Audit Report

OFFICE OF THE INSPECTOR GENERAL

CONTRACTORS' USE OF FEDERAL SUPPLY SCHEDULES

Report Number 91-100 June 19, 1991

Department of Defense

The following acronyms are used in this report.

AMCCOM ..... Armament, Munitions and Chemical Command
CECOM ..... U.S. Army Communications and Electronics Command
COMM .....,.. Commercial
DFARS ..... DoD FAR Supplement
ESD/HANSCOM .. Electronic Systems Division/Hanscom Air Force Base
FAR .....,..... Federal Acquisition Regulation
FFRDC ..... Federally Funded Research and Development Center
GOCO ..... Government-owned/contractor-operated
GSA ..... General Services Administration
NAVSEA ..... Naval Sea Systems Command

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ARLINGTON, VIRGINIA 22202-2884

June 19, 1991

MEMORANDUM FOR ASSISTANT SECRETARY OF DEFENSE (PRODUCTION AND LOGISTICS)
DIRECTOR OF DEFENSE PROCUREMENT

SUBJECT: Audit Report on Contractors' Use of Federal Supply Schedules (Report No. 91-100)

We are providing this final report for your information and use. Comments on a draft of this report were considered in preparing the final report. The Contract Management Directorate performed the audit from April to November 1990. The audit objectives were to determine the extent that contractors used Federal Supply Schedules for goods and services charged to Government contracts, the amount of savings that DoD could realize through greater contractor use of the supply schedules, and the effectiveness of internal controls over contractors' use of the Federal Supply Schedules. In response to a cost savings suggestion by a DoD civilian employee and to an inquiry by Representative John G. Rowland, we applied these same objectives to contractors' use of the General Services Administration's contract for express delivery of small packages.

The audit showed that DoD contractors holding cost-reimbursable contracts made limited numbers of purchases from the Federal Supply Schedule Program. It also showed that contractors were not using the Express Small Package Service Contract. This occurred because the contractors were unaware of these General Services Administration programs. As a result, DoD was denied opportunities for obtaining lower costs associated with cost-reimbursable contracting. During the audit, personnel from the Office of the Deputy Assistant Secretary of Defense (Logistics), and the General Services Administration initiated action to develop a marketing strategy directed at DoD contracting officers and contractors who engage in cost-reimbursable contracts, and to inform them of the GSA supply and service programs available for their use.

Comments on a draft of this report conformed to the requirements of DoD Directive 7650.3 and there are no unresolved issues. Therefore, no additional comments are required.

The cooperation and courtesies extended to the audit staff are appreciated. If you desire to discuss this final report, please contact Mr. Salvatore D. Guli, Program Director at (703) 614-6285 (DSN 224-6285) or Ms. Sandra L. Fissel, Project Manager at (703) 693-0595 (DSN 223-0595). Copies of the final report will be distributed to the activities listed in Appendix H.

Robert J. Lieberman
Assistant Inspector General
for Auditing

cc:
Deputy Assistant Secretary of Defense (Logistics)

Office of the Inspector General, DoD

AUDIT REPORT NO. 91-100 (Project No. 0CF-0060) June 19, 1991

AUDIT OF CONTRACTORS' USE OF FEDERAL SUPPLY SCHEDULES

EXECUTIVE SUMMARY

Introduction. The Federal Supply Schedule Program and the Express Small Package Service Contract, with FY 1990 sales volume of $2.4 billion and $33 million, respectively, are supply and service programs administered by the General Services Administration (GSA). DoD contractors holding cost-reimbursable contracts can be authorized to purchase supplies and services from these programs.

Objectives. The objectives of this audit were to determine if contractors were using these two GSA programs in performing DoD cost-reimbursable contracts, how much DoD could save if these contractors used the programs more, and the effectiveness of internal controls over contractors' use of these Government sources.

Audit Results. The audit showed that contractors used Federal Supply Schedules when they knew about the schedules. The contractors we visited could have reduced their costs for express delivery of small packages by 36 to 64 percent if they had used the GSA service contract. These conditions occurred because contracting officers and contractors were unaware of the GSA programs. Cost savings can be obtained, but too many variables were involved for the audit to be able to determine just how much DoD could actually save with greater contractor use of these two GSA programs.

Internal Controls. The internal controls applicable to contractors' use of the Schedule Program and Express Service Contract were not reviewed because this was a low-risk area and the two programs were too small to be considered an assessable unit.

Compliance with Laws and Regulations. The audit did not disclose any abuse or illegal acts. However, DoD contracting officers did not properly execute their responsibilities under Federal Acquisition Regulation (FAR) subpart 51.1, "Contractor Use of Government Supply Sources," and DoD FAR Supplement (DFARS) subpart 251.1, "Contractor Use of Government Supply Sources."

Potential Benefits of Audit. DoD can accrue potential cost savings, as shown in Appendix F, if contracting officers make contractors aware of the GSA sources of supply and service. However, we could not quantify those potential savings.

Summary of Recommendations. We recommended that DoD coordinate with GSA to develop a marketing plan to increase contracting officers' awareness of GSA programs available to contractors holding cost-reimbursable contracts. We also recommended that guidance be included in DoD's training curriculum on the availability and proper use of GSA's programs by contractors holding cost-reimbursable contracts.

Management Comments. The Assistant Secretary of Defense (Production and Logistics) concurred with Recommendation 1. to develop a marketing plan and is coordinating with GSA on the plan's development and implementation. The Director of Defense Procurement agreed with Recommendation 2. (draft report Recommendation 2.b.) to evaluate current training curriculum on the use of GSA schedule programs, but nonconcurred with draft report Recommendation 2.a. to issue a policy memorandum supporting the creation of a marketing plan. Management comments to the draft report are summarized in Part II of this report, and the complete texts of the responses are in Part IV.

Audit Response. The actions taken by the Assistant Secretary of Defense (Production and Logistics) and the Director of Defense Procurement are responsive to Recommendations 1. and 2., respectively. We have withdrawn draft report Recommendation 2.a. because the action taken by the Assistant Secretary of Defense (Production and Logistics) satisfied the intent of the recommendation.

