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UNITED STATES GENERAL ACCOUNTING OFFICE  
WASHINGTON REGIONAL OFFICE  
FIFTH FLOOR  
803 WEST BROAD STREET  
FALLS CHURCH, VIRGINIA 22046

MAR 15 1973

Lieutenant General Wallace H. Robinson, Jr.  
Director, Defense Supply Agency  
Cameron Station  
Alexandria, Virginia 22314

Attention DSAH-CM

Dear General Robinson

The General Accounting Office has recently completed a review of the procurement practices and procedures of the Defense Fuel Supply Center (DFSC), Defense Supply Agency. Our review was primarily directed at DFSC's methods in contracting for motor gasoline and fuel oil for civil and military installations in the United States.

Our review disclosed that DFSC is generally carrying out its responsibilities in a satisfactory manner. We believe, however, that the opportunity exists to reduce prices and improve contracting effectiveness by consolidating requirements by geographical areas. In December 1972 we discussed this matter with Rear Admiral William M. Oller, Commander, DFSC, Colonel Robert K. Estes, Director of Procurement and Production, DFSC, and Mr. L. E. Smith, Deputy Director of Procurement and Production. We were told that studies would be undertaken by DFSC to determine the feasibility of our suggestions. Details on this matter are presented below for your information.

Under the procedures used by DFSC, individual requests of Government agencies and installations for contractual coverage of petroleum products are listed on the appropriate regional solicitation in essentially the same format as received. No attempt is made to group or combine the requirements of different users for the same product into a single Government requirement. Each individual requirement is solicited, and contracts are awarded separately without regard to the prices obtained for other requirements for the product in the area or to whether responsive bids were received in every case.

Our review disclosed that contractors' bids on the same product required by different agencies in the same area are not always at the same price and that bids submitted for the larger individual requirements were generally lower than bids submitted for smaller requirements. This suggests that better prices might be obtained if the requirements of

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several installations for the same product in the same general areas were consolidated into a single larger volume requirement and solicited as one item for delivery to the different delivery points.

We found that some of the agencies for whom DFSC awards contracts have consolidated requirements by geographic areas on their own initiative to reduce prices and to increase contract coverage. For example, some of the Government requirements for No. 6 fuel oil in the District of Columbia metropolitan area are consolidated by the General Services Administration into six geographic areas, and the award in each case is made to the lowest bidder for the entire requirement shown for each area.

In an effort to measure the effect that consolidation could have on the prices obtained for petroleum fuels, we compared DFSC's experience in obtaining coverage for the regular no/low lead gasoline requirements of two agencies in Washington, D.C., for 2 contract years (August 1, 1971, to July 31, 1972, and August 1, 1972, to July 31, 1973).

One agency, the District of Columbia Government, submitted consolidated requirements for all D.C. Government installations. In both years the price obtained was equal to the lowest price obtained in the District of Columbia for any Government requirement for tank wagon deliveries in the same solicitation. This price was obtained even though the District Government requirement could be filled only by making repetitive, small volume deliveries to many different locations in the District. We attribute the favorable unit price to the fact that the District's requirement was more attractive to bidders because of the consolidation.

The experience of the other agency, the National Capital Region of the National Park Service, varied somewhat from the District's. For the first contract year, the needs of this agency for regular no/low lead gasoline were consolidated as a single requirement to be delivered to six different locations in the District. The price obtained under this consolidated requirement was the same as that obtained for the District of Columbia Government in the first contract year.

For the second contract year, however, the National Capital Region did not consolidate its requirements but submitted them as six different requirements. We were informed by a National Park Service official that the breakup into individual requirements was done at the suggestion of a DFSC buyer who stated that better prices would probably be obtained. The average of the prices actually obtained, however, was \$ 0021 per gallon higher than the price obtained for the first year when requirements were consolidated and \$.0030 higher than the price obtained for the District's consolidated requirements in the second year. As a result, it appears

that during the second contract period the price of gasoline for the National Capital Region will be about 2 percent higher than the price paid by the District Government. We believe that, if the requirements of the National Capital Region had been consolidated, an overall price comparable to that contracted for the District of Columbia Government could have been obtained.

Although we were unable to measure the effect that consolidation of requirements would have on increasing contract coverage for solicited items, we noted that DFSC is apparently encountering difficulty in securing contract coverage in some geographic areas and suggest that consolidating requirements may improve this situation. We found that during the contract year April 1, 1971, to March 31, 1972, it was unable to obtain contractual coverage for over 2 million gallons of petroleum fuels representing the requirements of 147 different installations in DFSC's Region 4 program. Similarly, during the contract period August 1, 1971, to July 31, 1972, it did not obtain contractual coverage for 1.7 million gallons of product requested for 64 different installations in the Region 3 program.

Our Office recognizes that consolidation of requirements may not be practical for all areas of the country and that if consolidation is not reasonably applied it could even reduce the level of competition.

We believe, however, that the opportunity exists for DFSC, in certain geographic areas, to reduce contract prices and increase contract coverage by consolidating requirements of using activities. We recommend that such consolidation be initiated by DFSC for those geographic areas which its study shows have the opportunity for reducing prices and/or increasing contract coverage.

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We would appreciate your comments on this matter and request that you advise us of the results of your study.

We will be glad to make the material developed during our review available to those conducting the study for DFSC. Also, should you desire, our staff may be contacted to provide further assistance. In this regard your staff may call either James Alubowicz or Ted Holderman on 557-2151.

We want to take this opportunity to acknowledge the courtesies and cooperation extended to our representatives by your staff.

Sincerely yours,

*H. L. Krieger*

H. L. Krieger  
Regional Manager



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Rear Admiral William H. Oiler  
Commander, Defense Fuel Supply Center  
Defense Supply Agency  
Cameron Station  
Alexandria, Virginia 22314

Dear Admiral Oiler

As you recall, members of our review team met with you and other DFSC officials in December 1972, to discuss the possibility of obtaining better prices for fuel oil and gasoline through consolidation of requirements. We have completed our work on the subject and take this opportunity to send you two copies of our final report.

At our meeting we were told that your office would conduct a study of the feasibility of consolidating fuel requirements in certain areas.

In conducting this study, please feel free to contact my office for any of the documentation or information in support of the observations we reached during our review. In this regard, either James Slubowicz or Ted Holderman of my staff can be contacted directly on 557-2151.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "H. L. Krieger".

H. L. Krieger  
Regional Manager

Enclosure as stated

BEST DOCUMENT AVAILABLE