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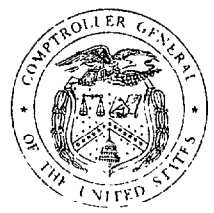
REPORT TO  
THE CONGRESS OF THE UNITED STATES

POTENTIAL SAVINGS  
THROUGH PROCUREMENT OF OPERATING SUPPLIES  
FROM  
GENERAL SERVICES ADMINISTRATION SOURCES  
BY MARTIN-MARIETTA CORPORATION  
DENVER DIVISION, DENVER, COLORADO

DEPARTMENT OF THE AIR FORCE



LM087871



BY  
THE COMPTROLLER GENERAL  
OF THE UNITED STATES

FEBRUARY 1965

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COMPTROLLER GENERAL OF THE UNITED STATES

WASHINGTON, D.C. 20548

B-132992

FEB 9 1965

To the President of the Senate and the  
Speaker of the House of Representatives

Our review of the procurement of operating supplies by Martin-Marietta Corporation, Denver Division, Denver, Colorado, has disclosed that substantial savings can be achieved in Government costs under Air Force contracts through greater utilization of General Services Administration supply sources. Under current practices, the contractor is purchasing operating supplies from commercial sources at prices higher than the prices of comparable items available to Government users through General Services Administration supply sources. During the 3-year period 1960 through 1962, Martin-Marietta's procurements through commercial sources, rather than through General Services Administration sources, resulted in additional costs to the Government of over \$422,000 for selected items reviewed. The additional costs included in the contractor's total procurements of operating supplies, on the basis of the percentage disclosed by our review of the selected items, could amount to as much as \$1.6 million during the 3-year period.

For example, the contractor, during 1962, purchased large quantities of items such as floor preparation, file folders, and white bond paper at prices which exceeded the prices of comparable items available through General Services Administration supply sources by over \$15,000, \$5,000, and \$22,000, respectively. Inasmuch as over 99.9 percent of the work of the Denver Division of Martin-Marietta during the period of our review was performed for the Government, with over 99.4 percent having been performed under cost-reimbursement-type contracts, the Government bore the additional cost of operating supplies used by the contractor.

Furthermore, existing Department of Defense and General Services Administration procurement regulations do not provide for the use by the Denver Division of Martin-Marietta of General Services Administration sources for the consumable supplies discussed in this report because the contractor is also performing a minute amount of

commercial work and because the costs of such consumable supplies are not charged to Government contracts direct but are charged through the contractor's overhead.

After we brought this matter to the attention of the General Services Administration, that agency initiated a revision to the Federal Procurement Regulations which would permit Government contractors, under circumstances such as those discussed in this report, to utilize its supply sources.

This is the second report to the Congress concerning potential savings which could be achieved through the utilization of General Services Administration supply sources by Government contractors. In our earlier report entitled "Unnecessary Cost to the Government in the Leasing of Electrical Accounting Machines by General Dynamics/Astronautics, San Diego, California, and Lockheed Missiles and Space Company, Sunnyvale, California--Department of Defense" (B-146920, dated November 30, 1964), we pointed out that over \$78,000 annually could be saved at two defense contractor plants through the use of General Services Administration rental agreements for leasing electrical accounting machines.

We are reporting on this review because we believe that the principles discussed and the corrective measures we have proposed could significantly reduce Government costs under negotiated defense contracts. We are recommending to the Secretary of Defense that, in consonance with a similar review being made by the General Services Administration, he review the provisions of the Armed Services Procurement Regulation with the objective of providing a clear and unequivocal basis for the use of General Services Administration supply sources in the performance of Government work along the lines proposed by that agency.

We are recommending also to the Secretary of Defense that he require contract administrators to review existing defense contracts and incorporate the necessary contract provisions so as to permit the

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use of General Services Administration supply sources. We are further recommending to the Secretary of Defense that controls be established to assure that either General Services Administration supplies are utilized by defense contractors, where such use would result in significantly reduced costs of Government contracts, or the costs of operating supplies charged to Government contracts and reimbursed to the contractors be limited to the approximate costs which would be incurred if General Services Administration supply sources were utilized.

Copies of this report are being sent to the President of the United States, the Secretary of Defense, the Secretary of the Air Force, and the Administrator of General Services.

A handwritten signature in cursive script, appearing to read "Roger Campbell".

Comptroller General  
of the United States

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DEPARTMENT OF THE AIR FORCE

INTRODUCTION

The General Accounting Office, in connection with reviews of the utilization of General Services Administration (GSA) supply sources by defense contractors, has reviewed selected operating supply purchases by the Martin-Marietta Corporation, Denver Division, Denver, Colorado, (Martin-Denver). The purpose of our review was to inquire into whether additional costs were being incurred and charged to the Government because GSA supply sources were not utilized in performance of Government contracts.

