

CHAPTER 3

Acquisition Planning And Requisition Processing

This Chapter:

- @ Discusses the specific requirements of the Annual Resource Management Plan System (ARMPS) and provides perspective on the complementary roles of program and purchasing personnel in overall acquisition planning (Section 3A)
- @ Emphasizes the importance of and describes the roles which both program and purchasing personnel play in planning for the conduct of individual transactions and in initiating the requisitioning process (Sections 3A and 3B)
- @ Discusses preparation of the requisition by program personnel, places special emphasis on its key elements, and discusses the role of the Purchasing Agent in this process (Section 3B)
- @ Discusses the use of exchange/sale authority and explains the application of lease/purchase analysis techniques (Section 3C)

Cross-References:

- @ Chapter 1 delineates the respective authority and responsibility of program/project personnel and purchasing personnel in the acquisition process.
- @ Appendix II, "A Guide to Requirements Documents" presents characteristics of these methods of describing contractual requirements as well as principles relating to their application to specific types of acquisitions.
- @ Appendix III presents "distinctive items" that must be obtained from special sources, through unique procedures, or with other special handling.

SECTION 3A

ACQUISITION PLANNING

The primary function of a purchasing activity--be it a unit of a large acquisition office or simply an individual exercising purchasing authority at an isolated field location--is to provide support to programs and projects. In order to be effective in this function, a purchasing activity must play several subsidiary roles as well. The diagram at the end of this section, "Purchasing Office Functions and Operating Environment," (Exhibit 3A(i)) displays these functions and the corresponding relationships between the purchasing activity and other entities, both internal and external.

Steps in carrying out the acquisition and support functions are the central subject of this Manual. Aspects of the assistance, coordination, and recommendation functions are noted appropriately throughout. The rest of this section addresses the role of purchasing personnel in acquisition planning and in providing liaison between requisitioners and contracting personnel.

OVERALL ACQUISITION PLANNING IN ARS

Submission of a properly prepared requisition is the action which formally authorizes a purchasing activity to initiate a purchasing action. That point is by no means the beginning of the acquisition process. Before program personnel can submit their requirements or even prepare the requisition documents, requirements must be identified and other planning steps must be taken.

Acquisition planning takes place on two levels: overall advance acquisition planning, which must occur well before the beginning of each fiscal year, and specific planning for individual acquisitions. Section 3B discusses the roles of program and purchasing personnel in planning for the individual purchases which are within the scope of this manual. The present discussion emphasizes the value of coordination between program and purchasing personnel in advance planning and, when necessary, in planning for the higher dollar-value acquisitions.

Advance Planning

Advance acquisition planning involves:

- @ Early identification of the goods and services that are to be acquired with each year's budget/appropriation;
- @ Early coordination between program and acquisition personnel to determine how to purchase what is needed economically and on schedule; and
- @ Early identification of acquisitions suitable for small business set-asides or for 8(a) contracting.

The HCAD under AGAR 407.170 is responsible for implementing an advance planning process. Based on expertise and experience with previous related acquisitions, he or she can provide valuable information on alternative methods of acquisition, required lead times, prospective

sources of supply, estimated costs, and socioeconomic policy considerations.

Conversely, the purchasing activity can gain valuable input from program personnel during planning sessions. The knowledge and experience of those personnel can be brought to bear, at an early stage, on such considerations as:

- @ The required or most advantageous source of supply;
- @ *What* actions must be taken, *by whom*, in order to get the needed services or property on order;
- @ How long these actions will take;
- @ How to ensure that purchase orders and contracts will be met while funds are still available for obligation, and ensure that they will be performed in time;
- @ Opportunities for small business set-aside or 8(a) contracting; and
- @ Possibilities for consolidating purchases or setting up blanket purchase arrangements or indefinite delivery contracts.

As part of the advance acquisition planning process, all purchasing personnel should participate in a review of the activity's purchasing history in order to determine whether more efficient methods might be used. If there is a pattern of individual, repetitive purchases for recurring needs, for example, the activity may investigate the use of such consolidated purchasing methods as term contracts or other established sources. These methods can save time and reduce administrative costs for both program and purchasing personnel.

Review of the activity's acquisition history also affords an opportunity to determine ways in which the activity can implement the small business set-aside and other socioeconomic policies discussed in Section 7G of this Manual.

The Annual Resource Management Plan

The principle component of the ARS Resource Management System (ARMS) is the Annual Resource Management Plan (ARMP). The intent is, that to the maximum extent possible, procurement for supplies, services, construction, and Information Technology (IT) resources will be planned in advance and included in the ARMP. The ARMP includes the Procurement Plan (PROP) and the Facilities Plan (FP) which are also referred to as Acquisition Plans (AP).

The Procurement Plan

The PROP provides a structured, disciplined approach to planning for the acquisition of services, supplies, and equipment and provides for early involvement of location, Area, and the PPD personnel in the scheduling of procurement actions.

The PROP covers funded equipment, supplies, and services (including lease, rental, and maintenance). It includes all anticipated annually recurring and one-time requirements of \$25,000 or more; all equipment acquisitions (including IT equipment) of \$1,000 or more; all safety and health requirements of \$1,000 or more; and the following high-waste vulnerability

requirements estimated to exceed \$10,000: 1) consulting services (including IT programming

and systems design), 2) audio visual products and services, 3) furniture, 4) noncompetitive procurements (sole source), and 5) personal services.

