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COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON, D.C. 20548

RELEASED

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The Honorable Ted Stevens  
United States Senate

74-0432

Dear Senator Stevens:

In your letter of July 24, 1973, you requested us to investigate the practices and procedures surrounding the awarding of contracts to out-of-State suppliers by the Alaskan Exchange System of the Army and Air Force Exchange Service. Your request was prompted by rumors in the Alaskan community of irregularities in the award of contracts for post exchange goods. You indicated that a downward trend had developed in awarding contracts to Alaskan suppliers, and you cited as an example of possible irregularities the awarding of a contract for shotguns, rifles, and ammunition for which the low bidder, an Alaskan firm, was not awarded the contract.

You also requested us to provide information on

- whether centralized procurement from non-Alaskan sources had resulted in increased prices to military consumers or less valuable merchandise for the same prices as those offered by Alaskan suppliers and
- whether contract bids by non-Alaskan firms included transportation costs from the lower 48 States to Alaska or whether the U.S. Government absorbed those costs by using military transportation.

Our investigation at Exchange Service headquarters and at offices of the Alaskan Exchange System did not identify any substantive irregularities in the contracting procedures of the Alaskan Exchange System. We found that

- Alaskan suppliers are reported to be receiving a larger share of exchange business,
- there were no apparent irregularities in the awarding of the contract in question,

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--central purchasing appears advantageous to customers, and

--the Government bears some of the transportation costs of goods purchased from non-Alaskan firms.

### BACKGROUND

The Exchange Service is a multimillion dollar worldwide retail merchandising organization. It operates stores in five continental United States (CONUS) regions, three overseas systems (European, Pacific, and Alaskan), and six off-shore exchanges (Azores, Brazil, Canada, Canal Zone, Greenland, and Puerto Rico).

Gross sales for fiscal year 1973 exceeded \$2 billion. Goods procured amounted to over \$1.6 billion, of which about \$29.1 million was procured for sale in the Alaskan Exchange System.

Procurement is accomplished by (1) Exchange Service headquarters or (2) overseas exchanges, through contracts negotiated under authority delegated by Exchange Service headquarters. Purchase of items from local Alaskan sources is authorized by the headquarters on an individual basis. These purchases are based on a comparison of CONUS and Alaskan prices, with due consideration for differences in services that may be involved.

To enhance the local procurement program, the Exchange Service publishes and distributes a market letter to prospective suppliers, and the Alaskan Exchange System publishes and distributes a booklet containing information of interest to Alaskan suppliers. The information booklet, available to all prospective suppliers, explains in detail what a solicitation is and how it is processed, how a vendor can get on a source list, what the requirements are, and how offerors are notified. P. 2281

### ALASKAN SUPPLIERS RECEIVING A LARGER SHARE OF EXCHANGE BUSINESS

The following table, prepared from data supplied by the finance and accounting office of the Alaskan Exchange System,

shows that retail item procurement from Alaskan suppliers increased from 30 percent in fiscal year 1972 to 39 percent for the first 5 months of fiscal year 1974<sup>1</sup> and that local food procurement increased from 82 percent to 86 percent. Vending operations, the smallest dollar category, showed the only decrease. The table also shows that 100 percent of all service and concession contracts have been awarded to local suppliers.

	Fiscal year 1972				Fiscal year 1973			
	Alaskan vendors		CONUS vendors		Alaskan vendors		CONUS vendors	
	Amount (note a)	Per- cent						
Retail	\$6,141	30	\$14,606	70	\$9,617	39	\$14,931	61
Food	871	82	196	18	763	80	195	20
Services	1,546	100	-	-	1,691	100	-	-
Vending	122	85	22	15	83	50	84	50
Conces- sions	3,451	100	-	-	3,226	100	-	-

	Fiscal year 1974 (5 months)			
	Alaskan vendors		CONUS vendors	
	Amount (note a)	Percent	Amount (note a)	Percent
Retail	\$3,539	39	\$5,599	61
Food	299	86	48	14
Services	775	100	-	-
Vending	35	56	27	44
Concessions	1,167	100	-	-

<sup>a</sup>Amounts shown are in thousands of dollars.

The Alaskan Exchange System is also authorized to locally procure merchandise native to Alaska, in accordance with Exchange Service Manual 65-1. Records show, however, that such procurement is very limited. For example, out of 190 contracts in effect on July 6, 1973, which the System had negotiated with local suppliers, only 27 contracts involved goods manufactured or processed in Alaska and 4 involved services,

<sup>1</sup>Fiscal year 1974 started Jan. 26, 1973.

such as watch and furniture repair. The remaining contracts were negotiated with distributors representing vendors in the lower 48 States.