Our review was made pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), the Accounting and Auditing Act of 1950 (31 U.S.C. 67), and the authority of the Comptroller General to examine contractors' records, as set forth in 10 U.S.C. 2313(b).

We reviewed the contractor's purchase orders covering about 18 percent of the cost of operating supplies charged to overhead accounts during the period 1960 through 1962, and we compared unit prices of the supplies with the prices of comparable items available from GSA supply sources during the same period. We did not attempt to determine whether these operating supplies were procured at the best possible commercial prices, nor did we attempt to

determine the necessity for and the reasonableness of the items and quantities procured. Also, we did not determine whether GSA had obtained the best possible prices for the Government for the type of supplies discussed in this report.

## BACKGROUND

The Martin-Denver plant of the Martin-Marietta Corporation was established in 1955 to develop and produce the TITAN intercontinental ballistic missile system for the Government. Martin-Denver has responsibility for research and development, test, and manufacture of the missiles. Since its inception, Martin-Denver's work has been performed almost exclusively under cost-reimbursement-type prime contracts with the Department of the Air Force.

During 1962, Martin-Denver incurred overhead costs of about \$93.5 million in the performance of its contracts, of which about \$9.3 million was identified as having been for "operating supplies and expense." Of the 1960 and 1961 overhead costs, which amounted to over \$174.3 million, approximately \$22.8 million was identified also as having been for "operating supplies and expense." Our review of Martin-Denver's cost records identified over \$11.3 million of these amounts as having been for operating supplies. These supplies--such as office, janitorial, reproduction, and drafting supplies--were obtained to a large extent from local vendors.

The cost of the above-mentioned supplies was borne almost entirely by the Government, inasmuch as over 99.4 percent of the contractor's sales during the period of our review were to the Government under cost-reimbursement-type contracts, over 0.5 percent were under Government fixed-price or time-and-materials contracts, and less than one tenth of 1 percent of total sales was not Government work. The percentage of cost-reimbursement sales to total sales has remained substantially the same since 1956. The supplies described above were consumable and were charged to overhead accounts, and the costs were distributed to the various Government contracts.



The GSA is responsible, among other things, for procuring personal property and nonpersonal services for the use of executive agencies of the Government, including the storage and distribution of such property, and for prescribing regulations applicable to the procurement and supply functions of such agencies. Policy and procedures for the use of GSA stores stock and Federal Supply Schedules as sources of supply by prime contractors performing under cost-reimbursement-type contracts are contained in subpart 1-5.9 of the Federal Procurement Regulations. The provisions have been in effect, with minor revision, since their initial incorporation on December 27, 1960. These regulations are not mandatory on the Department of Defense, the extent of their implementation being determinable by that Department.

The Department of Defense issues the Armed Services Procurement Regulation (ASPR) which applies to all purchases and contracts made by the Department of Defense for the procurement of supplies and services. Current provisions of the ASPR provide that prime contractors be authorized to utilize GSA supply sources in the performance of cost-reimbursement-type contracts, but do not provide that such authorization be granted to subcontractors or to prime contractors performing under fixed-price contracts. The ASPR provides also that authorization to utilize the GSA supply sources be granted only where title to property ordered through GSA sources will remain in the Government or will pass to and vest in the Government directly, rather than through the prime contractor. These provisions have existed, with minor revisions, since their initial incorporation into the ASPR on February 15, 1962.

Some common operating supplies of the type discussed in this report are procured by GSA and furnished to the various Government agencies and certain contractor activities through delivery from a

regional GSA supply depot or through direct delivery from the manufacturer who supplies the items to GSA. Prices charged for items obtained by agencies and activities utilizing the GSA depot supply system are listed in a Stores Stock Catalog which is issued periodically by GSA. The prices established cover the purchase cost of the item supplied, plus the costs of transportation and inventory losses. Other items of operating supplies are provided through the utilization of the GSA Federal Supply Schedules, which are indefinite-quantity term contracts under which the agencies and activities may place their orders directly with the GSA contractors.

The Department of the Air Force has responsibility for administration of the contracts at the Martin-Denver plant. Audit responsibility for contracts at Martin-Denver is vested in the Air Force Auditor General's representative located at the contractor's plant. A listing of principal management officials of the Departments of Defense and the Air Force responsible for administration of activities discussed in this report is shown as appendix I.

## FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

### POTENTIAL SAVINGS THROUGH PROCUREMENT OF OPERATING SUPPLIES FROM GENERAL SERVICES ADMINISTRATION SOURCES

Our review of the procurement of operating supplies by Martin-Denver has disclosed that substantial savings can be achieved in Government contract costs through greater utilization of GSA supply sources. Under current practices, the contractor is purchasing operating supplies from commercial sources at prices higher than the prices of comparable items available to Government users through GSA supply sources. During the 3-year period 1960 through 1962, Martin-Denver's procurements through commercial sources, rather than through GSA sources, resulted in additional costs to the Government of over \$422,000 for selected items reviewed. Additional costs included in the contractor's total procurements of operating supplies, on the basis of the percentage disclosed by our review of the selected items, could amount to as much as \$1.6 million during the 3-year period.

Inasmuch as over 99.9 percent of Martin-Denver's work during the period of our review was performed for the Government, with over 99.4 percent having been performed under cost-reimbursement-type contracts, the Government bore the additional cost of operating supplies used by the contractor. Furthermore, existing Department of Defense and GSA procurement regulations do not provide for the use by Martin-Denver of GSA sources for the consumable supplies discussed in this report because the contractor is also performing a minute amount of commercial work and because the costs of such consumable supplies are not charged to Government contracts direct but are charged through the contractor's overhead. After we brought this matter to the attention of the GSA, that agency

initiated a revision to the Federal Procurement Regulations (FPR) which would permit Government contractors, under circumstances such as those discussed in this report, to utilize its supply sources.

Examples of items on which significant savings could have been made in 1962 procurements follow, and a tabulation of items for which additional costs were over \$1,000 during 1962 is shown in appendix II.

1. Binder, three-ring

Martin-Denver purchased 10,238 of these binders during 1962 for \$1.40, \$1.1875, and \$1.32 each, or a total of \$13,508. The equivalent binder was listed in the GSA Stores Stock Catalog during 1962 at \$0.74 and \$0.77 each.<sup>1</sup> The difference between Martin-Denver's cost and GSA's price for this item amounted to \$5,743. (Item 2 in appendix II.)

2. Floor preparation

Martin-Denver purchased 10,736 gallons of floor preparation during 1962 at a unit price of \$3.05, or a total cost of \$32,745. The GSA Stores Stock Catalog contained a similar item at \$1.90 and \$1.20 per gallon. The excess of Martin-Denver's cost over GSA prices for the 10,736 gallons amounted to \$15,149. (Item 9 in appendix II.)

3. File folder

During the year 1962, Martin-Denver purchased 39,617 of these folders for \$0.20, \$0.22, and \$0.26 each, or a total of \$9,145. A similar item in GSA's Stores Stock Catalog was listed at \$0.096 and \$0.1015 during the same period. The total cost of the folders at GSA's prices would have been \$3,851. The difference between GSA's price and Martin-Denver's cost was \$5,294. (Item 12 in appendix II.)

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<sup>1</sup>Two GSA prices are the result of republication, with new prices, of the GSA Stores Stock Catalog during calendar year 1962.

4. White bond paper, 8-1/2 inches by 11 inches

Martin-Denver procured 80,920 reams of this paper during the year at a price per ream of \$0.94. The similar paper available from GSA sources was listed in the Stores Stock Catalog at \$0.61 and \$0.71 per ream. Had this paper been purchased through GSA, the cost could have been \$53,404 compared with Martin-Denver's cost of \$76,065, or a savings of \$22,661. (Item 17 in appendix II.)

5. Pocket file

Martin-Denver bought 48,350 of these files at unit prices of \$0.21 and \$0.198 each during 1962. A similar item was listed in the GSA Stores Stock Catalog at \$0.12 each during the same period. The total price difference for these files amounted to \$4,020. (Item 28 in appendix II.)

6. Paper towels

The GSA Stores Stock Catalog listed this item at \$3.87 and \$4.75 per carton of 3,750 towels while Martin-Denver was paying \$6.95 and \$6.57 each for the same size carton. The price difference on Martin-Denver's 1962 purchases of 3,385 cartons compared with GSA's price was \$8,147. (Item 39 in appendix II.)

The following schedule summarizes the contractor's cost of operating supplies procured, the cost of supplies reviewed, and the additional costs to the Government on items available from GSA at less cost, as disclosed by our review of the selected procurements for the 3 years 1960 through 1962.

