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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

LOGISTICS AND COMMUNICATIONS
DIVISION



B-146874

NOV 2 1976

The Honorable
The Secretary of Defense

Dear Mr. Secretary:

We have completed our survey of Contractor Operated Parts Stores (COPARS) and Contractor Operated Civil Engineer Supply Stores (COCESS) (Code 947181), which are supply facilities established on military installations and operated by commercial firms under contract by the military services to provide commercial vehicle and engineering spare parts.

The Defense Supply Agency (DSA) is currently studying the effectiveness of COCESS to determine the optimum method of providing commercially available material. We therefore plan no additional work at this time. We hope that the DSA study will be sufficiently comprehensive to help DOD evaluate the alternatives and reach conclusions about the general economy and effectiveness of using contractor-operated parts and supply stores instead of Government central supply systems. Our findings and observations in our survey may be useful to you and the DSA study group in analyzing the systems currently used.

The Air Force is making extensive use of COPARS/COCESS at about 100 installations to obtain commercial vehicle and engineering parts. The Army and Navy, on the other hand, continue to rely primarily on the General Services Administration (GSA) and DSA and on local purchase procedures for providing commercial spare parts.

GSA and DSA were established as integrated managers to provide common items to Government customers. DSA is responsible for providing military users with many other essential items for military contingencies, and it has invested resources in facilities and management to perform this mission. Thus, it appears to be economically advantageous for DSA to manage fast-moving automotive and engineering parts and to obtain

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volume price discounts. Military customers usually save money on high-volume items if bought through the central system.

Using Federal Supply Schedules, indefinite-delivery-type contracts, and basic ordering agreements established by GSA and DSA, customers can order items for direct delivery from the commercial distribution system. DSA's Construction Supply Center has established indefinite-delivery-type contracts under which overseas customers order parts for direct shipment from vendors.

Since consumption data resulting from procurements at the installation level is not available to the item manager, he has no effective means to control or manage the item and determine whether the purchase volume rates central purchase and control. DOD officials agree that item demand data is not generally available for items procured at the local level except for those items that are first requisitioned on the central system and subsequently authorized for local procurement.

For items that do not merit central management because of limited volume, base officials have established methods for purchasing these items locally. Military bases purchase a variety of items from local vendors using techniques such as indefinite-delivery-type contracts, blanket purchase agreements, charge accounts, imprest funds, and purchase orders. These are all recognized as being effective methods permitting the user to obtain requirements directly from the commercial distribution system. Using contractors to provide only two categories of supplies while the base procurement office purchases a variety of other items does not appear to be cost effective.

The Air Force advocates COPARS/COCESS because the response time is quicker than the central system and because the contractor rather than the Government invests in the inventory. Base supply managers, however, must still compute requirements and stock a variety of items for other purposes; therefore, they should be able to meet the need for fast moving commercial automotive and civil engineering parts.

DOD policy requires that, in determining methods of supply, managers have a primary objective to fulfill requirements with maximum efficiency and economy, with adequate consideration of adaptability to mobilization for war. In summary:

1. The military supply system must function in peacetime in order to maintain its wartime capability.
2. GSA and DSA are established to provide common commercial items to Government customers. By effecting procurement for Government- DOD-wide requirements, volume discounts are available.
3. There is a variety of ordering options available to Government customers with differing needs.
4. Supply managers have management tools available for quick response to high volume orders.
5. The contractor-operated parts and supply stores generally furnish items already available through the military supply system.

Given the above, and assuming the GSA-DSA systems are effectively managed, it is not apparent how a contractor-operated supply operation can provide parts at lower cost than the Government system.

We believe the DSA study should, as a minimum, focus on the relative effectiveness of response, cost, and need for duplicate methods or systems for obtaining repair parts support, including whether or not the contractor-operated stores are having a deleterious effect on the cost and effectiveness of GSA-DSA systems. It is our understanding that the DSA's study will address these points.

We also noted some specific problems with the COCESS contract at Grand Forks Air Force Base. The contractor was classifying price-listed parts as non-price-listed parts to avoid selling the items at the discounts agreed to in the contract. It was also charging the Air Force for more costly parts and delivering cheaper parts. Also, base officials could have avoided additional contractor service charges by consolidating purchase requests for the same items.

We brought these matters to the attention of base officials and to the Department of Justice. Justice told us that further investigation of this matter appeared warranted and that prosecution would be considered if an intent to defraud the Government was found. In a closeout discussion with officials at Air Force Headquarters, the Air Force said that to improve the management,

surveillance, and administration of COPARS/COCESS contracts, major commands were given guidance to

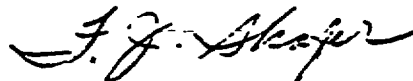
- include a clause in future contracts which gives the Government access to the contractor's books and records in order that transactions of any nature under the contract can be validated,
- include a clause requiring the contractor to furnish items from only approved price lists and to furnish only the item priced,
- closely monitor non-price-list purchases to see if any items are repetitive enough to warrant negotiated inclusion as a price-listed item or to request additional price list coverage for non-price-listed items,
- include a clause requiring contractors to identify any affiliates they may have in an effort for administrators to track non-price-list purchases to insure that the Government is getting items from the best source.

Additionally, new and revised instructions and checklists were provided for contracting officers, contract administrators, and technical representatives of the contracting officers.

During our survey, we visited the COPARS and COCESS stores located at Grand Forks Air Force Base, North Dakota. We also visited Great Lakes Naval Training Center, Illinois, and the Army's Rock Island Arsenal, Illinois. We spoke with officials in the office of the Assistant Secretary of Defense (Installations and Logistics) and DSA's Defense Logistics Analysis Office.

We appreciate the cooperation and courtesies extended to us by officials in your office, the military departments, and DSA. We shall appreciate your informing us of the results of the DSA study and any DOD actions in this matter.

Sincerely yours,



F. J. Shafer
Director