The PROP also covers unfunded requirements of \$5,000 or more for consideration via the High Priority Requirements List (HPRL) process or Area Director reserves.

Exhibit 3A(ii) illustrates a completed PROP. Note that the office completing the acquisition action is required to enter the purchase order/contract number and date of award as each action is completed.

The Facilities Plan (FP)

The purpose of the FP is similar to that of the PROP with regard to planned acquisitions of construction and architectural-engineering services.

The funded plan includes the agency required level of Repair and Maintenance (R&M) and Energy Retrofit (ER) projects as well as expenditure plans for buildings and alterations. The unfunded list includes high priority R&M and ER projects and building and alteration requirements which are handled via the HPRL process.

Distribution and Use of Acquisition Plans

Distribution of Acquisition Plans

AAOs are required to make sure that a copy (or access to the electronic record) of all approved Area AP(s) is given to the PAO. The PAO is responsible to make sure that purchasing offices receive a copy (or access to the electronic record) of the approved AP(s) for the Management Units which they support.

Use of Acquisition Plans

Upon receipt of the approved AP(s), location purchasing offices are required to review them for completeness and accuracy and, where necessary, seek additional information from the originator. At this time consideration should be given to consolidating procurements where it is possible to achieve economy and efficiency. It is important to note here that upon receipt of a requisition valued at \$25,000 or more (\$10,000 for high-waste vulnerability items) the CO must ensure that it is listed on an approved AP or that an amended AP is received before a contract or purchase/delivery order is signed.

Other ways in which purchasing/contracting personnel can use these plans include the following:

Program Assistance

- @ provide guidelines and samples for development of specifications/statement of work and assist the requisitioners in development of these,

- @ provide individual procurement transaction plans (where required) to meet program

requirements on a timely basis;

- @ assist program personnel in obtaining approval/clearance of controlled acquisitions,
- @ assist program personnel in development of justifications; and
- @ provide program personnel with known sources and descriptive material on items planned.

Workload Scheduling

- @ identify items subject to consolidated or scheduled buying,
- @ scheduling workload to reduce year-end spending,
- @ develop resources (personnel) to meet specific acquisition requirements,
- @ identify controlled acquisitions for reporting requirements,
- @ develop individual procurement transaction plans (where required),
- @ identify sources and methods of procurement; and
- @ develop outside sources to meet planned acquisitions.

Tracking System

- @ verify requisitions against approved or revised plans,
- @ seeking approval or revisions to plans for requisitions not meeting plans or controls; and
- @ assuring that abuse of authority does not occur.

PURCHASING AGENT INVOLVEMENT IN PLANNING FOR ACQUISITIONS ABOVE \$25,000

Planning is probably the single most important contributing factor in a successful acquisition above \$25,000. Because of the distance between field locations and offices having formal contracting authority, it often is essential that Purchasing Agents assume the role of liaison between program and contracting personnel. While they are not authorized to make determinations or effect transactions at levels above their delegated authority, they may be able to assist program personnel in preliminary consideration of the following matters.

- @ Schedule for preparation and submission of the requisition;
- @ Description of project;

- @ Objective of acquisition;
- @ Necessary acquisition lead time;
- @ Estimated performance period of contract;
- @ Schedule for key deliverables;
- @ Funding availability;*
- @ Estimated cost;
- @ Justification for noncompetitive acquisition, if applicable;
- @ Source information and techniques for publicizing;
- @ Related or previous acquisitions;
- @ Special approvals, clearances, or handling requirements; and
- @ Contract administration requirements that need to be considered during the solicitation and contract-award process.

**Note:* See REE P&P 323.8 for policy and procedures regarding the use of prior fiscal year appropriations.

Purchasing Agents can provide valuable assistance to the program personnel responsible for identifying requirements and preparing requisitions. Such assistance is often critical in planning for acquisitions of any dollar amount. It is highly desirable for purchasing personnel to get together with program personnel in order to plan for a small purchase action--as soon as practicable after identification of the specific requirement, and prior to submission of the requisition.

Based on their knowledge of regulations and procedures and their prior experience, Purchasing Agents may be able to provide guidance on describing the requirement and on what procurement lead time (from requisition to actual delivery or performance) should be anticipated. They may be able to help program personnel spell out what actions must be taken, by whom, in order to get the needed items on order. Their input at this stage may even be pivotal in assuring that goods will be delivered or services performed in time to meet program requirements--especially where services or a complex specification for a commercial item is involved. Finally, as noted earlier, early planning may afford an opportunity to achieve savings by consolidating purchases.

Similarly, program personnel may be able to provide purchasing personnel with valuable information based on technical expertise and prior experience. Planning sessions may bring out special scheduling or handling requirements that are crucial to the success of the acquisition, or

administrative requirements that must be considered in publicizing a requirement and evaluating offerors. Program personnel may be able to contribute useful information on potential sources or estimated costs.