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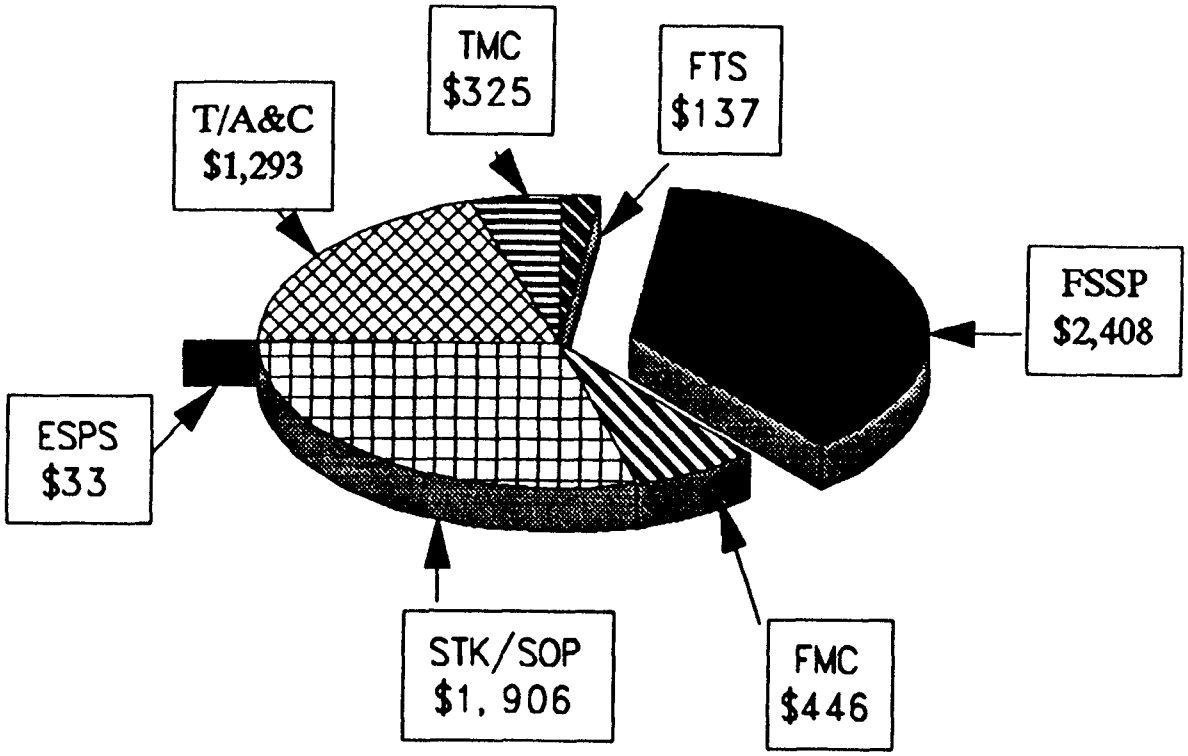
This report was prepared by the Contract Management Directorate, Office of the Assistant Inspector General for Auditing, DoD. Copies of the report can be obtained from the Information Officer, Audit Planning and Technical Support Directorate, (703) 614-6302 (DSN 224-6302).

PART I - INTRODUCTION

Background

The General Services Administration (GSA) provides goods and services to the Federal community through various supply and service programs. In FY 1990, the Federal community procured more than $6.5 billion of supplies and services through these GSA programs. The largest program, with $2.4 billion of procurements, was the Federal Supply Schedule Program (Schedule Program), and the smallest program, with $33 million of procurements, was the single contract for Express Small Package Service (Express Service Contract). Both programs are explained in Appendix A.

GSA FEDERAL SUPPLY SERVICE
FY 1990 PROGRAM PROCUREMENTS (MILLIONS)



LEGEND

FSSP	-Federal Supply Schedule Program
FMC	-Fleet Management Centers
STK/SOP	-Stock Program/Special Orders Program
ESPS	-Express Small Package Service
T/A&C	-Travel: Air Sales & Charge Cards
TMC	-Travel Management Centers
FTS	-Freight Transportation Service

GSA has made the Schedule Program and Express Service Contract available to contractors who have cost-reimbursable contracts, and have authorization from Federal contracting officers to use GSA supply sources. Authorizations are granted in accordance with the Federal Acquisition Regulation (FAR) part 51, "Contractors' Use of Government Supply Sources." GSA contractors report total sales to GSA by item number, but do not report to whom they made the sales. Therefore, GSA could not identify how many contractors with DoD cost-reimbursable contracts used the two programs, or how often the contractors used the programs.

Objectives

We performed the audit to determine the extent that contractors used Federal Supply Schedules for goods and services charged to Government contracts, the amount of savings that DoD could realize through greater contractor use of the supply schedules, and the effectiveness of internal controls over contractors' use of the Federal Supply Schedules. We also applied these same objectives to contractors' use of the GSA's contract for express delivery of small packages. This action was taken in response to a cost-savings suggestion by a DoD civilian employee and to an inquiry by Representative John G. Rowland. The internal controls applicable to contractors' use of the Schedule Program and Express Service Contract were not reviewed because the use of these two programs was too small to be considered an assessable unit.

Scope

We identified cost-reimbursable contract actions valued at more than $10 million, which occurred during the period October 1, 1988, through January 30, 1990. DoD had 413 contract actions with a combined value of over $16 billion that met this criteria. We selected three buying commands (one in each Military Department) that appeared to have had the most cost-reimbursable contract activity during the period. These commands administered 100 of the 413 contract actions with a combined value of $5 billion made against 99 different contracts.

From the three buying commands, we selected a total of eight individual contracts for review and follow-up contractor visits: two Government-owned/contractor-operated (GOCO) contracts, four nonsmall business commercial contracts, and two Federally Funded Research and Development Center (FFRDC) contracts. The eight contracts covered a period from 1983 through 1990 and had a total value over $5 billion (Appendix B).

We interviewed DoD contracting officers and reviewed DoD contract files. We also interviewed contractors and reviewed their purchase orders and supporting documentation for expenses charged to the cost-reimbursable contracts. We identified purchases that

were made or could have been made from the Schedule Program. We also reviewed the contractors' use of overnight delivery of small packages, noting when the Express Service Contract was used and when it could have been used.

During the audit, we expanded our scope to examine DoD small business contractors' use of the Schedule Program and Express Service Contract. We identified small business contractors who had contract actions against DoD cost-reimbursable contracts during FY's 1989 and 1990. During these 2 years, 198 DoD buying commands contracted for over $6 billion with 2,409 small business contractors.

Of the 198 DoD buying commands that awarded these contracts, we selected 2 commands from each Military Department. We visited the 6 commands and 20 of their small business contractors (Appendix C). For the selected sites, we interviewed DoD contracting personnel and contractor personnel about their knowledge and use of the Schedule Program and Express Service Contract.

