

1957

# Small purchase policy and procedures of the Air Force

---

<https://hdl.handle.net/2144/6838>

*"Downloaded from OpenBU. Boston University's institutional repository."*



BOSTON UNIVERSITY  
College of Business Administration

THESIS

Small Purchase Policy and  
Procedures of the Air Force

by

Alfred Apkar Onanian

B.S. in B.A. Boston University 1954

Submitted in partial fulfillment of  
the requirements for the degree of

MASTER OF BUSINESS ADMINISTRATION

1957

*Foy W. Howe*



Alfred G. Branson

Alfred G. Branson

49203  
5-22-57

Table of Contents

Chapter	Page
I. Introduction . . . . .	6
II. Historical Background of Government Procurement . . . . .	9
A. Methods of Procurement Under the Armed Services Procurement Regulation of 1948 . . . . .	.13
1. Formal Advertising . . . . .	.13
2. Negotiation . . . . .	16
III. The Problem of Small or Rush Orders . . . . .	19
A. Analysis of Unjustifiable Causes . . . . .	21
1. Inventory Control . . . . .	21
2. Poor Planning . . . . .	22
3. Loss of Confidence . . . . .	24
4. Marking Requests Rush . . . . .	24
B. Methods to Reduce Seriousness of Problem . . . . .	25
C. Practices to Reduce Seriousness of Problem . . . . .	27
1. American Can Company . . . . .	27
2. Air Force Practices . . . . .	28
IV. Outline of the Air Force Small Purchase Program . . . . .	29
A. Imprest Funds (Petty Cash) Method . . . . .	31
1. Conditions for Use . . . . .	.31
2. Policy . . . . .	.32
3. Procedures . . . . .	.32
4. Appointment and Termination of Cash Purchasing Officers . . . . .	.33
5. Controls . . . . .	36

Chapter	Page
B. Blanket Purchase Order Method . . . . .	39
1. Conditions for Use . . . . .	39
2. Preparation of the Order . . . . .	40
3. Execution of Calls . . . . .	40
4. Controls . . . . .	42
C. Need for Appraisal . . . . .	45
V. Appraisal of the Air Force Small Purchase Program .	46
A. Organizational Structure - Base Procurement .	47
1. Organizational Structure - Small Purchase Branch . . . . .	49
2. Centralization vs. Decentralization . . .	51
B. Effectiveness of the Small Purchase Program .	54
1. Routing of Requisitions . . . . .	54
2. Growth of Cash Purchasing . . . . .	56
3. Costs . . . . .	58
4. Reduction of Costs . . . . .	59
5. Adequacy of Controls . . . . .	61
VI. Commercial Approach to the Problem of Small Purchases . . . . .	64
A. Policy and Procedures of Semi-Conductor Division	65
1. Procedures . . . . .	65
Cash Purchasing . . . . .	65
Blanket Order Method . . . . .	66
B. Argus Camera, Inc. - "A Unique Answer to the Small Order Problem" . . . . .	66
C. The Anermorstat Corporation - "How to Keep Costs Down on Small Orders" . . . . .	69

Chapter	Page
D. Allis-Chalmers "3 Ideas that Simplify Purchasing"	70
VII. Comparison Between Commercial and Air Force Purchasing	76
A. Democratic Aims	77
B. Regulatory Controls	78
C. Vendor Relations	79
D. Inventory System	80
E. Methods for Small Purchases	81
1. Cash Purchasing	81
2. Blanket Purchase Orders	82
Commercial Practices	83
Air Force Practices	83
VIII. Proposed Changes to Air Force Policy and Procedure	86
A. Proposed Changes to ASPR 3-604 "Imprest Fund Method and AFPI Implementations"	88
1. Proposed Procedure for Cash Purchasing	88
2. Advantages of the Proposed Method	89
B. Revision and AFPI Implementation to ASPR 3-606 "Blanket Order Method"	90
1. Evaluation of the Revision	92
2. Proposed Revision to ASPR 3-606 and AFPI Revision of Blanket Order Method	93
3. Advantages of the Proposal	93
C. Standardization and Simplification	94
1. Advantages	94
IX. Conclusion	96

## List of Exhibits

	Page
I. A Typical Maximum - Minimum Control System . . .	23
II. AF Form 446 "Issue Slip" . . . . .	34
III. AF Form 385 "Cash Purchase Receipt" . . . . .	35
IV. DD Form 702 "Order For Purchases of Supplies and Services" . . . . .	41
V. Table of Organization - Base Procurement Division	48
VI. Total Cash Purchases in Number . . . . .	57
VII. Total Cash Purchases in Dollars . . . . .	57
VIII. Item Due In - Receipt Record . . . . .	62
IX. Purchase Order - Angus Camera, Inc. . . . .	68

CHAPTER I

INTRODUCTION

A problem which frequently arises in any purchasing department is the receipt of purchase requisitions for an excessively large number of small and rush orders which are costly to process. An appraisal is necessary to determine if the number of requisitions and total dollars expended for such purchases are justified. If not, the appraisal will indicate the inefficiency of the departments concerned. "Inefficient" meaning that corrective action to reduce the number of such orders is either completely lacking or is failing in its endeavor.

The measurement of the efficiency of the Air Force purchasing system as a whole is difficult as the purchasing department is too closely related and dependent upon other departments of the installation. Further, the entire procurement function is seldom the responsibility of one department. In Air Force procurement, the normal sequence of requisitioning and purchasing involves an initiating activity which has need of the material, and a Base Supply section which prepares the requisition, and later inspects, accepts and stores the materials. The primary responsibility of the purchasing department is to process the requisition expeditiously.

The Department of Defense is vitally concerned with the problem of administrative costs relative to small purchases.

This can be determined by a historical analysis of regulatory procedures for procurement, and the eventual adoption of a scope, policy and procedure governing small purchases. The Armed Services Procurement Regulation, effective May 19, 1948, provides the policy that small orders, defined as any order, the aggregate amount of which does not exceed \$1000.00, can be accomplished by negotiation as opposed to the formal advertising method. The purpose and primary objective of the policy is to reduce administrative costs and to eliminate time consuming paper processes incident to the purchase, receipt, payment and issuance of supplies and services.

This report will evaluate the imprest funds and blanket purchase order methods currently authorized by existing regulations. This restrictiveness is deemed required to permit a careful analysis of the two most popular methods used as opposed to a generalization covering all methods.

The brief statistical report that follows of the number and dollar volume of small purchases processed through the utilization of the imprest funds and blanket purchase order methods will indicate the magnitude of the problem and the need for an efficient small purchase program by the Department of Defense. For Fiscal Year 1956, the Air Force reports 527,271 cash purchase transactions totaling \$13,600,834.00, and 148,109 calls on blanket purchase orders totaling \$11,484,820.00. The significance of these statistics can best be appreciated when consideration is given to the fact

that the Air Force is only one department within the Department of Defense. While adequate controls have been established to properly safeguard the interests of the Government, and to assure that quality procurement is maintained, the restrictiveness and pitfalls of these controls require re-evaluation in light of past developments.

The problem of small purchases will be analyzed by the use of the comparison method. Purchase policies and procedures of a selected large industrial concern will be studied, evaluated, and a determination made as to the effectiveness of such methods relative to meeting production schedules, quality, effective use of manpower, costs, extravagance and restrictiveness. Industrial purchase procedures will be compared with Air Force practices to obtain conclusions which will indicate policy and procedure changes necessary to permit the Air Force purchasing agent to effectively pursue his task which is: "More Air Force Per Dollar".

## CHAPTER II

## HISTORICAL BACKGROUND OF GOVERNMENT PROCUREMENT

Prior to World War II, Government procurement was governed by a mass of uncoordinated legislation -- statutes that had accumulated on Congressional records over a period of more than one hundred years. Many were completely archaic and many more were conflicting. In the aggregate they posed an obstacle to speedy and efficient procurement.\*

The first laws regulating government procurement were enacted on May 8, 1792. This statute merely placed the responsibility for purchasing under the direction of the Treasury Department. In the period 1792 to 1861 no significant purchasing legislation was enacted or introduced.

On March 2, 1861, Section 3709 was enacted into law. This required that at least three bids be sent out for each procurement. Seven years later on January 31, 1868 Section 3710 was passed requiring that such bids be properly opened.\*\* This revision was necessitated by the scandalous behavior of procurement personnel who were favoring certain sellers with the greatest share of purchase orders and contracts.# Further, the legislation provided that purchases shall be

\* 11, p. 2

\*\* 5, p. 124

# In 1862, during Cameron's term as Secretary of War, Army business was handled through brokers who were all relatives and friends of Cameron.

made by advance public advertising and sealed bids, and that such bids shall be publicly opened at a designated time and place, with the resultant contract being awarded to the lowest responsive bidder. Thus, formal advertising and sealed bids became the principal method of procurement and held this distinction until World War II.

The first break in the long policy of sealed bids was the Air Corp Act of 1926. This Act recognized that it was desirable to negotiate contracts rather than use sealed bids for the purchase of airframes with emphasis being placed on performance potential rather than price. R. S. 3709 was revised to permit negotiation in certain instances, however, a long line of Comptroller General decisions narrowed this permission so much as to make it virtually unusable.\*

Military procurement was further restricted by legislation which made it mandatory for departments to purchase shoes, brooms and brushes from the penitentiary at Leavenworth; brooms and mops had to be purchased from non-profit making agencies for the blind; no contract for supplies might be made abroad unless it had first been advertised for thirty days in two daily newspapers in New York City; to advertise in the District of Columbia, it was necessary to advertise in one daily and one weekly newspaper of each of the two principal political parties and in one daily and one weekly neutral newspaper.

\* 13, p. 1

Congress recognized that wartime procurement had to be freed from these shackles and on December 18, 1941 the First War Powers Act was signed within ten days of its introduction in Congress.

Section 201 of Title II of that Act permitted the President to authorize any department or agency of the Government engaged in the war effort to enter into contracts and into amendments and modification of contracts heretofore or hereinafter made without regard to the provisions of law relating to the making, performance, amendment or modification of contracts. The President was quick to extend to the Armed Services this emancipation from statutory confusion and restriction. On December 27, 1941, Executive Order 9001 authorized the War and Navy Departments to exercise the full powers and freedom contemplated by Congress. This, in effect, made negotiation the principal method of procurement. Formal advertising and the use of sealed bids, for the most part, was discontinued during the war. The Act was designed primarily to clear the way for emergency wartime procurement and to place Government procurement on substantially as free a footing as that enjoyed by private enterprise.

Following World War II, with the urging of the Military Departments, Congress took specific steps to enact a permanent single uniform authority and guide for the procurement methods and procedures of all the Armed Services. With the advice and counseling of outstanding congressional,

military and civilian procurement officials, the 80th Congress enacted the Armed Services Procurement Act of 1947, Public Law 413, to be effective May 19, 1948. Thus, the Armed Services returned to the long established method of procurement by means of formal advertising and sealed bids with certain exceptions.

It is to be noted that the authority to use the negotiation method of procurement is not as liberal as that enjoyed under the First War Powers Act and its implementing Executive Order 9001 which permitted the Armed Services to ignore the formalities of the procedures for formal advertising during the war; however, the restrictiveness of R. S. 3709 under which negotiation was virtually non-existent has been relaxed. The Act with its combined authority for the use of both methods of procurement permits the more liberal purchasing method of negotiation in those situations deemed to be the most adaptable for such a method, but requiring that the advertising method be used in all other situations.

The general rule expressed in Public Law 413 is found in Section 2 (c):

"All purchases and contracts for supplies or services shall be made by formal advertising, as provided in Section 3 except....."

Thereafter follow an enumeration of seventeen exceptions to this rule.

This report will discuss solely the authority granted for negotiation by Section 2 (c) 3 of the Act which states,

in effect, that purchases and contracts may be negotiated without formal advertising if "the aggregate amount involved does not exceed \$1,000.00".

A. Methods of Procurement Under the Armed Services Procurement Regulation of 1948

Military procurement is done by two methods -- by advertising and by negotiation. All of the Armed Services requirements are bought under one of these methods. The method used is governed by the nature of the procurement and the total amount involved. The first method to be discussed is formal advertising.

1. Formal Advertising

"Formal Advertising" is a competitive method of procurement of supplies and services under a procedure that includes the preparation of invitations for bids, the publication and distribution of invitations for bids to prospective bidders, the receiving of sealed bids and the awarding of contracts to the lowest responsible bidder.\* This statement assumes that the invitations for bids are to be publicly posted and that the contract is awarded to the lowest responsible bidder -- price and other factors considered.

This system is considered by many procurement officers to be the best method of procurement. For instance, the needs of military agencies are made known to a larger number of suppliers over a greater geographical area with

\* 12, p. 27

the result that a greater number of bids are received from which to select the "accepted" bid. This provides the agency the maximum return per expended dollar.

Awards are made impartially among suppliers, and the opportunities for fraud and favoritism are minimized. However, in order for this method to be effective, the following four conditions must prevail:

1. Definitive specifications must be published.
2. An adequate number of suppliers must be capable of complying with the specifications.
3. Suppliers must be actively competing for the business.
4. Adequate time must be allowed for the formalities of advertising and opening of bids.

If these conditions do not prevail, the negotiation method must be used.\*

The Armed Services Procurement Regulation (commonly known as ASPR) and further implemented by the Air Force Procurement Instructions (commonly known as AFPI) have established authorized procedures for this method of buying by the Air Force.

The Contracting Officer, upon receipt of a purchase requisition, determines the method of procurement to be used. If the election is made to formally advertise, it is his responsibility to effect the issuance of the Invitation for Bids (IFB's) on prescribed forms; to post copies

\* 6, p. 72

of the IFB's on public display; to accept submitted bids; to properly and publicly open such bids; and to effect an award to that responsible bidder whose bid, conforming to the requirements of the invitation for bids, will be the most advantageous to the Government, price and other factors considered.

