Boss is a program designed to correct the problems inherent in the Navy's acquisition process and to foster additional spare parts competition. Its objective is to ensure that the Navy spends its dollars wisely and pays only a fair and reasonable price for spares. The Boss initiative has resulted in the saving of stock fund dollars by competing spare parts requirements directly with subcontractors instead of buying from prime contractors.

b. Competition Advocate

In the spring of 1982, the Navy began to establish the position of Competition Advocate at all major contracting activities. The Competition Advocates examine non-competitive contracts, single out candidates for competitive bidding, and help contracting officers find qualified competitors. In 1983, the Secretary of the Navy established the flag rank billet of Competition Advocate General of the Navy, whose duty it is to coordinate the efforts of Command Competition Advocates and provide flag level oversight management of the Navy-

wide competition program. The program has increased awareness of competition. The Competition Advocates have become a major force in instituting the Navy's new policies concerning competition.

c. Competition in Contracting Act of 1984

In this law, the Congress has reaffirmed their commitment to competition. The Act amends the Armed Services Procurement Act to require new simplified procedures for small purchases and to promote competition to the maximum extent possible.

E. COMMON PROBLEMS AND DISCREPANCIES

Competition in the small purchase arena has historically been a principle source of the discrepancies and problems found on PMRs, internal reviews and various audit reports. Typically, audits of the small purchase function cite varying types and degrees of improper competitive practices. A review of sample reports reveals that each report often provides segmented and incomplete pieces of the total competitive problem. This situation results primarily from the fact that audit reviews are very individualized. They represent specific time frames and specific organizations. The response by the cognizant procurement office follows a somewhat similar pattern: as a particular discrepancy unfolds because of an audit finding, an initial surge of interest (training and corrective actions) is generated only to be subsequently replaced with more pressing issues. Here again, only bits and pieces of data relating to the competitive problem are provided. The purpose of this section and the accompanying section entitled "Suggested Solutions" is not just simply to restate what has been revealed before, but to provide small purchase professionals with a single document that provides a more comprehensive picture of weaknesses in competitive practices. The goal is also to provide you with "tools of information" to assist you in understanding competition in performance of your job.

These discrepancies and problems are by no means all inclusive. They provide, however, a representative cross - section of weaknesses requiring your immediate and repeated attention.

1. **Blanket Purchase Agreements calls greater than \$2,500:** Buyers frequently do not solicit quotes from at least three qualified vendors nor do they document reasons for soliciting a lesser number in establishing reasonableness of competition and price on these orders.

2. **Items on Non-Mandatory General Service Administration (GSA) Federal Supply Schedules:** Procurement personnel often issue awards exceeding \$2,500 on non-mandatory GSA Schedules without seeking competitive quotes or without justifying the quotes as being fair and reasonable.
3. **Walk-Through Requirements Exceeding \$2,500:** Walk-through requirements exceeding \$2,500 frequently are not competitively awarded although a competitive environment exists.
4. **Splitting BPAs and Purchase Orders:** Purchase orders and BPAs are split solely for the purpose of avoiding the requirement to solicit competitive quotes for awards over \$2,500.
5. **Rotation of Vendors:** Small purchase personnel repetitively solicit price quotations and issue orders to the same supplier, especially for requirements under the \$2,500 threshold. Solicitations and awards are to be equitably distributed among all qualified sources of supply.
6. **Sole Source Justification/Inadequate Documentation of Files:** A statement in the file explaining the absence of competition when only one source of supply was solicited is sometimes omitted. Furthermore, when a notation is made to justify a sole source procurement, the files are generally vague and unconvincing, indicating that price fairness and reasonableness was based on other than objective and supported opinion of the buyer.

F. SUGGESTED SOLUTIONS

These suggested solutions are by no means the only answers to the common problems expressed above. They are presented to provide you with additional sources of information to assist you in accomplishing your job more effectively and to provide food for thought in the hopes that more creative approaches to solving the sole source dilemma can be achieved. Let us now examine possible solutions for the common problems addressed earlier.

1. Blanket purchase agreements exceeding \$2,500

Procurement personnel should be aware that the use of BPAs does not authorize purchases that are prohibited by law or regulation. Therefore, the existence of a BPA does not by itself justify sole source purchasing. In other words,

the rules regarding competition are equally applicable to BPAs as well as to other small purchase instruments. In situations where there are insufficient numbers of BPAs to ensure adequate competition, procurement personnel should solicit quotes from other sources and make the purchase as appropriate and/or establish additional BPAs to facilitate future competitive purchases among BPA vendors.

2. Items on non-mandatory GSA schedules exceeding \$2,500

Frequently, procurement personnel confuse procurement regulations regarding the use of mandatory and non mandatory (optional) Federal Supply Schedules. For mandatory schedules, regulations require that ordering offices shall not solicit quotations or otherwise test the market solely for the purpose of seeking alternative sources to the Federal Supply Schedules or request any forms of quotes from supply schedule contractors for the purpose of price comparison. In other words, mandatory users must procure the items on the schedule at the listed price without seeking competition. In the above situation, it is assumed that listed prices are fair and reasonable. However, this requirement does not apply to optional users. The mere fact that an item is on an optional schedule does not by itself imply or justify fair and reasonable price. Although not specifically stated in the Federal Acquisition Regulations (FAR), the rules regarding competition are equally appropriate to optional schedules as well as other small purchase actions. Procurement personnel should therefore be extremely careful to properly classify the type of schedule by first checking the most current editions of the Federal Supply Schedule catalogs.

3. Walk-through requirements exceeding \$2,500

Walk-through procedures were established to expeditiously handle emergency needs. Because these requirements are deemed "emergency," procurement personnel use this as a justification to preclude seeking competitive bids. In many cases, walk-through requirements are repetitive needs for common supplies or services that are available from a host of vendors who can often provide lower prices. Although a requisition is considered emergent, buyers should be aware that competition may only be precluded in emergency situations, as justified and fully documented that time will not permit obtaining competitive quotes. However, in situations where competitive quotes are easily obtainable, competition should be sought, to the maximum extent possible. In cases where time does not permit competitive quotes, buyers should at the minimum equitably distribute repetitive buys among potential sources.

4. Splitting BPAs and purchase orders

The regulations specifically state that splitting orders to avoid competition is illegal. Other than the illegality of this type of action, research and experience have proven that it is usually economically and in the best interests of the Government to consolidate requirements and solicit competitive quotes. This makes good business sense since, as a rule of thumb, lower net prices are obtainable on larger order quantities than smaller order quantities.

5. Rotation of vendors

Buyers should be aware that rotating business among qualified sources of suppliers to the maximum extent possible is essential to ensure a competitive environment. For awards both over and under the \$2,500 threshold, the smaller the number of offerors, the greater the need for close evaluation of quotes. Merely soliciting the desired number of quotes (3) as required by law does not by itself guarantee price competition. This particular area of competition requires professional judgment on the part of the buyer to evaluate whether a competitive environment exists and to promote and maintain such a competitive environment through buyer assertive action.

6. Sole source justification and inadequate documentation of files

Evaluating requirements to determine the adequacy of a sole source procurement and documenting files to justify such awards are of vital importance to the competitive process. Sole source justification has historically been fertile ground for procurement review discrepancies. In order to alleviate these problems, a proper sole source justification must thoroughly document the rationale. What can procurement personnel do to ensure valid and supportable sole source determination? Here are several suggestions to assist you in meeting this goal. Many of these suggestions are thoughts of the Navy's Competition Advocate General.

- **Restrictive Specifications:** You should challenge restrictive specifications to ensure that purchase descriptions/specifications state the minimum essential requirement of the user and that it is not written to exclude products made by other companies. Be aggressive and assertive in reviewing reasons which prevent the Government from providing more competitive specifications. If at all possible, try to influence the purchase description by working closely with the customer to generate competition. Discourage the use of "brand name or

equal" or other types of descriptions that specify a product or feature a product peculiar to one manufacturer.

- **Minimum Requirements:** Look for material evidence that the requirements cited are actually minimum needs. Positively identify whether requirements are unnecessarily built around the qualities of a specific product.
- **Market Research:** Try to verify with material evidence that only the products or services of a particular company will meet the requirement. Determine if the requisitioner has actually researched the potential market in this manner and document the files concerning the results.
- **Urgency of Needs:** Make sure that the stated required delivery date is actually the date materials must be delivered or services must be performed. Many times requisitions state earlier dates than are actually required to assure "timely delivery." In some cases, simply explaining to customers the additional cost inherent in sole source awards may persuade them to provide more realistic schedules.

G. TRAINING MATERIAL AND RECOMMENDED GUIDES

Naval Supply Systems Command Instruction 4200.85 of 25 July 1989.

Defense Small Purchase Correspondence Course ALM 33-0017, United States Army Logistics Management College, Fort Lee, Virginia, October 1989.

Additional training material includes:

1. "Elements of Competitive Buying and Sole Source Procurement": A desk guide prepared by the Regional Contract Management Staff, Regional Contracting Department, Naval Supply Center, Oakland, CA. It assists small purchasing professionals in understanding the basic elements of competitive buying and what constitutes a sole source procurement.
2. "Questions to Ask in Reviewing Non-Competitive Procurements": Included as Appendix A.
3. "Vendor's Day Program": An extract from the records documenting the establishment of a Vendor's Day program at the Small Purchase Division of the Regional Contracting Department, Naval Supply Center, Oakland, California, included as Appendix B.

H. SUMMARY

Competition in Government procurement is required by statute, regulation and policy. It is popularly believed that, to be able to afford our defense requirements, we must keep costs at a minimum and one of the most effective ways of doing this is by increasing competition and expanding the competitive markets.

The competitive market is held as desirable because it efficiently locates limited resources. Since the Federal Government purchases significant amounts of goods and services in the U.S. market, it has a significant influence on the nation's overall economy. And in some markets, the Government may be the only buyer. Therefore, the Government's participation in a particular market significantly impacts on that market's price structure and on the number of suppliers in that market. By stressing competition in its procurements, the Government can act as a catalyst to encourage future participation of sellers in such a market.

Competition also introduces the principle of fairness to the procurement arena in that it opens the door to all sellers desiring to participate. To determine if competition truly exists in a particular market, four qualifications must exist. These are: 1) at least two offerors, 2) technically competent and financially capable, 3) contending independently and, 4) responsive to the expressed requirements.

Appendix A:

QUESTIONS TO ASK IN REVIEWING NON-COMPETITIVE PROCUREMENTS

- What are the procurement's minimum requirements? Material evidence should be presented verifying these minimum requirements.
- What unique capabilities does the proposed vendor possess which makes it the only company capable of meeting these minimum requirements? Was the item or service previously procured? If yes, was it from the same vendor?
- Was a market search of some type conducted? Material evidence should be presented verifying that such a search was conducted and that the proposed contractor was the only company meeting the procurement's minimum requirements.
- Is there a specification or purchase description available which is sufficient for competitive procurement? If not, is one being developed? If not, why not? How much lead time would be required to develop it? Has any cost benefit analysis been conducted to determine whether it is advantageous to the Government to buy or develop such information? If not, what evidence is available to demonstrate why this analysis is not needed?
- Can individual components of the procurement be competitively procured? If so, what steps have been taken to do this?
- What material evidence exists that the Government would be injured if the non-competitive procurement is not made? This includes estimates of additional costs incurred and criticality of schedules (including when the procurement need was first identified, reasonableness of delivery schedules, etc.).
- What steps are being taken to foster competition in subsequent procurements of this product or service?¹⁷

¹⁷ "Memorandum for Navy Competition Advocates", Competition Advocate General Office, Chief of Naval Material, 26 January 1984.

Appendix B:

Vendors' Day Program

A Vendor's Day Conference is generally held to kick off the program. The conference provides local vendors information regarding the Vendor's Day Program, a concept whereby vendors would visit the supply center on specified days to review and quote on small purchase requirements. This procedure is generally a departure from normal operations since vendors are rarely encouraged to visit the purchasing office to review solicitations: most solicitations are either mailed to potential suppliers or quotations are obtained by telephone.

A first Vendor's Day is then scheduled with succeeding Vendors' Days periodically scheduled as the need may arise. Since the establishment of this type of program, those offices making use of such a program report a noticeable increase in the purchasing agents' productivity, particularly during times of high purchasing backlogs. Potential sources of supply have increased along with greater opportunities for small business to obtain Government contracts. The net result has been increased price competition in the local area. Comments from both Government purchasing personnel and industry have been generally favorable.

VIII. SMALL PURCHASES AND OTHER SOCIAL PROGRAMS

A. SUBJECT AREA

Socio-economic programs represent a multitude of interests and objectives unrelated to acquisition/small purchase objectives. They receive substantial support from protected or benefitted groups. These programs receive less support from small purchase groups because they are perceived to take more time, to be more expensive, and to generally be more difficult to manage.

This chapter will address practices associated with socio-economic objectives, regulations associated with these programs, reasons for existing policy and procedures concerning socio-economic objectives, and common problems in this area. The primary purpose is to achieve a better understanding of the nature of socio-economic programs and why utilization of these programs is important to small purchase personnel.

Small and disadvantaged businesses dominate the small purchase arena. With few exceptions, the opportunity for small and disadvantaged businesses are reserved exclusively in all open market purchases with an anticipated dollar value under \$25,000. The primary exception to this unilateral set aside is when the Contracting Officer expects to receive less than two bids from small or disadvantaged businesses. Federal Prison Industries, Industries for the Blind and Severely Handicapped, and mandatory Federal Supply Schedule contracts are also exceptions to the small business set aside.¹⁸

It is indeed difficult, if not impossible, to comply with every socio-economic program that exists. To date, the Office of Federal Procurement Policy (OFPP) lists some forty-seven socio-economic programs. These programs range from minimum wages to prohibited acquisition of supplies from Communist areas. This chapter will deal with only those programs that directly affect the small purchase function. It is hoped that with a better understanding of socio-economic policies, this chapter will:

¹⁸ Federal Acquisition Regulation, subpart 13.105(a).

1. Result in more purchase orders, Blanket Purchase Agreements (BPAs), and imprest fund purchases ultimately being issued to businesses qualifying under the applicable socio-economic programs.
2. Make buyers more familiar with the procedures to follow.
3. Help buyers will become more aware of their responsibility to help small/disadvantaged businesses obtain small purchase orders.