To achieve the audit's objective related to determining the extent that contractors used Federal Supply Schedules for goods and services charged to Government contracts, we relied on DoD's computer-processed database of contract actions over $25,000 (DD Form 350, "Individual Contract Actions Report") to make our initial selection of contracts for review. We did not establish the reliability of these data because the primary purpose of this objective was to determine if, and how much, contractors used the Federal Supply Schedules. Accordingly, our initial selection of contractors with cost-reimbursable contracts is qualified to the extent that independent tests of the DoD database were not made.

This economy and efficiency audit was conducted at a total of 9 military buying commands (3 each at the Army, the Navy and the Air Force) and at 28 contractor sites from April to November 1990 in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. Activities visited or contacted during the audit are listed in Appendix G.

Internal Controls

The internal controls applicable to contractors' use of the Schedule Program and Express Service Contract were not reviewed because the use of these two programs was too small to be considered an assessable unit. Also, this low-risk area was a minor portion of the subcontract administration risk assessment area, which was beyond the scope of the audit. There was no abuse or illegal acts disclosed during the audit. The FAR part 51 and DoD FAR Supplement (DFARS) part 251, "Use of Government Sources By Contractors," provide procedures with which contracting officers

must comply when they choose to issue authorizations to contractors to use Government sources of supply. Contracting officers did not fully comply with these regulations. Implementation of Recommendation 2. should resolve the problem.

Prior Audits and Other Reviews

There were no audits or other reviews in the last 5 years that covered the specific issues discussed in this report.

Other Matters of Interest

After the audit field work was completed, a representative of the Defense Logistics Initiatives Division of the Office of the Deputy Assistant Secretary of Defense (Logistics) met with the Director of GSA's Federal Supply Service Strategic Business Planning Unit to determine how to proceed with the planned recommendations of this audit report. To aid in the identification of the buying commands who award DoD cost-reimbursable contracts, we queried the DoD database of contract actions over $25,000 for FY's 1989 and 1990 cost-reimbursable contract actions. We subsequently provided the DoD representative the compiled list of DoD buying commands and their associated dollar volume of cost-reimbursable contract activity. With this initial meeting and contract information, DoD and GSA have taken preliminary action to develop a marketing strategy directed at DoD contracting officers and contractors who engage in cost-reimbursable contracts, and to inform them of the GSA supply and service programs available for their use.

PART II - FINDING AND RECOMMENDATIONS

USE OF GSA SUPPLY AND SERVICE PROGRAMS

DoD contractors, holding cost-reimbursable contracts, made limited numbers of purchases from the Schedule Program and failed to use the Express Service Contract. These conditions occurred because the contractors and their DoD contracting officers were unaware of the GSA programs. As a result, DoD was denied opportunities for obtaining lower costs associated with cost-reimbursable contracting.

DISCUSSION OF DETAILS

Contractor Use of The Schedule Program and Express Service Contract

GSA defines contractors with Government cost-reimbursable contracts as "non-Government, non-mandatory" users of the Schedule Program and the Express Service Contract. According to GSA policy, contractors may use the Schedule Program and Express Service Contract after receiving authorization from a Federal agency. FAR subpart 51.1, "Contractor Use of Government Supply Sources," provides the policy and procedures that must be followed when contracting officers grant contractors authorizations to use GSA programs. The contracting officer may authorize the use of GSA programs if it is in the Government's interest, and if supplies or services, required in the performance of a Government cost-reimbursable contract, are available from GSA sources. After authorizing use, the contracting officer informs GSA of the contractor authorization. Then GSA provides access to an established network of information about available supplies and services. Prior to obtaining authorization to use the schedules, the contractors depend on the contracting officers to tell them what programs are available, and after authorization, how to use the network to obtain detailed information.

Schedule Program. Contractors with cost-reimbursable contracts procured some supplies and services from the Schedule Program. The supplies and services were primarily automated data processing related items. However, the contractors did not know how the entire Schedule Program worked. Contractors generally learned about vendors with a supply schedule on the Schedule Program when they solicited vendor bids for supplies and services needed to complete a cost-reimbursable contract. Vendors, who identified themselves as being part of the GSA Schedule Program, informed the contractors of the availability of lower prices by using the schedules. When this occurred, contractors were able to obtain items at the lower schedule prices in spite of GSA and

DoD procedures. However, the contracting officer did not inform the contractor of the Schedule Program or provide authorization to use it.

To determine the frequency to which contractors used the Federal Supply Schedules, we selected nine schedule vendors who each had more than $10 million in FY 1989 program sales. We asked the vendors to identify customers who had made purchases from their respective GSA schedules for use on DoD cost-reimbursable contracts. Eight of the nine vendor contractors responded to our inquiry. There was no consistency in the information vendors provided, and we were unable to determine the frequency of contractor use of the Schedule Program.

We also attempted to determine if contractors could have made more procurements from GSA schedules, and the amount of savings DoD could have realized as a result of the increased use. We reviewed 85 purchase orders placed by contractors for eight DoD cost-reimbursable contracts (Appendix B). We compared items actually purchased through normal commercial channels to items on the Schedule Program. We did not find an exact match for any item because the statements of work and the related purchase requirements for supplies and services were unique to each contract. Consequently, we were unable to determine if contractors could have used the Schedule Program for the purchases made on the eight contracts. Further, we were unable to determine the amount of savings that DoD could have realized as a result of increased use of the Schedule Program. However, in 1986, the Defense Spares Initiatives Office within the Office of the Deputy Assistant Secretary of Defense (Logistics) did an informal survey of contracting offices throughout DoD. The results of the survey showed that after competition, GSA schedules provided the best buy.

Express Service Contract. DoD contractors with cost-reimbursable contracts were making minimal use of the Express Service Contract. Only two of the contractors visited acknowledged awareness of the existence of the Express Service Contract and its applicability to their cost-reimbursable contracts. The Express Service Contract was awarded to Airborne Express for FY's 1989 and 1990. For FY 1989, we compared the Airborne Express customer list of GSA accounts to a list of DoD contractors who had cost-reimbursable contract actions over $25,000. We found that only 64 of 3,680 contractors were on both lists.

For the 28 contractors visited during the audit, only 1 contractor, Holston Defense Corporation, was aware of and used the Express Service Contract. Most importantly, Holston did not get any information from the contracting officer or GSA. Holston accidently found out about the contract from the carrier, Airborne Express, when obtaining competitive bids for overnight

delivery service for small packages. Another contractor in our sample, Sparta, Inc., was informed in 1988 by the Defense Contract Administration Services Region (now called Defense Contract Management District) of the existence of the Express Service Contract. However, Sparta was quick to point out that the information did not come directly from the DoD Administrative Contracting Officer of their current contract. Sparta never used the Express Service Contract because it did not need to use express mail services. The remaining 26 contractors were unaware of the existence of the Express Service Contract even though they used express mail services for DoD cost-reimbursable contracts.