<u>Year</u>	<u>Cost of supplies procured</u>	<u>Cost of supplies reviewed</u>	<u>Cost of supplies available from GSA at less cost</u>	<u>Additional costs</u>	<u>Percent of additional costs</u>
1962	\$ 3,670,916	\$1,246,659	\$ 679,385	\$218,150	32.1
1961	4,739,047	459,548	453,297	156,064	34.4
1960	<u>2,963,376</u>	<u>377,122</u>	<u>280,884</u>	<u>110,209</u>	<u>39.2</u>
Total	<u>\$11,373,339</u>	<u>\$2,083,329</u>	<u>\$1,413,566</u>	<u>484,423</u>	<u>34.3</u>

Less estimated increase in GSA costs if it had handled the contractor's operating supplies

62,000

Net additional cost to the Government

\$422,423

Our estimate of the increase in GSA operating costs which would have resulted from handling the contractor's procurements through the GSA supply distribution system is derived from the ratio of total GSA operating costs to total sales volume, as reported by GSA officials during appropriations hearings before a subcommittee of the Committee on Appropriations, House of Representatives, Eighty-eighth Congress, second session, in March 1964. This estimate of \$62,000--or 7.5 percent of the dollar value of the contractor's procurements of those items available through GSA stores stock depots at lower prices--consists primarily of procurement and supply distribution costs.

#### 1962 procurements

Martin-Denver purchased operating supplies under blanket purchase-order contracts and under individual purchase orders. In our review of 1962 procurements, we examined into purchases under all major blanket purchase orders for operating supplies and some selected individual purchase orders. We compared the items

purchased by Martin-Denver with items available from GSA supply sources and, where comparable items were available through GSA sources at lower prices, determined the savings possible had GSA supply sources been used.

Martin-Denver's cost records showed that procurements of overhead supplies during 1962 totaled about \$3,671,000. Our review included supplies costing over \$1,246,000, or about 34 percent of this total. The items reviewed included several types of supplies, as shown in the following summary.

Contractor's supply category	Total cost of 1962 purchases	Cost of purchases reviewed		Number of comparable items available through GSA	Available from GSA at less cost	
		Amount	Number of items		Addi- tional cost	Number of items
Clerical and of- fice	\$1,055,004	\$ 380,758	260	195	\$ 87,060	184
Reproduction	1,603,616	691,292	156	65	77,896	61
Janitorial and factory	680,109	29,732	51	35	5,894	24
Other (note a)	<u>332,187</u>	<u>144,877</u>	<u>73</u>	<u>45</u>	<u>47,300</u>	<u>43</u>
Total	<u>\$3,670,916</u>	<u>\$1,246,659</u>	<u>540</u>	<u>340</u>	<u>218,150</u>	<u>312<sup>b</sup></u>
Less estimated increase in GSA operating costs if it had handled the contractor's operating supplies					<u>27,000</u>	
Net additional cost to the Government of 1962 procurement					<u>\$191,150</u>	

<sup>a</sup>Includes paper towels, tapes, and other miscellaneous items.

<sup>b</sup>Of this total, 39 items on which we found additional costs of more than \$1,000 are listed in appendix II.

1960 and 1961 procurements

As shown above, our limited review of 1962 procurements identified 340 items comparable to GSA items; and of the 340 items, we found 312 items for which Martin-Denver paid prices in excess of those being charged by GSA. From this group of items, we selected 34 items, which accounted for about \$139,000 of the \$218,150 of additional costs during 1962, to test the extent of price differences in 1960 and 1961. As indicated on page 9, the additional costs disclosed by our review of these items amounted to over \$110,000 in 1960 and over \$156,000 in 1961.



### Availability of supplies from the GSA

Subpart 1-5.9 of the FPR prescribes policies and procedures for the guidance of Government agencies in authorizing the use of GSA supply sources by prime contractors performing under cost-reimbursement-type contracts. Current regulations specifically preclude the use of GSA supply sources by prime contractors performing under fixed-price contracts and do not provide for their use by subcontractors. Further the regulations limit the use of GSA supplies to those instances where title to property ordered through GSA sources will remain in the Government or pass to and vest in the Government direct, rather than through the prime contractor.

The ASPR is issued by the Department of Defense and establishes, for that Department, uniform policies and procedures relating to the procurement of supplies and services. Current provisions of the ASPR permit contracting officers to authorize prime contractors performing under cost-reimbursement-type contracts to utilize GSA supply sources, but the regulation contains restrictions similar to those in the FPR regarding the passing of title, use by subcontractors, and use by contractors performing under fixed-price contracts.

The authorization for contractors performing under cost-reimbursement-type contracts to utilize GSA supply sources has been included in the FPR since December 1960; and a similar authorization was incorporated into the ASPR in February 1962. Prior to this date, ASPR was silent on the use of GSA by prime contractors; however, GSA supply sources had been made available to qualified contractors performing under military cost-reimbursement-type contracts under local arrangements.