B. DEFINITIONS

The definitions and interpretations of the following terms, which will be used throughout the material, are provided to ensure a common frame of reference when discussing socio-economic programs:

1. **Asian-Indian Americans:** United States citizens whose origins are in India, Pakistan, or Bangladesh.
2. **Asian-Pacific Americans:** United States citizens whose origins are in Japan, China, the Philippines, Vietnam, Korea, Samoa, Guam, the U.S. Trust Territory of the Pacific Islands, the Northern Mariana Islands, Laos, Cambodia, or Taiwan.
3. **Certificate of Competency:** The certificate issued by the Small Business Administration (SBA) stating that the holder is responsible (with respect to all elements of responsibility, including but not limited to capability, competency, capacity, credit, integrity, perseverance, and tenacity) for the purpose of receiving and performing a specific Government contract.
4. **Concern:** Any business entity located inside the United States that is organized for profit, pays U.S. taxes, and/or uses American products, materials, and/or labor, etc. A "concern" may be an individual, a partnership, a corporation, a joint venture, an association, or a cooperative.
5. **Economically Disadvantaged Individuals:** Socially disadvantaged individuals whose ability to compete in the free enterprise system is impaired due to diminished opportunities to obtain capital and credit as compared to others in the same line of business who are not socially disadvantaged. Individuals who certify that they are members of named groups (Black Americans, Hispanic Americans, Native Americans, Asian-

Pacific Americans, Asian-Indian Americans) are to be considered socially and economically disadvantaged.

6. **Labor Surplus Area:** A geographic area identified as an area of concentrated unemployment or underemployment or an area of labor surplus.
7. **Native Americans:** American Indians, Eskimos, Aleuts, and native Hawaiians.
8. **Set-aside for Small Business:** The reserving of an acquisition exclusively for participation by small business concerns. A set-aside may be open to all small businesses or, except in the Department of Defense, restricted to small businesses located in labor surplus areas. A set-aside of a single acquisition or a class of acquisitions may be total or partial.
9. **Small Business Concern:** A concern, including its affiliates, that is independently owned and operated, not dominant in the field of operation in which it is bidding on Government contracts, and does not employ more people than the size standard for its industry. An extensive listing of size standards may be found in Part 19, Section 102.2 of the Federal Acquisition Regulation (FAR). Generally the size standard for manufactures is 500 employees and \$3,500,000 in average annual receipts over the past three years.
10. **Small Disadvantaged Business Concern:** A small business concern that qualifies for both of the following:
 - At least 51 percent owned by one or more individuals who are both socially and economically disadvantaged, or a publicly owned business having at least 51 percent of its stock owned by one or more socially and economically disadvantaged individuals and;
 - Has its management and daily business controlled by one or more such individuals.
11. **Socially Disadvantaged Individuals:** Individuals who have been subjected to racial or ethnic prejudice or cultural bias because of their identity as a member of a group without regard to their qualities as individuals.
12. **Socio-economic Program:** A Federal acquisition law, policy, or procedure designed to promote, advance or achieve social benefits through economic and contractual means.

C. GOVERNING RULES AND REGULATIONS

The following regulations relate to socio-economic programs:

<u>REFERENCE</u>	<u>SUBJECT</u>
1. FAR 13.105 P.L.95-507	Small Business-Small Purchase Set-asides.
2. FAR 19.102	Size Standards
3. FAR 19.201 NAPS 19.201	General Policy
4. FAR 19.301	Determinations of Status as a Small Business Concern
5. FAR 19.5 NAPS 19.5 15 USC 631-647	Set-aside for Small Business
6. FAR 19.6 NAPS 19.6	Certificates of Competence and Determinations of Eligibility
7. FAR 22.8 P.L. 95-89 EO 12073	Labor Surplus Area Concerns
8. FAR 22.1 NAPS 22.1	Basic Labor Policies
9. FAR 22.8 EO 11246 EO 11375 15 USC 631-647	Equal Employment Opportunity/ Minority Business
10. FAR 22.9	Nondiscrimination Because of Age

- | | |
|---|---|
| 11. FAR 22.13 | Special Disabled and Vietnam Era Veterans |
| 12. FAR 22.11
29 US 793
41 USC 46 | Employment of the Handicapped |
| 13. FAR 19.9
EO 12138 | Contracting Opportunities for Women-owned Businesses |
| 14. P.L. 93-638 | Indian Self-Determination and Education Assistance |
| 15. FAR 23.1
P.L. 94-580
P.L. 94-163
42 USC 1857
29 USC 651-678 | Environmental Conservation, and Occupational Safety |
| 16. FAR 52.225-3, 5
NAPS 25.1
11 USC 10 a - d | Buy American |
| 17. P.L. 99-661 | Small Disadvantaged Business subcontracting Goal |
| 18. NAVSUPINST
Encl (2) | 4200.85 Naval Supply Systems Command (NAVSUP) policies and procedures |
| 19. NAVSUPINST 4200.84
NAVSUPINST 4200.86
DFARS 204.672 | NAVSUP required contracts reports |

D. RATIONALE AND REASONS FOR POLICIES AND PROCEDURES

The Government's policy is to place a fair proportion of its acquisitions with small business concerns and small disadvantaged business concerns. This policy extends to provide small business concerns and small disadvantaged business

concerns with the maximum practicable opportunity to participate as Government prime contractors or as subcontractors.

FAR subpart 19 places the responsibility for effectively implementing the Small Business and Small Disadvantaged Business Utilization programs on Heads of contracting activities. This includes achieving program goals, training of buyers, and full documentation to comply with regulations that may affect purchases under the program. In short, the heads of the contracting activities must insure that buyers meet all requirements and take all reasonable actions to increase small business participation in their activities' contracting processes.

It is the general policy of the Government to aid and assist small and disadvantaged businesses. This is done in many ways. The Government assists in obtaining and executing contracts, with the dual purpose of insuring the continued existence of small business concerns in a healthy competitive environment. The assistance also is designed to provide a broad base of capable suppliers in the event a national emergency should require the expansion of the Nation's productive capacity. One might well understand the thrust of this policy, but why is it important? What prompted the policy to come into being?

The Government's greatest push for socio-economic programs began in the 1930s to overcome the adverse effects of the Great Depression. Several attempts were made at methods of achieving desired social and economic objectives through Federal policy action. The idea of using the Federal contract as an instrument of policy became significant during this period. Through mandatory insertion of contractual provisions, contractors were required to pay wage minimums, give preference to products made in the United States, observe child and convict labor laws, limit profits on construction of naval vessels and many other measures.

The first legislation dealing specifically with small business was Public Law 77-603, passed July 11, 1942. This act created the Small War Plants Corporation (SWPC) whose work developed many of today's small business procurement policies and programs. Several follow-on acts modified and added to legislation dealing with small business. On July 30, 1953 the Small Business Act (15 USC 631) was passed which created the Small Business Administration (SBA). In 1958, Public Law 85-536, a Small Business Act amendment, clearly recognized independent small business enterprise as a distinct and vital element of the national economy.

The success of the Government efforts to effect socio-economic objectives through public law and policy resulted in a myriad of "follow-on" legislation. This subsequent legislation sought to achieve the objective of rectifying what many felt were past inequities, injustices, and unfair practices levied against economically and socially disadvantaged small businesses. Today, these laws and regulations govern

minority-owned small business, women-owned small business, handicapped individuals in small business, and many other areas of socio-economic concern. The primary instrument for carrying out the objectives of the laws and regulations is the Government contract.

It should be quite obvious, at this juncture, that socio-economic goals are a very high priority within Government procurement. Further, the small purchase arena, in which the majority of procurement transactions takes place, becomes the most likely arena to apply/ implement socio-economic objectives.

As a small purchase buyer, almost everything you will work on falls under the small business and small disadvantaged business program. The FAR requires each acquisition of supplies and services of \$25,000 or less to be reserved exclusively for small business concerns. This is specifically aimed at small purchases. The purchases in this category are identified as small business-small purchase set-asides.

Additionally, NAPS 19.501 requires additional documentation if the program can not be used in a buy over \$5,000. Specifically, if the buyer does not use small business procedures in a purchase over \$5,000, the Small and Disadvantaged Business Utilization Specialist and Contracting Officer must explain why in the purchase file. Figure 8-1 provides a sample form that can be used to make this task easier.

Several exceptions produce situations that will require the dissolution of the set-aside. These exception are divided by dollar value. The dollar thresholds and number of small business concerns that are reasonably expected to quote follows:

Less than \$2,500: At least one responsible small business concern

\$2,500 or more: Two or more responsible small business concerns

These quotes must be competitive in price, quality and delivery.

Requirement for small business-small purchase set-asides does not affect the responsibility of agencies to make purchases from required sources of supply. The Federal Prison Industries, Industries for the Blind and Other Severely Handicapped, and mandatory multiple-award Federal Supply Schedule contracts are required sources.

Contracting activities maintain a small purchase source list to keep track of the status of known small business, small disadvantaged business, and businesses in a labor surplus area. This helps to ensure small business concerns are given opportunities to submit quotations in response to small purchase solicitations. The Small and Disadvantaged Business Utilization Specialist keeps adding new sources to the list as they become available.

It is well understood that in a very busy small purchase organization, where details often become lost in the daily flood of purchase requests, to sit back and think, specifically, in socio-economic terms may be difficult. Further, it is often much easier to place orders with "known" suppliers. The more basic question is one of professionalism. As previously stated, our Government feels strongly that economically and socially disadvantaged business deserve "fair and equitable" treatment. As a small purchase professional, dedicated to carrying out the policies and objectives of our Government, it is incumbent upon us to make every effort in this very important area.

E. COMMON PROBLEMS AND DISCREPANCIES

Although socio-economic policies are being carried out in the majority of small purchase organizations, several common problem areas exist. Some of the frequently cited discrepancies in this area are as follows:

1. Purchase orders, BPAs, and imprest fund purchases which should be issued to small businesses, are not always so directed.
2. Potential vendors are not informed, early in the process, of the set-aside status of qualifying actions.
3. Buyers fail to keep abreast of the small business certification status of potential vendors.
4. Awards are knowingly made to large businesses.
5. Buyers are unfamiliar with the procedures to follow when there is no reasonable expectation that two or more responsible small business concerns will offer quotations on an action requiring competition, or that one will respond on an action below the competitive threshold.
6. Buyers fail to adequately document small business transactions.

7. Small purchases are accomplished without regard to these other potentially relevant socio-economic concerns:
 - a) utilization of labor surplus areas,
 - b) utilization of firms that hire the handicapped,
 - c) utilization of firms that hire disabled and Vietnam veterans,
 - d) buying American-made supplies and services, and
 - e) utilization of firms and products which promote pollution control and energy conservation.

F. SUGGESTED SOLUTIONS

Within any given small purchase organization, one or perhaps two individuals will be assigned responsibility for socio-economic concerns only as a secondary aspect of their jobs. Upon receipt of a purchase request, there normally will be no active pursuit of socially or economically disadvantaged firms by the buyers.

The reasons are many for this situation. Buyers are usually "swamped" with requests and time is always short. Few small purchase organizations keep adequate files which are separated out for the various social and economic aspects of disadvantaged firms. Because the socially and economically disadvantaged businesses are filed with the other firms, it is usually impossible to tell them apart. So, in addressing the first problem area, purchase orders, BPAs, and imprest fund purchases could be assigned easily to the socially and economically disadvantaged firm by simply maintaining files as previously mentioned.

The second problem area is that vendors are not being informed of the set-aside status of qualifying actions. This obstacle stems again from the inability to identify the firms within the small purchase organization. Small purchase organizations generally do not actively solicit new additions to their list of socio-economically disadvantaged firms. This is due, in large part, to the limited number of personnel in most small purchase organizations. One solution to this problem would be to periodically gather potential vendors within the geographic area together and, in a seminar setting, describe the qualifying procedures and address questions and problems. Such action would require minimal effort by any small purchase

organization; however, the benefits would far outweigh the investment of time expended.

The third problem area, buyers failing to keep abreast of the small business certification status of vendors, can be solved by the same action that would correct the first problem area discussed - adequate files. If such files were maintained, it would be a very simple matter to update their status at the time of each transaction.

The fourth problem area can be avoided through better internal control. When an award is made to other than a bidding socially and/or economically disadvantaged firm, an internal notification to the supervisor should be required. Proper justification should be required when such an award is made. The procedure would give the supervisor greater control over these awards as well as communicating to the buyer that proper awards to socially and economically disadvantaged firms are important.

The fifth problem area addresses training within each small purchase organization. It is recommended that socio-economic topics be addressed in biweekly or monthly training meetings. Such training is usually not conducted routinely within small purchase organizations. These sessions are vital, keeping personnel abreast of the latest changes in policy, regulation, and/or law. This further presents a good forum for the exchange of ideas and airing of mutual problems.

The documentation problem involves gathering available information previously collected. Initially, the buyer must understand that all small purchases under \$25,000 are small business set-asides. If the buyer does not use small business procedures in a purchase over \$5,000, NAPS 19.501 requires the Small and Disadvantaged Business Utilization Specialist and Contracting Officer to explain why. The reason must be documented in the purchase file.

Small purchase organizations use the "Small Purchase Pricing Memorandum." This form, although not specifically designed for documenting awards to socio-economically disadvantaged firms, will serve that purpose. This requires identifying such awards by simply using a type of mark, stamp, or notation on DD form 1784 which would make that particular form stand out. The forms, so marked, could then be easily separated from other forms, and placed into a separate file and used as documentation for awards made to small disadvantaged businesses. This would be a simple, quick, and effective solution requiring minimum effort.

The last problem area is that of small purchases being accomplished without regard to all relevant socio-economic concerns, is really an all encompassing problem. NAVSUPINST 4200.84 of 19 June 1989 requires small purchase

organizations to submit the "Monthly Procurement Summary of Actions \$25,000 or Less," This is done on DD form 1057 in accordance with DFARS 204.672. This form documents the monthly activity for a given small purchase organization. The form separates out awards by; 1) large business firms versus small business firms, 2) small disadvantaged business (through Small Business Administration Section 8A) versus Direct Awards, and 3) women-owned business. These are the only areas of socially or economically disadvantaged firms required to be reported. This aspect of DD form 1057 unwittingly communicates to the small purchase office that only these break-outs are important. Stated another way, DD form 1057, has communicated to small purchase personnel the programs considered most important by the Government - as though they were the only programs. The simple solution would be to note any awards, broken out by social and/or economic aspect, in the remarks section of DD form 1057. Further, aggressively pushing for awards utilizing the socio-economic criteria by every supervisor is imperative at every level within the buying activity.

Socio-economic programs are important and serve a vital purpose throughout the United States. The professional buyer should make every effort to comply with the policies and regulations covering this area in his everyday dealings.

G. TRAINING MATERIAL AND RECOMMENDED GUIDES

Naval Supply Systems Command Instruction 4200.85 of 25 July 1989.

Defense Small Purchase Correspondence Course ALM 33-0017, United States Army Logistics Management College, Fort Lee, Virginia, October 1989.

H. SUMMARY

The idea of using the Federal contract as an instrument of policy became highly significant during the 1930s, in attempts by the Government at achieving desired social and economic objectives deemed to be essential. The success of the Government in these efforts resulted in a myriad of "follow-on" legislation. This subsequent legislation sought to achieve the objective of rectifying what many felt were past inequities, injustices, and unfair practices levied against economically and socially disadvantaged small businesses. Today, the primary instrument for carrying out the Federal objectives is the Government contract.

Our Government feels strongly that the economically and socially disadvantaged business deserves "fair and equitable" treatment. As a small purchase professional, dedicated to carrying out the policies and objectives of our Government, it is then incumbent upon us to make every effort in this, a very important area of socio-economic reform.