The rigidity of this method, predicated mainly upon the concept that awards shall be impartially made, places a great responsibility upon the bidder to comply with the essential requirements of the invitation for bids or suffer the consequence of having his bid rejected. Some of the reasons for the rejection of bids are:

1. The offering of alternative specifications.
2. Indicating a longer or qualified delivery schedule.
3. Failure to bid a firm price.
4. Qualifying or otherwise attaching a condition to the bid.
5. A major irregularity.
6. Taking exception to some term of the IFB.
7. Late bid.

Disqualifying factors in rejected bids cannot be adjusted by negotiation. The Contracting Officer is prohibited from permitting the bidder to alter his bid once the bid has been opened and recorded.

This method of procurement may prevent a critical analysis of the motivating factors in procurement transactions

entered into by the Government, and may eliminate collusion between buyer and seller; however, consideration should be given to the value of certain advantages which are sacrificed.

For example:

1. The opportunity to reduce administrative costs.
2. The opportunity to cut lead time and the obtainment of more expeditious deliveries.
3. The opportunity to negotiate.
4. The desire for permanent connections with reputable suppliers who will cater to specific needs.
5. The opportunity to create a better goodwill by trading with concerns in the local market area.

It is beyond the scope of this thesis to completely evaluate formal advertising. This discussion merely points out some of the salient administrative advantages and disadvantages of this method.

The second method to be discussed is negotiation.

## 2. Negotiation

Procurement by negotiation is defined as the art of arriving at a common understanding through bargaining on the essentials of a contract such as delivery, specifications, price and terms.

This system of procurement is used by the Air Force when the conditions that make formal advertising mandatory do not prevail. The Armed Services Procurement Regulation grants the authority to use negotiation in seventeen specific

circumstances, however, the only concern here is that authority cited in Section 2(c)3 of the Act.

In using the negotiation authority of Section 2(c)3, and in determining that the aggregate amount of the contract does not exceed \$1,000.00, consideration must be given to the possibility of grouping requisitions into a single transaction. Similarly, it is essential that purchases aggregating more than \$1,000.00 be not broken down into several contracts which are less than \$1,000.00 merely to avoid the requirements for formal advertising. For example, a requirement may exist within a using activity for two or more items which, if ordered on one requisition would exceed the \$1,000.00 limitation for negotiation. The using activity may order such items on more than one requisition which may or may not be processed to the purchasing officer on the same day.

The authority to negotiate does not relieve the Contracting Officer of the responsibility for ascertaining that adequate competition has been obtained. In the interest of saving time, negotiations may be carried on informally by the use of correspondence or telephone; however, the number of suppliers afforded an opportunity to offer a quotation must be consistent with the concept of "full and free competition". This concept reiterates that the competition solicited must be consistent with the procurement types of supplies and services necessary to meet the requirements of the agency concerned. Care must be exercised to avoid any suspicion of favoritism or collusion.

Some of the advantages, which are associated with the negotiation method are:

1. Lower administrative costs.
2. Speedier deliveries due to decrease in lead time.
3. Permanent connections with reputable dealers are established.
4. The majority of orders are placed in the "local" market area.
5. Flexibility in bidding procedures.
6. Errors in bids are easily corrected.
7. Alternate offers can be accepted.
8. Specification changes can be expeditiously authorized.

The realization that small and rush orders are costly and time consuming to process prompted the development of a small purchase program by the Armed Services. The principal method used for such purchases is negotiation.

## CHAPTER III

## THE PROBLEM OF SMALL OR RUSH ORDERS

The most persistent problem which affects the normal efficiency of the purchasing department is the small or rush order. The purchasing department receives many requisitions which develop into "small or rush orders". The two orders may overlap. It is conceivable that a small order may be marked "rush", and may, in fact represent a real emergency item and justify all possible haste. In some cases "rush orders" may require a quantity purchase which would preclude the use of small purchase procedures. This results in an increase in administrative costs.

It is not expected that small or rush orders can always be avoided, and it is doubtful if any firm can eliminate such orders; however, they should be held to a minimum by foresight in requisitioning and by a consolidation of requirements.

Numerous conditions can justify the use of a small or rush order, for example: sudden changes in specifications and unexpected changes in market conditions may upset a carefully planned material schedule; breakdowns are inevitable with an accompanying demand for parts or materials which are not usually stocked.\*

\* 1, p. 92

Such orders cause a disruption of normal activities and increase the cost of materials, as well as operating costs. This increase is due in part to the greater administrative expense involved in proportion to the size of the order, and in part to the greater chance of error when the work is done hurriedly.

Costs may be further increased by the higher price paid for small quantities; greater transportation charges; the loss of quantity discounts; increase in workload; and continued use of small purchases could interrupt the flow of materials causing delays in projects or production.

This cost may be partially offset by certain advantages or economies, for example:

1. Investment in inventories is lowered when stock levels are purposely maintained at a low level.
2. Less storage space is required.
3. Inventory loss is minimized in case the design of the product is changed or the project is terminated.
4. Vendors are contacted more often which affords the buyer an opportunity to be notified of developments in the market.\*

There are justifiable bases for small or rush orders. In any organization, the unforeseen or unexpected requirements for supplies may arise which demand expeditious service from the purchasing department; however, there are so called "small or rush orders" that cannot be justified on any basis.

## A. Analysis of Unjustifiable Causes

These unjustifiable orders result from requisitions which arise because of:

- a. Faulty inventory control.
- b. Poor planning or budgeting.
- c. An apparent lack of confidence in the ability of the purchasing department to get materials by the proper time.
- d. The sheer habit of marking requests "rush".

### 1. Inventory Control

Any evaluation of the procurement function must give reasonable attention to inventory control. This term encompasses the entire cycle of getting the required material, through the manufacturing process, and to the handling of the finished goods. Here, we will concern ourselves only with that phase of the cycle that pertains to getting the required material. This means guaranteeing an adequate supply and at the same time keeping inventories and handling costs to a minimum, giving due consideration to requirements, market conditions, prices, obsolescence, and deterioration. How well the inventory control operation is accomplished reflects directly on the efficiency of the procurement function since the maintenance of proper controls will decrease the number of requisitions and the frequency of reordering. Of the methods of inventory controls devised, the most widely accepted and currently used by the Air Force is the maximum -- minimum

method. This method establishes the maximum inventory to be maintained; a reorder point; and, a minimum which is a lesser amount than the reorder point to permit time to order the material by the time the stock level reaches the minimum. The maximum level is the reorder point plus the logical standard quantity to be ordered less usage from time of reordering until the material is received. (See Exhibit I)

One serious fault of the maximum -- minimum method is the tendency to establish the method and to assume that the system will operate automatically. The levels established must be subject to periodic re-evaluation based upon changing conditions and usage. This method requires the maintenance of perpetual inventory cards which should be periodically reviewed to insure their accuracy.

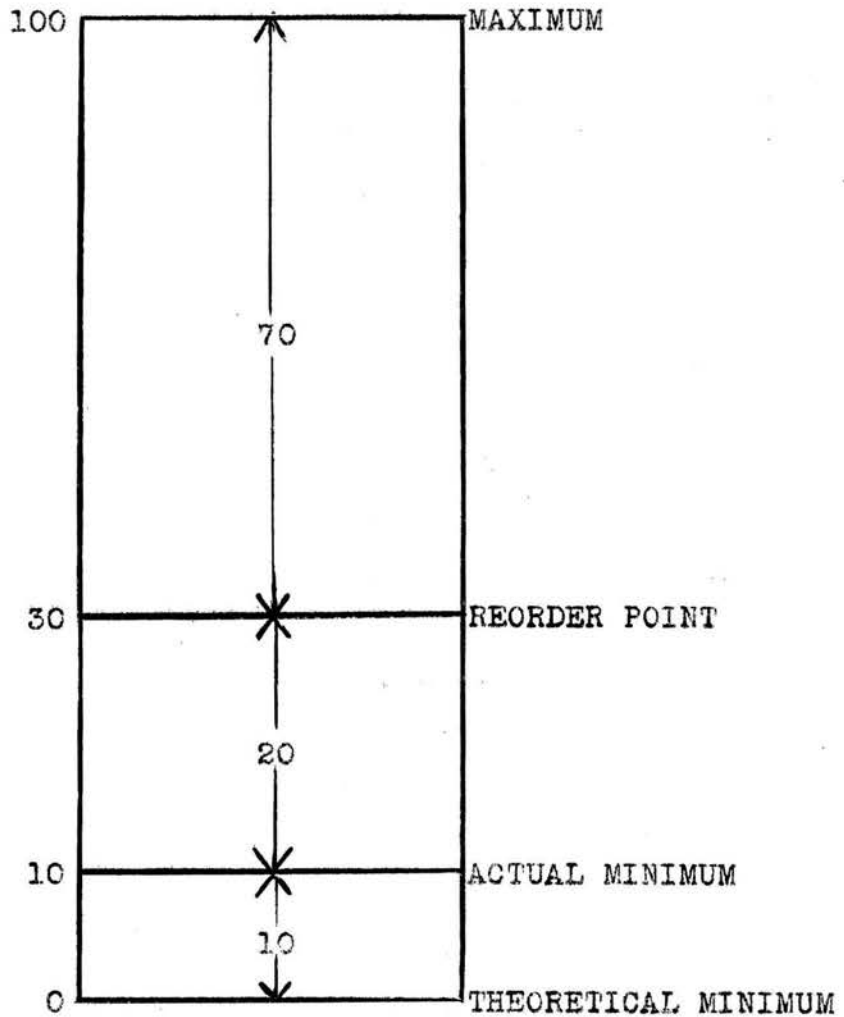
Any breakdown in the method of inventory control which results in the forwarding of requisitions to purchasing in excessive quantities and which must be labeled "rush", indicate an inefficiency in supply procedures.

## 2. Poor Planning

One of the fundamentals of "good" buying is the consolidating of requirements thereby reducing workload and increasing opportunities for lower price through more favorable pricing and the obtainment of quantity discounts.

The most logical point for accomplishing this consolidation is in the material control or planning section. It is unrealistic to rely on the purchasing agent to consolidate requirements since he knows only the requirements as

EXHIBIT I  
A TYPICAL MAXIMUM-MINIMUM  
CONTROL SYSTEM



supplied to him in the form of purchase requisitions. If two requisitions arrive at his desk at the same time for the same item, he can consolidate them. If he has recently ordered an item, and a new requirement for the same item is received, he may increase the quantity on the original order by issuing a change order.

The purchasing department is frequently called on to compensate through special attention and effort for time lost through poor planning which results in too short a lead time -- the period from the time purchasing receives the requisition until the time the material is required -- to permit efficient action by the purchasing department.

### 3. Loss of Confidence

Using activities are usually critical of the purchasing department if required materials are not delivered on time. Rarely is consideration given to the lead time allowed or any other factor that can cause late deliveries. Frequent losses of production time or project stoppages due to lack of materials cause the using activity to lose confidence in normal purchasing operations, and to seek faster means of delivery regardless of the consequences. The purchasing department must be alert to the possible loss of goodwill towards the department which may affect the morale of the entire organization.

### 4. Marking Requests Rush

As a means of obtaining expeditious action from the purchasing department, using activities signal requisitions

as "rush". In some cases this is justifiable and the purchasing department must provide expeditious service, however, the receipt of an excessive amount of such requisitions is an indication that using activities are merely marking requests rush. This may be the result of poor planning by the using activity in not determining its material needs in time for normal procurement action.

#### B. Methods to Reduce Seriousness of Problem

Education in purchasing procedure is one solution to alleviate the unjustifiable receipt of requisitions for "small or rush orders" which are not basically of an emergency nature. For example, a ruling can be made that when a small or rush requisition is forwarded to the purchasing department, the using activity must explain to management the reason for such a requisition and to secure prior approval. Furthermore, even if the requisition is approved, the extra costs, so far as they can be determined, shall be charged to the activity ordering the material. This may result in a marked reduction in such orders.

The purchasing department may be found at fault for not giving proper attention to a practical consolidation of small requisitions into a substantial purchase order, however, this criticism is not often valid. For example, in a discussion with a purchasing official at an Air Force base, he stated that requisitions received on any particular day for small

or rush purchases are processed immediately since expeditious informal procurement procedures are used for such purchases. He felt he could not assume the responsibility for deferring procurement action to determine whether similar requisitions will be received. Consideration to consolidation is given when the requisitions are received and assigned to buyers within the department.\*

Another step in solving this problem is to study the requisitions in an effort to determine responsibility and to apply a corrective at the source. Pertinent data can be obtained by selecting a period of time; by determining the total number of requisitions received and by classifying these requisitions according to dollar size, item and source. It then should be reasonably clear whether the fault lies within the supply or stores department or within one or more using activities, or with both.

Once the responsibility has been fixed, the next step is to decide upon a method of procedure. Various possibilities are:

1. If the fault lies within a using activity, efforts should be made to convince the activity to increase the number of standardized items requested, as contrasted with unclassified items. This supposes that using activities are ordering materials which are not commonly carried in stock.
2. The purchasing department may hold small requisitions as received until a justifiable total, in dollars, has been accumulated.

3. Another method is to establish a requisition calendar, setting aside specific days for the requisitions of specific supplies, so that all requests for a given item are received on the same day.\*

#### C. Practices To Reduce Seriousness of Problem

The study of this problem has indicated that in normal operations there is a continuing requirement for small purchases. In certain firms the number of small orders is reduced by the use of a petty cash fund. Others find it desirable to issue monthly blanket orders to a supplier and then obtain requirements against that order. An example of the value in adopting these practices is the following case.