At Martin-Denver, during the period covered by this review, over 99.4 percent of its work was performed under cost-reimbursement-type contracts with less than one tenth of 1 percent of total sales not identified as being under some form of Government contract. Thus because the ASPR limits the use of GSA supply sources to contractors performing under cost-reimbursement-type contracts and because Martin-Denver has a minute amount of other work, revision to the ASPR would be technically necessary before Martin-Denver could be authorized unrestricted use of GSA-source supplies throughout its plant.

In addition, the use of GSA supply sources is currently limited to conditions involving direct passage of title. In an effort to clarify the question of title to indirect-charge items, legal opinions were sought by local Air Force contracting officials and ultimately reached The Staff Judge Advocate, Air Materiel Command, now the Air Force Logistics Command. That office concluded, in October 1958, that "\*\*\* as a general proposition the Government does not take legal title to items for which the cost is properly charged to the overhead account."

#### Contractor comments

The contractor submitted comments on our findings by letter dated June 8, 1964. The contractor stated that, under the provisions of the ASPR, it could utilize GSA supply sources only where title to the property vested in the Government. The contractor further stated that, since the Air Force had advised it that the Government did not take legal title to operating supplies properly charged to overhead, procurements had been made in the open competitive market from the lowest responsible bidder.

### Agency comments

The GSA, by letter dated June 16, 1964, furnished us comments on our findings. We were referred to a previous reply, dated April 29, 1964, to our draft of a similar report in which the Administrator of General Services had stated that our report emphasized the need for an immediate study of the whole matter of Government support to contractors performing under cost-reimbursement-type contracts. A GSA task force was established to review the area and recommend appropriate new or revised policies, regulations, and procedures.

By letter dated August 11, 1964, we were advised of the results of the GSA task force study. In summary, the task force concluded that the present title-vesting requirement and limitation to contractors performing under cost-reimbursement-type prime contracts were not legally necessary. It further concluded that, where an executive agency chose to work through a contractor, supplies or services made available by GSA to a contractor were deemed to be for the use of the agency if (1) property so obtained by the contractor was used wholly or substantially in Government work and (2) the savings from such use were passed on to the Government. On the basis of these determinations, the task force recommended that subpart 1-5.9 of the FPR be revised.

The GSA, by letter dated August 14, 1964, forwarded for our review and comment its proposed revision to subpart 1-5.9 of the FPR. The proposed revision would make both subcontractors and prime contractors performing under fixed-price contracts, where specific elements of price have been the subject of negotiation, eligible to utilize GSA supply sources. Where properly authorized by a contracting Government agency, contractors would be eligible

to obtain any property (including the overhead and expendable items discussed in this report) from GSA supply sources. Such authorization would be made where property so obtained is used wholly or substantially in the performance of Government contracts and when the Government will receive all or a substantial portion of the monetary benefits to be derived from the use of GSA supply sources. Substantial use is defined, with respect to purchase or lease of equipment, as over 75 percent of the expected use.

The proposed revision also provides that, where authorization has been given to contractors to obtain specified property from GSA sources, reimbursement of costs to the contractor be limited to the approximate GSA-source price for such property, regardless of the source from which the property was obtained.

By letter dated August 14, 1964 (see appendix III), the Assistant Deputy for Procurement Management, Office of the Secretary of the Air Force, submitted comment on our findings. We were advised that the Air Force position was the same as that outlined by the Deputy Assistant Secretary of Defense (Procurement) in a letter dated July 15, 1964, which was previously submitted in response to our earlier draft of a similar report. In the earlier draft report, we had proposed with respect to office furniture, as we are now proposing with respect to operating supplies, that the costs of those items charged to Government contracts and reimbursed to the contractor be limited to those costs which would be incurred if GSA procurement sources were utilized. The Department of Defense disagreed with our proposal and stated that further consideration should be given to the following factors.

Under present Defense Department policy, contracting officers may require the use of GSA schedules by defense contractors with respect to items which are charged directly to the

contract and which, under the terms of the contract, become the property of the Government. The Department believes that it would be clearly inappropriate, however, for the Government to impose such a requirement with respect to any item that a contractor buys for itself and not for the Government and which never becomes a direct charge against the contract.

With respect to such items which become the contractor's property, the judgment is, and should continue to be, the contractor's and it should not be arbitrarily dictated by what the Government has decided under GSA schedules to buy for itself.