DETERMINATION TO DISSOLVE SET-ASIDE (GENERIC)

1. Under the provisions of FAR 13.105 I hereby determine that there is no reasonable expectation that offers will be obtained from two or more small business concerns that are competitive (i) with market prices, and (ii) in terms of quality as outlined in FAR 13.106.

2. Therefore, this purchase may be placed with a large business firm under the provisions of 10 U.S.C. 2304(a)(3).

3. The above determination is based upon (check applicable items and fill in applicable blanks):

Two small business concerns were contacted and they cannot provide the supplies or services requested.

Supplies or services are required not later than _____ and no small business concern can meet the delivery schedule.

Only the requested product manufactured by a large business concern is acceptable to the using activity and there are no known small business distributors.

Past history indicates that no small business concern is available to satisfy the requirement.

Because of highly technical and specialized nature of the services required for repair only the designer or manufacturer is capable of performing the services.

Buyer's expertise and experience indicate there are no small business concerns able to provide a comparable item.

Repair parts/components available from manufacturer only.

OTHER (Explain): _____

Dee Farr (Current)
(CONTRACTING OFFICER) (DATE)

SAMPLE DETERMINATION TO DISSOLVE SET-ASIDE

Figure 8-1

IX. ACCOUNTING DATA AND APPROPRIATIONS

A. SUBJECT AREA

The material in this module addresses practices associated with auditing of accounting data and appropriations. This includes a discussion of the regulations covering use of appropriations, reasons for specifying appropriations and the formulation of accounting data. In addition, the chapter explores the elements of a valid accounting classification. The module concludes by discussing the problems often encountered in this area and offers several possible solutions to these difficulties.

The purpose of the module is to alert the small purchase buyer that it is necessary to carefully check the accounting data cited on the purchase request. An early audit of this data can help to avoid wasted effort and possible delay later in the purchase process. This short module does not provide an inclusive guide for all appropriations which may cross the small purchase buyer's desk, but does provide some insight into the appropriations source and usage, as well as detailed accounting data explanations. Although applicable to all Federal procurements, the examples used in this module are limited to Navy and Marine Corps appropriations only.

Appropriations vary in longevity. The range includes annual, multiple year and continuing. This variation can create a significant level of complication to the buyer. The validity of the appropriation must first be checked using the fiscal year code and, if found acceptable, by type of material to be purchased. The basic guidance for all Department of the Navy appropriations is found in the Comptroller of the Navy (NAVCOMPT) Manual, Volume 2. Although the volume seems massive, the material is primarily comprised of listings of data elements in the accounting classification. It is from this manual that much of the information contained in this module is taken.

It is hoped that the explanation of appropriation types and detailing of accounting data symbols presented in this module will:

- Reduce the audit time required for accounting data validation.
- Reduce the rejection rate of procurement requests due to accounting data errors.

- Enhance the confidence of the buyers in the expenditure of funds within a cited appropriation.

B. DEFINITIONS

The definitions and interpretations of the following terms, which will be used throughout the module, are provided to ensure a common frame of reference when discussing appropriations and accounting data:

1. **Account:** An appropriation account is established to make amounts available for obligation and expenditure from the Treasury. Appropriation accounts include not only accounts to which money is directly applied but also revolving funds, working capital funds, and trust funds.
2. **Annual Appropriation:** An appropriation which is available for incurring obligations only during one fiscal year specified in the appropriation act is called an annual appropriation or a one-year appropriation.
3. **Appropriation:** An appropriation is an authorization by an Act of Congress to incur obligations for specified purposes and to make payments therefor out of the Treasury.
4. **Closed Appropriation Account:** An appropriation account the balance of which has been transferred to the successor account is a closed appropriation account. The appropriation recorded in the account is lapsed.
5. **Continuing Appropriation:** An appropriation which is available for incurring obligations until exhausted or until the purpose for which made is accomplished without restriction as to a fixed period is called a continuing appropriation or a no-year appropriation.
6. **Current Appropriation:** An appropriation which is available for incurring obligations during the current fiscal year is called a current appropriation or an unexpired appropriation.

7. **Definite Appropriation:** An appropriation the amount of which is stated in the appropriation act as a specified sum of money is a definite appropriation.
8. **Expired Appropriation:** An appropriation which is no longer available for obligations but is still available for two years for disbursement to liquidate existing obligations is an expired appropriation.
9. **Fiscal Year:** The fiscal year for the Department of the Navy and of most other agencies of the U.S. Government is the accounting period beginning 1 October and ending 30 September of the following calendar year. The fiscal year is designated by the calendar year in which it ends; for example, the fiscal year 1990 is the period beginning 1 October 1989 and ending 30 September 1990.
10. **Fund:** A fund is a depository of money held in the U.S. Treasury from which Congress appropriates funding to carry on the general and ordinary operations of the Government. A fund is available for obligation for the period indicated in its symbol and title. Sums transferred from a specific appropriation to a fund or a fund to a specific appropriation remain subject to the purposes and monetary/time limits originally prescribed.
11. **Fund Symbol:** An appropriation or fund symbol is a combination of numbers or of numbers and the letter or other symbol established by the Treasury Department to designate a particular appropriation or fund for accounting purposes.
12. **Indefinite Appropriation:** An appropriation the amount of which is not stated specifically in the appropriation act but which is determinable at some future date, such as all or part of the receipts from a certain source.
13. **Lapsed Appropriation:** An appropriation the undisbursed balance of which, by law, is no longer available for disbursement except from the "M" accord by the Department is called a lapsed appropriation.
14. **Multiple Year Appropriation:** An appropriation which is available for incurring obligations for a definite period in excess of one fiscal year is called a multiple year appropriation.
15. **Open Appropriation Account:** An appropriation account the balance of which has not been carried to the successor account ("M" Account) and may be either expired or unexpired.

16. **Revolving Fund:** A revolving fund is a fund established to finance a cycle of operations to which disbursements and collections are returned for reuse in such a manner as to maintain the principle of the fund, such as a working capital fund.
17. **Subhead:** An appropriation or fund subhead is a subdivision of an appropriation or fund. Subheads identify the budget activity (major program) and are designated by a four digit numeric or alpha-numeric symbol suffixed to an appropriation or fund symbol. Subheads are used primarily for administration, accounting, and control of an appropriation or fund.
18. **Successor Account:** A successor account is an account established for the payment of obligations applicable to appropriations for the same general purposes which have lapsed or have been discontinued. Such an account is available indefinitely for the payment of obligations chargeable to any of its predecessor accounts. Another name for a successor account is "M" Account.
19. **Trust Funds:** A trust fund is a fund into which are deposited amounts received or appropriated in accordance with a legislative act and which amounts may be expended or used only in accordance with the terms of the appropriation account.
20. **Working Capital Funds:** Funds established under 10 U.S. Code 2208 for the purpose of financing inventories of such stores, supplies, materials, and equipment. These funds provide working capital for industrial-type activities and commercial-type activities as provide common services with the Department, such as the Navy Stock Fund and the Navy Industrial Fund.

C. GOVERNING RULES AND REGULATIONS

The following regulations relate to appropriations and accounting data:

<u>Reference</u>	<u>Subject</u>
1. NAVCOMPT Volume 7 Chapter 4	Types and Purposes of Appropriations and Funds

- | | | |
|-----|----------------------------------|---|
| 2. | NAVCOMPT Volume 2 | Accounting classifications |
| 3. | FAR 1.602-2 | Contracting Responsibilities |
| 4. | FAR 32.703 | Contracting funding requirements |
| 5. | FAR 37.106 | Funding and term of service contracts |
| 6. | DFAR 237.106 | Funding and term of service contracts |
| 7. | SECNAV Message
251728Z JAN 88 | Expense and Investment
Dollar Criteria |
| 8. | OSD Directive 7200.1 | Control of Appropriations |
| 9. | 31 U.S. Code 655 3678 | Limitations of Expenditures |
| 10. | DOD Directive 7420.1 | Stock Fund Operations |

D. RATIONALE AND REASONS FOR POLICIES AND PROCEDURES

Funds authorized by Congress for use by the various Government departments are segregated into broad categories as indicated by the appropriation account. These categories are called appropriations. Appropriations are made from the general fund of the Treasury by the Congress to be expended in connection with the operations of the Navy and Marine Corps. These appropriations are made for specified purposes and cannot be expended for other than the purposes stipulated. The segregation by appropriation serves generally to channel the funds to the command responsible for their administration and to place in separate control accounts the funds for different purposes.

All appropriations of the Department of the Navy are primarily under the control of the Secretary of the Navy. Every appropriation and fund is assigned, in whole or in part, to one of the offices, bureaus, or systems commands or to Headquarters, U.S. Marine Corps, for the purpose of administrative control. A very brief listing of appropriations and funds commonly cited in small purchase documents follows:

<u>Title</u>	<u>Symbol</u>	<u>Sponsor</u>
Annual Appropriations:		
Operation and Maintenance, SMC	17*1106	MARCORPS
Operation and Maintenance, Navy	17*1804	CNO
Operation and Maintenance, USNR	17*1806	CNO
Multiple Year Appropriations:		
Procurement, USMC	17*1109	MARCORPS
Military Construction, Navy	17*1205	CNO
Other Procurement, Navy	17*1810	CNO
Successor Appropriations:		
Operation and Maintenance, USMC, prior years	17M1106	MARCORPS
Operation and Maintenance, Navy, prior years	17M1804	CNO
Other Procurement, Navy, prior years	17M1810	CNO
Revolving Funds:		
Navy Stock Fund 17X4911		CNO
Navy Industrial Fund	17X4912	NAVCOMPT
USMC Stock Fund 17X4913		MARCORPS
USMC Industrial Fund	17X4914	MARCORPS
Defense Logistics Agency Appropriations:		
Defense Stock Fund	97X4961	DLA
Defense Industrial Fund	97X4962	DLA
U.S. Coast Guard Appropriation:		
Operating Expenses, USCG	69X0201	USCG

NOTE: For all appropriations/funds insert the last digit of the fiscal year in which funds are available for obligation where the asterisk (*) appears.

A complete listing of applicable funds and appropriations for U.S. Navy activities can be found in the NAVCOMPT Manual, Volume 2, Chapter 2, as well as the specifics on the appropriation or fund symbol, subhead, title, and administering office.

Every expenditure is chargeable to an appropriation or fund. All appropriations and funds will be applied solely to the purposes for which they were appropriated, and for no others. The necessity for an expenditure does not authorize the use of an appropriation which does not cover the expenditure, unless specifically provided for by another appropriation. An appropriation or fund is properly chargeable with all expenditures necessary to accomplish the purpose or purposes for which it was established.

Obligation for expenditure of funds against an authorized appropriation or fund can be made during the entire period that the appropriation or fund is current, not to exceed the maximum limit of the definite appropriation. At the end of the current period, the appropriation becomes a expired appropriation and is not available for further obligation but is open for disbursement of prior obligations for a period of two years. After the lapsing of the two year life of the expired appropriation, the successor account will remain available indefinitely for the payment of forgoing unliquidated obligations transferred from the corresponding lapsed appropriation.

The types of appropriations cause much confusion for the buyer when attempting to determine the currency of the accounting data. There are three primary types of appropriations: annual, multiple year, and continuing.

Annual appropriations are generally made for the current operation and maintenance expenses of the Department. Annual appropriations become available for obligations and expenditures at the beginning of the fiscal year designated in the appropriation act. Annual appropriations are available for establishing obligations only during that fiscal year; however, they are available for the payment of such obligations for two years thereafter in the lapsed appropriation account, then indefinitely in the successor account.

Continuing appropriations are usually made for Navy Stock Fund and Navy Industrial Fund (NIF). Continuing appropriations become available for obligation and expenditure at the beginning of the fiscal year following passage of the appropriation act or may become immediately available when so specified in the act. Continuing appropriations are available until exhausted or until the purpose for which they were made has been accomplished.

Multiple year appropriations are generally made for specific expenses of the Department. Multiple year appropriations become available for obligation and expenditure at the beginning of the fiscal year designated in the appropriation act unless otherwise stated in the act. They are available for payment of obligations incurred only during their respective assigned obligational availability periods two to five years depending on the appropriate invoice.

Requisitions or other purchase requests chargeable directly to an appropriation will be recorded as commitments by the Government. When a copy of the document is received, it will be used to establish the obligation and liquidate the recorded commitment. The purchase document will provide for a charge to the appropriation current at the time of execution of the purchase document. When the appropriation cited on a purchase document has expired, no obligation can be affected; however, payment by a disbursing officer on a prior valid obligation can be made against the corresponding successor account.

In order to provide a uniform system of accumulating and reporting accounting information, an accounting classification code is used. This code, or accounting data, which is shown on all purchase requests and resulting obligation and expenditure documents, enables both the obligation of funds and the expenditure authority. The detail required in the accounting data will depend on the appropriation and type of transaction involved. The detail of the accounting classification code and the order of the data to be included on the documents will be as follows, regardless of any preprinted instructions on the document to the contrary:

- Appropriation
- Subhead
- Object Class
- Bureau Control Number
- Suballotment
- Authorized Accounting Activity
- Transaction Type Code
- Property Accounting Activity
- Cost Code

E. COMMON PROBLEMS AND DISCREPANCIES

Some of the frequently cited contract management review discrepancies dealing with appropriations and accounting data are:

1. Buyers often do not understand the legal restrictions placed on different appropriations.
2. Buyers sometimes inadvertently make procurements in violation of expenditure limitations Title 31 U.S. Sections 1301 and 1517.
3. Purchase actions are often delayed or ultimately cancelled while buyers attempt to determine the propriety of using the funds cited.

Additionally, there have been numerous instances of confusion during the end of the fiscal year rush. Purchase requests received at the end of the year sometimes cited valid continuing or multiple year appropriation accounting data. These valid accounting spreads have been inappropriately rejected due to insufficient lead time to process prior to the start of the next fiscal year.

F. SUGGESTED SOLUTIONS

The single most valuable tool to the buyer in dealing with appropriations and accounting data is a thorough understanding of the appropriation system. This tool also includes the detailed knowledge of the accounting data elements. Amplifying information and detailed listings of data elements are found in the NAVCOMPT Manual, Volume 2, Chapters 1 and 2. A copy of this critical reference publication should be maintained in a current state on each buyer's desk. Reference to the manual using the accounting data cited on the purchase document should reveal the applicability of the material requested to the appropriation program. In addition, the manual provides a general sense of cited appropriation type (annual, continuing, or multiple year).

The buyer must conduct a very close liaison with the financial technical personnel and/or require a copy of the appropriation restrictions from the requestor of the procurement, as necessary. This effort helps to ascertain the restrictions on the appropriation, both for type transactions and limitations of amounts of expenditures.

G. TRAINING MATERIAL AND RECOMMENDED GUIDES

Naval Supply Systems Command Instruction 4200.85 of 25 July 1989.