##### 1. American Can Company

The American Can Company has established small purchase procedures which they reliably estimate have cut administrative costs in this one facet of the purchasing operation by more than 50%. This is considerable in view of the fact that 100,000 "small" orders at an average cost of \$4.00 per order were placed prior to the adoption of small purchase procedures. This company uses a special form for orders of less than \$25.00 value which are issued by factories using the material. No copies are forwarded to central procurement. All processing and payment of these orders is handled through the office at the factory receiving shipment. In addition to cutting processing costs, it provides quicker payment to the supplier.

\* 1, p. 93

Central purchasing's control on this form of "petty cash" purchasing is through the periodic checking of the special pre-numbered small order form. All numbered forms must be accounted for, even cancelled or voided forms.

The purchasing department also issues monthly, quarterly, or semi-annual blanket orders on selected suppliers, to greatly reduce the number of individual orders. Individual items against these orders are purchased by telephone or any other communication method that is less costly than a formal purchase order. This method provides a means to enjoy quantity prices from the supplier and the retention of the advantage of frequent shipments.

## 2. Air Force Practices

The Air Force has established a small purchase program which is comparable to small purchase methods employed by the American Can Company with a few exceptions. This will be discussed in the following chapter.

## CHAPTER IV

## Outline of the Air Force Small Purchase Program

The Department of the Air Force has established procedures to reduce the administrative burden created by the placement of numerous orders for purchases of small value. These procedures are defined in the Armed Services Procurement Regulation and Air Force Procurement Instructions, Section III, Part 6 "Small Purchases". This part deals with the purchase of supplies and services when the aggregate amount involved in any one transaction does not exceed \$1,000.00.

The objective of the simplified purchase methods prescribed is to reduce administrative costs in accomplishing small purchases and to eliminate costly and time consuming paper processes.

It is the policy of the Air Force that all small purchases shall be accomplished only by negotiation as opposed to formal advertising. However, in arriving at the aggregate amount involved in any one transaction, there must be included all supplies and services which would properly be grouped together in a single transaction, and which would be included in a single advertisement for bids if the procurement were being effected by formal advertising. Requirements aggregating more than \$1,000.00 shall not be broken down into several purchases which are less than \$1,000.00 merely for the purpose of permitting negotiation or utilizing the small purchase methods authorized.

In soliciting quotations, related items such as small hardware items, spare parts for vehicles, or office supplies may be included on one purchase order and the lowest aggregate quotation rather than the lowest quotation on each item may be accepted.

Two of the methods prescribed for use in the small purchase program are:

1. Imprest Funds Method.
2. Blanket Purchase Order Method.

Any one of the purchase methods which is determined to be the most suitable for the immediate requirement and which will accomplish the procurement in the most efficient and economical manner is to be utilized.

It is further required that reasonable solicitation of quotations from qualified sources of supply is to be secured in order to assure that the procurement is made to the advantage of the Government, price and other factors considered, including the administrative cost of the purchase. It is usual practice that competition shall be limited to those suppliers or the number of suppliers in the local trade area, whichever is less. Solicitation of quotations will generally be effected orally, and where prices are determined to be reasonable, small purchases not exceeding \$100.00 may be accomplished without securing competition; however, such purchases are to be distributed equitably over a period of time among qualified suppliers. Most purchases in this category are effected by the use of imprest funds.

#### A. Imprest Funds (Petty Cash) Method

Imprest funds not exceeding \$5,000.00 may be advanced by a disbursing officer to a duly authorized agent for the "spot-cash" or c.o.d. payment for small quantities of supplies or services.

##### 1. Conditions for Use

Imprest funds are used in accomplishing small purchases whenever all of the following conditions are present:

- a. The transaction is not in excess of \$100.00.
- b. The supplies or services are immediately available with cash payment to be made upon pickup or delivery.
- c. The purchase does not require detailed technical specifications or technical inspection.
- d. The use of imprest funds is administratively more economical and efficient than other methods of procurement.\*

In addition to these conditions supplies will not be procured by cash purchase if one or more of the following conditions prevail:

- a. Purchase of the supplies is not authorized by existing regulations or directions.
- b. The purchase is for \$3.00 or more and the signature of the vendor or his agent cannot be obtained.
- c. The cost of the item is considered unreasonable.

\* 14, p. 331

- d. The cost of the supplies proposed to be purchased for one activity from one vendor at one time is in excess of \$100.00.
- e. Requirements have been intentionally understated or divided into parts solely to take advantage of the cash purchase procedure.
- f. The supplies are not available for pickup or delivery at the time of payment.\*

## 2. Policy

Imprest funds will be established for designated cash purchasing officers who may use these funds to make authorized procurements with a minimum of accounting procedures. A cash purchasing officer is defined as any officer, warrant officer, airman (first three grades), or civilian under the command or jurisdiction of the base commander who has been appointed a cash purchasing officer and designated a Class "C" agent finance officer by competent authority.

Cash purchasing will be limited, to the greatest extent practicable, to the contracting office.\*\*

## 3. Procedures

When it has been determined by the base supply officer or a designated responsible person in base supply that the estimated cost of all items on a particular requisition is less than \$100.00, the appropriate contracting officer or cash purchasing officer is requested to make the purchase. Since it is desired that cash purchase procedures be as simple as possible, requisitions are forwarded to procurement

\* 15, p. 390

\*\* 15, p. 389

personnel on an extra copy of AF Form 446 "Issue Slip" (see Exhibit II) or other authorized requisition form in lieu of a formal purchase request. Local store managers are authorized to use an informal written request. The individual making the determination to use the imprest fund method will record the following information on the requisition:

- a. A request that the items listed be purchased.
- b. The authority for making the purchase.
- c. The receiving activity to which delivery should be made.
- d. Name, title, and signature of the individual making the request.

The contracting officer, or cash purchasing officer, upon receipt of a requisition will make the final determination as to whether the supplies will be purchased by cash. If he decides to purchase by cash, the purchaser will select a source and effect payment in cash upon delivery. At the time of payment, a signed receipt will be obtained from the vendor on AF Form 385 "Cash Purchase Receipt". This is a multi-purpose form which serves as a purchase order, receiving report, issue slip, and payment voucher. (see Exhibit III)

#### 4. Appointment and Termination of Cash Purchasing Officers

Any base commander is authorized to appoint cash purchasing officers and to terminate such appointments whether made by him or a predecessor. However, before a base commander may appoint any individual who is not assigned to the

ISSUE SLIP

34

	UNIT SUPPLY OFFICER	UNIT S. O. NO.
TO	BASE SUPPLY OFFICER	PROPERTY CLASS    ACCOUNT SYMBOL
BASIS OR AUTHORITY (If requesting parts for installation in a vehicle, aircraft, or other major assembly, give type and serial number)		WORK ORDER NO.

DATE	STOCK NO.	DESCRIPTION	UNIT	AUTH	ON HAND AND DUE IN	QUANTITY REQUIRED	UNIT COST	TOTAL COST	ACTION

	<i>FOR AF</i>	<i>FS USE ONLY</i>	
TRANSACTION	CONDITION	ACCOUNT	TYPE

<i>BASE SUPPLY (Check and complete)</i>				<i>BASE MAINTENANCE (Check)</i>		
ISSUE	AWP REQUEST	DEBIT RECEIPT ACCOUNT NO.		SERVICE-ABLE	CON-DENIED	
DUE OUT	BACK ORDER RELEASE	TO PLANT ACCOUNT NO.		TOC-INC	REPARABLE	
TOC-INC	TO MAINTENANCE FOR: <input type="checkbox"/> REPAIR <input type="checkbox"/> TEAR-DOWN <input type="checkbox"/> BUILD-UP		POSTED BY (Initials and date)			

FROM (Originating organization or unit, name, address, building, room number, and telephone number)	LIKE ITEM TURNED IN ON VOUCHER NO.
---	------------------------------------

QUANTITIES SHOWN IN "ACTION" COLUMN HAVE BEEN RECEIVED--		BASE SUPPLY VOUCHER NO.
DATE	SIGNATURE OF AUTHORIZED REPRESENTATIVE	

Exhibit II



contracting office, prior written approval for assigning cash purchasing functions outside the contracting office must be obtained from the major air commander. Each appointment and termination order must be in writing together with special orders or letter orders, which will: (i) include designation as a cash purchasing officer and as a Class "C" Finance Officer; (ii) identify the appropriate finance officer by name; (iii) and cite the maximum amount of funds which may be advanced.\*

#### 5. Controls

Each appointment and termination of a cash purchasing officer must be in writing and must be accompanied with a special order which is distributed to all persons concerned, for example: the individual being appointed; the accounting officer, and the resident auditor.

Before funds are entrusted to the individual, the issuance of the special order provides automatic bond coverage. The individual is accountable for all funds so advanced.

If more than one cash purchasing officer is appointed for an installation, imprest funds and records will not be merged or consolidated nor will purchases be effected by the use of funds entrusted to another cash purchasing officer.

If a cash purchasing officer, while serving as such, becomes disqualified or incapacitated to the extent which

\*15, p. 394

prevents proper performance of his duties, his account to the finance officer will be closed by a board of officers appointed by the base commander. The individual cannot be transferred prior to final closing of his account with the finance officer.

The amount of funds which may be advanced to a cash purchasing officer is determined by the base commander. The maximum amount of any imprest fund to be entrusted to any one cash purchasing officer will be one-third of the estimated maximum monthly disbursements therefrom, but will not exceed \$5000.00. If a fund of \$1000.00 is established, the cash purchasing officer must maintain an average monthly expenditure of \$3000.00 or the fund is reduced to that figure which reflects the actual requirement.

The imprest fund is replenished upon request by the cash purchasing officer through the use of established procedures which consists of the attachment of the original copy of AF Form 385 "Cash Purchase Receipt" to the reimbursement voucher. This receipt is reviewed by the accounting officer, the commercial accounts officer and the finance officer. This review is performed to determine the accuracy of the amount and to determine if there are items contained therein which do not meet the legal requirements of the General Accounting Office. The accounting officer is primarily concerned with the citation and certification to the availability of funds and to record as an obligation the total reimbursement

certified by the finance officer. One copy of the reimbursement voucher is returned to the cash purchasing officer for his records.

The activities of cash purchasing officers are subject to audits and inspections by the Resident Air Force Auditor. Such audits and inspections are unannounced and include a verification of cash balances as well as a determination that compliance with existing regulations is being maintained.

The AF Form 385 contains three blocks for signatures which must be completed:

- a. Signature of the seller or agent of the seller certifying that cash payment has been received. The total amount in words and figures will be inserted by the seller or his agent prior to entering his signature.
- b. Signature of the cash purchasing officer certifying that the purchase has been made.
- c. Signature of consignee or receiver certifying that the supplies have been received and accepted.

Imprest funds cannot be deposited into any bank nor can payment be made for purchases through the use of checks. The funds and records of the cash purchasing officer are kept in a fire-resistant file cabinet with a three position, dial type combination lock. The combination to the lock is known only to the cash purchasing officer. A copy of the combination is on file with the Base Adjutant in a sealed envelope.

Retained records are maintained for one year after reimbursement and then destroyed.

Cash purchasing is expeditious, but is administratively costly. To reduce the number of such orders, the blanket purchase order method is employed.

#### B. Blanket Purchase Order Method

The blanket purchase order method is a means of establishing charge accounts with qualified sources of supply covering anticipated small purchases, as required, of readily available items of the same general category. This method obviates the need for a multiplicity of individual purchase orders or cash purchases for small quantities of supplies. Blanket purchase orders for like items are placed concurrently with more than one supplier and, over a period of time such orders are equitably distributed among different suppliers. Calls against blanket purchase orders are generally made orally, however, if oral communication cannot be accomplished, informal memoranda is used.

##### 1. Conditions for Use

This method is utilized in accomplishing small purchases when the following conditions exist:

- a. There is a repetitive need for small quantities of supplies of closely related types such as electrical supplies, plumbing supplies, repair parts or services, or miscellaneous items of hardware.

- b. The maximum aggregate monetary value of all calls to be issued against one blanket purchase order will not exceed \$5000.00 with individual calls being limited to amounts not exceeding \$1000.00, and the maximum period of time covered by the order does not exceed one month.
- c. The supplies or services are readily available in the local trade area.
- d. The use of individual purchase orders is deemed more costly administratively.

## 2. Preparation of the Order

Blanket purchase orders placed with vendors contain provisions relating to place of delivery, f.o.b. point, terms, and a general description of the supplies to be furnished, if and when called for by the purchasing department, during a specified monthly period, and within a stipulated aggregate amount not in excess of \$5000.00. (see Exhibit IV)

The order further stipulates that the Government will only be obligated to the extent of such calls as are actually made against the order, and that the vendor shall submit one consolidated invoice upon expiration of the specified monthly period or upon obligation of all monies authorized under the order with payment to be made on the basis of this one invoice.

