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MILITARY CONTRACTOR-OPERATED STORES' CONTRACTS ARE UNMANAGEABLE--ETC(U)
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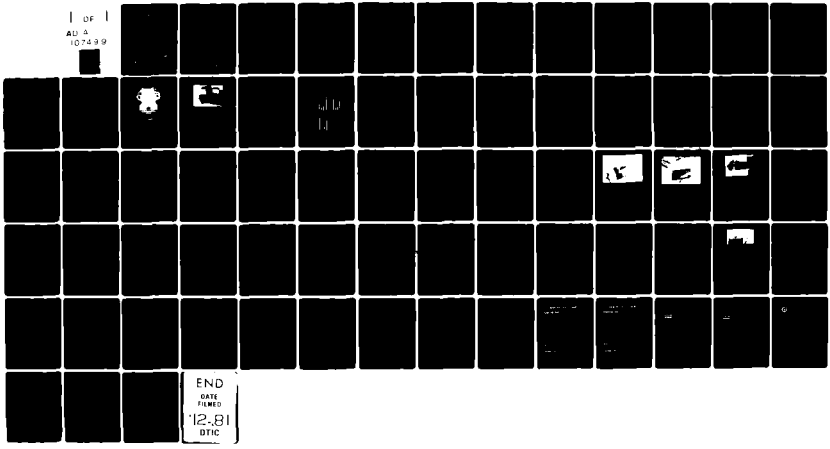

BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

Military Contractor-Operated Stores' Contracts Are Unmanageable And Vulnerable To Abuse

LEVEL II

Contractor-operated base stores were once envisioned as a practical and cost-effective means for buying vehicle repair parts and civil engineering supplies, but are now plagued by pricing irregularities, contract abuses, and repeated allegations of fraud.

The Department of the Air Force, despite concentrated efforts over the last several years, has been unable to develop a workable store contract for purchasing the thousands of low-cost, commercial items its bases need daily.

GAO thinks the Secretary of Defense should discontinue the use of contractor-operated stores. Workable, cost-effective alternatives, such as the Government-operated stores, should be used to establish purchasing control.

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

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

This report describes our review of contractor-operated stores selling automotive replacement parts and civil engineering supplies on military installations. We made this review to determine how well these contracts are controlled and whether they are subject to fraud and abuse.

We are sending copies of this report to the Director, Office of Management and Budget, and to the Secretaries of Defense, Army, Navy, and Air Force.

Milton J. Socolar
Acting Comptroller General
of the United States

RE: MASAD 81-27
Pages 60 thru 63 do not contain proprietary information per Mr. John Rinko, GAO/Gaithersburg

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ABBREVIATIONS

AFB	Air Force base
COCESS	contractor-operated civil engineer supply store

ABBREVIATIONS

COPARS	contractor-operated parts store
DOD	Department of Defense
GAO	General Accounting Office
MRL	material requirements list
OEM	original equipment manufacturer
QAE	Quality Assurance Evaluator

CHAPTER 1

INTRODUCTION

The Air Force uses both contractor-operated parts stores (COPARS) and contractor-operated civil engineer supply stores (COCESS) at 44 of its bases to supply automotive and base maintenance items. An additional 23 bases have only COPARS, and 1 base has only COCESS. COPARS were authorized in the early 1960s, and their announced success in providing commercial vehicle parts support led to the development of COCESS in the early 1970s to supply items used by the base civil engineering group. In advocating this purchasing concept, the Air Force argued that contractor-operated stores were usually more responsive and less costly than the traditional Air Force base supply system.

Both the Army and Navy have made limited use of COPARS' contracts patterned after the Air Force model, but neither uses COCESS to supply base maintenance items. The Army has three COPARS and the Navy has six.

STORE CONTRACTS

The Air Force stores are operated under requirements-type supply contracts awarded by base contracting offices for 1 year, with annual renewable options for 2 years. The Air Force has a standard contract format for each type of store. Both formats have been changed several times to improve contracting and many of the current store contracts were awarded under prior formats. The current formats for both the COPARS and COCESS contracts are dated April 1980.

The standard contract gives the contractor exclusive rights to establish a base store. Space and utilities for the store are furnished by the base. The store stocks an inventory of items the Air Force customer frequently buys and sells to fill customer supply requests. Daily sales transactions are recorded on sales slips when goods are delivered. These sales slips support the contractor's monthly invoice for all sales.

The Air Force spends about $62 million a year to buy goods through about 120 contractor-operated stores. Most items purchased cost less than $25 and only a few cost more than $500. Numerous purchases are made daily from each store and each purchase is expected to be priced according to the contract.

Most of the items sold are prepriced in the contract. These items--called priced sales--are to be priced on the sales slip according to the contract's pricing provision. When the Government requires an item which has not been prepriced, the contractor is required to supply the item. These items--called nonpriced sales--are sold at the contractor's actual cost plus a service charge.