The recommendation that the allowable cost of operating supplies charged to Government contracts be limited to the amount which would be incurred if GSA procurement sources were utilized would in effect make it mandatory for contractors to buy from GSA supply sources or be penalized for not doing so. This recommendation would interfere with the judgment of the contractors, who have the primary responsibility for determining what supplies are best suited to their current and future requirements.

In a contractor operation such as Martin-Denver, the Government is virtually the only customer which the contractor has and bears essentially all of the contractor's costs. We believe that, in such cases, the Government's interest requires that the accounting treatment accorded an item of supply consumed by the contractor should not be a factor in the determination of whether it should or should not be obtained from Government supply sources. The effect on Government contract costs is the same whether the item is charged direct to Government contracts or through the distribution of overhead costs. Further, we do not believe that the presence of a minute amount of commercial work--a situation entirely within a contractor's power to create--should be interpreted to preclude a contractor from utilizing GSA supply sources.

Although a contractor does have the primary responsibility for administration of its contracts, the requirements of a contractor such as Martin-Denver are directly related to the requirements of the Government. We see no reason why the general-use, consumable items of supply discussed in this report, which have been found suitable for use throughout the Government, would be less suitable for the contractor's operation. Under circumstances in which the Government is bearing essentially the total cost of a contractor's supplies, we believe that it is evident that Government procurement officials have not only a right but also an obligation to be vitally concerned with any means of effectively reducing these costs and that this decision should not be left entirely to the contractor.

The Deputy Assistant Secretary of Defense contended that the contractor would be limited to mandatory use of GSA sources or would be penalized for not doing so. Contrary to this contention, the contractor would continue to use commercial sources for items not handled by GSA and could use commercial sources for those GSA-type items available at prices approximating GSA prices. For example, of 340 items examined for which we found a comparable item available through GSA, 312 were available through GSA at less cost (see p. 10), but the contractor's procurement prices for the other 28 items, with 1962 purchases amounting to about \$114,000, were equal to or less than GSA prices. Furthermore, for the 200 other items included in our examination, which had a 1962 Martin-Denver purchase cost of about \$453,400, we found no comparable GSA counterparts.

Should a contractor, for reasons of its own, elect to obtain its supplies through commercial sources at prices significantly

higher than those prices available to it from GSA sources, the Government's interest seems to require that reimbursable costs to the contractor be limited to the costs which would be incurred if GSA supply sources were utilized.

#### Conclusions and recommendations

Many types of operating supplies purchased by Martin-Denver have been purchased at considerably higher prices than similar items available to Government users from GSA supply sources. Our review of selected items of operating supplies used by the contractor disclosed additional costs of over \$422,000 during a 3-year period; however, we believe that substantially greater additional costs were incurred than were disclosed by our selective review and that these costs could have amounted to as much as \$1.6 million during the 3-year period.

After we brought this matter to the attention of the GSA, that agency initiated a revision to the FPR which would permit Government contractors, under circumstances such as those discussed in this report, to utilize GSA supply sources.

The Department of Defense, however, does not agree with our conclusion. We believe that the intent of the ASPR--to make GSA sources of supply available to Government contractors performing under cost-reimbursement-type contracts--should not be obstructed by such a technicality as a minute amount of other work performed by the contractor. In the case of Martin-Denver, the contractor was denied use of GSA supply sources because, while it had a predominance of work performed for the Government under cost-reimbursement-type contracts, it had also a minor portion of work performed under other forms of Government contracts. We see no valid reason for restricting the use of GSA equipment and supplies

to contractors engaged exclusively in performing under cost-reimbursement-type contracts.

We believe also that the Government should receive the benefits of GSA supply sources under other forms of negotiated contracts, the prices of which are generally based upon the contractors' actual or estimated costs of performance. Since the items under discussion are consumed in performance of the contracts, any small residual inventories on hand could be appropriately disposed of in the event that a contractor's major involvement in Government work ceased.

We recommend therefore to the Secretary of Defense that, in consonance with the similar review being made by GSA, he review the provisions of ASPR with the objective of providing a clear and unequivocal basis for the use of GSA supply sources in the performance of Government work along the lines proposed by that agency. We recommend also to the Secretary of Defense that he require contract administrators to review existing defense contracts and incorporate the necessary contract provisions so as to permit the use of GSA supply sources. We further recommend to the Secretary of Defense that controls be established to assure that either GSA supplies are utilized by defense contractors, where such use would result in significantly reduced costs of Government contracts, or the costs of operating supplies charged to Government contracts and reimbursed to the contractors be limited to the approximate costs which would be incurred if GSA supply sources were utilized.