Exhibit 3A(i)
Purchasing Office Functions and Operating Environment

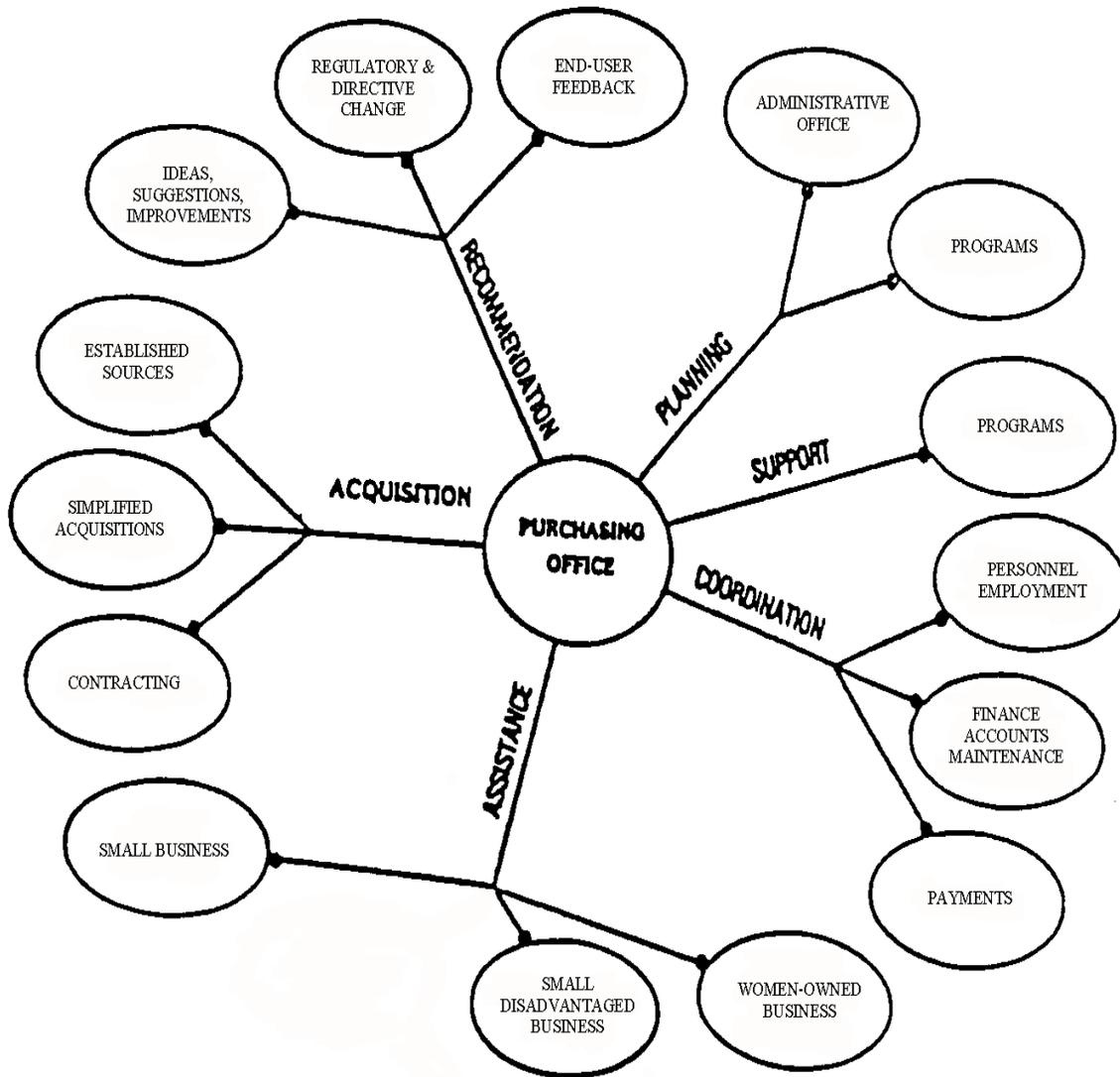


Exhibit 3A(ii)
Sample Procurement Plan

Procurement Plan

Accounting Code: 801-1902-100
Mode Code: 03-10-19-1902-05-00-00-00

OC: 3100 Unfunded Selected

Quantity: 1
S&H:
PSC: 6695
IT: No
FTE:

Required Date: 03/01/96
Period covered: / /
PO Date: / /
Req. Cutoff Date: 07/31/96
Amount Available: 51,000
Amount Budgeted: 47,600

Item Cost: 15,000

Balance to Budget: 3,400

Contributed Amount:
PO Number:
Method of Procurement: Federal Supply
Procuring Office: Area

Portable photosynthesis measuring system needed for modeling, plant growth, disease and stress research.

SECTION 3B

THE REQUISITION PROCESS

The Purpose of the Requisition and the Role of the Requisitioner

The requisition is an internal document which conveys to the purchasing activity authorized request for goods or services. It officially initiates a particular acquisition action.

As discussed in Section 1B, preparation of requisitions is the responsibility of program personnel. They must make sure that the requests they submit provide clear and accurate descriptions of requirements and that they contain validation that all necessary approvals and clearances have been obtained.

Purchasing personnel play an important part in the requisition process. They are responsible for reviewing requisitions to see that they describe requirements adequately and that they provide sound bases for scheduling acquisitions and making decisions about ordering from established sources or purchasing from commercial suppliers. Furthermore, they can often provide valuable assistance in planning for conduct of the acquisition and in preparing the requisition.