Savings potential with use of the Express Service Contract. Rates that contractors paid for express delivery of small packages were significantly higher than the GSA contract rates from Airborne Express. A review of the express mail charges incurred by 6 of the 28 contractors showed that the contractors could have reduced costs and achieved savings of 36 to 64 percent had they used the Express Service Contract. The following table shows the potential savings by the six contractors.

Contractor	Time Period	Actual Cost	Cost at GSA Contract Rates	Excess of Actual Cost Over GSA Contract Rates	Percent of Potential Savings
General Dynamics, Inc.-Electric Boat Division	June 1990	$10,135	$3,957	$6,178	61
Hercules, Inc.	June 1990	855	511	344	40
Jonathan Corp.	April 1990	1,333	485	848	64
Lincoln Laboratories	July 1990	7,290	4,655	2,635	36
Mitre Corp.	June 1990	2,878	1,136	1,742	61
Unisys Corp.	May 28 to June 6, 1990	1,484	956	528	36

The actual costs and savings presented above are for express delivery of all small packages paid for by the contractors during the stated time periods. Express Service Contract rates only applied to expenses incurred for cost-reimbursable contracts. Express delivery of small packages is an expense that varies with

the contractor and the contract. Because of this variation, we were unable to quantify the cost savings to DoD for all contractors with cost-reimbursable contracts who could use the GSA contract. However, the results of our evaluation indicate that Express Service Contract users can achieve significant cost savings. Potential savings are likely to be even greater because GSA's FY 1991 contract was awarded to Federal Express, whose winning bid was 23 percent under FY 1990 contract prices. The Federal Express contract has four 1-year renewal options. Also, contractor reluctance to use the Express Service Contract may be reduced since most of the 28 contractors already preferred using Federal Express for their overnight delivery of small packages. Promoting contractor awareness of the Express Service Contract will increase its use and reduce the costs of express mail services charged to DoD's cost-reimbursable contracts.

Contracting Officers' Responsibilities

The DoD contracting officers did not properly execute their responsibilities under FAR subpart 51.1 and DoD FAR Supplement (DFARS) subpart 251.1, "Contractor Use of Government Supply Sources." DFARS subpart 251.1 provides a uniform letter of authorization to be issued to a DoD contractor to purchase from Government supply sources. Letters of authorization were issued for seven of eight contracts listed in Appendix B, but only two letters were written in accordance with DFARS subpart 251.1. We did not review contracts issued to the 20 small business contractors listed in Appendix C. FAR subpart 51.1 also requires that the contracting officer place a written finding in the contract file to support issuance of the authorization. We found that only one contracting officer had provided such justification. The eight contracting officers had neither contacted GSA for approval to authorize the contractors to use the Schedule Program or the Express Service Contract nor had asked GSA to provide assistance information to the contractors about either of the GSA programs. We found no evidence that the contracting officers, or any other individuals in the buying commands, had provided follow-up action on the letters of authorization. This lack of evidence indicates that DoD contracting officers were not aware of their responsibilities, and that they may need training in FAR subpart 51.1 and DFARS subpart 251.1.

Contracting officer training. None of the DoD personnel interviewed at the nine buying commands acknowledged receipt of any specific training related to FAR part 51. Personnel knew that GSA had supply and service programs, but they were unfamiliar with the variety and specifics of the GSA programs. DoD contracting officers confused the Schedule Program, where schedule users deal directly with the schedule vendors, with other GSA supply programs, where ordering of supplies is done directly through GSA. Contracting officers did not offer

Schedule Program information to contractors, but waited for contractors to request usage of a schedule before issuing the appropriate contractor authorization. DoD contracting officers and senior buying command officials also claimed that they were unaware of the Express Service Contract program. Because contractors were not aware of the Schedule Program and Express Service Contract, they could not request authorization to use them. Contracting officers also held varying misconceptions about the GSA programs. Several of the common misconceptions are listed in Appendix D.

Contractor Interest in The Schedule Program and Express Service Contract

DoD contractors had different opinions on the expanded use of the Schedule Program. Opinions ranged from "not interested" to "how to get more information." While 26 of the 28 contractors we visited were unaware of the existent GSA Express Service Contract, they were not interested in using the contract. In fact, six DoD contractors voiced open opposition to its use. DoD contractors stated that they were satisfied with the services provided by their current express service carrier, which in 14 cases was Federal Express. One DoD contractor was of the opinion that the administrative costs of implementing a separate service for only cost-reimbursable contracts would offset any savings from using the Express Service Contract. The DoD contractors also expressed concern that diverting business from their corporate accounts to the Express Service Contract account might negatively impact their corporate rates because those rates were based on total volume of packages. Yet, none of the DoD contractors provided evidence to support these opinions and concerns. Contractors were clearly uninformed, expressed limited interest, and held varied misconceptions about GSA's programs.

Recent Policy Initiative

The Deputy Assistant Secretary of Defense for Procurement, OSD, (now called the Director of Defense Procurement) issued a memorandum, "GSA Contract for Reduced Rates for Air Shipments," June 9, 1989, directing that the Assistant Secretaries of the Military Departments and the Directors of the Defense Agencies inform their contracting officers of the Express Service Contract and have them encourage eligible contractors to use the available service. The Military Departments issued implementing instructions in August 1989. At the time of our visit in 1990, however, procurement personnel, including the contracting officers, at the nine buying commands were unaware of the Express Service Contract or of the OSD memorandum. The effectiveness of the Military Departments' implementing instructions is discussed in Appendix E.

Marketing The New Express Service Contract

GSA's Transportation Management Division negotiated and awarded the contract for express delivery of small packages. GSA sent letters to top-level offices within the Federal government to inform Federal agencies of the contract changes for FY 1991. Within DoD, only the Assistant Secretaries for Manpower and Reserve Affairs in the Military Departments and the Commandant of the Marine Corps received individual letters. GSA relied on the DoD Military Traffic Management Command to inform DoD of this contract. Contract information was generally forwarded to the DoD Components' shipping and mailing departments because they were the primary users for whom GSA had negotiated this service contract. However, this information, which gave advance knowledge of the Express Service Contract and its applicability to contractors, was not disseminated to DoD procurement offices and contracting officers.