Contract pricing provisions--COPARS

The COPARS contracts are usually fixed-priced contracts awarded under formal advertising procedures. Under these procedures, the contract is awarded to the lowest responsible bidder. The bidders bid to supply brand-name parts available from four commercial market sources,

--the original equipment manufacturer's (OEM's) automotive and truck market,

--OEM's special purpose equipment market,

--the rebuilt market, and

--the automotive aftermarket (common replacement parts).

Rather than bidding prices, the bidders bid discounts from price lists they obtain from manufacturers and distributors in each of the basic markets. The contractor bids a single discount rate on all parts supplied from each market category. The contractor offering the largest discounts is awarded the contract.

The contractor is required to do necessary research to identify, locate, and supply the parts the Air Force needs for vehicle maintenance. On the basis of this research, the contractor selects the needed parts from one or more of the approved contract sources and prices the part using the price list. The contracts we reviewed had as many as 230 approved price lists, each assigned to one of the market categories.

The individual sales slips show purchase quantity, part number, part description, market source, current suggested retail price (based on approved price lists), contract discount, and net price. Sale and delivery are expected to occur simultaneously.

Contract pricing provisions--COCESS

The COCESS contracts are fixed-price contracts awarded under negotiated procedures. The contracts also contain a cost reimbursement provision, like the COPARS contract, for nonpriced sales. The COCESS offerors propose unit prices for each individual item the base may need. These items are listed on a material requirements list (MRL) that is furnished to the offerors, and shows all the items with anticipated needs by nomenclature (including brand name), unit of issue, and expected consumption. The offerors' proposed fixed unit price for each item is extended by the quantity estimated to be required, and the contract is awarded to the offeror offering the lowest total price for all items. Before award, the base may negotiate individual item prices to assure they are reasonable. MRLs in the contracts we reviewed contain from 2,100 to 5,700 items.

Prior COCESS contracts were priced based on a combination of discounts from price lists and MRLs. The Air Force abandoned the use of price lists in COCESS contracts, but some contracts awarded based on price lists continued until they expired.

Nonpriced sales

Under both the COPARS and COCESS contracts, the contractor acts as a purchasing agent when the Government requires an item not covered by the contract's pricing provision. The contractor is required to buy the nonpriced items at the lowest price from authorized distributors and sell them to the Air Force. For this service the contractor receives either a service fee for each transaction or a fee based on the total value of monthly transactions in nonpriced items.

COPARS AND COCESS CONTRACTORS

Contracting was orginally envisioned as a contractor-operated store with local merchants; therefore, for the first few years the majority of contracts were awarded to local contractors. However, local commercial companies did not routinely provide the wide range of items needed to support Air Force base operations, nor did they normally provide the many items available only from original manufacturers. Thus, the local companies had to expand their normal sources of supply to support the Air Force bases. Although some were successful in doing this, in recent years contracting has become dominated by companies operating nationwide and specializing in COPARS and COCESS contracts. The Air Force believes there is a correlation between the increased number of nationwide contractors, difficulties in administering contracts, and allegations of contract abuses.

CONTRACT ADMINISTRATION

The administration and surveillance of COPARS and COCESS contracts requires expert technical skills because of the complexities of the commercial parts distribution system and the contract pricing arrangements. These complexities, and the volume of transactions processed, create a heavy contract administration burden. The contracts we reviewed had a contract administrator to represent procurement interests and a Quality Assurance Evaluator (QAE) to represent user interests. Ordering and receiving goods under the contract is the responsibility of the using organization.

OBJECTIVE, SCOPE, AND METHODOLOGY

Our objective was to determine whether the procedures and practices used to award and administer COPARS and COCESS contracts are adequate to prevent or detect contract abuses and fraud. There have been repeated allegations of fraud, contract abuse, and pricing irregularities. These irregularities appeared to form a recurring pattern which indicated that they could be

related to defects in the contracts' structure or contract administration practices.

Our review did not include an evaluation of the logistics aspects of the contracts. We had previously reported to the Secretary of Defense (B-146874, Nov. 2, 1976) our concerns about the general economy and effectiveness of using contractor-operated stores instead of Government-operated central supply systems. That report also noted pricing irregularities in the COCESS contract at Grand Forks Air Force Base (AFB).

The scope of our review included evaluating Air Force contracting and management procedures developed to implement the contractor-operated store, reviewing audit reports and closed criminal investigation reports from the Air Force, and reviewing 10 out of 120 Air Force store contracts in operation. Because the Army and Navy have only nine contracts, we concentrated on Air Force contract operations. Since the same contract format is used by the Army and Navy, we believe they could experience the same abuses. In fact, Army and Navy criminal investigation reports do indicate similar abuses.

The contracts reviewed were selected to include stores operated by six nationwide contractors holding multiple contracts as follows:

--One Stop Motor Parts, Inc., Grand Prairie, Texas, holding 24 COPARS contracts.

--East Bay Auto Supply, Inc., Berkeley, California, holding six COPARS contracts.

--Hust Brothers, Inc., Marysville, California, holding eight COPARS contracts.

--Wheeler Brothers, Inc., Somerset, Pennsylvania, holding six COPARS contracts and three COCESS contracts.