TIMELY SUBMISSION AND APPROVAL OF READY REQUISITIONS

Ultimately, the success of the Acquisition Planning process depends on the timely submission of requisitions that are ready for processing by procurement personnel. A "ready" requisition contains the following:

- @ Appropriate funding *(includes estimated cost and accounting data).
- @ A full functional, performance or detailed design requirements document (specifications, design, drawings, scope of work, A-E plans and, etc.). See Appendix II of this Manual.
- @ Support documentation, including all required clearances, approvals, and authorizations.
- @ Delivery or performance schedule dates.
- @ Authorized individual's signature.

**Note:* See REE P&P 323.8 for policy and procedures regarding the use of prior fiscal year appropriations.

Requisitions which are not "ready" cannot be processed and may be returned to the requisitioner for corrective action. "Ready" requisitions are of particular importance as the end of the fiscal year and the commensurate increase in procurement workloads approach.

Timely submission of "ready" requisitions depends greatly on the commodity or service required, delivery or performance dates, the dollar value of the requirement, and the method of procurement to be used. Requisitions should be submitted as early as possible in the fiscal year (in the first and second quarter) to reduce year-end spending.

Procurement lead-time begins when a properly prepared, fully documented "ready" requisition is received in the procurement office and ends when a contract award is made. Procurement lead-times for submission of "ready" requisitions are listed in Exhibit 3B(i).

Established Requisition Cutoff Dates

Proper processing of procurement transactions is controlled by time frames required to accomplish various phases of the acquisition. These time frames are established by law, regulation, and administrative procedure, and must be adhered to by procurement personnel. To avoid hasty procurements and compromise of the procurement process or procurement personnel, cutoff dates for receipt of "ready" requisitions are provided by PPD each year. Only urgent and compelling requirements should be submitted after the specified dates. Requisitions submitted after these dates shall be certified and approved in accordance with the procedures described below.

Approval Procedures

A requisition which does not meet established cutoff dates or is not included, if required, on approved Approval Procedures (AP) should not be processed by COs unless the request can be justified by the requisitioner.

Requisitions submitted after established cutoff dates must include a justification for late submittal and the following statement which must be approved at one management level above the requisitioner:

“The financial data code(s) cited herein and the appropriation associated therewith, have been made available to meet this requirement in support of an approved program. These funds are being obligated to meet a current need of the program and not merely to obligate funds that would otherwise revert to the U.S. Treasury.

REQUISITIONER:

Signature

Date

APPROVING OFFICIAL:

Signature

Date

Requisitioners submitting requests for items or services of \$25,000 or more (or "high-waste/vulnerability" of \$10,000 or more) which are not included on a funded and approved AP, must obtain a change to the AP in accordance with the ARMPS.

PREPARATION AND REVIEW OF REQUISITIONS

The requisition is prepared using the Form AD-700, Procurement Request (Exhibit 3B(ii)). The AD-700 with its attachments, is the official document that identifies a specific requirement. It must be sufficiently detailed and complete so that purchasing personnel can begin individual transaction planning and scheduling.

As discussed earlier, the Research Leader (RL) or Scientist who has identified the requirement is responsible for the preparation of the requisition. For complex or large dollar requirements, however, it is advisable for the RL to meet with the Purchasing Agent or the CO to initiate early individual transaction planning and to discuss the substance of the requirement in order to receive guidance on what to include in the requisition package.

KEY REQUIREMENTS

There are certain requirements essential to all requisitions. These are:

- @ Requirements document (Specification or Statement of Work)
- @ In-house cost estimates and source of funding
- @ Delivery or performance schedules
- @ List of known sources
- @ Required clearances and approvals

Depending on the type and nature of the requirement, the following additional elements may be necessary:

- @ Any special conditions, provisions, or circumstances that must be considered
- @ Justification for Other than Full and Open Competition (sole source)
- @ Designation of proposed COs authorized representative (COR)
- @ Statement of need for presolicitation conference or site visit
- @ Information Technology Division (ITD) technical approval, Privacy Act Checklist, and GSA approval (if applicable) for IT resources (all prepared by requester)*

USDA is currently under an IT moratorium applicable to IT purchases with an estimated cost

over \$25,000. REE Bulletin 00-001, "Moratorium on Significant Information Technology Acquisition", describes the IT Moratorium and defines the process for obtaining a waiver and justification needed for approval.

**Note:* The ARMPS is used as the basic vehicle for review and approval of IT resource acquisitions. ITD reviews/approves funded and unfunded IT resource requirements during the normal ARMP cycle.

The following checklist is suggested for use as a guide:

Checklist for Requisition Review

Items	Sufficient Coverage	
	Yes	No
1. Requirements documents*	_____	_____
2. Delivery requirements	_____	_____
3. Shipping instructions	_____	_____
4. In-house cost estimate	_____	_____
5. Validation of funds	_____	_____
6. Authorizing signature	_____	_____
7. Required approvals or clearances	_____	_____

*See Appendix II, "A Guide to Requirements Documents."

COMMON PROBLEMS WITH REQUISITIONING DOCUMENTS

As stated earlier, Purchasing Agents must have adequate and complete information from requisitioners in order to carry out acquisitions efficiently. The following is a list of deficiencies and inconsistencies that frequently need to be remedied, thus delaying the purchase.