APPENDIXES

PRINCIPAL MANAGEMENT OFFICIALS  
OF  
THE DEPARTMENTS OF DEFENSE AND THE AIR FORCE  
RESPONSIBLE FOR ADMINISTRATION OF ACTIVITIES  
DISCUSSED IN THIS REPORT

<u>Tenure of office</u>	
<u>From</u>	<u>To</u>

DEPARTMENT OF DEFENSE

SECRETARY OF DEFENSE:

Robert S. McNamara	Jan. 1961	Present
Thomas S. Gates, Jr.	Dec. 1959	Jan. 1961

ASSISTANT SECRETARY OF DEFENSE (INSTALLATIONS AND LOGISTICS) (formerly Supply and Logistics):

Paul R. Ignatius	Dec. 1964	Present
Thomas D. Morris	Jan. 1961	Dec. 1964
E. Perkins McGuire	Dec. 1956	Jan. 1961

DEPARTMENT OF THE AIR FORCE

SECRETARY OF THE AIR FORCE:

Eugene M. Zuckert	Jan. 1961	Present
Dudley C. Sharp	Dec. 1959	Jan. 1961

ASSISTANT SECRETARY OF THE AIR FORCE (INSTALLATIONS AND LOGISTICS) (formerly Materiel):

Robert H. Charles	Nov. 1963	Present
Joseph S. Imirie	Apr. 1961	Sept. 1963
Philip B. Taylor	Apr. 1959	Feb. 1961

COMMANDER, AIR FORCE LOGISTICS COMMAND  
(created April 1961, formerly Air Materiel Command):

Gen. Mark E. Bradley	July 1962	Present
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PRINCIPAL MANAGEMENT OFFICIALS  
OF  
THE DEPARTMENTS OF DEFENSE AND THE AIR FORCE  
RESPONSIBLE FOR ADMINISTRATION OF ACTIVITIES  
DISCUSSED IN THIS REPORT (continued)

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
<u>DEPARTMENT OF THE AIR FORCE (continued)</u>		
COMMANDER, AIR FORCE LOGISTICS COMMAND (created April 1961, formerly Air Materiel Command) (continued):		
Gen. William F. McKee	Aug. 1961	June 1962
Gen. Samuel E. Anderson	Mar. 1959	July 1961
COMMANDER, AIR FORCE SYSTEMS COMMAND (created April 1961):		
Gen. Bernard A. Schriever	Apr. 1961	Present