## 3. Execution of Calls

Upon receiving a purchase request, the contracting officer ascertains whether the purchase can be made by a call against a blanket purchase order and places the call with the appropriate supplier. Calls are numbered numerically

<b>ORDER FOR PURCHASE OF SUPPLIES OR SERVICES</b>		ORDER NO.	CONTRACT NO.	SHEET NO. 1	NO. OF SHEETS
DEPARTMENT	DATE OF ORDER	REQUISITION NUMBER OR OTHER PURCHASE AUTHORITY			
ISSUED BY		DATE(S) OF DELIVERY			
TO: (Contractor and address)		DISCOUNT TERMS			
SHIP TO: (Consignee and address)		MAIL INVOICES TO			
		PAYMENT WILL BE MADE BY			
		DELIVERY F. O. B. <input type="checkbox"/> DESTINATION <input type="checkbox"/> OTHER (as specified in Schedule)			
<b>TYPE OF ORDER</b>	<input type="checkbox"/> PURCHASE ORDER	In accordance with your _____ of please furnish the following on the terms specified on both sides of this order and on the attached sheets, if any, including delivery as indicated. This purchase is negotiated under the authority of sec.2(c)( _____ ), Armed Services Procurement Act of 1947, as amended (41 U.S.Code 151, et seq).			
	<input type="checkbox"/> DELIVERY ORDER	This DELIVERY ORDER is subject to instructions contained on this side only of this form and is issued on another Government agency or in accordance with and subject to the terms and conditions of the following basic contract:			
ACCOUNTING AND APPROPRIATION DATA					
<b>SCHEDULE (If additional space is required, use Standard Form 36)</b>					
ITEM NO.	SUPPLIES OR SERVICES	QUANTITY (No. of units)	UNIT	UNIT PRICE	AMOUNT
	Furnish Electronic Components as ordered during the period 21 January 1957 through 20 February 1957 in accordance with specifications as follows:  a) The Government will be obligated only to the extent of such calls as actually made against this order. b) Vendor shall submit one (1) consolidated invoice in quadruplicate at the end of the period, directly to the Finance Officer. c) This order will expire at the end of the above stated period or upon obligation of the total amount of this order, whichever occurs first.				\$1,000.00
<b>MARK ALL PACKAGES AND PAPERS WITH CONTRACT AND/OR ORDER NUMBERS</b>		TOTAL AMOUNT			\$1,000.00
		UNITED STATES OF AMERICA			
		BY _____ CONTRACTING OFFICER.			

beginning with number one, and a separate series is used for each blanket purchase order. The call number succeeds the purchase order number. For example, if the purchase order number is 57-2000, the first call is identified as 57-2000(1). Calls placed within the specified monthly period must be delivered within that period. Delivery must include all items in the quantities ordered. If partial delivery is made the balance of the items are cancelled from the call and reordered in a subsequent period or, time permitting, within the same monthly period, however, a new call number is assigned. Calls remaining undelivered at the expiration of the monthly period are automatically cancelled, and delivery will not be accepted if the vendor delivers the items subsequent to the final day of the monthly period.

Calls issued that do not exceed \$100.00 may be placed without consideration being given to the obtainment of competition, however calls in excess of \$100.00, because of the competitive requirement, are placed with the blanket purchase order supplier offering the best price and delivery.

#### 4. Controls

Blanket purchase orders, prior to release to suppliers, are forwarded to the appropriation accounting officer for certification of fund availability for obligation of subsequent calls.

Receiving reports of items received as a result of calls placed are accomplished in two manners dependent upon whether the items are purchased for delivery to Base Supply or to an Air Force Service Store.

If the items are purchased for delivery to Base Supply, an individual receiving report for each call is required and is processed as follows:

- a. Upon placing a call, the purchasing department prepares the required receiving report in sufficient quantity to effect normal distribution. One copy is retained in suspense and the balance is forwarded to the receiving activity.
- b. The quantity received column and the certification of receipt are not completed by the purchasing department.
- c. The quantity ordered is placed in parenthesis immediately following the nomenclature of each item, and the order and call number is inserted.
- d. Upon receiving the supplies, the receiving activity completes the quantity received column, certifies to the receipt of the items, and effects the distribution of the receiving report to all distributees.

When the items are purchased for delivery to an Air Force Service Store, a consolidated receiving report is authorized and is prepared as follows:

- a. Upon placing a call, the purchasing department makes appropriate entries such as call number, price, and quantity ordered upon the requisition and retains the requisition in a suspense file.
- b. The vendor is advised that his shipment must include a delivery ticket, in triplicate, which

contains the following information: (a) name of contractor, (b) blanket purchase order number and call, (c) name of individual making the call, (d) nomenclature of supplies, (e) quantity of supplies and the price.

- c. The receiving component compares the supplies received against the listing on the delivery ticket, notes all exceptions, dates, and signs all copies of the delivery ticket.
- d. The original copy of the delivery ticket is forwarded to the Air Force Service Store, the second copy is forwarded to the purchasing department, and the third copy is retained in the receiving component.
- e. The purchasing department compares the information on the delivery ticket with the purchase request to assure compliance with the call order.
- f. When the delivery ticket covering the final call is received, the purchasing department notifies the receiving component that the blanket purchase order is completed and requests that a consolidated receiving report be furnished.
- g. Based upon the delivery tickets, the receiving component prepares a consolidated receiving report in sufficient quantity to satisfy distribution requirements.

The vendor is notified by the purchasing department that the blanket purchase order is completed, and that a consolidated invoice covering all calls should be submitted to the Finance Officer. Upon receipt of this invoice and verification against receiving reports received from the receiving component, the Finance Officer makes payment to the vendor.\*

### C. Need for Appraisal

This discussion on the procedures established for small purchases must be appraised to determine if purchasing is measuring up to its responsibility.

## CHAPTER V

## APPRAISAL OF THE AIR FORCE SMALL PURCHASE PROGRAM

This appraisal will consist of a discussion of the organization structure for procurement as it pertains to the Small Purchase Branch, centralization, and to the reasonableness, and effectiveness of the procedures used for small purchases.

At most air bases, the responsibility for Base Procurement usually rests upon the Base Supply Officer. The term "Base Procurement" denotes the purchase of materials, supplies and services by an Air Force installation for use and consumption by that installation or other installations assigned to it for issue of materials and supplies. These items are generally of a "housekeeping" nature such as office supplies, and so-called "off-the-shelf" items and are usually bought in small quantities.\*

This unified operation results in close integration of the supply and purchasing functions to great advantage. Stock records, inspection and acceptance, and issue to using activities are included under this operation.

Under this operation, the Base Supply Officer reports to the Deputy for Materiel who is at Staff level and reports to the Commanding Officer.

\* 16, p. 28

This organization structure may be sufficient to maintain the proper management controls at most Air Force bases, however, due to the mission of the installation which is appraised here, the responsibility for procurement does not rest upon the Base Supply Officer. A Directorate of Procurement has been established which is headed by a Director who is responsible for the purchasing function.

The mission of the installation is directed toward the accomplishment of research, development and test in electronics, geophysics and human engineering. To support this mission and to operate and maintain a large air base requires thousands of items which include specialized and standard electronic components and supplies, specialized test equipment, laboratory supplies and common housekeeping items. Some of these requirements are furnished by the Air Force from its prime depots, however, the majority are purchased through the Base Procurement Division of the Directorate of Procurement.

#### A. Organization Structure -- Base Procurement

The Chief, Small Purchase Branch reports to the Chief, Base Procurement Division who reports to the Director of Procurement. The Director is on Staff level and reports to the Commanding Officer. (see Exhibit V)

This line of responsibility may have the effect of promoting a better organization. Being on the same level as other principal departments should promote more effective

CHART I

TABLE OF ORGANIZATION  
Base Procurement Division

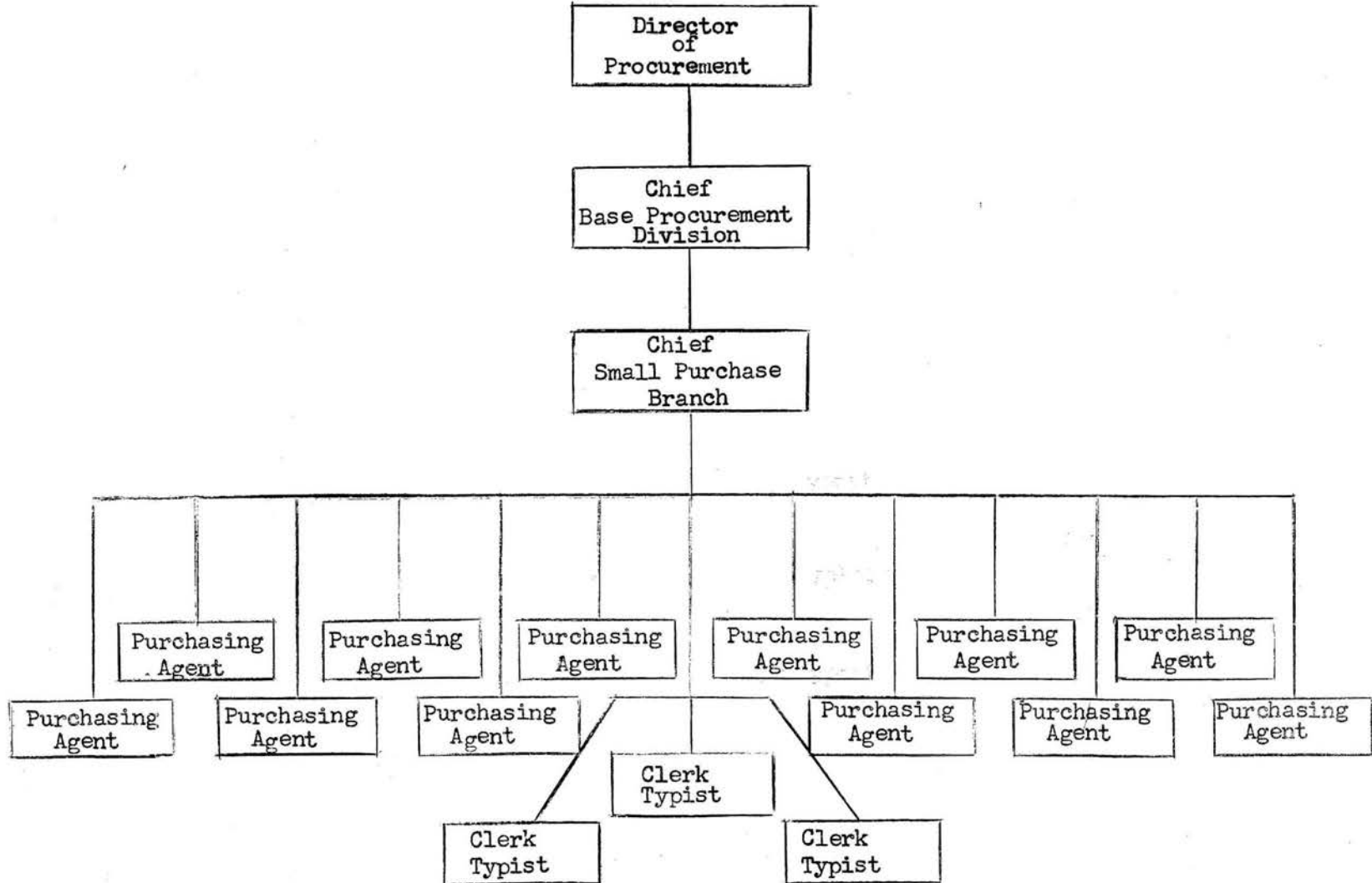


Exhibit V

purchasing operations. When purchasing is assigned to a subordinate tier, the effects may be noted in the mode of operations. Purchasing may find itself in a position where purchasing operations are being directly supervised and formulated outside the procurement office.

Being a part of the Commanding Officer's Staff and participating in current and future planning offers the Director of Procurement knowledge of future requirements which in turn affords his department the opportunity to plan its operation to meet demands. Advance knowledge of anticipated workloads will enable purchasing to effectively plan work schedules, and to arrange a proper manning of positions thereby making its full contribution to the successful operation of the air base and its research mission.

1. Organization Structure -- Small Purchase Branch

The Chief, Small Purchase Branch is assisted by twelve purchasing agents, eight of whom have been appointed cash purchasing officers, and three clerical assistants. These individuals actually do the buying. They review the requisitions, solicit quotations, determine price, arrange for delivery and interview salesmen. The general rule is that each buyer is usually assigned a particular commodity or group of commodities. The soundness of such assignments should not be questioned. There are at least three good reasons for the general rule:

- a. It allows the buyer to become a specialist in one or more related types of commodities.

Such specialists are in a position to buy to the best advantage because of their greater knowledge of the materials, of their markets, prices, sources and individual salesmen.

- b. Confusion within the department itself as well as throughout the installation is reduced to a minimum because of definitely assigned responsibility for most requirements of a given item. It also facilitates the consolidation of requirements.
- c. Since a salesman commonly offers a related line of products, his time and effort are conserved because he needs to contact but a single buyer.\*

As indicated at the outset of the present chapter, the second consideration, organization-wise, is concerned with the proper degree of centralization of procurement responsibility.

One basic thought should be kept in mind while discussing centralization. The most commonly ascribed advantages such as better prices through consolidation of requirements or better transportation rates are merely the results of an organization which is administered by a personnel whose special interests, aptitudes, experience and training qualify them for dealing with problems related to getting the proper quality of the right quantity at the right time for the best price.\*\*

\* 1, p. 36

\*\*1, p. 42

## 2. Centralization vs. Decentralization

Air Force Procurement Instructions, Section III, Part 6, Paragraph 3.604(a)(2), revised 6 July 1956, states that cash purchasing will be limited, to the greatest extent possible, to the contracting office. Prior to that time, cash purchasing officers were not procurement personnel as such. Most had other duties assigned and were under the supervision, in the most part, by a supply official within their particular organization, and were physically located within the supply office of the organization. The revised regulation caused the centralization of these "purchasing agents" into the procurement office to be supervised by procurement officials.

Prior to the revision of the regulation, each organization within the installation, so far as cash purchasing was concerned, was an independent unit. There was duplication in buying the many supplies which were common to all organizations. There was no uniformity in the quantities ordered, no standardization as to brand or grades, and no control over the quantities to be used over a period of time.