1. *Inadequate description.* The Purchasing Agent has to guess at what is required and must either go back to the requisitioner for further information or prepare a more adequate description in coordination with the requisitioner. Note: The Purchasing Agent should make no changes in the description of the requirement without first consulting the requisitioner.
2. *Unrealistic delivery schedule.* A check back with the requisitioner must be made to determine if there is a justifiable urgency. In some cases, taking special action to meet an urgent delivery or performance schedule is warranted; in others, coordination with the requisitioner will result in more realistic delivery requirements.
3. *Discrepancy between quantity/packaging required and industry practice.* Adjustment may need to be made to ensure that the government makes the most economical buy, given the unit, quantity break, and packing practices which are standard for the potential suppliers. Sometimes, units must be converted from one form of measure to another--from tonnage to cubic yards, for example.
4. *Inadequate indication of delivery point.* It is essential that suppliers are given a complete address to which delivery shall be made and informed of the hours during which goods can be received at destination.
5. *Insufficient information on testing requirements.* If a specification provides for testing, it should indicate who will perform the tests, where, and when.
6. *Failure to attach or provide full information* on drawings, plans, or other materials that are available to offerors.

Such documentation, or information on how it can be obtained, must be provided as part of the requisition?

7. *Omission of proper appropriation and allotment or project number, or absence of signature by proper authorizing official.* The requisition will need to be returned for the necessary authorization before processing.

PURCHASE DESCRIPTIONS AND DELIVERY SCHEDULES

See Appendix II of this Manual

**Exhibit 3B(i)
Procurement Leadtimes**

REQUIREMENT	DOLLAR THRESHOLD	METHOD OF PROCUREMENT	LEADTIMES
Supplies and Services	\$0 - \$2,500	Micropurchase	5 days
	\$2,501 - \$25,000 (Including FSS)	Established Source and Simplified Acquisition	45 days
	\$25,001 - \$100,000	Simplified Acquisition (CBD Synopsis Required)	60 days
	\$100,001 - Unlimited	Contracting (Sole Source)	120 days
	\$100,001 - Unlimited	Contracting (Competitive Price Competition)	180 days
	\$100,001 - Unlimited	Contracting (Competitive "Best Value")	300 days
*A-E Design	\$0 - \$10,000	Contracting	60 days
	\$10,001 - \$100,000	Contracting	120 days
	\$100,001 - Unlimited	Contracting	210 days
*Construction w/Ready Design	\$0 - \$2,000	Micropurchase	10 days
	\$2,001 - \$25,000	Simplified Acquisition and Contracting	30 days
	\$25,001 - \$100,000	Simplified Acquisition and Contracting (CBD Synopsis Required)	60 days
	\$100,0001 - Unlimited	Contracting	120 days
*Design and Construction	\$2,001 - \$25,000	Simplified Acquisition and Contracting	120 days
	\$25,0001 - \$100,000	Simplified Acquisition and Contracting	180 days
	\$100,001 - Unlimited	Contracting	300 days

*Excluding No Year Funded Projects

Exhibit 3B(ii)

USDA Form AD-700

PROCUREMENT REQUEST <i>INSTRUCTIONS: Agencies must provide entries in unshaded areas. See reverse.</i>		TO: (Procurement Office)					1. REQUESTING OFFICE						
2 RECEIVING OFFICE NO.	3 CONTRACT NUMBER <i>(If Applicable)</i>	4 ORDER DATE	5	6 UNIT CODE	7 FUND CODE	8 PURCHASE/DELIVERY ORDER NUMBER	9 SUB.	1A. PROCUREMENT REQUEST NO.					
CHECK ONE								1B. DATE					
<input type="checkbox"/> Purchase Order		10. TO: (Seller)					11. SHIP TO: (Consignee and Destination)						
<input type="checkbox"/> Delivery Order							<input type="checkbox"/> INSIDE DELIVERY REQUESTED						
12 LINE ITEM	13 ACT. CODE	14 DESCRIPTION				15 BUDGET OBJECT	16 ACC. LINE	17 QUANTITY	18 UNIT ISSUE	19 UNIT PRICE	20 AMOUNT		
For additional information, please contact:													
TECHNICAL CONTACT						TELEPHONE NO.							
21 FOB POINT				22 DISCOUNT TERMS				Sub-Total ▶		25			
23 REQUIRED DELIVERY <i>(Do not use ASAP)</i>		23A NEGOTIATED DELIVERY		24 SHIP VIA		26 ESTIMATED FREIGHT		TOTAL ▶		27			
29 ACCOUNTING CLASSIFICATION										30 DISTRIBUTION		31 AMOUNT	
28 ACC. LINE	A	B	C		D	E							
2	5	10	5	3	4	1	4	1	2				
RECOMMENDED SOURCE(S) (If necessary, use attachment)						I certify that the above items are necessary for use in the public service.							
						TITLE							
						SIGNATURE OF AUTHORIZED REPRESENTATIVE							

This form was electronically produced by Elite Federal Forms, Inc.