ITEMS PURCHASED IN 1962 HAVING ADDITIONAL  
COSTS OF OVER \$1,000

<u>Item description</u>	<u>Unit</u>	<u>Martin-Denver code number</u>	<u>Federal stock number</u>	<u>Quantity purchased</u>	<u>Martin-Denver costs</u>	<u>GSA selling price</u>	<u>Additional cost</u>
1. Binder	Each	07-0039-00	7510-188-6945	7,304	\$ 7,208	\$ 3,336	\$ 3,872
2. Binder	"	07-0041-00	7510-188-6955	10,238	13,508	7,765	5,743
3. Binder	"	07-0041-10	7510-582-4201	13,875	3,094	1,941	1,153
4. Carbon paper	Box	None	7530-285-2841	3,325	3,491	1,866	1,625
5. Carbon ribbon	Each	None	7510-285-2956	2,036	2,036	973	1,063
6. Disinfectant	Gal.	None	6840-526-1129	2,145	6,328	3,528	2,800
7. Film	Box	None	None <sup>a</sup>	379	26,026	19,659	6,367
8. Film	"	None	None <sup>a</sup>	655	38,072	30,845	7,227
9. Floor preparation	Gal.	None	7930-753-5283	10,736	32,745	17,596	15,149
10. Folder	Each	07-0178-00	7530-281-5968	31,650	2,951	1,321	1,630
11. Folder	M	07-0176-00	7530-282-2507	613.5	11,087	6,263	4,824
12. Folder	Each	07-0177-00	7530-286-6923	39,617	9,145	3,851	5,294
13. Furniture polish	Case	None	7930-205-2875	227	3,144	1,362	1,782
14. Master duplicator	Box	None	7530-286-1704	2,750	6,160	4,455	1,705
15. Pad, writing	Pad	07-0428-00	7530-286-6173	57,114	6,701	4,728	1,973
16. Paper	Ream	07-0489-00	7530-240-4768	44,600	40,586	30,182	10,404
17. Paper	"	07-0512-00	7530-290-0617	80,920	76,065	53,404	22,661
18. Paper	"	07-0516-00	7530-290-0621	3,414	12,051	9,025	3,026
19. Paper	"	07-0498-00	7530-550-7166	2,630	3,244	1,608	1,636
20. Paper	"	07-0505-00	7530-205-4131	4,620	3,557	2,500	1,057
21. Paper	"	07-0567-00	9310-555-1165	32,220	38,664	26,665	11,999
22. Paper	"	07-0516-30	None <sup>a</sup>	5,686	19,901	13,947	5,954
23. Paper	M	06-3729-04	None <sup>a</sup>	102	4,002	2,603	1,399
24. Paper	Ream	07-0707-00	None <sup>a</sup>	6,118	16,290	12,420	3,870
25. Pen	Each	07-0609-00	7520-298-7045	35,342	6,008	1,297	4,711
26. Pencil linen	Roll	07-0101-00	7510-257-3446	184	5,062	3,212	1,850
27. Pencil	Gross	07-0572-00	7510-286-5750	1,229	4,443	2,879	1,564
28. Pocket file	Each	07-0601-00	7530-285-2913	48,350	9,822	5,802	4,020
29. Ribbon	"	None	7510-865-4204	217	4,069	2,521	1,548
30. Seal and varnish stripper	Gal.	None	7930-664-7051	1,852.8	7,188	1,018	6,170
31. Stapler	Each	07-0793-00	7520-281-5895	2,107	5,717	2,690	3,027
32. Tape	Roll	05-7319-12	5970-644-3169	1,781	1,692	381	1,311
33. Tape	"	05-7326-00	7510-266-6710	7,608	5,855	4,695	1,160
34. Tape	"	07-0918-00	7510-551-9821	7,980	3,272	1,117	2,155
35. Tape	"	07-0924-00	7510-551-9825	13,542	12,787	10,406	2,381
36. Tape	"	05-5806-00	8135-663-0196	2,908	5,993	4,598	1,395
37. Tape	"	05-5853-00	8135-663-3738	4,087	12,723	9,615	3,108
38. Tape	"	05-7918-00	8135-802-8311	1,934	2,811	1,505	1,306
39. Towels, paper	Case	08-7314-00	8540-291-0392	3,385	22,743	14,596	8,147
Total					<u>\$496,241</u>	<u>\$328,175</u>	<u>168,066</u>
Additional cost of the other 273 items available for GSA at less cost							<u>50,084</u>
Total additional cost of 1962 procurements reviewed							218,150
Estimated increase in GSA operating costs							<u>27,000</u>
Net additional cost to the Government							<u>\$191,150</u>

<sup>a</sup> Available under GSA Federal Supply Schedule contracts

OFFICE OF THE SECRETARY

14 AUG 1964

Dear Mr. Hammond:

This reply is in behalf of the Secretary of Defense in response to your letter of May 20, 1964, transmitting copies of the draft of your report on "Excessive Costs in Procurement of Operating Supplies by Martin-Marietta Corporation, Denver Division". (OSD Case No. 2022)

Your report alleges that the Government incurred excessive costs of at least \$484,000 during the three-year period 1960-62 because Martin-Denver purchased certain operating supplies from commercial sources at prices higher than prices of comparable items available from manufacturers who supply such items to the General Services Administration.

You make two recommendations: (1) that the Department of Defense identify sources for direct procurement of such operating supplies, and that contractors and contracting officials be made aware of such sources, and (2) that the allowable cost of operating supplies charged to Government contracts be limited to the amount which would be incurred if GSA procurement sources were utilized.

We have recently reviewed Air Force policies on the use of GSA schedules by defense contractors. Our conclusions, together with the conclusions of the Department of Defense, were reported to you in our response to your draft report on procurement of office furniture by Lockheed Missile and Space Company (OSD Case No. 1985). As we noted then, we agree in general with the first of your recommendations but disagree with the second.

We refer you to the letter of the Deputy Assistant Secretary of Defense (Procurement), together with its attachments, for a full exposition of reasons for our position. We noted, in summary, that the first recommendation might provide useful information and guidance to defense contractors. The second, however, would interfere with the judgment of the contractor, who has the primary responsibility for determining what supplies and equipment are best suited to his current and future requirements.

Although the Lockheed case was concerned with furniture rather than office supplies, we are of the opinion that the reasoning behind our position in that case is equally applicable to the procurement of all items that the contractor buys for himself and not directly for the Government.

We appreciate the opportunity to comment on the draft of your report.

Sincerely,



**DALE R. BABIONE**  
**Assistant Deputy for**  
**Procurement Management**

Mr. James H. Hammond  
Associate Director  
Defense Accounting and Auditing Division  
United States General Accounting Office