Defense Small Purchase Correspondence Course ALM 33-0017, United States Army Logistics Management College, Fort Lee, Virginia, October 1989.

The Bottom Line, A Companion Guide to the Practical Comptroller Course Text, Naval Postgraduate School, Monterey, California, revised March 1990.

Practical Comptrollership, Naval Postgraduate School, Monterey, California, revised March 1990.

H. SUMMARY

Appropriations are made from the general fund of the Treasury by the Congress to be expended in connection with the operations of the Navy and Marine Corps. These appropriations are a part of law and have been authorized for specified purposes for which they must not be expended for other than those purposes so stipulated. The segregation by appropriation serves generally to channel the funds to the agency/subagency responsible for their administration and to place into separate control accounts the funds to be used for differing purposes. It is incumbent upon all dealing with accounting data that the actions against the accounts reflect the purposes intended by the language of the appropriation.

To assist in accounting data explanation, figure 9-1 is provided as a desk guide:

ACCOUNTING DATA EXPLANATION

The following detailed accounting data explanation is provided as a desk guide for small purchase buyers:

1. **Appropriations:** The symbol is composed of two digits for the responsible Government department (17 for Navy), one digit for the fiscal year or X for no-year or M for multiple year, and four digits to designate a particular appropriation.
2. **Funds:** The symbol is located in place of appropriation symbols when cited, and is composed of two digits for the responsible Government department, one letter X for the continuing fund, two digits for the type of fund, and two digits for fund designation.
3. **Subheads:** A four digit numeral or alpha-numeric number identifying the first level subdivision of an appropriation used primarily for administration, accounting and control of an appropriation.
4. **Object Class:** (three digits): use zeros except for transactions affecting international balance of payments, which codes are listed in NAVCOMPT Manual, par. 027003.
5. **Bureau Control Number:** A bureau control number is an allotment authorization number consisting of five digits composed of a three digit allotment number prefixed by a two digit project number and must be provided in the purchase document. The unit identification code (UIC) of the operating budget holder; precede UIC with zeros if needed to complete this field.
6. **Suballotment:** (one-digit alpha/numeric code): used only when more than one operating budget is issued to a single UIC under the same subhead; when a suballotment is not applicable, insert a zero to complete this field.
7. **Authorized Accounting Activity:** A six digit symbol denoting the agency designated to record the obligation and expenditure of appropriations or funds for the procurement and must be provided by the requisitioner.

Figure 9-1
(sheet 1 of 2)

8. **Transaction Type:** Transaction type codes are identified by a two digit code to permit determination of type account of purchase and are listed in NAVCOM IPT Manual, Volume 2, Chapter 8.
9. **Property Accounting Activity:** (six digits): insert UIC of authorization accounting activity for the operating budget; precede UIC with zeros if needed to complete this field.
10. **Cost Code:** (twelve digits) this field is for local/authorization accounting activity use, usually (but not necessarily) for recording the local job order number; precede data with zeros if needed to complete this field; may be used to identify Julian date when travel is expected to be completed for the controlling travel funds.

Figure 9-1
(sheet 2 of 2)

EXAMPLE OF A LINE OF ACCOUNTING DATA

17 0 1804 2987 000 00019 0 000444 2D 000000 00000012183E

Navy Department	17
Fiscal Year	0
Appropriation	1804
Subhead	2987
Object Class	000
Bureau Control Number	00019
Suballotment/operating Budget Suffix (O&M ONLY)	0
Authorization Accounting Activity	000444
Transaction Type	2D
Property Accounting Activity	000000
Cost Code	00000012183E

Figure 9-2

X. IMPREST FUND

A. SUBJECT AREA

This module will present the procedures and regulations associated with establishing and utilizing the imprest fund method for making small purchases. This includes a discussion of the reasons for required procedures and documentation, and the benefits and problems associated with its use. The primary purpose is to improve the understanding of the imprest fund by highlighting several important areas where training deficiencies are common.

The imprest fund is the second choice of low dollar value small purchase methods (blanket purchase agreement is the buyer's first choice). The imprest fund is an easy purchasing tool which can be appropriate for executing cash purchases. These purchases can be for supplies or services not exceeding \$500.

Administratively, the procedure is simple, efficient, and the least costly in terms of time and paperwork. Basically, an individual is authorized to obtain a petty cash fund of a designated amount to utilize in making purchases within the dollar limits quoted above. As the material needed can be ordered, received (delivered, picked up, or C.O.D.) and paid in a relatively short time-frame. As a result, the administrative burden of the purchase is lessened considerably. Figure 10-1 illustrates the easily completed Navy C.O.D. Order.

The benefits of using this method in terms of decreased workload far outweigh the required transaction accounting procedures. However, since actual cash is being used, there are strict rules and procedures governing imprest funds. These governing requirements are fairly common though, and follow similar requirements for petty cash fund programs in private industry.

After studying and applying information contained in this module, it is hoped that the reader will better understand an imprest fund's:

- Proper use,
- Correct authorization procedure for cashiers, and dollar limits,
- Prohibited purchases and documentation requirements.

B. DEFINITIONS

The following definitions relate to imprest funds:

1. **Appointment Authority:** Written orders signed by the Agency or Installation Head containing the following:
 - a) name of individual and duty station
 - b) identification of the disbursing station for which the cashier will act, including the accounting number assigned thereto
 - c) specific duties to be performed
 - d) effective date
 - e) amount and location of fund

2. **Certification of Cash Payment:** The original receipt document (or a copy tendered as the original) presented to the imprest fund cashier for payment. It shall be stamped with a certification and contain the following information:
 - a) statement that cash payment was received in full
 - b) amount paid
 - c) date of payment
 - d) signature and title of the supplier or his agent receiving the cash payment.

3. **Imprest Fund:** A cash advance of a fixed amount established in advance, without charge to an appropriation, from an agency finance or disbursing officer to a duly appointed cashier, for disbursement as needed in making payment in cash for small purchases.

4. **Imprest Fund Cashier:** Individual appointed by the Head of an Installation or Activity to make authorized cash payments for materials and personal services, maintain custody of funds, and file periodic vouchers to account for and replenish the fund.
5. **Interim Receipt for Cash:** Standard Form 1165 portion or equivalent receipt form that individuals receiving cash advances from the Imprest Fund Cashier must sign, for the amount received. Final sales document plus unused cash (if any) should equal the total amount signed for. Figure 10-2 is provided as an example.
6. **Maximum Authorized Amounts:** Individual transactions at Naval Supply Centers should not to exceed \$500. Estimated monthly payments are not to exceed \$10,000. Onboard ships, the imprest fund will not exceed \$1,000 for ships with Supply Corps Officers, or \$500 for ships without Supply Corps Officers.
7. **Reimbursement Voucher:** Standard Form 1129 with vendor's receipts (subvouchers) attached thereto, to cover all payments made from the date of the last voucher advance, and will be the basis for the reimbursement of cash to the Imprest Fund Cashier. Figure 10-3 is provided as an example.
8. **Sales Document:** Term applied to a supplier's invoice, sales ticket, packing slip, or other sales instrument containing the following minimum information:
 - a) suppliers name and address
 - b) list of items
 - c) quantity
 - d) unit price and extension
 - e) cash discount (if any)

C. GOVERNING RULES AND REGULATIONS

The following regulations relate to imprest funds:

<u>Reference</u>	<u>Subject</u>
1. NAVCOMPT Manual 041513.1 FAR 13.401-13.402 DFARS 213.402 NAVSUPINST 4200.85 encl (2), chap 4	Imprest fund, general
2. NAVCOMPT MANUAL 041513.2-041513.3, & 041502.8 DFARS 213.402 NAVSUPINST 4200.85 encl (2), chap 4	Imprest fund, establishment
3. FAR 13.404 DFARS 213.404 NAVSUPINST 4200.85 encl (2), chap 4	Conditions for use
4. FAR 13.405 DFARS 213.405 NAVSUPINST 4200.85 encl (2), Chap 4	Purchase procedures and documentation
5. NAVCOMPT Manual 042450 DFARS 213.405(f) NAVSUPINST 4200.85 encl (2), chap 4	Reimbursement of imprest funds

- | | | |
|----|--|-----------------------------------|
| 6. | DFARS 213.405(g)
NAVSUPINST 4200.85
encl (2), chap 4 | Accounting |
| 7. | FAR 13.404
DFARS 213.405(h)
NAVSUPINST 4200.85
encl (2), chap 4 | Review/inspection
requirements |
| 8. | NAVSUPINST 4200.85
encl (2), chap 4 | Imprest fund |

D. RATIONALE AND REASONS FOR POLICIES AND PROCEDURES

The seemingly endless stream of purchase requests, and associated actions required within the purchasing arena, creates a rather hectic, demanding atmosphere in the small purchase organization. At times, the expense of the buyer's time and effort can actually be greater than the price of the items involved.

Obviously, utilizing elaborate purchasing procedures for every small purchase is both costly and inefficient. Recognizing these facts, the establishment of imprest funds was authorized by the Government as a *technique to simplify and to make more efficient the handling of nonrecurring, small dollar-value purchases (less than \$500)*. In general, this method allows the user to place orders without soliciting competition when prices are considered to be fair and reasonable and obtain a cash advance to purchase the material from the vendor. This relaxation of price controls and simplification of purchasing action is not only advantageous to the buyer and cheaper for the Government, but it also serves to ensure prompt payment to the vendor.

Those activities authorized to establish imprest funds serve the purposes intended by the Government only when they fully understand the rules and regulations regarding the fund. Although the rules and regulations pertaining to imprest funds are rather concise and specific, misunderstanding and misinterpretations frequently occur within small purchase organizations.

Only Commanders of activities or installations having both purchasing authority and a need for routine access to cash for small purchases can establish imprest funds. This requires a formal appointment in writing. Figure 10-4 provides an easy means of completing this. An authorized imprest fund cashier is an individual

accountable to the United States for the public funds held by the Activity. Record keeping requirements for the imprest fund have been made as simple as possible, consistent with the maintenance of adequate controls. Dollar amounts authorized within the imprest fund are established at levels to support estimated monthly usage, considering the need for replenishment without undue administrative burden. Quarterly reviews ensure the fund level is not in excess of actual needs. The obvious justification for these regulations is to make sure imprest fund purchases can be readily accomplished, while maintaining appropriate control of Government funds. Considering the number of imprest funds within the Government, the requirement to maintain only necessary dollar amounts in each fund becomes quite clear from an economic viewpoint. Accounting and control requirements simply serve to protect Government funds.

Buyers who understand and use the imprest fund consistent with the authorized conditions for use, accrue considerable savings to the Government in terms of reduced effort and paperwork, and consequently reduce their workload. Additionally, they are able to assure more timely response to customer demands and prompt payment of vendors. This impact on customer support and vendor relations is positive. On the other hand, improper use of the fund can diminish both customer and vendor relations, adding to the Government's expense. Buyers who use the fund for unauthorized procurements or for "split" purchases in order to reduce them below the thresholds authorized for the imprest fund are examples of abusers of the fund. In doing so, buyers circumvent procurement procedures intended to ensure achievement of a fair and reasonable price. Additionally, customers and vendors doing business with a buyer under such circumstances may become confused and disillusioned when the buyer becomes "educated" (or is replaced) and such unauthorized methods are no longer used. Consistency in the use of the imprest fund is just as important as it is in any other method of buying.

E. COMMON PROBLEMS AND DISCREPANCIES

A review of recent Procurement Management Reviews (PMRs) reveals the following recurring problem areas:

1. The imprest fund method is not utilized to the maximum extent possible.
2. Imprest funds are used to procure unauthorized supplies and services.
3. Imprest fund cashiers often have cash in excess of their authorization.

4. Purchases are sometimes split in order to bring them into the threshold limitation.
5. Imprest fund cashiers are not always properly authorized to establish or maintain the fund.
6. Documentation of imprest fund use is generally inadequate.

F. SUGGESTED SOLUTIONS

This section provides specific information which is focused on the PMR discrepancies addressed above. Each common problem is considered separately below:

1. The imprest fund method is not utilized to the maximum extent possible

The imprest fund method of purchasing is simple, timely, and greatly reduces the administrative paperwork required for small purchases. The requirements for accountability are strict, but once internal procedures based upon regulations are established, the benefits accrued in time and paperwork make the system very attractive. However, the system must be used to be effective. Once everyone is familiar with its proper use and it becomes routine for those purchases that qualify, then a real labor saving program will have been established.

2. Imprest funds are used to procure unauthorized supplies and services

There are certain supplies, services, and other uses of imprest funds that are not authorized. NAVSUPINST 4200.85 enclosure (2), chapter 4 strictly prohibits the following uses:

- Payments of salaries and wages.
- Travel advances or any other advances except for (transportation passes or tokens).
- Payment of travel claims (except for claims for local travel not under orders, when a disbursing officer is not available to effect payment);
- Payment of public utility bills;
- Cashing checks or other negotiable instruments

- Purchases from vendors or vendors' agents who are military personnel or civilian employees of the Government.
- Repetitive purchases from the same vendor when another form of procurement, such as a blanket purchase agreement would be more appropriate.
- Purchases of personal services. These particular prohibitions should be listed as ready reference to imprest fund cashiers, as well as to others who will utilize the fund, so that a general understanding of these specific requirements exists.

3. Imprest fund cashiers often have cash in excess of their authorization

Particular care should be exercised in deciding the authorized amount for the imprest fund. The amount should be based on the estimated payments as well as the frequency and ease of reimbursement. The final amount should be one that allows enough working dollars, but limits excess cash over and above the periodic total usage between reimbursements. This is really the key to solving the unauthorized excess cash problem. If the imprest fund cashier discovers that the amount being carried is in excess or is insufficient for the current general usage, then the fund amount should be adjusted accordingly and the authorized amount in the letter of authorization changed. This last point is important: any time the fund amount is changed, that change must be reflected in the cashiers' letter of authorization.

4. Purchases are sometimes split in order to bring them into the threshold limitation

When the timely benefits and comparative ease of imprest fund purchasing become strongly supported and attractive, it is not uncommon to want to broaden its use through the splitting of purchases to qualify separate purchases to the threshold limitations. The regulations on this are very specific: a transaction with a vendor must not exceed \$500.00. The splitting of purchases to avoid exceeding the threshold limit is as equally wrong as is the splitting of any other purchase action to meet regulated limits. The thresholds are established for reasons of administrative separation, as well as accountability concerns. The solution here is to simply not split orders to bring actions under threshold.

5. Imprest fund cashiers are not always properly authorized to establish or maintain the fund

Regulations clearly state that imprest fund cashiers must be appointed by the head of the Installation or Activity that they serve. A letter of authority must be signed by the Installation/ Activity Head and contain the following information:

- Name/duty station of appointee
- Identification of the disbursing office that the cashier will act including the accounting number assigned.
- Specific duties to be performed
- Effective date
- Amount and location of fund

The imprest fund cashier should have a copy of this authorization. If an alternate or temporary cashier is assigned, these too must be authorized in writing following the same format, specifying the effective dates and any limitations of their functions or duties as applicable. When the imprest fund cashier is changed, a new authorization for the specific individual assigned must be signed and delivered to the cashier to show proper appointment.