AD-700 (4-82)

Exhibit 3B(ii) (Continued)
Instructions for Requisitioning Activities

Do not make entries in shaded areas blocks numbered 4, 5, 6, 8, 9, 10, 13, 21, 22, 23A, 24, 26, 27, 31, and Purchase Delivery Order block. These spaces are provided for procurement personnel.

Block 1. REQUESTING OFFICE. Enter the office that prepares the procurement request.

Block 1A. PROCUREMENT REQUEST NUMBER. Enter appropriate Document Control Number.

Block 1B. DATE. Enter date the procurement request is prepared.

Block 2. RECEIVING OFFICE NUMBER. Enter last four positions of the GSA FEDSTRIP Requisition Number of the office responsible for answering inquiries concerning receipt of the order.

Block 3. CONTRACT NUMBER. If this is a delivery order against a GSA contract, or other Indefinite Delivery type contract, enter contract number. Otherwise leave blank.

Block 6. UNIT CODE. For Forest Service only; enter the code of the unit whose funds are to be charged.

Block 7. FUND CODE. Enter appropriate Fund Code for agency and accounting station, as assigned by national Finance Center (NFC).

Block 11. SHIP TO. Enter complete destination address to include zip code. Check "Inside Delivery Requested" box if applicable.

Block 12. LINE ITEM. Each separately priced item must be assigned a number beginning with 1 and continuing consecutively.

Block 14. DESCRIPTION. Line item description. Enter details of the order, e.g., special delivery instructions, subscription renewal numbers. GSA Catalog stock numbers, etc. Attach lengthy specifications.

Block 15. BUDGET OBJECT. Enter NFC assigned Budget Object Classification Code (4 positions), incorporating agency sub-object codes (3rd and 4th positions) as applicable

Block 16. ACCOUNTING LINE. Enter the number from Block 28 that identifies the accounting classification to be charged. Enter an "X" if the line item is to be charged to more than one accounting classification.

Block 17. QUANTITY. Enter quantity required, consistent with unit of issue.

Block 18. UNIT ISSUE. Unit of issue must be consistent with unit of shipment/billing by the source of supply, e.g., DZ, EA, JOB, PK, etc. When ordering GSA stock numbered items, use unit of issue in the GSA Supply Catalog.

Block 19. UNIT PRICE. Enter price per unit of issue, if known. Up to 4 decimal places may be used, e.g., .0625.

Block 20. AMOUNT. Enter extended value (quantity x unit price) or estimated price of each item.

Block 23. REQUIRED DELIVERY. Enter desired or required delivery date. Do not use ASAP.

Block 25. SUB-TOTAL. Enter on last page the total estimated amount.

Block 28. ACCOUNTING LINE. This block identifies the appropriate account(s) to be charged. The identifying numbers in block 28 are used also in Block 16 to relate the line item(s) with the appropriate accounting classification(s). Starting with "1" and continuing consecutively, enter a number for each line of accounting classification.

Block 29. ACCOUNTING CLASSIFICATION. Enter the appropriate accounting data for each accounting line number entered in Block 28. Use format prescribed by your agency.

Block 30. DISTRIBUTION. If an "X" has been entered in Block 16, enter in Block 30 the percentages of the amount to be charged the applicable accounting classifications. The percentages must total 100.

If sources of supply are known, enter name and address.

SECTION 3C

OTHER SPECIAL CONSIDERATIONS

Using Exchange/Sale Authority

The Federal Property and Administrative Services Act [40 U.S.C. 481(c)] authorizes executive agencies to exchange or sell certain "eligible" items and to use the proceeds as whole or partial payment in acquiring replacement items. Purchasing Agents need to be informed about this policy, as the proper use of exchange/sale authority can mean significant savings for the government.

It is important to be aware that the right to exercise exchange/sale authority applies only to certain types of actions and only to certain "eligible" items. In addition, certain procedures must be followed in issuing solicitations offering items for sale or exchange, and internal administrative requirements must be met.

The following paragraphs explain the major considerations, decisions, and steps. You can find more comprehensive and detailed guidance in FPMR 101-45 and 101-46. Note: Contact the Area Property Management Office (APMO) prior to making any transaction if an exchange/sale transaction is under consideration.

Major considerations and decision points in exercising exchange/sale authority are outlined in Exhibit 3C(i). Procedures applicable to each area are discussed in the following paragraphs.

What Exchange/Sale Actions are Permitted?

Exchange or sale is allowed only when each of the following conditions (101-46.204(b)) can be met:

1. The items exchanged or sold are similar to the items acquired. Items may be considered similar when:
 - the replaced item and the acquired item are identical;
 - the acquired item is designed and constructed for the same specific purpose as the replaced item;
 - both constitute parts or containers for identical or similar end items; or
 - the acquired item and the replaced item both fall within a single Federal Supply Group (except items listed exempt under FPMR 101-46.204(a)).
2. Items exchanged or sold are not excess (see definition in Section 5B) or surplus and the items acquired are needed to conduct approved programs. (Note: IT equipment and software, regardless of dollar amount, may be considered for exchange/sale transactions-- See FMR 102-36, and consult with your APMO for guidance).