This method placed the Base Supply Officer at a serious disadvantage. It became difficult to obtain information for statistical purposes or stock control as to the quantity of materials in stores or on order. The lack of such information often resulted in a shortage of some materials and an excessive stock of others.

Realizing the shortcomings of the program, the Air Force, as previously stated, took corrective action to place the responsibility for this type purchasing and its supervision upon procurement officials who by their training and experience were deemed to be better qualified in formulating operational procedures.

The advantages derived from centralized buying are substantial, for instance:

- a. The consolidation of quantities usually results in quantity discounts.
- b. The regulation and control of inventories.
- c. The more accurate adaptation of purchases to needs, resulting in lower cost as it pertains to salvage and scrap due to obsolescence.
- d. The reduction in administrative costs incurred by duplication of effort.
- e. A reduction in clerical assistance since in decentralized procurement, the department usually maintains their own offices and clerical forces.
- f. The buyer's judgement is not swayed by the initiator of the request who often times is the buyer's direct supervisor or some other official of the organization.
- g. A closer check is maintained to determine whether requirements are being understated to take advantage of cash purchasing procedures.
- h. The buyer can be assigned other duties of a procurement nature when workload permits.

While centralization for cash purchasing has been achieved to a great extent, there are presently buyers assigned to AF Service Stores. These stores perform a supply

function and are under the jurisdiction of the Base Supply Officer who has staffed the stores with the necessary receiving and issuing personnel, inspectors, clerical assistants and managers.

The stores are strategically located for maximum utilization at the air base. The "automotive" store which stocks spare parts for vehicles and related items is located at the Motor Pool; the "repair and utility" store which stocks items common to the maintenance of the air base, its buildings and grounds is located in a warehouse adjacent to the Base Maintenance Office; and, the "electronics" store which stocks electronic components and supplies is located within the building that houses the Electronics Directorate.

This method of supply procedure is a relatively new concept established by the Air Materiel Command and is aimed at facilitating the procurement, receipt, inspection and issuance of supplies and materials to the using activity with the least amount of paper processes. For example, the store manager can request purchase action by use of informal memoranda. He can authorize the buyer to accept substitute items offered by vendors and can increase or decrease the quantity desired without further coordination with the using activity or the base supply office.

Experience indicates that the fullest utilization and effectiveness of blanket purchase orders is possible when the responsibility for administration of the procedure is

placed upon both the buyer and the store manager. The buyer to place the calls, and the store manager to receive, inspect and issue receiving reports.

#### B. Effectiveness of the Small Purchase Program

It has been established that the average time required to complete a cash purchase transaction for items not stocked at AF Service Stores is twenty-one days. This was determined in a study made by selecting requisitions at random and following their routing.

The length of time taken to buy a simple "off-the-shelf" item is unreasonable, yet understandable when consideration is given to the complexity of the Air Force supply system. It is difficult to convince the initiator of the request that the process time cannot be decreased unless established procedures are circumvented or amended. The user fails to understand why it should take so long when, as he states, if he were buying for himself, he could have the item by simply contacting the vendor and having the item delivered.

##### 1. Routing of Requisitions

When a user becomes aware that an item of supply is required, he prepares a request for the item which is forwarded to the responsible property officer within the organization. The responsible property officer reviews the request and searches stock listings to assign the applicable stock listed number, and the proper Air Force nomenclature of the item.

His office then prepares an "Issue Slip", AF Form 446, which is forwarded to the base supply office requesting that the desired item be issued. Upon receipt of the "Issue Slip" at the base supply office, various actions are taken such as editing and vouchering, and finally the applicable stock record card is reviewed to determine the availability of the item for issue.

Assuming that the item is "out-of-stock" the authorized person within the base supply office approves the item for cash purchase and forwards the issue slip to the appropriate cash purchasing officer who usually requires three days to place the order, effect pickup or delivery by the vendor, and to forward the procured item to the using activity.

The procedure greatly differs when the requested item is normally available at an AF Service Store. Once the determination is made that the item is "out-of-stock", the store manager by informal memorandum requests the buyer assigned to the store to procure the item. The buyer then determines whether cash purchasing or a call against a blanket purchase order is the most appropriate method and effects the procurement.

This procedure is expedient because the user is not required to prepare an issue slip for transmittal to the base supply office. He merely prepares a short form requisition which he hand carries to the store, and draws the item from stock. This means that the required item is made immediately

available to the user or can be purchased within a matter of hours.

It can be stated that although purchasing methods have been simplified, supply procedures have not been sufficiently amended to keep pace, and that the process will be time consuming until such time as proper consideration is given to realistic management planning which could effect a reduction in time for the processing of the issue slips.

## 2. Growth of Cash Purchasing

An analysis of data pertaining to cash purchasing indicates a continued growth in the use of this method of procurement. (see Exhibits VI and VII) This method is possibly being used as a panacea for the disadvantages found in the placement of an excessive amount of small local purchases. One of the weaknesses in the continued use of this method is that some apathy may be generated in doing very little to correct the situation. Reliance may be placed on a ready-made, easy course, to the extent that proper planning suffers. Many emergencies are not work stoppages or breakdowns. They occur from lack of planning and lack of concern in being prepared to prevent emergency buying.

The liberalization of restrictions on the use of cash purchasing has partially brought about this situation. When cash purchasing was first established, the only items

Exhibit VI

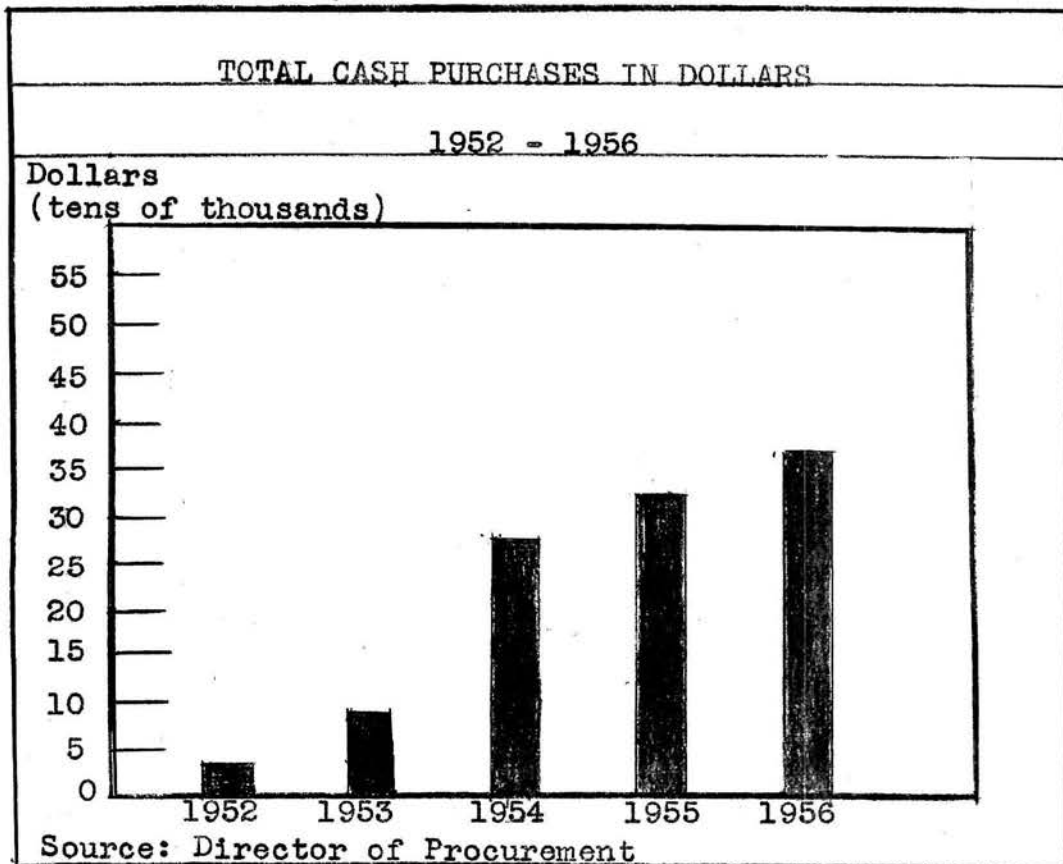
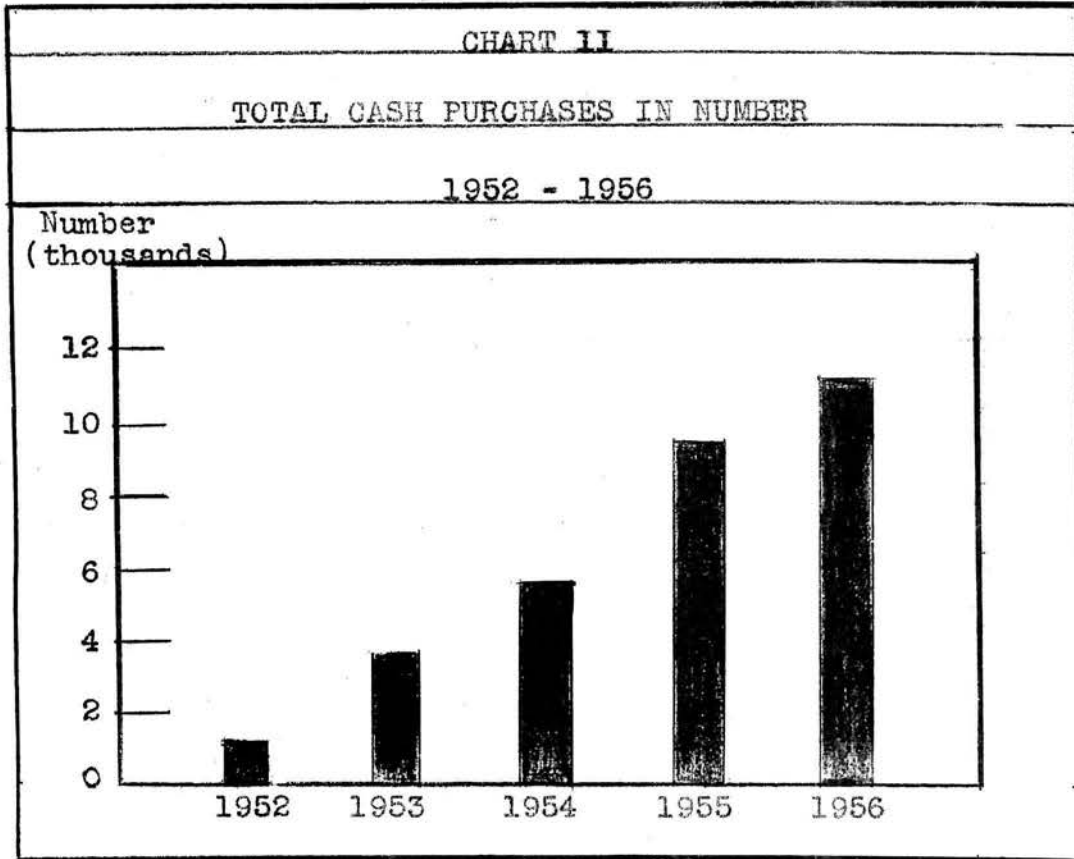


Exhibit VII

authorized for purchase under this method were those that were considered expendable and not intended for stock. This regulation, as amended, and in force at the present time, does not contain this limitation.

The Air Force installation under study reports the following data pertaining to cash purchases:

	<u>1952</u>	<u>1956</u>	<u>% Increase</u>
No. of Petty Cash Actions	1,475	10,808	730
Dollar Value of Purchases	39,424	360,475	904
Total Dollars Expended--			
All Orders	2,501,435	5,110,000	100

This data is significant in pointing out that the total dollars expended in Fiscal '56 for all purchases increased by approximately 100% over 1952, however, the number of cash purchase actions increased by 730%.

### 3. Costs

The average cash purchase order during Fiscal '56 amounted to \$33.00 and consisted of two line items. Based on a reported cost of \$2.75 per order, it is indicated that the administrative cost -- procurement-wise -- amounted to \$29,722.00. (10,808 actions x \$2.75)

It is difficult to justify this cost. It appears excessive and possibly illustrates the extravagance of this method.

Proponents of this method argue that cash purchasing is justified on the basis that consideration must be given to the savings effected in other areas, for instance:

- a. Savings are effected through simplified accounting procedures.
- b. No inspection of materials is required since items purchased under this method are mainly standard and brand name products.
- c. No formal receiving unit is required.
- d. Less storage space is required.
- e. Project delays are minimized since formal purchase procedures require a longer lead time.
- f. Paper processes have been reduced.

Those who are inclined to disagree state that most of these functions have not been eliminated. Some of them such as receipt of material, payment of the orders, and temporary storage prior to issue of material to the initiator of the request have been incorporated into the cash purchasing procedure, and are accomplished by the cash purchasing officer who is required to deviate from his principal task which is purchasing, and to assume the duties of a clerk. The significance here is that clerical personnel are not as highly salaried as the more specialized purchasing agent.

#### 4. Reduction of Costs

The most effective method employed to reduce costs relative to small purchases is the use of the blanket purchase order. This was determined by a study of the operations of the previously mentioned "electronics" store.

The data collected, shows that during the period January 1, 1955 through May 31, 1955, 331 cash purchases amounting to \$23,844.00 were made. All other items for store stock were purchased through the use of formal purchase procedures by the Base Procurement Division.

During a comparable period in 1956, subsequent to the adoption by the store of the blanket order method, no cash purchases were made. Calls totaling 975 were made against 95 blanket orders issued. The total expenditure amounted to \$52,190.00. No items were purchased through the use of formal purchase procedures by the Base Procurement Division.