Even though the Express Service Contract and some details are advertised in the Federal Travel Directory, a joint publication of the GSA and the DoD Military Traffic Management Command, this is not a document normally used by contracting officers for awarding and managing cost-reimbursable contracts.

Conclusion

Use of the Schedule Program and the Express Service Contract provides opportunities for reducing costs associated with cost-reimbursable contracting. For DoD to receive the benefit of these opportunities, contractors must be made aware of these GSA programs. Information on the Schedule Program and Express Service Contract should be made available to contractors in the solicitation phase or at the inception of a cost-reimbursable contract so that contractors can make informed procurement decisions. Likewise, if contractors are to utilize the Express Service Contract, they must be informed of the contract and the availability for use by DoD cost-reimbursable contractors.

FAR part 51 makes contracting officers responsible for directing contractors to the Government sources. Unfortunately, procurement and contracting personnel did not consider contractor use of the Schedule Program and the Express Service Contract to be priority issues. Personnel considered costs for items and services obtained from these GSA programs to be insignificant in relation to overall contract costs. This was evident by the lack of information that personnel provided to contractors and the lack of emphasis they placed on implementing the OSD memorandum. DoD obligates about $25 billion annually for cost-reimbursable contracts. The cumulative savings that can be obtained from use of the GSA programs may be substantial. DoD and contractor procurement personnel must be made aware of the GSA programs and the potential for cost savings. A coordinated

marketing strategy, developed by DoD and GSA, would provide information about GSA supply and service programs. This marketing strategy would be targeted to contracting officers and contractors who engage in cost-reimbursable contracts.

RECOMMENDATIONS FOR CORRECTIVE ACTION

1. We recommend that the Assistant Secretary of Defense (Production and Logistics) coordinate with the General Services Administration on a marketing plan directed at contracting officers and contractors who engage in cost-reimbursable contracts, to inform them about the General Services Administration supply and service programs that are available for use on such contracts.

2. We recommend that the Director of Defense Procurement incorporate into the training curriculum guidance on contractors' use of GSA supply and service programs and the proper use of Federal Acquisition Regulation part 51, "Use of Government Sources by Contractors," and Defense Federal Acquisition Regulation Supplement part 251, "Use of Government Sources by Contractors."

MANAGEMENT COMMENTS

The Assistant Secretary of Defense (Production and Logistics) concurred with Recommendation 1.

The Director of Defense Procurement nonconcurred with draft report Recommendation 2.a., stating that she could not agree to issue a policy memorandum in support of a marketing plan that had not yet been created. The Director also stated that the intent of the marketing plan (Recommendation 1.) is to inform the contracting community and that, as mentioned in the audit report, a policy memorandum appears to have limited effectiveness in moving people to action.

The Director of Defense Procurement concurred in part with Recommendation 2. (draft report Recommendation 2.b.), stating that the current coverage of the use of Government sources by contractors in all appropriate training courses will be determined. If deficiencies are noted, revisions will be recommended.

AUDIT RESPONSE TO MANAGEMENT COMMENTS

The actions taken by the Assistant Secretary on Recommendation 1. are responsive to the recommendation. Accordingly, additional comments are not required.

As pointed out by the Director of Defense Procurement, the intent of a marketing plan is to inform a target audience. As a result

of the action taken by the Assistant Secretary and the General Services Administration in response to Recommendation 1., the intent of draft report Recommendation 2.a. has also been satisfied. Therefore, we have withdrawn draft report Recommendation 2.a.

The actions taken by the Director of Defense Procurement on Recommendation 2. (draft report Recommendation 2.b.) are responsive to the intent of the recommendation. Accordingly, additional comments are not required.

PART III - ADDITIONAL INFORMATION

APPENDIX A - GSA Federal Supply Service Programs

APPENDIX B - Universe of Large Contractors Reviewed

APPENDIX C - Small Business Contractors Reviewed

APPENDIX D - Common Misconceptions on the Use, of the General Services Administration's Federal Supply Schedule Program and Express Small Package Service Contract

APPENDIX E - Effectiveness of OSD Memorandum

APPENDIX F - Summary of Potential Monetary and Other Benefits Resulting from Audit

APPENDIX G - Activities Visited or Contacted

APPENDIX H - Report Distribution

APPENDIX A: FEDERAL SUPPLY SCHEDULE PROGRAM AND EXPRESS SMALL PACKAGE SERVICE CONTRACT

Federal Supply Schedule Program. The Federal Supply Schedule Program (Schedule Program), which provides Government agencies with a diverse selection of supplies and services, is designed to allow Government agencies the option of ordering standard commercial items directly from the contractors while enjoying the discounts associated with GSA volume buying. Under the Schedule Program, GSA negotiates indefinite delivery contracts with commercial firms to provide supplies and services at stated prices for given periods of time. The prices are negotiated using the "most favorable customer" objective, where contractors offer prices that are equal to or better than the best price given or available to their commercial customers under comparable contract volume and terms. For FY 1990, the GSA had contracts with more than 4,300 contractors, offering the Federal community over 3 million various types of items and services on 157 Federal Supply Schedules.

GSA publishes Federal Supply Schedules by Federal Supply Class to provide users with information needed to place orders. Schedules are available free of charge to all authorized users who request to be placed on GSA's Centralized Mailing List. These schedules are used in conjunction with the contractors' own catalogs of item descriptions and prices, which are automatically sent by the contractors to the authorized users on GSA's mailing list. Authorized users deal directly with the schedule contractors for ordering, shipping, and billing. GSA handles negotiations for schedule contracts, placement of authorized users on its Centralized Mailing List, and resolution of problems that cannot be settled between the schedule contractors and the authorized users.

Express Small Package Service. The Travel and Transportation Division of the GSA Federal Supply Service directs and manages the contract for Express Small Package Service (Express Service Contract). Since FY 1984, GSA has annually contracted with a single carrier to provide Government agencies next-day express, small package transportation service to and from specified cities at economical rates. The FY's 1989 and 1990 contracts were with Airborne Freight Corporation (known as Airborne Express) and provided 67 percent lower rates for service (Monday through Friday) on packages weighing up to 50 pounds. The FY 1990 service contract, which increased the weight allowance of small packages to 70 pounds and extended special rates to Saturday and holiday service, was awarded to Federal Express, who underbid the FY 1990 contract by almost 23 percent. The new contract with Federal Express took effect January 15, 1991. The GSA Federal Supply Service Bureaus provide information to potential users about this service contract.