6. Documentation of imprest fund use is generally inadequate

Perhaps the most critical problem, and most common PMR discrepancy in this area is the documentation of imprest fund purchases, and yet the requirements are very straightforward. There are basically four pieces of paper to process and retain on file for each action:

- Purchase request document
- Sales document
- Certified receipt documentation (can be made on sales document)
- Cash receipt stub (if applicable)

The purchase receipt document is marked to show the following:

- That an imprest fund purchase was made
- Unit prices and extensions
- Vendor's name and address
- Date of delivery or pickup
- Signature of person performing the purchase

The suppliers sales invoice can also be used as a certified receipt document. Upon receipt of material and cash payment, the invoice is certified as follows:

- Payment in full
- Amount paid
- Date of payment
- Signature and title of supplier or agent receiving payment

The cash receipt stubs are used primarily for cash advances to personnel going to pick up and pay for material, or could be used as a certified receipt document. It is in this area that most of the documentation problems occur. Procedural steps should be well understood by those individuals receiving and paying for materials.

Upon receipt of a cash advance from the imprest fund cashier, the representative picking up the material should be directed to promptly deliver the sales invoice, properly certified, to the cashier upon return with the material. A printed guide of exact steps and requirements to hand out to personnel picking up material is a good idea. A firm policy should be made at the outset. If the proper documentation (properly certified) is not returned to the cashier, then that person's cash advance receipt will not be cleared. This results in a debt to the Government until corrective action is completed. Likewise, if an individual purchases previously authorized material out of pocket, failure to produce required documentation should result in non-reimbursement. A couple of second trips to vendors for proper certification or lost money due to lost receipts will soon encourage everyone to provide the proper documentation for payment. If a case should arise that paperwork is completely lost and money has been paid out, then documentation

should be provided giving as much of the required information as possible. Vendors often will provide other copies of certified invoices if asked and dummy receipt invoices can be made up. The key here is to properly support each purchase so that every dollar can be properly traced to the corresponding material purchased. Documentation is the link that holds the chain of accountability together for the imprest fund cashier and therefore must be fully provided.

Automation of Procurement and Accounting Data Entry (APADE) has further streamlined the imprest fund for the small purchase buyer. In the case of a non-urgent requirement in the typical Naval Supply Center, the buyer simply enters the purchase and vendor data into the APADE terminal. The Contracting Officer then checks the entries and approves the awards on the APADE screen. The vendor delivers the material to the loading dock where the imprest fund cashier is located. The bill is paid C.O.D. at the time of delivery. If necessary, the imprest fund cashier can print a copy of the required documents from an APADE terminal and printer located in Receiving Department at the time of delivery.

Some buyers complain that entries into the APADE screens are more time consuming than the manual procedure. In some cases this is a valid point. However, the document flow, tracking and record keeping process improvement in this automated environment more than compensates any possible lost time during data entry.

G. TRAINING MATERIAL AND RECOMMENDED GUIDES

Naval Supply Systems Command Instruction 4200.85 of 25 July 1989.

Defense Small Purchase Correspondence Course ALM 33-0017, United States Army Logistics Management College, Fort Lee, Virginia, October 1989.

H. SUMMARY

At times, the expense of a buyer's time and effort can actually be significantly greater than the price of the procured item(s). Obviously, the use of a single or a few, elaborate purchasing procedures for every small purchase would become costly and inefficient. Recognizing this issue, the Government implemented the use of imprest funds as a technique to simplify and to make more efficient the handling of

nonrecurring, very small dollar-value purchases (less than \$500). In general, this method allows the user to place orders without soliciting competition, when prices are considered to be fair and reasonable, and to obtain a cash advance to purchase the material from the vendor. This relaxation of price controls and simplification of purchasing action is not only advantageous to the Government buyer, out it also serves to guarantee prompt payment to the vendor.

The benefits of using an imprest fund for small buys should be clear to the buyer after reading this chapter. But it is the benefit of simplicity which also makes it subject to many and varied abuses. Since actual cash is being used, there must be strict rules and procedures governing the use of its funds. The governing requirements used in the Federal Government are fairly common to those in use by private industry as well. Control is essential if this tool is to remain a part of the Government buyer's small purchase procedures/methods.

PREPARATION OF NAVY C.O.D. ORDER (NAVSUP FORM 1321)

NAVY C.O.D. ORDER (4270) <small>NAVSUP FORM 1321 15-68</small>		<small>DATE OF ORDER</small> 90 JUN 06	<small>ORDER NO</small> N00173-90-Y-0172		
<small>This is a C.O.D. order and is used to eliminate costly paper work on small purchases. Ship immediately. C.O.D. promotes total cost, including C.O.D. and transportation charges, does not exceed monetary limit.</small>		<small>This number must appear on all packages and papers relating to this order.</small>			
<small>ISSUED BY</small> Naval Research Laboratory Washington, DC 20390	<small>MONETARY LIMITATION</small> \$ 405.00	<small>SHIP TO</small> Naval Research Laboratory Receiving Officer, Bldg 14 Washington, DC 20390			
<small>DELIVERY DATE</small> 90 JUN 23		<small>MARK FOR IMPROVED FUND CARRIER</small>			
To: Photo Corporation 617 Crystal St. Buffalo, New York 14220		SHIP C. O. D. ONLY <small>PARTIAL SHIPMENTS WILL NOT BE ACCEPTED.</small>			
ITEM	DESCRIPTION	QTY	UNIT	UNIT PRICE	TOTAL
1	Motor, electric, 117VAC, 60Hz single phase, open drip proof, 1.8 HP, frame size 215 rotational CCW, single shaft ball bearing. Continuous operation, 1800 RPM. Dimension 1'x1'x1'	1	EA		
<small>INSTRUCTIONS</small>					
<ol style="list-style-type: none"> 1. If material is not available or additional information is desired, advise issuing office immediately. 2. If total cost will exceed monetary limitation, withhold shipment and advise issuing office of total cost including C.O.D. and transportation charges. 3. If delivery cannot be made as specified above, withhold action and advise issuing office of time required to effect delivery. 4. Deduct cash discount from C.O.D. or as Carrier or Post Office will be paid cash upon delivery. 5. Submit priced sales document (invoice, sales slip, delivery ticket, etc.) with material. 6. To prevent unnecessary correspondence, advise on duplicate copy of order when and how shipment will be made. 7. If the above terms and conditions cannot be met, submit your quote, on a copy of this Form and attach instructions. 					
C.P. Hennigan		<small>TITLE</small> Buyer		<small>DATE</small> 90 JUN 06	
<small>FOR USE OF SUPPLIER</small>		<small>REMARKS</small>			
<input type="checkbox"/> C.O.D. SHIPPING DATE _____ <input type="checkbox"/> MATERIAL NOT AVAILABLE <input type="checkbox"/> ABOVE TERMS CANNOT BE MET <input type="checkbox"/> COST EXCEEDS MONETARY LIMITATION <small>TOTAL COST INCLUDING C.O.D. AND TRANSPORTATION CHARGES</small> \$ _____					
<small>SIGNATURE - Supplier</small>		<small>TITLE</small>		<small>DATE</small>	
		<small>TELEPHONE</small>		<small>DATE</small>	

Figure 10-1

INTERIM RECEIPT FOR CASH -- STANDARD FORM 1165

Figure 10-2

Standard Form 1165 GAO 5100 1165-108		RECEIPT FOR CASH—SUBVOUCHER (To be used when invoice is not available)		Service No. _____ Date <u>20 November 1990</u>
Received in cash from <u>Imprest Fund Cashier</u> , Name and address of activity or ship <u>three hundred seventy-five</u> and no <u>100</u> (\$ <u>375.00</u>) for the following:				
QUANTITY	ARTICLES OR SERVICES			AMOUNT
<u>10 ea.</u>	<u>Rutter, 10" diam, 1/2" cut</u>			<u>375.00</u>
Vendor <u>ABC Company</u> By _____ (Signature of Vendor/Agent) Address <u>12821 Wisconsin Ave., N.W.</u> Title _____ <u>Washington, DC 20360</u> PURPOSE (Print, etc.) _____ (Do not sign in duplicate) APPROPRIATION AND ACCOUNTING CLASSIFICATION _____				

INTERIM RECEIPT FOR CASH DATE <u>20 Nov 90</u> Received of Imprest Fund Cashier \$ <u>375.00</u> for which I hold myself accountable to the United States.	_____ (Signature)
---	----------------------

NOTE TO SIGNER
 Be sure this receipt is marked "VOID"
 and returned to you when the transaction is
 completed or the funds returned to the Cashier.

o GPO : 1981 O - 331-791

SAMPLE IMPREST FUND CASHIER FORMAL APPOINTMENT LETTER

**NAVAL AIR STATION
ANYWHERE, USA**

From: Commanding Officer **19 January 1990**
To: Susie Q. Smith, Supply Clerk, GS-5

Subj: Imprest Fund Cashier; appointment as

**Ref: (a) NAVCOMPT Manual Volume IV, pars. 041502, 041513, 042450
(b) CO, NAS ,Anywhere, USA ltr Code 1900 of 2 Jan 1981
(c) FAR 13.400
(d) DFARS 13.402**

1. In accordance with reference (a), you are hereby appointed the Principal Imprest Fund Cashier for Naval Air Station (NAS), Anywhere, USA, effective 20 January 1990, and you will acknowledge acceptance of the appointment in accordance with reference (a).

2. You will establish and maintain an imprest fund balance of \$_____ in accordance with reference (b). All purchases, disbursements, reimbursements and accounting will be performed in accordance with references (c) and (d).

J. B. JONES

Copy to:
NSC Charleston (Code 200M);
Disbursing Officer, Naval Air Station, Anywhere, USA

19 January 1990

FIRST ENDORSEMENT

From: Susie Q. Smith
To: Commanding Officer, Naval Air Station, Anywhere, USA

Subj: Acceptance of appointment as Imprest Fund Cashier

1. I accept the position of Imprest Fund Cashier and agree to hold myself accountable to the United States Government for all public funds received.

SUSIE Q. SMITH

Figure 10-4

A-163

XI. AUTOMATIC DATA PROCESSING EQUIPMENT

A. SUBJECT AREA

Automatic Data Processing Equipment (ADPE) is one of the most widely discussed topics in our society today. There are as many "experts" as there are home computer owners. The United States Government's claim as the largest owner/leaser of ADPE in the world emphasizes the need for a highly refined process to coordinate our procurement efforts. This training module will highlight the current regulations governing the small purchase procurement of ADPE, and the rationale behind them. It will further provide definitions for many of the terms instrumental to the successful procurement of ADPE. Also, some of the common discrepancies, recommended solutions and preventive measures will be discussed.

The process of obtaining a new Automatic Data Processing (ADP) system from the initial planning stage to final installation for an activity is at best a complicated, time consuming and often frustrating evolution. An objective of this paper is not to jump through all of the hurdles required of the requisitioning activity; rather, it is to enable you, the buyer, to expeditiously complete the procurement action.

Since the emphasis will be centered on the small purchase community, it eliminates many of the more complex requirements which must be completed for a large equipment purchase. This is not to minimize the exacting detail which must be documented before a contract can be awarded. The objective of this module is to provide the small purchase buyer with a complete, streamlined logic flow which will improve the ADPE procurement process.

B. DEFINITIONS

The definitions and terminology associated with ADPE are about as extensive and varied as computer applications. The following selected definitions and interpretations of terms are those commonly used by the Naval Supply Systems Command (NAVSUP) and the Automatic Data Processing Selection Office (ADPSO). They are not all inclusive, but representative of those often used in discussing ADPE acquisition for small purchase:

1. **ADPE:** For acquisition purposes, ADPE is any equipment or interconnected system or subsystems of equipment that is used in the automatic acquisition, storage, manipulation, management, movement, control, display, switching interchange, transmission, or reception, of data or information - by a Federal agency, or under a contract with a Federal agency which - requires the use of such equipment, or requires the performance of a service or the furnishing of a product which is performed or produced making significant use of such equipment. This includes: computers, ancillary equipment, software, firmware, and similar procedures, services, including support services, and related resources as defined by regulations issued by the Administrator for General Services.

Exceptions. The "Brooks" Act does not apply to the following: automatic data processing equipment acquired by a Federal contractor which is incidental to the performance of a Federal contract; radar, sonar, radio, or television equipment; the procurement by the Department of Defense of automatic data processing equipment or services if the function, operation, or use of which: involves intelligence activities; involves cryptologic activities related to national security; involves the command and control of military forces; involves equipment which is an integral part of a weapon or weapons system; or is critical to the direct fulfillment of military or intelligence missions provided that this exclusion shall not include automatic data processing equipment used for routine administrative and business applications such as payroll, finance, logistics, and personnel management; or the procurement of automatic data processing equipment or services by the Central Intelligence Agency.¹⁹

Note: Definitions of ADPE vary somewhat between references. The Brooks Act (Public Law 89-306) definition (above) is now preferred.

2. **Binary:** the representation of numbers in terms of powers of two, using the two digits 0 and 1. Commonly used in computers, since the values 0 and 1 can easily be represented in physical form in a variety of ways, such as the presence or absence of current, positive or negative voltage, or a white or black dot on the display screen.
3. **Bit:** a binary digit (0 or 1): the smallest possible unit of information, consisting of a simple two-way choice, such as yes or no, on or off, positive or negative, something or nothing.

¹⁹ The Brooks Act (Public Law 89-306).

4. **Byte:** a unit of information consisting of a fixed number of bits.
5. **Central processing unit (CPU):** the "processor;" the hardware component of a computer that performs the actual computation by directly executing instructions represented in machine language and stored in main memory.
6. **Chip:** the small piece of semiconducting material (usually silicon) on which an integrated circuit is fabricated.
7. **Computer equipment:** electronic devices which perform logical, arithmetic or storage functions through the use of software.
8. **Commercially available software:** software developed at private expense and available in the commercial market through lease or purchase (including licensing arrangements) from a concern representing itself to have ownership and/or marketing rights in the software. Software which is furnished as part of the computer but, is separately priced from the computer, is included in this category.
9. **Conversion costs:** costs directly related to the conversion from installed computer resources to replacement computer resources.
10. **Daisy-wheel printer:** an impact printer that prints by striking a wheel containing raised characters against an inked ribbon.
11. **Disk:** information storage medium consisting of a flat, circular magnetic surface on which information can be recorded in the form of small magnetized spots, similarly to the way sounds are recorded on tape. Disks are usually categorized as "floppy" or "hard" disks.
12. **Disk drive:** a peripheral device that writes and reads information on the surface of a magnetic disk.
13. **Dot-matrix printer:** printer that represents characters by printing patterns of dots at selected positions on a fixed-size grid.
14. **Impact printer:** printer that prints by mechanically striking an inked ribbon, as in a typewriter.
15. **Interface:** the devices, rules, or conventions by which one component of a system communicates with another.