A comparison of line items purchased during the periods under study shows that under the cash purchasing method, 644 line items were purchased, and under the blanket order method 1,561 line items were obtained.

No additional personnel were required to effect this substantial increase in the purchasing activity. Some of the principal causes for this efficient use of manpower are:

- a. The full time of the purchasing agent is utilized in the performance of the buying function.
- b. The use of traveling requisitions provides a method for the maximum use of repeating requisitions. Traveling requisitions have two basic advantages:
  1. They eliminate the writing of a requisition for each purchase.
  2. They serve as a purchase record card.

The second of these is probably the most important to the purchasing operation. The traveling requisition not only eliminates the need for keeping elaborate record files but actually aids the purchasing agent to do a more efficient job. The form used as a requisition is a complete purchase record, presenting all essential data pertaining to the item in one place, at the time the item comes up for consideration. Once the requisition is delivered to the purchasing agent, it is possible to start immediate purchase action without reference to files since the form contains such historical data as when, where and at what price the item was last procured. (see Exhibit VIII)

#### 5. Adequacy of Controls

The controls being utilized are probably the best that can be economically and practically enforced. It is difficult to state that any set of controls can ever be adequate to the extent that the ingenuities of the human mind can be foreseen. There is always the possibility that control and regulatory procedures will be circumvented.

The greatest danger in the establishment of the cash purchase procedure was the possibility that funds may be misappropriated. The Air Force has recognized from the outset that this risk is inherent within the procedure, however, it is believed that this risk is more than offset by the advantages of this method of procurement. While this risk cannot be



minimized, it can be reported that, at this installation, no misappropriation of funds has been recorded since the procedure was established.

This is attributed to many factors, one being the techniques used in personnel selection for appointments as cash purchasing officers, and another being the integrity of the personnel selected.

## CHAPTER VI

## COMMERCIAL APPROACH TO THE PROBLEM OF SMALL PURCHASES

The methods employed by commercial organizations to combat this problem of small purchases are varied. Some firms use cash, others use blanket orders or a combination of both. Most firms attempt to effect a reduction in the number of such orders by studying inventory control methods and applying corrective measures at the source of the problem.

The sources of information concerning the commercial approach to the problem of small purchases includes a personal interview with the Division Purchasing Agent, Semi-Conductor Division, Sylvania Electric Products, Inc.,\* and selected readings.

The company selected for comprehensive study is one of eleven divisions which comprise the Sylvania Corporation. Each division has its own purchasing organization which reports functionally to the Director of Procurement located at the home office of the corporation.

The purchasing department of each division differs as to size and organization. They vary with the particular requirements of the organization. The Semi-Conductor Division's purchasing department includes a Division Purchasing Agent who reports to Division Management, four buyers, three clerical assistants and a secretary.

## A. Policy and Procedures of Semi-Conductor Division

It is the policy of management to discourage the requisitioning of small quantities of items. It is the responsibility of the materials control group to maintain proper inventory levels which will provide a steady flow of materials to the various departments of the organization.

The decentralization effect caused by the establishment of purchasing departments in each of the divisions is controlled by the policy that only those items peculiar to the operation of the division will be purchased by the division for local consumption. Materials common to all divisions are purchased centrally by the purchasing department located at the home office of the corporation. This policy enables the organization to make volume purchases with the inherent advantages of lower prices, larger discounts, lower shipping charges, and a stable flow of deliveries.

### 1. Procedures

The two most commonly used methods to reduce the number of small orders, cash purchasing and blanket purchase orders, are used to a very limited degree.

#### Cash Purchasing

This method is used primarily in emergency situations such as breakdowns and work stoppages. The maximum order allowable is \$10.00, however, in dire emergencies this sum can be exceeded. There has been no imprest fund

established primarily for cash purchasing. The required sum is drawn from a petty cash fund and charged to the proper accounting expense control number to ascertain that the proper department will be charged with the cost of the item.

Requisitions for emergency cash purchases are processed in the same manner as any other requisition. The requiring activity submits the requisition to purchasing containing thereon the proper signatory authorities and approvals. The purchasing department reviews the requisition and determines the method of procurement.

It is felt that the use of cash purchasing is an inefficient method, time consuming, requires special handling, and disrupts normal operations.

#### Blanket Order Method

The use of blanket purchase orders is not practical since 90% of the items procured are made to specifications and are not the usual "off-the-shelf" item.

A limited number of blanket orders are placed for the purchase of gasses, and for other repetitive items which are purchased in large quantities.

#### B. Argus Camera, Inc.

##### A Unique Answer to the Small Order Problem

Argus Camera, Inc., a recently acquired division of Sylvania Electric Products, Inc., has an answer to the small order problem which is being studied. It is possible that the method may be adopted for use in other divisions.

Time is saved and paper work is decreased by the use of a special local order system. This system eliminates the need for processing receiving reports or invoices. The system is specifically for -- and limited to -- non-repetitive purchases of less than \$100.00 worth of material from a local source. (see Exhibit IX)

A check, signed by the Director of Purchases, is an integral part of the form, so that material is paid for immediately. The check is payable from a special revolving fund established for this purpose. It is the responsibility of the purchasing agent to maintain records for amounts expended and to request that the fund be replenished.

The form used for this method of "cash" purchase is a 5-part unit set with one-time spotted carbon paper pre-inserted by the manufacturer.

One buyer handles all requisitions and orders coming within this system. He selects the source and prepares the order. After he has removed one copy of the 5-part form for follow-up and file reference, he presents the finished form to the Director of Purchases who signs the check.

The first copy of the order, which includes the check, is given to the vendor upon receipt of the material. Some local orders are delivered by the supplier; others are picked-up by the company. In either case, the vendor receives the order and check when the material is in the hands of a company employee.

Exhibit IX

<input type="checkbox"/> 505 <input type="checkbox"/> 510	ACCOUNT NUMBERS	STD. COST	REQ. BY	REQ. DATE	DELIVER TO
<b>argus cameras, inc.</b>					ARGUS 1961 4448 33
<b>PURCHASE ORDER</b>		FROM ANN ARBOR, MICHIGAN			NO. LO- 1065
		PHONE NORMANDY 2-6511			THIS NUMBER MUST APPEAR ON ALL SALES AND PACKING SLIPS
TO: _____				DATE OF ORDER _____	
				<input type="checkbox"/> SUPPLIER DELIVERY C. O. D.	
				<input type="checkbox"/> OUR PICK-UP	
<input type="checkbox"/> CONFIRMING PHONE TO		DELIVERY _____			
<input type="checkbox"/> CONFIRMING RECEIPT		PICK-UP TIME _____			
QUANT OR WEIGHT	PART NUMBER AND/OR DESCRIPTION	LIST PRICE	DISCOUNT	TOTAL	
VOID					
<b>CONDITIONS:</b> 1. <b>DELIVERY:</b> BUYER RESERVES THE RIGHT TO CANCEL THIS ORDER OR ANY PORTION THEREOF IF DELIVERY IS NOT MADE WHEN SPECIFIED. 2. <b>QUANTITY:</b> EXACT QUANTITY SPECIFIED ON THE ORDER MUST BE DELIVERED. 3. <b>INSPECTION:</b> NOTWITHSTANDING PRIOR PAYMENT, GOODS WILL BE SUBJECT TO BUYER'S INSPECTION. 4. <b>RETURNS:</b> BUYER RESERVES RIGHT TO RETURN FOR FULL CREDIT ALL MERCHANDISE OF WRONG QUALITY OR BRAND, OR OTHERWISE NOT USABLE. 5. <b>PRICES:</b> CHECK ATTACHED TO THIS ORDER IS FINAL PAYMENT FOR ALL ITEMS ON THIS ORDER. FURTHER INVOICES WILL NOT BE HONORED.				GROSS AMOUNT _____ SALES TAX _____ EXCISE TAX _____ CASH DISCOUNT _____ TOTAL AMOUNT THIS ORDER _____	
WHY?					

	<b>argus cameras, inc.</b>	74-100 744
	ANN ARBOR, MICHIGAN CAMERAS AND OPTICAL INSTRUMENTS	NO. 1065
VOID		
PAY TO THE ORDER OF _____		
NOT VALID IN EXCESS OF \$50.00		
PAY EXACTLY _____	DOLLARS	CENTS
	PURCHASE ACCOUNT	
<b>ANN ARBOR BANK</b> ANN ARBOR, MICH.	AUTHORIZED SIGNATURE	

One carbon copy of the order and check go to Accounting, serving as a voucher. It also serves as a source document for expense distribution.

When the goods are received, Receiving stamps its order copy, thereby eliminating the need for a separate receiving report. One copy of the order accompanies the materials to the requisitioner, and it is used as a "move" ticket.

A feature of control which the company employs to protect itself is by specifying on the order that material can be returned for full credit if the conditions of the purchase are not met by the supplier.

The Director of Purchases reports that everybody concerned is well pleased with the system. Suppliers like it because they are paid promptly, without any bookkeeping or paperwork expense. Requisitioners are happy with the fast service they get from purchasing and the vendor. And it substantially reduces the workload in Purchasing, Receiving, and Accounting where small orders are usually an expensive nuisance.\*

### C. The Anemorstat Corporation

#### How to Keep Costs Down on Small Orders

The Anemorstat Corporation of America employs the following policy in its purchasing to reduce costs generated

\* 8, p. 83

by the placement of numerous small orders. In an article entitled "An Efficient One-Man Purchasing Department", Mr. D. S. Ammer proposes that:

- a. Group a number of items on a single purchase order whenever possible.
- b. Get suppliers to cooperate on invoicing. Try to coordinate one invoice with one order for convenience in processing. Whenever possible, have vendors bill all the items covered by a given order on a single invoice.
- c. Issue standing orders to cover a year's requirements whenever practical. Arrange for release shipments against the order by telephone.
- d. Standardize for the sake of standardization. Even if standardization does not bring a direct savings in product cost, the resultant reduction in number of items purchased and carried in inventory make the effort worth while.
- e. Educate suppliers to tell you honestly what they can do for you on delivery and give repeated business to those who keep their promises. By following this policy, you can eliminate the need for most follow-up effort.\*

D. Allis Chalmers

### 3 Ideas that Simplify Purchasing

In an article by Paul V. Farrell\*\*, this company's policy is stated as "it is economically unsound to spend time and effort on buying something to the point that administration on an order costs more than the purchased item". To avoid

\* 9, p. 73

\*\* 10, p 86

this unsoundness, the company employs the following three ideas:

- a. Small Local Order System.
- b. Open End Orders and Releases.
- c. The Traveling Requisition.

The first two are in general use and the third has been successfully tried out in the Canadian Division and is being considered for other divisions.

The company finds that the most disturbing problem is the purchase of miscellaneous supplies of small dollar value -- from \$1.00 to \$10.00.

In small organizations it is common practice to treat such purchases with little or no formality through the use of a petty cash fund. Internal control is easy because few individuals are concerned.

This is not the case in larger firms. Internal control is difficult, and documents are necessary for the control of the request, the authority to purchase, payment for and receipt of goods. Such paperwork and routine can bring costs in excess of the material's value.

The company's simplified approach to the problem will reduce costs and provide adequate controls for any company, of any size. It is called the Local Purchase Order System.

### Local Purchase Order System

Only certain types of orders are processed under this system. First the requirement must be a "shelf-item" that can be purchased locally. If it cannot be purchased locally, normal documents are used instead of the special form. The second qualification is somewhat arbitrary. The value of the material must not exceed \$10.00. The system can be used to purchase items of a greater value in emergency situations.

This system is controlled with one form, the Local Purchase Order. It has six parts, is prenumbered and carbon interleaved. The form originates in any one of many centers controlling the requisitioning of materials -- such as maintenance, material or engineering departments.

When a Local Purchase Order comes through purchasing, it is turned over to a buyer specifically charged with the small-order operation. He actually operates as a mobile buyer. He has a station wagon, and is equipped with a "Page Boy" pocket type radio receiving unit. This gives him constant contact with various sections of the plant. It is his responsibility to do the buying to fill all Local Purchase Orders. He is free to make as many trips throughout the metropolitan area as necessary and is furnished with sufficient petty cash funds to pay for all purchases.

The effectiveness of the system can be measured by comparing the number of forms used before and after the adoption of this method:

Forms used in Regular Procurement System:

- a. Purchase Requisition (4-part)
- b. Purchase Order Form (9-part)
- c. Follow-Up File
- d. Receiving Report

Forms Used in Local Purchase Order System:

- a. Local Purchase Order Form (6-part)

The system also eliminates accounts payable records, as well as records in the receiving and invoice auditing departments.

A less tangible, but still satisfying result is the complete satisfaction of using departments with this method. In a busy company, users of small volume items cannot afford to expend a great deal of time on paperwork and follow-up. The Local Purchase Order System guarantees them individual attention, quick service and availability of a buyer at all times. This is important in emergencies, where the radio-communication system is used most effectively.

Open End Orders and Releases

Under this system, the company negotiates purchases of items bought repetitively for a term of one year. All terms and conditions of the order are resolved at the beginning. From then on, it becomes a routine procedure as releases are made against the original order.

The system currently employed provides that production scheduling prepares the release order as parts are

required, and submits it to purchasing, who, in turn forwards it to the vendor.

The benefits of open end orders have gone beyond the Purchasing Department. Production Scheduling, for example, can now change its requirements from month to month. Better inventory control is achieved since Production Scheduling and Material Control must now regularly check inventory.

Suppliers appear to be happy with this arrangement since it provides them an over-all picture of anticipated requirements and enables them to adjust their own production schedules accordingly.