APPENDIX B: UNIVERSE OF LARGE CONTRACTORS REVIEWED

Service	Buying Command	Number of Contract Actions	Value of Contract Actions ($Million) [1]	Number of Contracts
Army	AMCCOM	17	$1,080	16
Navy	NAVSEA	76	2,900	76
Air Force	ESD/HANSCOM	7	1,050	7
Totals		100	$5,030	99

Service	Contract Number	Contractor	Type of Contractor	Value of Contract ($Million) [2]
Army	DAAA09-86-Z-0003	Hercules, Incorporated	GOCO	$1,038
	DAAA09-83-C-4515	Holston Defense Corporation	GOCO	740
Navy	N00024-88-C-2219	General Dynamics Incorporated-Electric Boat Division	COMM	144
	N00024-86-C-8515	Jonathan Corporation	COMM	105
	N00024-86-C-2078	Newport News Shipbuilding	COMM	334
	N00024-83-C-7126	UNISYS Corporation	COMM	21
Air Force	F19628-90-C-0002	Lincoln Laboratories	FFRDC	2,325
	F19628-89-C-0001	Mitre Corporation	FFRDC	387
Total				$5,094

[1] The contract actions occurred during the period October 1, 1988, through January 30, 1990.

[2] The value of the contract was based on all contracting actions that occurred against the contract from October 1, 1983, through January 30, 1990.

APPENDIX C: SMALL BUSINESS CONTRACTORS REVIEWED

Service	Buying Command	Small Business Contractor
Army	Communications and Electronics Command	Vitronics Inc.
	Missile Command	AMTEC Applied Research, Inc. CAS, Inc. COLSA, Inc.
Navy	Naval Ocean Systems Command	Antares Group Inc. Digital Radio Corp. ENSCO Inc. ORINCON Corp.
	Naval Regional Contracting Center San Diego	Aegir Systems Inc. Infotech Development Inc. Sciences Engineering Analysis Superior Engineering & Electronics Co, Inc.
Air Force	Space Systems Division	ETA Technologies Corp. S Systems Corp. Sparta Inc. Thomas Scifers Inc.
	Development Test Center	Computer Science & Applications Inc. Orlando Technology Inc. Tybrin Corporation

APPENDIX D: COMMON MISCONCEPTIONS ON THE USE OF THE GENERAL SERVICES ADMINISTRATION'S FEDERAL SUPPLY SCHEDULE PROGRAM AND EXPRESS SMALL PACKAGE SERVICE CONTRACT

1. MISCONCEPTION: Use of Federal Supply Schedules would deplete inventories of Federal Supply Centers.

   FACT: Use of Federal Supply Schedules does not involve Federal or Military Supply Centers. Contractors authorized to use Federal Supply Schedules order supplies and services directly from suppliers.

2. MISCONCEPTION: Contractors must initiate the process of using Federal Supply Schedules by requesting authorizations from contracting officers.

   FACT: Contracting officers may/should encourage contractors to use Federal Supply Schedules by providing information about the use of the Schedules prior to contract award.

3. MISCONCEPTION: Maintaining a library of Federal Supply Schedules and associated price lists would be unreasonably time and space consuming.

   FACT: Contractors need only request, acquire, and maintain the particular schedules for which they reasonably foresee a need.

4. MISCONCEPTION: Inability of suppliers to deliver products on time would subject the Government to delay claims since contracting officers directed the use of Federal Supply Schedules.

   FACT: Use of the Schedules is voluntary, not required. Contracting officers do not direct use of the Schedules by providing information and authorizations. They merely provide another source of supply that may be advantageous to both the Government and contractor.

5. MISCONCEPTION: Federal Supply Schedule suppliers cannot meet the strict delivery and quality requirements often associated with DoD contracts.

   FACT: Federal Supply Schedule suppliers frequently are the same suppliers that contractors have historically done business with and many products used or delivered on contracts have no stringent quality requirements.

6. MISCONCEPTION: Contractors cannot use Federal Supply Schedules because the contract does not include FAR clause 52.251-1, "Government Supply Sources."

   FACT: The clause can be added by amendment to contracts that meet the criteria of FAR part 51.101.

7. MISCONCEPTION: Corporate agreements with air express service suppliers are lower in price than the GSA contracts.

   FACT: None of the contractors contacted during our audit had agreements with carriers that provided express delivery of small packages at prices lower than the GSA contracted carrier. The FY 1991 rates are 23 percent lower than FY 1990 rates.

APPENDIX E: EFFECTIVENESS OF OSD MEMORANDUM

OSD. The Deputy Assistant Secretary of Defense for Procurement, OSD, (now called the Director of Defense Procurement) issued a memorandum, "GSA Contract for Reduced Rates for Air Shipments," June 9, 1989, directing that the Assistant Secretaries of the Military Departments and the Directors of the Defense Agencies inform their contracting officers of the Express Service Contract and have them encourage eligible contractors to use the available service.

Army. During our visit to the U.S. Army Communications and Electronics Command (CECOM), Fort Monmouth, New Jersey, procurement personnel discovered that they had in fact received an implementing instruction concerning the GSA Express Small Package Service Contract for reduced rates for air shipments. Department of the Army Acquisition Letter 89-19, dated August 2, 1989, was received by CECOM on December 6, 1989. On January 26, 1990, CECOM distributed an implementing memorandum, along with a copy of the Army Acquisition Letter, to all of their procurement organizations. The Army Acquisition Letter contained 17 different items of interest to the Army procurement community. The OSD memorandum concerning the GSA service contract for reduced rates for air shipments was item number 13, and was located on page 10 of the letter. The memorandum from CECOM, implementing the Army Acquisition Letter, highlighted items of importance to CECOM contracting personnel. Item number 13, about the Express Small Package Service Contract, was not included. Prior to finding the Army Acquisition letter in their files, the procurement personnel had no recollection of the OSD memorandum or the Express Small Package Service Contract.

Navy. The Department of Navy, Naval Supply Systems Command, distributed to their procurement organizations a policy letter, dated August 18, 1989, with nine enclosures. The Express Small Package Service Contract was listed as enclosure number 8.

Neither of the two Naval commands visited, the Naval Ocean Systems Center, San Diego, California, and the Naval Regional Contracting Center, Long Beach, California, were aware of the GSA service contract or of having received any instruction pertaining to it.

Air Force. The Department of the Air Force distributed the OSD memorandum to the contracting divisions of all Air Force major commands on August 4, 1989. The two Air Force commands visited, the Space Systems Division, Los Angeles, California, and the Air Force Development Test Center, Eglin Air Force Base, Florida, were not aware of the GSA's service contract or the OSD memorandum.