3. One item is acquired to replace one similar item. The only exceptions to this rule are:
 - The items acquired must perform all or substantially all tasks in which the old items would otherwise be used.
 - The items sold or exchanged and the items acquired in question are parts or containers for identical or similar items as stated in FPMR 101-46.002-9.
4. There has been a written administrative determination to apply the exchange allowance or sales proceeds in acquiring replacement property.
5. The transaction will help to accomplish an approved program economically and efficiently.
6. The items to be exchanged or sold were acquired for official use, and not for the principal purpose of exchange or sale.

What Exchange/Sale Actions Are Not Permitted?

The following kinds of actions are not authorized by the exchange/sale provisions:

- @ A purchase which is not otherwise authorized by law.
- @ A purchase which is made to get around a restriction on the purchase of a certain commodity, or which violates any Federal, departmental, or local policy on the replacement of government property.
- @ An action taken to get around the requirement to acquire an item from an established source of supply.

(Note, however, that the exchange allowance or sales proceeds can be used to pay in whole or in part for items obtained from an established source. Furthermore, trade-in allowances are usually shown in Federal Supply Schedule contracts.)

- @ Property which is dangerous to public health or safety must first be rendered safe.

What Items Are Ineligible?

FPMR 101-46.204(a) lists Federal supply classification groups which are ineligible for exchange or sale.

What Procedures Should Be Followed in Exchange/Sale On the Open Market?

Exchange and sale procedures are covered in FPMR Subpart 101-46.301 & 45.304. REE P&P 221.1M provides the following guidance:

Authority to Sell

Area Property Management Officers have authority to sell:

- Property identified as replacement property;
- Surplus property that has passed required Federal screening; and
- Perishable items, including live animals and animal products, regardless of estimated proceeds.

Determination to Sell

The purchasing activity may decide that disposing of the item by outright sale is in the government's best interest (See P&P 221.1M).

An item should be sold outright rather than offered for trade-in/cash offer on a replacement item if:

1. A recent solicitation for identical items did not produce a favorable trade-in/cash offer.
2. The purchasing activity is aware that, because of standard practices within the industry, achieving savings through exchange/sale is not feasible.

Solicitation

When a used item is offered to commercial vendors for exchange/sale against a similar replacement item, the solicitation document (SF-18, Request for Quotations - See Section 7D) should include:

1. Description of the new item, with a space for the new item price without trade-in allowance.
2. Description of the item to be exchanged (traded in), with a space for the exchange allowance.
3. A space for the net cost of the item after trade-in allowance.

The solicitation should identify the used property by property control number, serial number, or other designation.

Unless it has been determined that solicitation of trade-ins will serve no purpose, vendors should be permitted to submit quotes based on trade-in, cash without trade-in, or both. When a cash quote is sought, a clause such as that shown below should be included:

A cash quote, independent of any purchase of new property, is also invited for the used property described above. The government reserves the right to accept or reject any quote. Dealers and others interested in making only a cash quote for the used property

should make their offer under this item.

Cash Price for Above-Described Used Property:

\$ _____

Any solicitation involving exchange/sale property should contain this statement:

This property is being offered in accordance with the exchange/sale provisions of Section 201(c) of the Federal Property and Administrative Services Act of 1949, 63 Stat. 384 [40 U.S.C. 481(c)].

The solicitation should also contain this clause:

NOTE: It will be understood by all vendors of exchange allowances and/or independent cash quotes on the used property described herein that such allowances and/or cash quotes are to be based upon said property being surrendered to the vendor in as good condition, normal wear and tear excepted, as at the time of inspection or appraisal; also, that the government reserves the right to use the property until new replacement property has been delivered and is ready for use.

Award

Award, if made, should be based on the quote or combination of quotes representing the lowest net cost (new item cost minus trade-in/cash quote allowance) for the new property. Following award, the exact property identified in the solicitation must be provided to the vendor.

Administrative and Reporting Requirements

Care must be taken to determine that exchange/sale actions are authorized under and conducted in accordance with all applicable provisions of the FPMR Parts 101-45 and 101-46.

MAKING LEASE VERSUS PURCHASE DETERMINATIONS

Studies conducted by the government have shown that substantial savings can often be realized by purchasing rather than leasing certain kinds of equipment. In other situations, however, leasing may be the most economical option. Lease versus purchase decisions must be made in accordance with factors and methods which are set forth in FAR Subpart 7.4.

This section highlights considerations and steps. The main requirement is that any decision to lease rather than purchase must be justified. The Purchasing Agent must be able to show that the long-term lease cost will be more advantageous than the initial cost of purchase, or that the requested item will be of no use to the government after its immediate use. Lack of funds alone is never sufficient reason to lease. Also, purchasing should not be ruled out in favor of leasing merely because there is a possibility that future technological improvements may make the selected equipment less desirable.

Cost Comparison Considerations

The option of leasing is generally considered when the government must spend substantial money for an equipment item. In such situations, it is necessary to weigh several factors, including the life expectancy of the item, the feasibility of determining its final cost (considering repair and maintenance costs, trade-in or salvage value, etc.), and the likelihood that the item will need to be replaced.

Factors

FAR Subpart 7.4 identifies factors to be considered in decisions involving office copying machines, telecommunications equipment, and other kinds of items as appropriate. They are:

1. Length of time the equipment is to be used, extent of usage, and potential additional use by other agencies if the item is declared excess personal property;
2. The financial and other advantages of all types and makes available;
3. Leasing costs and purchase options;
4. Costs of purchase and installation;
5. The likelihood that the item will soon become obsolete or outmoded due to technological improvements; and
6. Other pertinent factors.