#### The Traveling Requisition

The "simplest method plus the best control" formula has been used successfully in the Canadian Allis-Chalmers Division with a traveling requisition. This system uses four forms:

- a. Material Control's "Ordered and Received"
- b. Kardex Ledger (The Traveling Requisition)
- c. Purchase Order Form (5-part)
- d. Change Notice Form (5-part)

The Kardex Ledger, maintained in the Material control Department, shuttles between Material Control and Purchasing as a traveling requisition for receiving requirements of standard parts or materials. The card contains spaces for 26 transactions without the need for repetitive clerical work

other than indicating the quantity needed, the date required, and an authorized signature in the "Ordered" section of the card. Reverse side of the card shows part number and ordering description, a list of approved vendors with discount terms and f.o.b. point for each, and columns for conventional purchase order record entries so that the entire transaction can be processed promptly from a single reference.

The chapter has described the techniques employed by several commercial organizations to reduce administrative costs in their small purchase order program. Admittedly, the number of approaches to this problem probably approximate the number of firms endeavoring to formulate efficient small purchase programs. However, the small purchase programs presented in this chapter are representative of the commercial approach.

## CHAPTER VII .

## COMPARISON BETWEEN COMMERCIAL AND AIR FORCE PURCHASING

Industrial management recognizes that purchasing requires continuous wise administration with policy flexibility to insure adaptations to current procurement problems. Failure to recognize the importance of the purchasing function can adversely affect the entire business enterprise.

Certain trends are apparent and should be noted. For instance, there is a growing recognition by top management of the basic importance of procurement as one of the major functions of the business; a growing awareness of the essential nature of inventory control, particularly so far as production materials are concerned; and a corresponding organizational trend to consolidate the several aspects of procurement into an executive department to be grouped under some such title as that of "materials management".\*

In direct conflict with the commercial trend to coordinate materials management into one executive department is the Air Force policy of divorcing the purchasing function from DCS/Materiel and the establishment of a separate Directorate of Procurement. In the past five years the Air Force has separated these functions in many of its bases, and the trend indicates a continuance of this practice.

\* 1, p. 2

It appears that commercial purchasing is more efficient than the military, and obviously, it should be if a company is to remain reasonably stable and to operate profitably. It is this motivation that prompts the commercial organization to effectively control inventories; to be careful in its vendor relations; and to constantly strive to improve policy and methods.

In the past few years, military purchasing has been criticized by many organized groups within the country that is in any manner interested in government procurement. Some of this criticism is unwarranted. Military purchasing does not profess to be as efficient as commercial purchasing for many reasons. One of the reasons which deters efficient military buying "cost wise" are the social and democratic aims which these critical groups fail to recognize.

#### A. Democratic Aims

Purchasing for the military services is done within the framework of prescribed procedures and policies enacted by Congress in the broader national interest. Therefore, purchasing performance should not be evaluated strictly by the same standards applied in private industry, but should be considered in the light of broader goals and the scope of operation permitted to the purchasing officer under

this pattern, making allowance for the price of impartial democratic action. For example:

1. Preference must be given to suppliers located in certain sections of the country which have been classified as distressed labor areas.
2. Preference must be given to groups of suppliers classified as small business, i. e. , concerns employing less than 500 persons.

As long as the accent in military purchasing is on impartiality, and as long as it is mandatory to accomplish social aims through defense spending, military procurement will not compare favorably with many phases of industrial procurement.\*

#### B. Regulatory Controls

The Armed Services Procurement Act of 1947 is generally accepted as providing an excellent set of ground rules for the regulation of military procurement. These rules, however, do not provide the basis for making military procurement as efficient as industrial procurement.

The Air Force buyer habitually obtains good, competitive prices, however, his total costs are high because of administrative red tape and expense. It is not unusual for the government to take 90 days to purchase something that industry can buy in two weeks.

Supply procedures, which are not the responsibility of purchasing, reflect their weaknesses upon the efficiency

of the Air Force purchasing system. An inadequate inventory system and lack of standardization reflect upon the maintenance of proper inventory levels, and are used as a yardstick to determine how well purchasing can maintain inventory levels through the purchasing function.

One of the fundamentals to efficient procurement is found in continuing vendor relations. The motivation for such relations differs greatly between the industrial buyer and his counterpart in the military. The military operates without the profit motive which is the incentive that prompts efficient industrial purchasing.

The non-allowance on the part of the military to maintain continuing vendor relations is another of the inherent weaknesses in government procurement.

### C. Vendor Relations

This is the relationship of understanding between buyer and seller. The buyer understands that the seller's product is good, that it is priced competitively, and will be delivered on time. The seller understands that as long as these principles are observed, he will be able to rely upon continued business from his customer. Industrial buyers desire permanent trade connections with reputable suppliers, and will patronize the same seller as long as it is deemed advantageous to his company to continue this relationship.

This condition does not impede the impelling force of free competition. On the contrary, when a supplier realizes that a concern to whom he sell his product is a regular

and reliable customer, he becomes all the more aware of the need to bid accurately, to price closely, and to keep his promise of quality and delivery.

This relationship can have but one result. It provides better performance and better products, with timely deliveries at lower prices. This, probably above all other facets, makes industrial purchasing efficient.

It is the prohibition of this relationship that generates one of the weaknesses in military procurement efficiency. Impartiality is the keynote of military purchasing. The concept of "full and free" competition must prevail.

#### D. Inventory System

The Keep Commission, created in 1905 to review the entire Governmental procurement problem, made a comprehensive study and found, among other things, "an unnecessary variety of types and sizes of articles being purchased; a lack of definite specifications; lack of good inspection procedures; and a need for greater coordination of procurement activities".\*

The Hoover Commission Report of 1949 indicated, in essentially the same language, that the same faults still exist.

As recent as 1954, the Hoover Commission study indicated that Government purchasing lags far behind

\* 5, p. 126

industry in methods and procedures. The major faults mentioned are the lack of proper cataloguing of items and an ineffective inventory system.

Findings show that the most glaring offender is the military, mainly because it is the biggest buyer. Millions of different items are purchased without consideration being given to proper cataloguing or standardization. For example, 800 different kinds of screwdrivers are purchased. It is felt that without effective cataloguing and inventory control, there is a great possibility of over buying, over stocking, and finally of losing track of what has already been bought.

It can be stated that the methods of inventory and production control found in industry aid the efficiency of the purchasing effort since without an effective inventory control, there is no way of gearing purchases to actual needs.

#### E. Methods for Small Purchases

As previously noted, industrial buyers procure small orders under varied policies and procedures. While the use of cash purchasing is limited, the open-end or blanket purchase order is used most effectively.

##### 1. Cash Purchasing

The industrial buyer is usually limited to emergency purchases of \$10.00 or less. This sum can be exceeded by obtaining the necessary management approvals, however, the use of a purchase order is preferred.

The Air Force buyer is limited to purchases of \$100.00 or less. He can buy items for immediate consumption, for emergencies, and for inventory. It is deemed more advantageous to place a cash purchase order in preference to a purchase order mainly because it is less expensive, more expedient and reduces lead time.

This variance in policy is possibly attributable to the effective use of proper inventory controls. Industry, if it is to remain competitive, will take the necessary corrective action to reduce the number of small orders. The placement of a large number of small orders is possibly an indication that proper inventory levels have not been established or that increases in production and other unusual demands are affecting inventory levels and keeping them at too low a point.

## 2. Blanket Purchase Orders

To reduce the number of small orders, both industry and the Air Force make effective use of the blanket purchase order method. While policy differs in some respects, the procedures are similar and create the same effect.

The Air Force has tested this method and has found it to be desirable, and intends to broaden its scope by changing the regulation. However, for the purposes of this discussion, reference will be limited to the current application of the method.

### Commercial Practices

In industrial purchasing, an open-end or blanket order is placed with a reputable supplier, and usually all requirements for the particular category of items are purchased from the one source without consideration to further competitive pricing since the company is usually satisfied to establish a permanent relationship which will assure a continuous source of supply, and at the same time making its long term needs known to the supplier.

The industrial buyer effects purchases against the blanket order by telephone or release order. Partial shipments are accepted, and the vendor is permitted to practice back order procedures. The original order may extend from one month to one year with fixed terms and conditions and with a prearranged billing schedule.

### Air Force Practices

The Air Force permits blanket purchase orders to be placed for a one month period in an amount not to exceed \$5000.00 with no call order to exceed \$1000.00. Call orders in an amount less than \$100.00 can be placed without competitive pricing, however, if a call exceeds \$100.00, competitive prices must be obtained from at least three sources. This condition causes the Air Force buyer to appear to be less efficient than the industrial buyer in the number of orders placed and the total time expended in placing each order.

Calls are placed by telephone or informal memorandums. Calls are treated as separate orders which forces the buyer to negotiate price, terms, conditions, and delivery on each call.

The Air Force buyer is forced to insist that all items ordered must be delivered within the month ordered, and that if all items are not delivered, the partial shipment is accepted, and the balance of undelivered items is cancelled. The cancelled portion of the order must then be procured from either the same source or a competitor in a subsequent period. This, in effect, is the placement of two or more orders to satisfy the initial requirement.

This policy places a hardship on the vendor since it does not permit him the flexibility nor the time required to obtain the items from his supplier. It is not to be expected that the vendor will carry the required number of a given item in inventory at all times. Unless he is permitted the time to obtain the quantity required from his source of supply, the tendency, on the part of the vendor, is to offer as being available, only the quantity in current inventory. This creates the situation whereby the buyer is forced to solicit other sources to complete the purchase requirement, which consumes more of his time, thereby increasing administrative costs which reflect upon purchasing efficiency.

In an interview with a distributor of electronic components and materials, the interviewee stated that while

he considered the Air Force to be a valued customer, his company would require at least a \$1,000,000.00 inventory which would permit him the opportunity to submit a quotation and to deliver "off-the-shelf" all items requested at one time under current Air Force procedures.\*

Air Force procurement cannot be compared to commercial techniques. The basis for comparison and the data by which to compare are not homogenous.

Compelling factors which promote and guide the Air Force and industry are dissimilar. For instance, the responsibility for the control of administrative costs rests upon industrial management who can effectively and quickly introduce cost saving factors, however, due to regulatory procedures, the Air Force Contracting Officer is not permitted the necessary latitude to quickly and effectively reduce costs by the implementation of prescribed purchasing methods.

It is the writer's opinion, that, in the field of small purchases, certain changes in policy and procedures will promote a more effective and efficient purchasing organization. The proposed changes will be discussed in the following chapter.

## CHAPTER VIII

## PROPOSED CHANGES TO AIR FORCE POLICY AND PROCEDURES

The realization that special purchase methods would reduce administrative costs and expedite the placement of orders in the field of small purchases prompted the Department of Defense to establish the policy and procedures outlined in the Armed Services Procurement Regulation, Section III, Part 3 "Small Purchases". This regulation is the authorization by which the Air Force has established procedures for cash purchasing and blanket purchase orders.

The establishment of these procedures has effected a reduction in administrative costs in the placement of small orders. For example, if the cash purchase method were not authorized, the placement of a formal purchase order, in an amount less than \$100.00, is estimated to administratively cost \$13.00. This does not favorably compare to the estimated \$2.75 cost factor for the placement of a cash purchase order.\*

To further reduce costs, the blanket purchase order method was introduced. Cost data for the placement of orders under this method is difficult to compile due to many contingencies, however, purchasing officials state that it costs less to place a call against a blanket purchase order than it does to cash purchase the requested item.\*\*

\* 18

\*\* 18

The main consideration here is the establishment of methods to reduce administrative costs and to effect faster procurements. While this has been done to a degree, it is the opinion of the writer that certain changes to current policy and procedures together with the standardization and simplification of inventories will create a greater savings by making more effective use of purchasing personnel.

The proposed changes should increase the efficiency of the purchasing department by reducing the time expended in clerical functions by the buyer thereby permitting more time for the actual placing of orders. This should increase his productivity with a resultant savings in administrative costs. This is premised on the fact that as productivity increases, the unit price tends to decrease, therefore, as the number of orders placed by a buyer increases, the cost of placing each order decreases.

The proposed changes to small purchase procedures will make reference to a funding procedure which provides that at the beginning of each month, the appropriations accounting officer will issue an AF Form 405 "Obligation Authority" to each Cash Purchasing Officer. Obligation authorities will be issued in amounts sufficient to cover all anticipated cash purchases based on historical expenditure information for each Cash Purchase Officer. Upon receipt of the obligation authority, purchases will be accomplished without further recourse to the appropriation accounting officer or the finance officer.

- A. Proposed Changes to ASPR 3-604 "Imprest Fund Method" and AFPI Implementations.
- a. The use of cash be discontinued.
  - b. Authorize the use of a check form similar to Exhibit IX herein in lieu of cash.
  - c. Authorize Class "C" Finance Officers, Cash Purchasing Officers, to sign checks in payment for supplies and services procured.
  - d. Issue an obligation authority to each Cash Purchasing Officer at the beginning of each month in an amount based upon historical expenditure information.
  - e. Devise a 6-part unit set form interleaved with carbon paper. Copy No. 1 and copy No. 2 of the set to contain the check form.
  - f. Establish the following distribution of each order:

Copy No. 1 to vendor together with check.  
 Copy No. 2 to Finance Officer together with carbon copy of check.  
 Copy No. 3 to Supply Property Accounting Office.  
 Copy No. 4 to Inventory Accounting (Monetary) Unit.  
 Copy No. 5 to Appropriations Accounting Officer.  
 Copy No. 6 retained in the file of the Cash Purchasing Officer.

1. Proposed Procedure for Cash Purchasing

This proposal will in no manner affect requisitioning or purchase procedures. It mainly provides for payment by check in lieu of cash for materials procured under this method. This will effect a reduction of time expended by the Cash Purchasing Officer in non-buying functions such as the maintenance of a cash fund; the daily balancing of the fund; the disbursement of cash when materials are delivered;

the preparation of reimbursement vouchers; and, the constant visits to the Finance Office to obtain funds.