16. **Microcomputer:** synonymous with "small computer," "desk top computer," "personal computer," and "low cost computing equipment."
17. **Modem:** Modulator/demodulator: a peripheral device that enables the computer to transmit and receive information over a telephone line.
18. **Parallel interface:** an interface in which many bits of information (typically eight bits, or one byte) are transmitted simultaneously over different wires or channels. (See SERIAL INTERFACE)
19. **Peripheral device:** a device, such as a video monitor, disk drive, printer, or modem, used in conjunction with a computer; often (but not necessarily) physically separate from the computer and connected to it by wires, cables, or some other form of interface, typically by means of a peripheral card.
20. **Plug compatible:** a plug (plug-to-plug) compatible purchase description is similar to a brand name or equal purchase description. Unlike an item offered under a brand name or equal purchase description, a plug compatible item need not perform its functions in essentially the same manner as the referenced product; however, it must perform the same functions as the referenced product.
21. **Random-access memory:** memory in which the contents of individual locations can be referred to in an arbitrary or random order.
22. **Serial interface:** an interface in which information is transmitted sequentially, one bit at a time, over a single wire or channel. (See PARALLEL INTERFACE)
23. **Software:** a series of instructions, in a form acceptable to a computer, which causes a computer to perform specified operations.
24. **Systems or items life:** a forecast or projection of the period of time that begins with the installation of the systems or items and ends when the need for such systems or items has terminated. Systems or items life is established by the Government on the basis of requirements and is usually set forth in the solicitation. Systems or items life is not necessarily synonymous with the actual life of the systems or items.

C. GOVERNING RULES AND REGULATIONS

The area of ADPE procurement is such a volatile subject that there have been numerous revisions to Navy policy. The following regulations and interim directives are pertinent to the small purchase ADPE procurement processes.

<u>Reference</u>	<u>Subject</u>
1. DOD Federal Acquisition Supplement (DFARS)	
a. DFARS 270.0	Acquisition of Computer Resources
b. DFARS 270.101	Procurement Authorities
c. DFARS 270.313	Use of GSA Schedules
d. DFARS 270.314	GSA Non-mandatory Schedule Contracts
e. DFARS 270.304	Small Purchases
f. DFARS 270.400	Acquisition Under 10 USC 2315
g. DFARS 270.1304	Federal Software Exchange Program
h. DFARS 270.1403	Reutilization of Excess and Exchange/Sale of ADPE
2. Federal Information Resources Management Regulation	
a. FIRMR, Part 201	Federal Information Resources Management Regulation ADPE policy's and Procedures
j. FIRMR, Part 201-32.206	Use of GSA Non-mandatory ADP Schedule
3. SECNAVINST 5236.5 1 Dec 1989	Use of Regional Computer Centers

- | | | |
|----|--------------------|---|
| 4. | NAVSUP PUB 547 | Contract Request Preparation Guide |
| 5. | SECNAVINST 5231.1B | Life Cycle Management (LCM) Policy and Approval Requirements for Information System (IS) Projects |

Other ADP related instructions that may occasionally be of interest to the Small purchase buyer or customer are:

- | | | |
|----|--|---|
| 1. | Public Law 89-306 | The Brooks Act |
| 2. | NAVSUP letter
5230, O2XH, 90-12
14 Feb 1990 | Contracting for ADPE |
| 3. | NAVSUPINST 4200.81
Encl (3), 19 Jun 1989 | NAVSUP Delegation of ADPE Contracting Authority |
| 4. | OASN (S & L)
Memo for distribution
28 Aug 1989 | Enhancing Competition in Acquisition of ADP Recourse |
| 5. | NAVCOMPTMAN 075172 | <i>Funding Criteria and Limitations</i> |
| 6. | NAVDAC Bulletins | Information on available contracts as well as other ADP Acquisition subjects. |
| 7. | NAVSUP VOL II 22470 | ADPE (outdated but still around) |
| 8. | OPNAVINST 5239.1A | Department of the Navy ADP Security |
| 9. | SECNAVINST 5239.2
15 Nov 89 | DOD ADP Security |

B. RATIONALE AND REASONS FOR POLICIES AND PROCEDURES

Any discussion of regulations governing the procurement of Automatic Data Processing Equipment logically starts with Public Law 89-306 of 1965. This law is better known as the "Brooks Act," in honor of its sponsor, Congressman Jack Brooks of Texas. In essence, this Act consolidated the ADP procurement efforts of all Federal agencies under the direction of the General Services Administration (GSA). The Brooks Act granted GSA sole procurement authority, allowing GSA to delegate the authority to other agencies. (GSA does this through a Delegation of Procurement Authority). As the ADPE Administrator, the GSA is responsible to ensure economic and efficient purchase, lease, and maintenance of ADPE within the Government. The primary intent of this action was to establish a centralized authority for the Government's ADP investments.

Working within the structure of the Brooks Act, ADPE procurement regulations and references have become significantly different than other types of purchases. For example, rather than using just the Federal Acquisition Regulation (FAR), the buyer must reference the DFARS subpart 270 and the FIRMR. These references provides specific guidelines about policy, GSA schedules, and synopsis of GSA actions, however, they do not stand alone in the ADPE environment. The buyer must also check each of the other references listed in the previous section.

It is important to keep the distinction between a GSA DPA (blanket or specific) and ADP contracting authority clear. GSA through a DPA authorizes another agency (such as Department of Navy) to execute the procurement action in lieu of GSA actually doing the buy. This is an authority for Navy to process the procurement, not a grant of contracting authority.

Separate from the GSA DPA issue is which offices/ Commands within Navy authority have authority to contract for ADP. Within the Navy, ADPSO is the Command with primary responsibility for contracting for high dollar value (this threshold is currently actions over \$10 million) ADP resources. NAVSUP has authority to \$10 million, and for activities deriving their procurement authority form NAVSUP, NAVSUPINST 4200.81 enclosure (3) sets out the thresholds that apply.

Naval Supply Centers received ADP authority purchase from Naval Supply Systems Command (NAVSUP). The amounts are shown in NAVSUPINST 4200.81 enclosure (3). The June 1989 version of the instruction delegated all Naval Supply Centers (NSCs) \$100,000 authority, except for NSC, San Diego which received \$25,000.

The predominant type of ADPE requisition received in the small purchase section will be for small computers or additions to existing computer systems. The range of extra or accessory equipment is quite extensive. This equipment is generally subject to procurement under the Brooks Act.

The microcomputer industry is a dynamic, expanding entity which is growing and progressing at a very fast pace. The expected efficient life of an ADPE system is approximately three to five years. This makes it essential to procure equipment with the capability to expand along with the advances of the industry.

The fast pace of technology advancement in recent years has also had an effect on ADPE policy and purchase procedures. This advancement is making computers much faster, more sophisticated and smaller every year. Meanwhile, the prices of older models quickly drop. Even the newest computers are much less expensive today than just a few years ago.

A lot can happen in this changing environment during the GSA contract's period, causing some ADP GSA contracts to become overpriced or outdated very quickly. These rapid changes in price explain why buyers need to insure the maximum practicable competition in spite of an existing non-mandatory GSA Schedule. DFARS states that the existence of a non-mandatory ADP schedule does not eliminate the requirement for competition.²⁰

From the small purchase buyer's perspective, the process of purchasing ADPE can follow a relatively simple work flow. For every requirement the customer must first provide each of the following:

1. Certification of compliance with SECNAVINST 5236.5 (Regional Service Centers)
2. Certification that requirement could not be fill through sharing or reutilization (equipment only) per FIRMR 201-31.
3. Certification that ADP/Life Cycle approval was obtained and that it was sufficient.

These certifications are required regardless of the dollar value.

In all requisitions, regardless of the dollar value, the Contracting Officer must make a determination that the purchase is made at the lowest overall cost alternate

²⁰ DFARS 270.314, 1988.

to the Government. In addition, the Contracting Officer must make a determination that the price is fair and reasonable.

Other considerations come into play in the ADP small purchase environment. Competitive quotes will be required over \$2,500 if the item is not on a GSA schedule. Here the standard competition requirements of any small purchase apply. The competitive quotes establish that the price is the lowest total cost available and can also be used to establish that the price is fair and reasonable.

It may also be necessary to go out for competitive quotes for an ADP buy even if the item is covered under a non-mandatory GSA contract. Here again, competitive quotes establish that the price is the lowest total cost available. The ADP schedule prices do not stand on their own to establish this determination. Another method to establish that the price is the lowest total available is to review and reference any comparison that the customer may have available as part of the ADP approval package. This second method of establishing that the price is the lowest total available is especially useful in the higher dollar systems. By doing this, orders can be placed against a non-mandatory GSA schedule up to the maximum ordering limit of the applicable non-mandatory GSA schedule. However, a synopsis is required over \$50,000.

The synopsis rules for ADP are different from the traditional small purchase action. The DOD FAR Supplement requires synopsis of requirements that are covered in an ADP GSA schedule above \$50,000 for 15 days.²¹

Another exception to traditional purchasing procedures involves approvals and certifications (listed above). Before placing an ADP buy, the requiring activity must obtain ADPE approvals. In addition, the requiring activity must be sure that their requirement can not be met through existing Federal sources. Specifically, sharing and reutilization sources are described in FIRMR 201-31 and 210-33 respectfully. SECNAVINST 5236.5 is the reference for Navy Service Center source.

The requiring activity does not need to attach a copy of ADP approvals to their purchase request for ADPE of \$25,000 or less. It is sufficient to obtain a certification that the required approvals have been obtained and that they are adequate. This is designed to minimize the paperwork involved in the smaller ADPE buys. The Contracting Officer may, however, demand a copy of the approval for purchases of \$25,000 or less if deemed necessary. One reason to obtain a copy is to assist in establishing that the price is the lowest total available as described above.

²¹ DFARS 270.315.

Copies of the ADP approvals are required with purchase requests for over \$25,000. Regardless of the dollar value, a certification of compliance with SECNAVINST 5236.5 of 1 December 1989 (Regional Service Centers) is required.²²

Fortunately, ADP purchases that are not on a non-mandatory GSA Schedule follow the same procedures as a traditional small purchase action. As normal, a sole source requirement over \$10,000 must be synopsisized in the Commerce Business Daily. However, customers must always provide the required ADP certifications discussed earlier.

Hundreds of Government Activities use ADPE to perform their missions. The crux of the problem lies in this very fact. Lost production time due to equipment failure, can create serious administrative disruptions. This situation is partially the result of procurement guidelines which require demonstrating maximum utilization justification before application for expansion. Because we have such a large requirement from a very diverse population, we are buying considerable numbers of unique small computer systems. At every activity, there are strong "personal feelings" or "opinions" as to what microcomputer is "best."

The many instructions promulgated relating to ADPE are designed to direct the procurement process towards the most effective acquisition of material for the Navy. They are aimed at standardizing the Navy's ADPE population. The hundreds of activities with ADPE are now literally hundreds of independent systems which violate the sound logistical concepts of standardization, maintainability, supportability, compatibility and efficient training of personnel.

There is no intent in the instructions and regulations to prohibit the utilization of labor-saving ADPE. The objective is to go forward with one set of standards and the wise investment of public funds into systems which will serve us well today and in the years to come.

E. COMMON PROBLEMS AND DISCREPANCIES

Some of the typical problems associated with the average small purchase buyer of ADPE are the following:

²² NAVSUP letter 5230, O2XH, 90-12,14 Feb 1990.

1. Volatile environment introduces confusion into the ADP purchase. There is a general lack of knowledge of ADPE and associated peripheral equipment which has created major procurement delays.
2. ADPE terminology is not understood by buyers. A lack of working knowledge of ADPE terminology hinders the small purchase buyer's ability to effectively solicit competition. Such terminology as "IBM compatible" or "plug-to-plug compatible" is misleading and usually misrepresentative of requirements, often resulting in inadequate sole source justification due to the requestor's tailored specifications.
3. Proper authorizations are not always obtained. Considerable doubts exist as to regulatory requirements for authorization for both project approval and procurement of ADPE. This results in inadequate supportive documentation or certifications in purchase files citing ADP approval.
4. Competition requirements for the purchase of items covered under an ADP GSA non-mandatory contract are not understood.
5. Funding for ADPE is sometimes incorrect. Improper accounting spreads are sometimes used for acquisition of ADPE with a total cost over \$15,000. There is a general lack of knowledge of the proper use of Other Procurement Navy (OPN) or Operations and Maintenance, Navy (O&M, N) funds in ADP.
6. Unique legal and regulatory requirements of ADP are confusing.

F. SUGGESTED SOLUTIONS

It is well understood that each activity will have its own unique approach to problem-solving and perhaps have already encountered and mastered most of the common problems and discrepancies just mentioned. Nevertheless, this section provides some possible direction for an approach to achieve the most effective solutions in coping with the purchase of ADPE.

1. Volatile environment

ADPE acquisition is not conducive to repetitive procurement or familiarity of equipment, primarily because of the nature of its rapidly changing technology. It is nearly impossible for the large chain computer stores (whose livelihood is in the computer business) to keep pace with the latest in microprocessor technology. ADPE acquisition is likened to capital equipment in that it is equipment which is procured typically every five to twenty years and is considered to be a type of investment. It is because of these features that one of the most critical requirements for procurement of ADPE is a well-organized planning process. This process should be an integral part of the approval request as well as part of the purchase requisition.

It would be wise to encourage vendors to visit the activity periodically to discuss the latest technology available as an attempt to maintain adequate proficiency for ADPE hardware and software acquisition. As a word of caution, the buyer must be aware that the ADPE market is extremely competitive. This makes it valuable to consult technical computer trade magazines for a much broader selection and price comparison before making a final determination. Most vendors carry only a limited selection of personal computers and peripheral equipment and are very persuasive in their personal preferences.

2. ADPE terminology

Perhaps one of the major contributors to inadequate ADPE procurement is the inability of most small purchase personnel to be conversant in this unique language. Some of the most common terms have already been defined here, but represent only a small sampling of those used by the customers and vendors of this complex equipment. The buyer must not let this minor difficulty present a major deterrent or an insurmountable aversion to handling ADPE procurement. As long as the buyer has sufficient technical specifications, any reputable dealer will be more than willing to provide an adequate explanation to assist the procurement action.

The small purchase buyer must avoid the pitfall of allowing the requestor to tailor the specifications towards a sole source procurement. One particular area of concern is in dealing with the statement "compatible with existing software." Even though software might already be available at the Commands, this is not in itself a sole source justification. Copying existing programs is in many cases in direct violation of copyright laws. Therefore, the total system cost must be considered.

3. Proper authorization

In compliance with the Brooks Act, all ADPE authority has been delegated to the General Services Administration. This authority has been further delegated within the Department of the Navy and explicit guidelines have been provided.