Methods

Cost comparison methods are discussed in FAR Subpart 7.4. The method used for making a cost comparison may need to be complex (involving factors such as interest rates, technological life, trade-in value, etc.) or it may simply involve a comparison of what it will cost to buy and maintain the equipment against the cumulative, long-term cost of leasing. Irrespective of the method used for cost comparison, the point in time when the cumulative leasing cost will exceed the cost of purchasing usually does not vary significantly. In relation to that point the activity can decide:

- @ To purchase if the equipment will be used beyond the point when cumulative leasing costs exceed purchase costs;
- @ To lease with option to purchase when it is not certain whether the equipment's period of usefulness will exceed that point yet it is necessary or desirable to acquire the item immediately; or
- @ To lease without option to purchase when the equipment will not be used beyond the point where leasing costs exceed purchase costs and/or when it is not possible to obtain an option to purchase.

Required Sources of Supplies and Services

Also, purchasing activities must follow the required order of priority for required sources of supply (see Chapter 4) by taking full advantage of the lease and purchase options contained in

Federal Supply Schedule contracts before proceeding to an open market source.

Office Copying Machines

FPMR 104-25.302 deals with copying machines. Prior to making cost comparisons, the purchasing activity should study the functional and financial facets of all available copying processes to see which will be most economical in the application intended. (Factors applicable to selections among multiple-award Federal Supply Schedule contractors may be used as guidance in appraising commercially offered products as well).

The activity is required to take full advantage of purchase and lease options afforded by Federal Supply Schedule contracts offering the type of equipment chosen. If the needed item is not available from a schedule contractor or must be leased from an open market supplier for other reasons, the lease arrangement should include an option to purchase.

Exhibit 3C(ii) illustrates the cost comparison for an office copying machine acquisition. The illustration assumes a monthly rental charge of \$500 and no unit copy charge. It contemplates exercise of a purchase option plan permitting application toward the purchase price of 75 percent of total rental paid if purchased during the first 3 months, 60 percent if during the second 3 months, and 50 percent if after 6 months. The option is exercised after 1 year to illustrate a situation where budget limitations would not permit purchase at the most advantageous time for exercising the purchase option. In this case, lease without purchase is the more economical option if the machine will be used for less than four years.

OTHER CONSIDERATIONS AND STEPS

Lease Term

A lease may not be made for more than the period remaining in the fiscal year without special approval from a higher authority.

Leases may not be renewed automatically but only by affirmative action on the part of the government.

Documentation of Purchase File

Copies of the cost comparisons made and any supporting data must be placed in the acquisition file. GSA makes periodic surveys of agencies' data in support of lease versus purchase determinations. In the case of comparisons that result in the lease of equipment, forward a copy of the acquisition document to the APMO.

Assistance From GSA

At the request of the purchasing activity, GSA will provide assistance in making lease versus purchase determinations (see FAR Subpart 7.4). GSA will provide the latest information on such considerations as:

- @ Pending price adjustments to Federal Supply Schedule contracts;
- @ Recent or imminent technological developments;

- @ New techniques; and
- @ Industry or market trends.

Exhibit 3c(i)
Checklist For The Exercise Of Exchange/Sale Authority

1. Is the contemplated exchange/sale action allowable?

Each condition stipulated in 101-46.204(b) must be met:
 - a. Items exchanged/sold are similar to items acquired.
 - b. Items exchanged/sold are not excess.
 - c. Items acquired are needed.
 - d. An administrative determination to exchange/sell has been made.
 - e. Exchange/sale will foster approved program goals.
2. Is the item classified as eligible for exchange/sale?
3. Should the item be disposed of by outright sale or by offering it for cash/trade-in allowance towards a replacement item?
4. What provisions should be included in the solicitation document?
(Sample provisions are shown in this section of the handbook.)
5. What administrative and reporting requirements must be met?

All applicable USDA and ARS procedures must be followed in conducting any exchange/sale transaction.

Exhibit 3C(ii)
Illustration of Lease/Purchase Cost Comparison
For Office Copying Machines

Acquisition Factor	1 st year	2 nd year	3 rd year	4 th year	5 th year	6 th year	7 th year	8 th year
Lease with purchase option (option exercised at the end of the first year);								
Cumulative lease cost. . . .	\$4,000							
Less credit upon purchase. . .	3,000							
Purchase cost.	15,000							
Cumulative maintenance cost.		\$1,600	\$3,000	\$4,500	\$4,000	\$7,500	\$8,000	\$10,000
Cumulative lease purchase option cost.	18,000	10,500	21,000	22,500	24,000	25,500	27,000	28,500
Lease:								
Cumulative lease cost (including maintenance). . . .	6,000	12,000	18,000	24,000	30,000	34,000	42,000	48,000
Cumulative lease with purchase option costs exceed cumulative lease costs by.	12,000	7,000	3,500					
Cumulative lease costs exceed cumulative lease with purchase option costs by.				1,640	6,000	10,500	15,000	18,900

[31 FR 3482, Mar. 8, 1966, as amended at 43 FR 1031, Jan. 8, 1977]