The reason for this limited native item procurement probably can be attributed to the relatively small population of Alaska and the fact that very few persons are employed in manufacturing. For example, as of July 1, 1973, Alaska's total population was about 334,400 and the total civilian workforce was about 135,900. Of this workforce, only about 8,300 were employed in manufacturing and only about 2,600 of these were employed in other than canning or wood products manufacturing.

NO APPARENT IRREGULARITY IN  
AWARD OF CONTRACT IN QUESTION

2 Your letter referred to a 1973 procurement of rifles, shotguns, and ammunition for which the low bidder, an Alaskan firm, was not awarded the contract. Your office later said that the alleged low bidder was the V.F. Grace Company. 2187

We could not find where the Grace Company had bid on a contract for rifles, shotguns, and ammunition. We did, however, find that they had been unsuccessful in their bid to supply certain hunting and camping equipment under contract ALEX 1-73-8, dated June 1, 1973. Washington Hardware, an Alaskan firm, was the successful bidder because it bid on all 350 items, as required by the solicitation, and the Grace Company failed to bid on 107 items. Of the 243 items bid by the Grace Company

--103 were bid at the same price as Washington Hardware,

--60 were bid higher by \$1,622.15, and

--80 were bid lower by \$1,542.45.

Washington Hardware bid lower by \$79.70 on the 243 items bid by Grace Company.

Rifles, shotguns, pistols, gun accessories, and ammunition are all procured under indefinite quantity, indefinite delivery price offers tendered by vendors to Exchange Service headquarters. No manufacturer, supplier, or vendor has an exclusive contract for firearms and accessories. These are purchased from manufacturers in the lower 48 States on an historical demand basis as dictated by Alaskan Exchange System customers. In fiscal year 1973 about \$475,000 in firearms and accessories were purchased for the Alaskan Exchange System. In the first 6 months of fiscal year 1974, about \$230,000 in firearms and accessories were purchased. The suppliers were Armalite, Browning, Colt Industries, Crossman, Daisy, Ithaca, Lester D. Lawson, Remington, Savage, Smith & Wesson, Sturm-Ruger, and Winchester.

Ammunition, on the other hand, has been procured since fiscal year 1972 under contract with either Remington or Winchester, whichever offered the lower bid. There was no record in the contract files to show that any Alaskan distributor or supplier had bid to supply the ammunition. In the first 6 months of fiscal year 1974, about \$71,000 in ammunition was purchased from Winchester.

CENTRALIZED PROCUREMENT APPEARS  
ADVANTAGEOUS TO CUSTOMERS

We found no indication that centralized procurement had resulted in higher prices or in lower quality merchandise being offered to Alaskan customers.

As discussed earlier, the primary procurement source for the Alaskan Exchange System is through Exchange Service headquarters. However the Alaskan Exchange System can buy from Alaskan vendors when such vendors offer prices equal to or better than those offered through headquarters. Therefore, since the procurement source used is the one offering the lower delivered price, centralized procurement should not result in higher prices to exchange customers.

We found indications that centralized procurement was advantageous to exchange customers. For example, in April

1973 the Exchange Service reported to the Chairman, House Committee on Armed Services, that procurement of only a few selected items under a consolidated concept had saved it \$14 million in fiscal year 1973. Of this amount, \$12 million was passed on as savings to authorized customers.

The procurement procedures should also preclude lower quality merchandise from being offered to Alaskan customers. Customer demand and the desire of the Alaskan Exchange System to offer readily salable items are the criteria which dictate the merchandise to be offered. Any reduction in the quality or value of items offered for sale would seem to mitigate against meeting these criteria.

GOVERNMENT BEARS SOME TRANSPORTATION COSTS  
FOR GOODS PROCURED FROM CONUS SUPPLIERS

Most goods procured for the Alaskan Exchange System from vendors in the lower 48 States are shipped from the vendors to either the port of Seattle or McChord Air Force Base. The cost of this transportation is borne by the Exchange Service either directly or in the cost of the goods.

From these points the goods enter the Defense Transportation System. The Military Sealift Command provides ocean transportation from the port of Seattle and the Military Airlift Command provides air transportation from McChord Air Force Base. The Exchange Service is not required to reimburse the Department of Defense for this ocean and air transportation. The U.S. Government bears this part of the transportation costs.

In contrast, Alaskan suppliers are not authorized to use the Defense Transportation System. They must pay all transportation costs to Alaska, which could place them at a competitive disadvantage.

We called the use of Government transportation facilities by the Exchange Service to the attention of the Congress in a

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report entitled "Should Appropriated Funds Be Used For Transportation Procured Specifically For Armed Forces Exchange Goods?" (B-169972, Aug. 6, 1973), a copy of which is enclosed.

We trust this information is satisfactory. We plan to make no further distribution of this report unless you agree or publicly announce its contents.

Sincerely yours,

A handwritten signature in cursive script, reading "James B. Axtell".

Comptroller General  
of the United States

Enclosure