Under the Brooks Act, GSA has sole procurement authority for ADPE. GSA can either exercise this procurement authority by processing the procurement action or delegate the authority to another agency such as the Navy. GSA delegates this authority via a delegation of procurement authority (DPA). Before a Navy purchase office can process an ADPE buy, it must either fall under the thresholds of the GSA blanket DPA, have specific DPA or be exempt from the Brooks Act.

For activities which get their procurement authority from NAVSUP, contracting authority for ADPE is separately granted.

The customer is responsible for obtaining the appropriate SECNAVINST 5231.1B ADP approval before submitting the purchase request. Part of this approval process may require the customer to complete an Abbreviated System Decision Paper. The customer can find the format for this in attachment C to NAVDAC Advisory Bulletin No. 41. It requires the requestor to briefly summarize the operational need for procuring an ADPE system. In addition, the customer may have to justify the ADP approval request with a summary of the proposed solution, other alternatives, costs and benefits, interface considerations, status of fund availability to support the life cycle costs, and selected alternatives.

It is not necessary for a copy of the Abbreviated System Decision Paper or other ADP documents to accompany the purchase request unless the procurement is over \$25,000. However, the customer must certify that the approval was obtained and that it was sufficient. The Contracting Officer can, however, require the customer to provide a copy of the approval if deemed necessary.

4. Sources of ADPE

FIRMR 201-31 requires the purchase folder to contain a statement that the requirement can not be met using existing Federal resources through sharing or reutilization. This is frequently omitted. In addition, the non-mandatory ADP GSA contract in itself does not represent a sole source or establish price reasonableness.

It is still the buyer's responsibility to be sure that a "fair and reasonable" price and "lowest total price available" is paid no matter how the system is procured. Even

though local vendors are plentiful and provide competitive bids, there are many instances when the identical equipment or equipment of equal or better quality can be obtained at considerable savings from advertisers in computer trade magazines.

5. Funding for small purchase ADPE

Like all procurement actions, there is a distinction between expense and investment items. The threshold for ADPE total systems cost for all O&M, N funded procurements is currently \$15,000.

The procurement of all new ADPE systems must be priced out in terms of the total system cost. The aggregate price of all elements must be under \$15,000 in order to use O&M, N funding. For example, a system consisting of a central processing unit at \$12,000, a color monitor at \$500, a hard disk drive at \$500, one floppy disk drive at \$200, and a printer at \$2,000 would total \$15,200. This package could not be purchased with O&M, N funds. OPN or another type of investment fund would be required.

There can be a temptation on the part of the customer to split an order or attempt to use the O&M, N (the primary funding that is available to the shipboard customer) inappropriately to make an investment purchase over \$15,000. This is strictly prohibited by Congress and results in a violation of Title 31 US Code (Sections 1301 and 1517). Title 31 violations are reported to the President of the Senate and the Speaker of the House of Representatives and is punishable by suspension without pay, removal from office, a monetary fine and imprisonment.

The buyer should consult Paragraph 074060 of the NAVCOMPT Manual for further guidance on the proper use of OPN versus O&M, N for the purchase of ADPE. Additionally, Naval Industrial Fund (NIF) activities are unique in their requirement to adhere to the Capital Investment Program (CIP). Work with the customer and the comptroller early in the procurement process if you encounter questions about the appropriateness of the funds. This early screening can avoid later delays or wasted efforts.

6. Unique legal and regulatory requirements

Unique legal and regulatory requirements for screening available resources must be considered before customers submit purchase requests for ADPE hardware or software. SECNAVINST 5237.1 outlines the particular requirements for the ADPE reutilization program to screen available Navy wide assets of excess ADPE.

This is a mandatory screen and must be documented for each procurement action for ADPE.

NAVDAC Advisory Bulletin No. 41 outlined their innovative software sharing program called Uniform NAVDAC Inventory and Query for Unique Exportables (UNIQUE), which is an inventory of application system abstracts. The primary objective of this program is to optimize and conserve the limited ADP resources among Navy activities. NAVDAC is presently compiling a master index of small computer application systems to capitalize on previous initiatives by sharing of these resources. The bulletin further stated the SECNAVINST 5237.2 requirement to contact the Federal Software Exchange Center to determine application programs available from that source. This center maintains a similar inventory of programs already in existence.

Documentation must be retained to reflect proof of these screens for future audit and review. When submitting a purchase request the customer must submit a statement certifying that the requirement cannot be met through reutilization or sharing.

G. TRAINING MATERIAL AND RECOMMENDED GUIDES

The information provided in this module includes the most current direction available. It is not intended to be specifically guide the procurement of ADPE; rather, it is a sound base from which to go forward. There will undoubtedly be local regulations or individual Type Commander's (TYCOM) regulations which incorporate requirements in addition to those delineated here.

Recommended training material and guides are listed below.

The DFARS subpart 270. This is more complete and clearly written than any single ADP instruction.

NAVSUP Publication 547 is a good guide for the customer to use in preparing the purchase request package. It also contains check lists to help the customer insure that the package is complete.

Table 11-1 summarizes the basic requirements for ADP purchases using non-mandatory GSA Schedules. Table 11-2 illustrates the basic requirements of a non-competitive small purchase ADP buy. These tables are provided as desk guides.²³

H. SUMMARY

Public Law 89-306, the "Brooks Act," consolidated the responsibility for ADP procurement of all Federal agencies to be within the guidance of the General Services Administration. The Administrator of GSA has, in turn, delegated approval authority for ADP procurement to the Department of the Navy at specific dollar thresholds. The predominant type of ADPE requisitions received in a small purchase section at a Navy activity can be expected to be for small computers or additions to existing computer systems.

Because of the "Brooks Act" and the dynamic pace of ADP technology advancement, special procurement rules apply. The DFARS, FIRMR and SECNAVINST 5236.5 provided most of the information a small purchase buyer will need during the ADP procurement process.

²³ Developed by Pat Honda (NAVSUP) and LT Clark Willcox.

ADP PURCHASES USING NON-MANDATORY GSA SCHEDULES

COMPETITIVE REQUIREMENT RECEIVED

PRICE RANGE	"GENERAL-INTEREST" ADP LCM APPROVAL	AWARD BASED ON LOWEST OVERALL COST ALTERNATIVE	COMPETITION REQUIRED	SYNOPSIS
\$0 TO \$2,500	LETTER FROM ACTIVITY OR COPY OF APPROVAL	YES	NO	NO
OVER \$2,500 TO \$25,000	LETTER FROM ACTIVITY OR COPY OF APPROVAL	YES	NO*	NO
OVER \$25,000 TO \$50,000	COPY OF ACTUAL APPROVAL	YES	NO**	NO**
OVER \$50,000 TO MAX ORDER LIMITATION	COPY OF ACTUAL APPROVAL	YES	NO**	YES (15 DAYS) (IAW FIRMR)

*WHEN THE REQUIRING ACTIVITY SUBMITS PROPER DOCUMENTATION THAT HAS A COMPARISON OF PRICING FOR ACCEPTABLE ALTERNATIVES, THE CONTRACTING OFFICER MAY BE ABLE TO USE THIS INFORMATION TO DETERMINE THE LOWEST OVERALL COST ALTERNATIVE. IF THE ACTIVITY DOES NOT SUBMIT SUCH INFORMATION, IT MAY BE EASIER TO OBTAIN COMPETITION (NORMAL SMALL PURCHASE PROCEDURES) AND AWARD ON THE BASIS OF COMPETITION.

**IF THE PROCUREMENT IS NOT PROCESSED AND AWARDED UNDER THE GSA NON-MANDATORY SCHEDULES, LARGE PURCHASE SOLICITATION AND AWARD PROCEDURES APPLY.

Table 11-1

ADP AVAILABLE ON GSA NON-MANDATORY ADP SCHEDULE

NON-COMPETITIVE REQUIREMENT RECEIVED
(SOLE SOURCE OR SPECIFIC MAKE AND MODEL)

PRICE RANGE	"SPECIAL-INTEREST" ADP LCM APPROVAL	PRICE REASON- ABLENESS/LOWEST OVERALL COST ALTERNATIVE	SOLE SOURCE/ J&A REQUIRED	SYNOPSIS
\$0 TO \$2,500	LETTER FROM ACTIVITY OR COPY OF APPROVAL	YES	SOLE SOURCE JUSTIFICATION	NO
OVER \$2,500 TO \$25,000	LETTER FROM ACTIVITY OR COPY OF APPROVAL	YES	SOLE SOURCE JUSTIFICATION	YES, IF OVER \$10K (IAW FAR PART 5)
OVER \$25,000 TO \$50,000	COPY OF ACTUAL APPROVAL	YES	J&A (FAR PART 6)	YES (IAW FAR PART 5)
OVER \$50,000 TO MAX ORDER LIMITATION	COPY OF ACTUAL APPROVAL BY UNDER SEC'Y OF NAVY	YES	J&A (FAR PART 6)	YES (IAW FAR PART 5)

ADP NON-COMPETITIVE SMALL PURCHASE REQUIREMENT CHART

Table 11-2

XII. PRIORITIZATION OF REQUIREMENTS

A. SUBJECT AREA

Uniform Material Movement and Issue Priority System (UMMIPS) provides a common basis to determine the relative importance of competing demands for resources of the Department of Defense (DOD) logistics system. The material in this module will discuss how UMMIPS affects the small purchase environment.

Specific topics which will be covered include the:

- Details of UMMIPS
- Regulations and directives associated with this system
- Rationale for applying this system to the small purchase environment
- Common problems encountered

The primary purpose of this module is to help the small purchase buyer achieve a clear understanding of the relative priorities of customers' requirements as judged by UMMIPS standards. Thorough knowledge of the system should provide a:

- Basis for logically prioritizing small purchase workload
- Framework for educating customers to be sure that the small purchase office is processing purchase requests according to the customers' true priorities
- Basis for organizing the purchasing office to remove impediments through the proper prioritization of the total workload

B. DEFINITIONS

The definitions and interpretations of the following terms, which will be used throughout the material, are provided to ensure a common frame of reference when discussing prioritization of requirements:

1. **Force/Activity:** A unit, organization, or installation performing a function or mission; a body of troops, ships, or aircraft, or a combination of any of these; or, a function, mission, project, or program.
2. **Force/Activity Designator:** A Roman numerals (I through V) assigned by the Secretary of Defense, the Joint Chiefs of Staff, of a DOD component to identify and categorize the military importance of a unit, organization, installation, project, or program to meet national objectives.
3. **Priority Designator:** A two-digit Arabic number (01 through 15) derived from a matrix combining a requisitioner's Force/Activity Designator and the urgency of need of an end use requirement as specified by the Urgency of Need Designator.
4. **Purchase Request:** The document by which the using/requiring activity makes its purchase requirements known to the contracting officer. A purchase request will be prepared and approved before the contracting officer initiates purchase action.
5. **Required Delivery Date:** The specific Julian date when material is required by the force or activity for which the material was requested. It is always a date which is earlier or later than the computed Standard Delivery Date. After determining the Priority Designator and computing the associated Standard Delivery Date, a requesting activity may assign a delivery date to the request only if the request must be satisfied by a justified later or earlier date.
6. **Standard Delivery Date:** The latest Julian date by which material requisitioned under a particular Priority Designator can normally be expected to be received by the requesting activity.
7. **Urgency of Need Designator:** An alphabetical character (A, B, or C) indicating the relative haste in which a requirement is needed by a force or activity based upon mission impact.

C. GOVERNING RULES AND REGULATIONS

The following references are the primary sources of the rules and regulations concerning prioritization of requirements:

<u>Reference</u>	<u>Subject</u>
1. OPNAVINST 4614.1F	Uniform Material Movement and Issue Priority System (UMMIPS)
2. NAVSUPINST 4200.85, encl (2)	Receipt, Initial Screening, Control, and Routing of Purchase Requests
3. NAVSUPINST 4200.85, encl (2)	Applicability of UMMIPS to Naval Activities Ashore
4. NAVSUPINST 4200.85, encl (2)	Preparation of Purchase Requisitions
5. NAVSUP P-485 Paragraph 3045-3050	Applicability of UMMIPS to Naval Units Afloat
6. NAVSUP P-485 Paragraph 3082	Purchase Requests

D. RATIONALE AND REASONS FOR POLICIES AND PROCEDURES

Today's shrinking defense budget has intensified the struggle between numerous Government activities as they compete for limited resources. The Department of Defense logistics system coordinates these competing demands with UMMIPS. The goal is to be sure that needs are met according to the relative importance of the material to the overall mission. Urgent operational requirements must be given priority over requests for housekeeping and administrative supplies or similar requirements. UMMIPS is designed to give recognition and preferential treatment to material needs, the lack of which will prevent or seriously impair an

activity's ability to carry out its assigned mission. It is a system which attempts to further a national objective of maintaining the aggregate of the military forces in the highest state of material readiness. This is accomplished through the application of a standard criteria for determining, in any situation and at any level in the logistics system, which material requirements are to be satisfied first by each component of the system.

UMMIPS uses a series of two-digit numbers, known as Priority Designators (PD), which result from matching a requisitioner's Force/Activity Designator (FAD) with the Urgency of Need Designator (UND) of the requirement.

Table I below indicates the appropriate Arabic number PD derived from a combination of a Roman numeral FAD with one of the three alphabetical UNDs. Normally a force or activity will be assigned a single FAD at any point in time, thus limiting the PDs which may be assigned by that force or activity to a single PD from each of the three UNDs. For example, an activity assigned FAD III would assign PDs 03, 06, or 13 to its material requests depending upon the urgency of each requirement.

TABLE I
PRIORITY DESIGNATORS (PDs)

<u>FAD</u>	<u>A</u>	<u>B</u>	<u>C</u>
I	01	04	11
II	02	05	12
III	03	06	13
IV	07	09	14
V	08	10	15

Once a PD has been assigned to a purchase request, that PD becomes the principal signal directing the action which the activity expects the logistics system to take regarding that request. For national stock numbered material requests, the PD represents specific time-frames which are expected to be met by the logistics system in each step of the process. These times add up until the customer receives the material. Examples of the steps include stock point processing, requisition passing action, and transportation.

For purchase requests received by a small purchase office, the PD becomes an indicator of relative urgency of the request compared with all other requests received. In addition, the PD indirectly specifies the total number of days available to provide material to satisfy the request. Including a Required Delivery Date (RDD) provides a basis for further prioritization within each PD. The RDD allows the request to be sequenced before or after those requests which do not cite a RDD. This placement is based upon whether the assigned RDD is before or after the Standard Delivery Date for the particular PD. The Standard Delivery Date is constructed using UMMIPS time standard charts contained in OPNAV Instruction 4614.1F. In practice, calculating the Standard Delivery Date for each purchase request not citing a RDD is cumbersome, impractical, and seldom used as a basis of further prioritization of purchase requests within PD by a small purchase office.