APPENDIX F: SUMMARY OF POTENTIAL MONETARY AND OTHER BENEFITS RESULTING FROM AUDIT

Recommendation Reference	Description of Benefit	Type of Benefit
1.	Economy and Efficiency. Will provide direct information concerning GSA sources of supply to the parties involved in cost-reimbursable contracting. Previous studies showed savings achievable with use of GSA Federal Supply Schedule Program. Our audit showed 36 to 64 percent savings achievable with use of GSA Express Small Package Service Contract. We were unable to quantify the monetary savings because contractors' participation in each program is unknown.	Not Quantifiable
2.	Compliance. DoD contracting officers did not properly execute their responsibilities under FAR subpart 51.1 and DFARS subpart 251.1. Compliance with these regulations will inform contractors of other sources of supply for cost-reimbursable contracts. We were unable to quantify the monetary savings because contractors' use of Government supply sources on each contract is unknown.	Not Quantifiable

APPENDIX G: ACTIVITIES VISITED OR CONTACTED

Office of the Secretary of Defense

Office of the Assistant Secretary of Defense (Production and Logistics), Washington, DC
Office of the Director of Defense Procurement, Washington, DC

Department of the Army

Office of the Assistant Secretary of the Army (Research, Development and Acquisition), Washington, DC
Communications and Electronics Command, Fort Monmouth, NJ
Missile Command, Redstone Arsenal, AL
Armament, Munitions and Chemical Command, Rock Island, IL

Department of the Navy

Office of the Assistant Secretary of the Navy (Research, Development and Acquisition), Washington, DC
Naval Sea Systems Command, Arlington, VA
Naval Supply Systems Command, Washington, DC
Naval Ocean Systems Center, San Diego, CA
Naval Regional Contracting Center, Long Beach, CA

Department of the Air Force

Office of the Assistant Secretary of the Air Force (Acquisition), Washington, DC
Electronic Systems Division, Hanscom Air Force Base, MA
Space Systems Division, Los Angeles, CA
Air Force Development Test Center, Eglin Air Force Base, FL

Defense Agencies

Headquarters, Defense Contract Audit Agency, Alexandria, VA
Headquarters, Defense Logistics Agency, Alexandria, VA
  Defense Contract Management Area Operations, El Segundo, CA
  Defense Contract Management Area Operations, Santa Ana, CA

Non-DoD Activities

General Services Administration, Arlington, VA

APPENDIX G: ACTIVITIES VISITED OR CONTACTED (cont'd)

Contractors

Aegir Systems Incorporated, Camarillo, CA
Airborne Express Co., Chantilly, VA
AMTEC Corporation, Huntsville, AL
Antares Group Incorporated, San Diego, CA
Applied Research Incorporated, Huntsville, AL
Bio Tek Instruments, Incorporated, Winooski, VT
CAS, Incorporated, Huntsville, AL
COLSA, Incorporated, Huntsville, AL
Computer Science & Applications Incorporated,
Fort Walton Beach, FL
Digital Radio Corporation, Redondo Beach, CA
Dranetz Technologies, Incorporated, Edison, NJ
Eastman Kodak Company, Rochester, NY
Ensco Incorporated, San Diego, CA
ETA Technologies Corporation, Los Angeles, CA
General Dynamics Corporation-Electric Boat Division, Groton, CT
Hercules Incorporated, Radford, VA
Hewlett Packard Company, Rockville, MD
Holston Defense Corporation, Kingsport, TN
IBM Corporation, Bethesda, MD
Infotech Development Incorporated, Costa Mesa, CA
LeCroy Corporation, Chestnut Ridge, NY
Lincoln Laboratories, Lexington, MA
Mitre Corporation, Bedford, MA
Mosler, Incorporated, Arlington, VA
Newport News Shipbuilding, Newport News, VA
Orincon Corporation, La Jolla, CA
Orlando Technology Incorporated, Fort Walton Beach, FL
Paper Corporation of U.S., New York, NY
Pitney Bowes, Incorporated, Stamford, CT
S Systems Corporation, Inglewood, CA
Sciences Engineering Analysis, Oxnard, CA
Sparta Incorporated, Laguna Hills, CA
Superior Engineering & Electronics Co., Incorporated,
San Diego, CA
Thomas Scifers Incorporated, El Segundo, CA
Tybrin Corporation, Shalimar, FL
Unisys Corporation, Great Neck, NY
Vitronics Incorporated, Eatontown, NJ

APPENDIX H: REPORT DISTRIBUTION

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition
Assistant Secretary of Defense (Production and Logistics)
Assistant Secretary of Defense (Public Affairs)
Director of Defense Procurement
Comptroller of the Department of Defense
Deputy Assistant Secretary of Defense (Logistics)

Department of the Army

Assistant Secretary of the Army (Financial Management)
Assistant Secretary of the Army (Research, Development and Acquisition)
Commander, Communications and Electronics Command
Commander, Missile Command
Commander, Armament, Munitions and Chemical Command

Department of the Navy

Assistant Secretary of the Navy (Financial Management)
Assistant Secretary of the Navy (Research, Development and Acquisition)
Comptroller of the Navy
Commander, Naval Sea Systems Command
Commander, Naval Supply Systems Command
Commander, Naval Ocean Systems Center
Commander, Naval Regional Contracting Center

Department of the Air Force

Assistant Secretary of the Air Force (Acquisition)
Assistant Secretary of the Air Force (Financial Management and Comptroller)
Director, Electronic Systems Division
Commander, Space Systems Division
Commander, Air Force Development Test Center

Defense Agencies

Director, Defense Contract Audit Agency
Director, Defense Logistics Agency
  Commander, Defense Contract Management Area Operations, El Segundo, CA
  Commander, Defense Contract Management Area Operations, Santa Ana, CA

APPENDIX H: REPORT DISTRIBUTION (cont'd)

Non-DoD Activities

Office of Management and Budget, Office of Federal Procurement Policy
U.S. General Accounting Office, NSIAD Technical Information Center
Administrator, General Services Administration

Congressional Committees:
- Senate Subcommittee on Defense, Committee on Appropriations
- Senate Committee on Armed Services
- Senate Committee on Governmental Affairs
- Senate Ranking Minority Member, Committee on Armed Services
- House Committee on Appropriations
- House Subcommittee on Defense, Committee on Appropriations
- House Ranking Minority Member, Committee on Appropriations
- House Committee on Armed Services
- House Committee on Government Operations
- House Subcommittee on Legislation and National Security, Committee on Government Operations