The Proposed Method is as Follows:

- a. Upon receipt of the item ordered, the Cash Purchasing Officer will prepare and sign the check which will be given to the vendor or his agent together with Copy No. 1 of the order.
- b. The Cash Purchasing Officer will annotate the total amount of the order on the reverse side of AF Form 405 "Obligation Authority" and maintain a current balance of unexpended funds.
- c. The Cash Purchasing Officer will effect distribution of Copies No. 2, 3 and 4 of the order within one day of the procurement.
- d. At the end of the month, the Cash Purchasing Officer will return the expired obligation authority form to the Appropriations Accounting Officer together with all accumulated Copies No. 5 of all orders charged thereto, at the same time obtaining the following month's obligation authority.

## 2. Advantages of the Proposed Method

- a. The Cash Purchasing Officer is relieved of the responsibility for safeguarding and maintaining a cash fund.
- b. Daily balancing of the cash fund will not be required.
- c. The inherent dangers associated with the maintenance of cash funds such as loss or misappropriation are eliminated.
- d. The establishment and reimbursement of funds procedures will be abolished.
- e. The possibility of the Cash Purchasing Officer being without funds is reduced. Under the present method, unless reimbursement vouchers are speedily processed, the Cash Purchasing Officer may be placed in an inoperative position due to lack of funds.

- f. Increases to obligation authorities can be easily obtained simply by contacting the Appropriations Accounting Officer and requesting an additional allocation of funds.
- g. Orders placed on a c.o.d. basis but received prepaid can be paid by the mailing of the order and check to the vendor, thereby eliminating the present procedure of preparing a formal purchase order on a confirming basis.
- h. The proposed change in no manner affects the requisitioner or the vendor since materials are obtained and issued as quickly as under the cash method, and the vendor receives immediate payment.
- i. More complete controls are established. For example, under the proposed method the Appropriation Accounting Officer is aware of the exact dollar amount budgeted for this type procurement; cancelled checks returned to the Finance Officer can be verified against the file copy of the check and order; and, the danger of overobligation of funds is decreased.
- j. The Cash Purchasing Officer's time expended in non-buying functions is greatly reduced, thereby providing a means to utilize his services to greater advantage. This saving of time should result in an increased output in the number of requests processed by each Cash Purchasing Officer, which, in effect, reduces the administrative cost of each order placed.

B. Revision and AFPI Implementation to  
ASPR 3-606 "Blanket Order Method"

The implementation of ASPR 3-606 by the Air Force, effective 2 March 1957, mainly revises the method of negotiation to be utilized for the establishment of blanket purchase agreements, and it permits requests totaling \$15,000.00 to be issued against one blanket purchase agreement within a fiscal quarter.

Under the revised regulation, the Contracting Officer will negotiate with each proposed charge account vendor to obtain an understanding of a pricing basis for non-competitive orders (less than \$100.00). Usually this will be a matter of discount from some recognized price list. The Contracting Officer will prepare a memorandum for record, briefly outlining the understanding of the parties, and will maintain the memorandum in the blanket agreement file. This memorandum need not be redrawn at the beginning of each blanket purchase agreement period, but should at all times represent the current understanding. Periodic spot checks will be made to assure that billings conform to understandings.

The maximum period of time covered by a blanket purchase agreement will not exceed 3 months or extend beyond the end of the fiscal quarter in which negotiated. The maximum aggregate amount of requests to be issued against one blanket purchase agreement will not exceed \$15,000.00.

Blanket purchase agreements, prior to release to suppliers will be forwarded to the Appropriation Accounting Officer for certification of fund availability for obligation of subsequent calls. The unobligated balance of each blanket purchase agreement will be adjusted at the end of each month to reflect the amount estimated to be required for the remainder of the period of validity.

In order that obligations are accurately recorded and reported in the month in which incurred, the Contracting Officer will furnish to the appropriation accounting component written verification of the total number and monetary amount of calls placed during each monthly period.

#### 1. Evaluation of the Revision

The writer fails to see any improvement to the procedure as a result of the revision. The new method creates an additional clerical workload to be absorbed by purchasing with no apparent improvement in effectiveness or efficiency. For example:

- a. The Contracting Officer must maintain a file of current price lists for each vendor with whom an agreement is written if a pricing basis is to be maintained, and if the spot check of invoices called for by the regulation is to have substance. This will require a great deal of clerical effort if all changes to price lists are to be posted. It appears simpler to ask the vendor for the price, less discount, at the time the order is placed.
- b. Unobligated balances of blanket purchase agreements must be reported and adjusted at the end of each month. This, in itself, poses no problem, however, the Contracting Officer is faced with the responsibility of accurately forecasting requirements for subsequent periods or requesting that the Base Supply Officer perform this function. In any event, time and effort are expended in a non-buying activity.
- c. Written notification must be provided to the accounting component of the number and total monetary amount of calls placed each month. The compilation of such records is currently practiced, and is required for reporting purchase actions to higher headquarters; however, a separate report must be prepared and forwarded to the accounting component. This further adds to clerical effort.

There are two distinct advantageous noted:

- a. The number of blanket purchase agreements to each vendor within 1 year is reduced from 12 to 4.
- b. The vendor is provided the opportunity to offer a longer delivery, and to practice back order procedures. However, the items ordered must be delivered within the blanket purchase agreement period.

2. Proposed Revision to ASPR 3-606 and AFPI  
Revision to Blanket Purchase Order Method

The writer proposes that the regulation be revised to reflect the following:

- a. Retention of the "old" method.
- b. Provide that the maximum period of time covered by a blanket purchase agreement be 1 year, and that the agreement contains only such information as type of materials to be ordered, terms, conditions, and both time and trade discounts.
- c. Establish a procedure for the issuance of a monthly obligation authority by the Appropriation Accounting Officer in a monetary amount based upon estimated expenditures for all orders under this method.

3. Advantages of the Proposed Method

- a. Commitment and obligation of funds is limited to one month. This offers the accounting component a control whereby the expenditure rate and amount is readily determinable. The need for a separate report from purchasing will be obviated since the obligation authority form will serve as the report document when returned to the accounting component at the end of the month.
- b. The number of blanket agreements prepared for each vendor in 1 year is reduced from 12 to 1.

- c. Realistic delivery dates can be established since the vendor is not as restricted in time. This should effect better vendor relationships with a substantial reduction in the delinquency rate and number.
- d. Savings are effected by the reduction of clerical effort on the part of the buyer, thereby increasing the time available for the pursuit of purchasing functions, and the more efficient and effective use of manpower.

### C. Need for Standardization and Simplification

The Air Force has studied the problem of standardization and simplification of inventories and has programmed the cataloguing of inventories.

The object of standardization and simplification is to select and stock items which will serve as many different uses as possible, and to eliminate variations which are not essential. This should promote interchangeability between different uses of certain items, and aid in eliminating the purchase of a variety of types and sizes of items.

#### 1. Advantages

Advantages attributable to the standardization and simplification of inventories, as affects purchasing, are:

- Reduces the number of items inventoried.
- Reduces the number of requests for small purchases.
- Aids in the preparation of larger purchase requisitions.
- Decreases the number of requisitions forwarded to purchasing.
- Reduces the number of orders placed by purchasing.

The conclusion which follows will evaluate the findings of the writer, and a determination will be made as to the significance attached to the proper maintenance of inventory controls and purchase procedures as it affects the national defense and economy.

CHAPTER IX

CONCLUSION

This study of the problem of small and rush orders indicates that in normal operations there is a continuing requirement for small purchases. At times the item is needed immediately. If normal purchasing procedures are used, the cost of processing a purchase order could exceed the value of the item. In addition, the standard processing might be time consuming and unsatisfactory.

It is advisable to have some means of expediting this action with a minimum of cost and effort. One way is through the use of an imprest petty cash fund whereby cash can be paid when picking up small items on local purchase, eliminating the need for formal purchase orders, receiving, inspection and detailed accounting.

If a petty cash fund is employed, it would be necessary to have periodic balancing, proper authorizations, and other reasonable controls. If petty cash is not used, an investigation must be made to employ some other method.

In certain firms the number of small orders is reduced by the use of blanket purchase orders. Requirements are purchased against these orders by informal means, i.e., by telephone or some other method of inexpensive communication. At the end of a stipulated period, a consolidated invoice is received, checked and paid.

The use of any special purchase method is dependent upon the justification that a special procedure is necessary to promote an efficient operation. This can be determined by a comprehensive study of inventory control methods, planning, standardization, lead time, the total number of orders placed in a given period of time, the average amount of each order, and the number of orders placed at or below a certain amount.

In a commercial organization, regardless of size, the possibility that such a study will aid purchasing is great. The number of items inventoried can be ascertained; production budgets based upon both historical sales data and market analysis aid in planning; constant efforts can be made to standardize inventories with resultant savings in costs of purchasing and manufacturing; and, lead time can be reduced by the abolition of unnecessary and, sometimes, duplicate effort under the guise of controls.

The Air Force is probably the largest buyer in the world. Millions of items are inventoried. The proper control of these inventories is difficult. Planning suffers from budgetary limitations and methods which rarely permit a complete twelve month purchasing cycle during a year. Purchasing is geared to appropriations and budgets which may not provide sufficient funds to adequately provide all the materials required for normal operations. This reflects in a curtailment of the purchasing activity.

Requirements and demands for supplies and services remain constant during this period of limited purchasing activity, thereby causing a depletion of inventories. Further, the Air Force, because of its stringent controls, requires a long lead time to procure its needs.

The proposed changes in the preceding chapter are major deviations from current authorizations and will require the coordination and cooperation of the purchasing department; the comptroller; and, the base supply organization if they are to be considered. There are certain responsibilities which must be delegated to and accepted by purchasing. For example, under current regulations the Cash Purchasing Officer cannot make payment by check for goods and services procured; obligation authorities cannot be used in cash purchasing or in the placing of blanket purchase agreements; and, deviations from the use of prescribed forms are not allowed.

Purchasing requires a flexibility in operations which is presently lacking. Purchasing should not be restricted in its efforts, but should be given the latitude found in many commercial organizations. This should enable purchasing to more efficiently service the organization by procuring the required item, or a suitable substitute, at the lowest possible price consistent with the concept of "quality" procurement which is defined as "that which fits a product to a given use".

During these times of high costs both for labor and materials, it is the responsibility of the Government to practice a strict austerity program, and to constantly seek the one "best way" to procure its needs efficiently and economically.

In an article entitled "More Defense for Every Dollar" which appeared in the January, 1956 issue of Nations Business, Mr. Charles E. Wilson, Secretary of Defense, states that one of the vital requirements for the provision of required defenses is the promotion and practice of real economy which must be the constant mission of every responsible official in the Defense Department.

The writer feels that the following quotations from Mr. Wilson's article will illustrate the need for constant and vigilant studies in the areas of methods improvement, cost analysis, cost reduction, and the more effective use of available manpower.

"Financial property accounting, better inventory management, and improved cataloguing and standardization have provided the basic tools for the effective control of material on hand, the identification and disposal of surplus stock, and the determination of realistic operating and mobilization requirements".

"Economy in all our activities is one of the most essential in our military program. If we are to support active and effective forces at about the present level over a long period, we must practice a strict austerity in day-to-day operations. As the cost of our tremendously complicated military equipment increases, we must redouble our efforts to eliminate waste and duplication of every kind. We must get the maximum of defense out of every dollar spent.

## BIBLIOGRAPHY

### I. Books

1. Lewis, Howard T. : Procurement Principles and Cases, Homewood, Illinois, Richard D. Irwin, Inc., rev. ed., 1953.
2. Owens, Richard N. : Management of Industrial Enterprises, Homewood, Illinois, Richard D. Irwin, Inc., rev. ed., 1955, pp. 521 - 533.
3. Bethel, Lawrence L., and others : Industrial Organization and Management, New York, McGraw Hill, sec. ed. 1950, pp.261 - 271.
4. Treuger, Paul M. : Accounting Guide for Defense Contractors, Chicago, Commerce Clearing House, Inc., 1953.

### II. Periodicals

#### Purchasing, Conover-Mast Publication

5. Masske, H. C. : A Tabloid History of Federal Procurement, July, 1955.
6. Lee, Lemar, Jr. : How Efficient is Military Procurement, December, 1954.
7. Duke, W. V. : A Workable Small Order Procedure, February, 1956.
8. A Unique Answer to the Small Order Problem, October, 1955.
9. Ammer, D. S. : An Efficient One-Man Purchasing Department, September, 1956.
10. Farrell, Paul V. : 3 Ideas that Simplify Purchasing, March, 1956.

### III. Publications of Government Agencies and Departments

11. Navy Contract Law, Office of the General Counsel, 1949.
12. Contract Law, Air Research and Development Command, ARDC Man. 110-2.
13. Air Force Research and Development Contracting Officers Handbook, ARDC, Harbridge House, Inc., 1955.
14. Armed Services Procurement Regulation, 1955 Edition, Department of Defense.
15. Air Force Procurement Instructions
16. Research and Development in the United States Air Force, ARDC, rev. July, 1956.

IV. Interviews

17. Interview with Chief, Small Purchase Branch, Air Force Cambridge Research Center, Bedford, Massachusetts.
18. Interview with Chief, Base Procurement Division, Air Force Cambridge Research Center, Bedford, Massachusetts.
19. Interview with Division Purchasing Agent, Sylvania Electric Products, Inc., Woburn, Massachusetts.
20. Interview with President, Cramer Electronics, Inc., Boston, Massachusetts.