A more common practice is to prioritize purchase requests first by PD, and then, by date of receipt of the request within each PD. Such a practice maintains the integrity and satisfies the intent of UMMIPS while ensuring the steady flow of purchase requests through the necessary steps of the purchasing process. This sub-prioritization by date of receipt within PD will prevent the inadvertent delay of random purchase requests and will tend to stabilize the time required to complete action on each purchase request within each PD. After stabilization, the time may deviate only slightly from the average time of all requests within each PD. Stabilized processing times enable requesting activities to plan accurately the submission of purchase requests to result in receipt of material at the proper time to coincide with other work schedules. In short, consistent treatment of purchase requests by the small purchase office will lead to consistent assignment of PDs by requesting activities such that valid high priority requests are infrequent. This lesser volume of priority requests can then be afforded special treatment to complete purchase action within required time frames as specified in the purchase request.

E. COMMON PROBLEMS AND DISCREPANCIES

If the small purchase function was performed in a closed environment with little or no direct customer interface, the adherence to a strict policy for prioritizing requests based solely upon UMMIPS would be incredibly simple. Of course this is not the environment that we work in. The small purchase office is a dynamic organization which communicates directly and frequently with representatives of activities requesting material either in person, by telephone or by various forms of written correspondence. These communications include requests for immediate service (as in the case of walk-through requests), follow-up on purchase requests for which no status has been received and requests for improved delivery dates. Each of these communications tends to disrupt the process by changing the sequence of processing purchase requests on hand. These disruptions are an inescapable part of a dynamic logistics system which must meet constantly changing operational requirements. Elimination of the disruptions is not necessarily desirable, although control over the method of their introduction into the small purchase office may minimize their adverse impact on overall performance of the small purchase function. In any case, the disruptions tend to obstruct the strict adherence to UMMIPS as the sole basis for prioritizing purchase requests.

When the small purchase office supports a number of small activities of which one or two are readily identifiable as a primary customer (typically, the public works activity and/or a shipyard or rework facility), the most common problem is the control of walk-through purchase requests. Many walk-throughs are obviously for legitimate emergency requirements. These actual emergency needs usually affect an activity's primary mission capability. In these cases, the requesting activity should assign a PD which reflects the genuine urgency of the requirement, providing the small purchase office with a clear indicator of this urgency and a valid basis for handling this request ahead of other requests already awaiting purchase action. If the activity does not assign a PD which justifies placing this request ahead of other work on hand, the request should be put in its appropriate place in the queue awaiting purchase action. Failure on the part of the small purchase office to take this action will inevitably result in unreasonable delay of purchase requests from activities which did not walk through their request. This problem gradually tends to escalate until it is unmanageable.

A second common problem in prioritization occurs when purchase requests are handled using a first-in/first-out concept as the primary basis for prioritization and UMMIPS as a secondary basis. The problem surfaces when backlogs of low priority purchase requests are allowed to accumulate over a number of days to a point at which the small purchase office is concerned that the requesting activities will begin following up on these backlogged requests. Thus, the small purchase office decides to handle these low priority requests immediately, although higher priority requests,

received more recently, are on hand. This action violates the intent of UMMIPS, causes considerable confusion among customer activities and results in the impression (a correct one, in this case) that the PD assigned to a purchase request really does not mean anything since all requests simply line up in the backlog as received. Supervisors must be sure that individual purchasing agents are not following this practice for lack of firm office procedure in this area.

A less common, but significant problem concerns customer activities requesting quantities greater than their immediate requirements on PD 01-08 requests. In simple terms, UMMIPS requires that material which is not for immediate use be categorized as UND "C" and be requested using PDs 11-15. The portion of the total requirement which is not for immediate use should be requested separately citing one of these UND "C" PDs. Since this action obviously increases the purchasing work-load, the reasoning behind this requirement may be unclear. The combining of the requirements could result in unnecessary delay in delivery since the order is placed with a commercial source for the entire quantity requested. This action makes it appear as though the entire amount was the immediate requirement. If the source could provide only a partial quantity immediately, the shipment may be delayed pending availability of the remaining amount. The rationale for this requirement can be seen, from this discussion, to be based on operational considerations rather than consideration of the efficiency of the purchasing function.

Inflation of priorities has been a continuing general problem since UMMIPS was established. Some customers routinely have a tendency to assign high priorities to material requests in lieu of advance planning. One alternative solution is for the small purchase office to ignore the inadequately justified or obviously inappropriate use of high PD's (01-08). Operational commanders have recognized this problem and have established limitations on the percentage of PD 01-08 requisitions.

F. SUGGESTED SOLUTIONS

Having faced the problems cited at some time or another, many small purchase professionals have intimate knowledge of these potential problem areas and are aware of those which apply to their present environment. Each Command has a unique environment which can be used to evaluate the successful and unsuccessful methods which have been employed in the past to deal with these problems. Although possible solutions are offered here, ideas should be solicited from those who are closest to the problems: the buyers who see the purchase requests day after day and who must, on a moment to moment basis, prioritize the work in front of them.

1. Control of walk-throughs

Two aspects of walk-through purchase requests are subject to control: the procedures to be followed by customer activities and the numbers of walk-throughs which occur. Each walk-through represents an interruption of a buyer's thought process and the order in progress, resulting in less than the most efficient processing of that order in progress. If customers are literally permitted to walk the requests through to a buyer, then other buyers are interrupted as well by the regular traffic flow through the work area. Establishment of a central control desk for submission of walk-throughs may help to limit the level of disruption in the work area. This control desk may be located conveniently at the same point where initial screening of requests takes place. An inter-office phone connection between this desk and the buyers could provide any necessary direct communication between the buyer and the customer. The number of walk-throughs may be reduced through the selective granting of blanket purchase agreement call authority to appropriate personnel of each major customer activity. Of course, this action is subject to specific limitations and requires explicit procedures and controls which should be reviewed and considered prior to granting such authority. Statistics should be accumulated concerning the number of walk-throughs made by each customer and periodically forwarded to activities for information and review. When numbers of walk-throughs are excessive, (this assessment requires the subjective judgment of management), the small purchase office may want to provide formal notification to the activity involved. This notification should include constructive recommendations to assist the activity in satisfying its requirements through routine requests. Customer education, through the use of a Customer Services Guide, periodic reminders in local publications (Plan of the Day, Plan of the Week), or a customer council, may also be of benefit.

2. First-in/first-out prioritization

Prompt attention to backlogged purchase requests, through temporary overtime work and through permanent staffing increases will help. However, obtaining the funds necessary to accomplish this work may be difficult in today's fiscal environment. Therefore it is necessary for all small purchase personnel to limit the occurrence of first-in/first-out on a daily basis. Training can help to develop awareness of conditions which generate the use of this method of prioritization in lieu of adherence to an UMMIPS based prioritization system. Establishment of a written standard operating procedure or desk guide can also assist in this area. This guide should cover prioritization of requirements and periodic review of the procedure as part of the in-house training program.

3. Combining routine and immediate requirements

PD 01-10 requests should be reviewed upon receipt in the small purchase office to identify potential excessive quantities which may be for more than the immediate requirement. Customer education may be the best way to combat the problem of combining routine and immediate requirements into one high-priority request. This education can be accomplished in many ways. Examples of customer education avenues include customer services guides, reminders in local publications, and customer councils.

4. Inflation of priorities

Obvious inappropriate use of high PD's for routine requirements and other specific questionable cases must be called to the attention of customer activities for resolution. Periodic reports may be provided to each activity showing the number of requests received under each PD so performance may be assessed against the limitations set for the activities by their operational commanders.

G. TRAINING MATERIAL AND RECOMMENDED GUIDES

Naval Supply Systems Command Instruction 4200.85 of 25 July 1989.

Defense Small Purchase Correspondence Course ALM 33-0017, United States Army Logistics Management College, Fort Lee, Virginia, October 1989.

Enclosure (2) to OPNAV Instruction 4614.1 provides tables of criteria for determining the Urgency of Need Designators of material requirements. These tables provide a reference which may be used by the small purchase office to validate the Priority Designator which has been assigned by a force or activity to a purchase request in a case in which the validity of the assignment is considered to be suspect.

Enclosure (5) to OPNAV Instruction 4614.1 provides charts which specify UMMIPS time standards designed principally for use with requisitions for standard, national stock numbered material under the Military Standard Requisitioning and Issue Procedures. However, for purchase requests which do not cite a Required Delivery Date, these time standards may be used to construct the RDD implied by the Priority Designator cited on the purchase request.

Paragraph 1 of Enclosure (1) to OPNAV Instruction 4614.1 provides a detailed explanation of the criteria for Force/Activity Designator assignment.

H. SUMMARY

The small purchase office is a dynamic organization which communicates directly and frequently with representatives of activities requesting material either in person, by telephone or by various forms of written correspondence. These communications include requests for immediate service (as in the case of walk-through requests), follow-up on purchase requests (for which no status has been received) and requests for improved delivery dates. Each of these communications tends to disrupt and change the sequence of processing purchase requests on hand. These disruptions are an inescapable part of a dynamic logistics system which must meet constantly changing operational requirements. Elimination of the disruptions is not necessarily desirable, although control over the method of their introduction into the small purchase office may minimize their adverse impact on overall performance of the small purchase function.

Stabilized processing times enable requesting activities to plan accurately the submission of purchase requests to result in receipt of material at the proper time to coincide with other work schedules. Navy directives require all purchase requests to include an UMMIPS-based Priority Designator. UMMIPS provides standards to the buying activity in assigning priorities to the procurement actions. Once a PD has been assigned by an activity to a purchase request, that PD becomes the principal signal directing the action which the logistics system should take regarding that procurement request: an indicator of the relative urgency of the request. It indirectly specifies the total number of days available to satisfy the request. The inclusion of a Required Delivery Date provides a basis for further prioritization within each PD. It will place the request in sequence before or after those requests which do not cite a RDD, depending upon whether or not it is before or after the Standard Delivery Date of a particular PD.

As assigned PDs more closely match UMMIPS standards, the prioritization of the small purchase workload will more closely match the true relative priorities of all purchase requests which activities have submitted. The high priority requests should become fewer in number as the buying activity demonstrates adherence to the standard as perceived by the requesting activity. As a consequence, the consistent treatment of purchase requests by the small purchase office should lead to consistent assignment of PDs by requesting activities. And so the cycle repeats itself to the improvement of the entire process.

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APPENDIX B
INTERVIEW QUESTIONS

COMMAND _____ NAME _____ DATE _____

EXPERIENCE LEVEL GRADE _____ POSITION _____

SMALL PURCHASE (YEARS)

_____ 3-5
_____ 6-10
_____ 11-15
_____ 16 or more

AT COMMAND (YEARS)

_____ 0-3
_____ 3-5
_____ 6-10
_____ 11 or more

QUESTIONS

1. What are the current training weaknesses that you perceive in the small purchase environment?

Why?

2. Is your local in-house command training adequate?

Describe the training.

How would you like to see it changed?

3. What do you see as the specific training needs of mid-career (three or more years experience) small purchasing personnel?

4. What formal advanced small purchase training or other formal command sponsored training have you attended?

5. What follow-on or advanced small purchase training do you desire?

6. Have you observed any APADE training weaknesses?

DIRECTOR EXTRA QUESTIONS

1. What small purchase training programs presently exist locally within your command?

How often?

Who attends?

Who is responsible for conducting this training?

Is this training utilized?

Is this training adequate?

2. How do you currently develop the training methods?

3. What types of training plans are used during local training sessions at your command.

4. How do you currently develop the training plans.

5. What is the current level of formal training of intermediate level small purchase personnel, and what are the sources of training that do exist?

Note: The researcher then selectively focused on weaknesses and problems surrounding the twelve areas identified in Chapter III of this thesis. These areas are:

- Requirements Determination
- Optimal Purchase Methods
- Blanket Purchase Agreements
- Purchase Orders
- Documentation
- Determination of Fair and Reasonable Price
- Competition
- Small Businesses and Other Social Programs
- Accounting and Appropriations
- Imprest Fund
- Automatic Data Processing Equipment
- Prioritization of Requirements

The above questions closely parallel the questions asked by Kurt Huff and Randle Bales in their 1984 Masters thesis Professional, Organizational, and Training Weaknesses in Small Purchase within the Department of the Navy. The same basic questions were used in the current research effort in order to establish a groundwork for comparison over the six years.

APPENDIX C

LIST OF INTERVIEWEES

The following people were interviewed or directly provided information that was used in this study. The interviews included mid-level GS-1105 buyers, small purchase directors, deputy small purchase directors, procurement analysts, course directors, instructors, contracts directors, and other personnel familiar with the Navy small purchase environment. These interviews were conducted in person as well as by telephone and through correspondence.

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Bailey, S., Lieutenant, SC, USN, Small Purchase Director, Naval Supply Center, San Diego, California, (Long Beach Detachment)., 29 January 1990, (telephone).

Barber, J., Deputy Director of Contracts, Naval Supply Center, Puget Sound, Bremerton, Washington., 27 March 1990, (personal).

Boyd, B., Lieutenant Commander, SC, USN, Supply Officer, Naval Postgraduate School, Monterey, California., 20 February 1990, (personal).

Brown, G., Small Purchase Division Supervisor, Naval Supply Center, Puget Sound, Bremerton, Washington., 27 March 1990, (personal).

Brown, M., Small Purchase Buyer, Naval Supply Center, San Diego, California, (Long Beach Detachment), 12 February 1990, (telephone).

Caffrey, M., Small Purchase Buyer, Naval Supply Center, Oakland, California, 8 February 1990, (telephone).

Chapman, Lieutenant Commander, SC, USN, Small Purchase Director, Naval Supply Center, Puget Sound, Bremerton, Washington, 26 March 1990, (personal).

Couchman, E., Supervisor Procurement Assistant, Naval Supply Center, Oakland, California, 29 January 1990, (correspondence).

Da Silva, N., Small Purchase Buyer, Naval Supply Center, San Diego, California, (Long Beach Detachment), 12 February 1990, (telephone).

Davidson, R., Small Purchase Division Deputy Director, Naval Supply Center, Charleston, South Carolina, 24 January 1990, (correspondence).

Fisher, N., Training Director, Navy Acquisition Management Training Office, Norfolk, Virginia, 27 November 1989, (telephone).

Flanagan, P., Commander, SC, USN, Director of Contracts, Naval Supply Center, Puget Sound, Bremerton, Washington, 26 March 1990, (personal).

Gardner, E., Small Purchase Buyer, Naval Supply Center, San Diego, California, 28 February 1990, (correspondence).

Gordon, D., Small Purchase Division Supervisor, Naval Supply Center, Puget Sound, Bremerton, Washington, 27 March 1990, (personal).

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Jacomson, R., Small Purchase Division Supervisor, Naval Supply Center, Puget Sound, Bremerton, Washington, 27 March 1990, (personal).

Jenkins, G. Commander, SC, USN, Director of Contracts, Naval Supply Center, Jacksonville, Florida, 20 February 1990, (telephone).

Jones, C., Course Director for Defense Small Purchase, United States Army Logistics Management College, Fort Lee, Virginia, 23 January 1990, (telephone).

Kemp, G., Procurement Analyst, Contracting Policy Office, Naval Supply Systems Command, Washington, D.C., 28 January 1990, (telephone).

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