Representative John G. Rowland

Contractors:
- Aegir Systems Incorporated
- Airborne Express Co.
- AMTEC Corporation
- Antares Group Incorporated
- Applied Research Incorporated
- Bio Tek Instruments, Incorporated
- CAS, Incorporated
- COLSA, Incorporated
- Computer Science & Applications Incorporated
- Digital Radio Corporation
- Dranetz Technologies, Incorporated
- Eastman Kodak Company
- Ensco Incorporated
- ETA Technologies Corporation
- General Dynamics Corporation-Electric Boat Division
- Hercules Incorporated
- Hewlett Packard Company
- Holston Defense Corporation
- IBM Corporation
- Infotech Development Incorporated
- LeCroy Corporation
- Lincoln Laboratories
- Mitre Corporation
- Mosler, Incorporated
- Newport News Shipbuilding

APPENDIX H: REPORT DISTRIBUTION (cont'd)

Contractors: (cont'd)
- Orincon Corporation
- Orlando Technology Incorporated
- Paper Corporation of U.S.
- Pitney Bowes, Incorporated
- S Systems Corporation
- Sciences Engineering Analysis
- Sparta Incorporated
- Superior Engineering & Electronics Co., Incorporated
- Thomas Scifers Incorporated
- Tybrin Corporation
- Unisys Corporation
- Vitronics Incorporated

PART IV - MANAGEMENT COMMENTS

Office of the Assistant Secretary of Defense (Production and Logistics)

Office of the Director of Defense Procurement

Management Comments From the Office of the Assistant Secretary of Defense (Production and Logistics)

PRODUCTION AND LOGISTICS

ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, DC 20301-8000

June 7, 1991

(L/SD)

MEMORANDUM FOR DOD INSPECTOR GENERAL

SUBJECT: Draft Audit Report on Contractors' Use of Federal Supply Schedules (Project No. 0CF-0060)

The subject draft report contains one recommendation for the Assistant Secretary of Defense (Production and Logistics):

"RECOMMENDATIONS FOR CORRECTIVE ACTION"

"1. We recommend that the Assistant Secretary of Defense (Production and Logistics) coordinate with the General Services Administration on a marketing plan directed at contracting officers and contractors who engage in cost-reimbursable contracts, to inform them about the General Services Administration supply and service programs that are available for use on such contracts."

The Assistant Secretary of Defense (Production and Logistics) (ASD(P&L)) concurs with the recommendation. As the draft report points out, a representative of OASD(P&L) is already coordinating with representatives of the General Services Administration (GSA) on such a plan. The estimated completion date of the plan is September 1991. Implementation of the plan should begin in October 1991.

Your memorandum of March 29, 1991, requested that ASD(P&L) comment on whether there are monetary benefits associated with the corrective action and that management provide an estimate of the amount of the benefits. ASD(P&L) agrees with the Audit Report's position that cost savings will accrue through expanded use of GSA sources of supply and services by cost-reimbursable contractors. However, we are unable to quantify the monetary savings because contractors' potential participation in these programs is unknown.

David J. Berteau

Management Comments From the Office of the Director of Defense Procurement

OFFICE OF THE UNDER SECRETARY OF DEFENSE
WASHINGTON, DC 20301

ACQUISITION

DP/CPA

MAY 29 1991

MEMORANDUM FOR THE OFFICE OF THE INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Draft Audit Report on Contractors' Use of Federal Supply Schedules (Project OCF-0060)

My staff has reviewed your draft audit report on contractors' use of Federal supply schedules. As a result of that review, the following comments are offered. I appreciate the opportunity to comment on this draft report.

Eleanor Spector

Eleanor R. Spector
Director, Defense Procurement

Attachment

Final Report Reference

Draft Audit Report On Contractor's Use of Federal Supply Schedules (Project OCF-0060) Findings and Position of Director of Defense Procurement (DDP) Comments

Finding: DoD contractors, holding cost-reimbursable contracts, made limited numbers of purchases from the Schedule Program and failed to use the Express Service Contract. These conditions occurred because the contractors and their DoD contracting officers were unaware of the GSA programs. As a result, DoD was denied opportunities for obtaining lower costs associated with cost-reimbursable contracting.

DDP Position: Nonconcur. On p.11 of the draft report, the statement is made that "we [DoD IG] were unable to determine the frequency of contractor use of the Schedule Program." If this is so, then a finding that only a limited use of such a program has been made is not warranted. p. 6

In an attempt to determine possible cost savings through the use of the Federal Supply Program, the DoD IG tried to compare the prices for common commercial items with the same items on the Schedule Program. There was no exact match for any item, and consequently the DoD IG was "unable to determine if contractors could have used the Schedule Program for the purchases made...." They were further "unable to determine the amount of savings that DoD could have realized as a result of increased use of the Schedule Program." Given these inabilities, no conclusions about possible cost savings can be drawn. A reference to an "informal survey" by the Defense Spares Initiatives Office within the Office of the Deputy Assistant Secretary of Defense (Logistics) suggesting that the Schedule Program offers the "best buy" is insufficient support for any broad conclusion.

Recommendation 2. a.: Issue a policy memorandum to the involved DoD buying commands, after a marketing plan has been developed, to show support for the marketing plan and encourage its implementation to the contract level. Recommendation Withdrawn

DDP Position: Nonconcur. We cannot agree to issue a policy memorandum in support of a marketing plan that has not yet been created. The intent of the marketing plan is to inform the contracting community of the GSA supply and service programs available for use on cost reimbursement contracts by contractors.

Attachment

Final Report Reference

Appendix E of the draft report discusses the effectiveness of such a memorandum. The June 9, 1989, memorandum discussed in this Appendix appeared to have limited effectiveness in getting people to use the GSA contract for air shipments. Issuing memoranda does not seem to be the way to move people to action. A more aggressive approach could only be justified by a more detailed justification of advantages (such as cost savings) to be achieved.

Recommendation 2.

Recommendation 2. b.: Incorporate into the training curriculum guidance on contractors' use of GSA supply and service programs and the proper use of Federal Acquisition Regulation part 51, "Use of Government Sources by Contractors," and Defense Federal Acquisition Regulation Supplement part 251, "Use of Government Sources by Contractors."

DDP Position: Concur in part. My office will coordinate with the Office of the Director of Acquisition Education, Training, and Career Development Policy to determine the current coverage of the use of Government sources by contractors in all appropriate training courses. If deficiencies are noted, revisions to those courses will be recommended through the Defense Contracting Career Management Board.

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