--Century Industries, Inc., Milwaukee, Wisconsin, holding 18 COCESS contracts.

--Hatfield Plumbing Supply Co., Inc., Inglewood, California, holding three COCESS contracts.

In addition, we reviewed the one COPARS contract held by 555, Inc., Little Rock, Arkansas, a regional distributor of automobile parts. The contractors included in our review held about one-half of the total contracts outstanding.

In total, the Air Force manages about 120 COPARS/COCESS contracts valued at about $62 million ($22 million COPARS and $40 million COCESS). The contracts we reviewed are listed below by location.

Location	Command	Contract/contractor
Randolph AFB, Texas	Air Training Command	COPARS/One Stop Motor Parts, Inc.
Lackland AFB, Texas	Air Training Command	COPARS/One Stop Motor Parts, Inc.
Cannon AFB, New Mexico	Tactical Air Command	COPARS/One Stop Motor Parts, Inc.
Bergstrom AFB, Texas	Tactical Air Command	COPARS/East Bay Auto Supply, Inc.
Beale AFB, California	Strategic Air Command	COPARS/Hust Brothers, Inc. COCESS/Hatfield Plumbing Supply Co., Inc.
Eglin AFB, Florida	Air Force Systems Command	COPARS/Wheeler Brothers, Inc.
Barksdale AFB, Louisiana	Strategic Air Command	COPARS/555, Inc. COCESS/Century Industries, Inc.
Little Rock AFB, Arkansas	Military Airlift Command	COCESS/Century Industries, Inc.

In reviewing COPARS contract operations we examined selected store sales from a recent 2-month period to determine whether the sales were priced according to contract provisions and whether the goods delivered were the same as on the sales slip. We selected sales items that, in our judgment, were likely to be available from several sources and identifiable after installation. We expanded our selection, when necessary, to cover more items having a pattern of incorrect billings. We also reviewed receiving controls and researched selected parts to assure that the part numbers provided were correct.

In reviewing COCESS contract operations, we examined the contract evaluation and award, and tested pricing of selected items under the contracts. To test prices we obtained quotes from local merchants for identical items. At Barksdale AFB, we also reviewed the delivery and installation of materials on selected work orders and examined the ordering and delivery functions.

We visited the home office of each contractor to examine a sample of nonpriced purchases from different vendors. We did not examine the contractor's purchase records for priced sales. The COPARS contracts do not contain a Comptroller General's access to records clause because they are advertised, fixed-price contracts.

We discussed our findings with responsible Government personnel at each installation visited. We contacted officials of the Strategic Air Command, which is the organization having primary responsibility for monitoring COPARS/COCESS operations. We also contacted the military criminal investigative organizations. Finally, we met with procurement policy officials of the Air Force and the Department of Defense (DOD).

CHAPTER 2

PERFORMANCE JEOPARDIZED BY DEFECTIVE CONTRACT STRUCTURE AND AWARD

The store contract was intended to be a cost-effective means of obtaining automotive and maintenance items from the widespread, commercial distribution system. From the beginning, the Air Force was faced with the problem of developing a contract that would

--fix with certainty the price of thousands of potential store sales before the items were actually needed,

--be awarded to a responsible contractor in a free and open competition, and

--require minimum administration.

The Air Force has devoted much effort to this task for several years but has been unable to produce a contract that assures fair and reasonable prices without an extensive and costly administrative burden. The basic problem--prepricing thousands of items and assuring timely delivery according to contract terms--has not been solved.

The contracts, we believe, are highly vulnerable to opportunistic bidding strategies which gamble on

--the contract pricing provisions,

--the accuracy of the Government's estimated requirements,

--the local interpretation of contract terms, or

--the likelihood of the Government's enforcing contract provisions.

Bidders have used devices such as special price lists (see pp. 37 to 39) to enhance their chances of winning contract awards, and have used deceptive practices in adjusting unit prices in COCESS contracts (see pp. 21 and 23). Further, although contractor performance data available to contracting officers raised serious questions about some contractors integrity, they were repeatedly granted contract awards or renewals without even increased contract surveillance.

OPPORTUNISTIC BIDDING STRATEGIES ENCOURAGED

We found the COPARS contracts to be vulnerable to opportunistic bidding strategies because they rely on multiple market categories and price lists. The contract pricing structure, coupled with the lack of a clear Air Force preference, permits

contractors to sell items from categories most favorable to them. Also, the price lists, which ultimately determine the price paid, are not considered in the bid evaluation.

The COCESS contracts were also vulnerable to unsound bidding strategies because the list of items potentially required is extremely lengthy and contains incomplete item definitions and many items which may not have to be purchased. Therefore, bidders having extensive knowledge of the base's items usage could have an unfair advantage over bidders who do not. Also, the mass of requirements data makes both contractor bidding and Government bid evaluation difficult, time consuming, and very susceptible to error.

Defects in the COPARS contracts

The COPARS contract calls for pricing on the basis of discounts from suggested list prices. Within the automotive parts distribution industry, several terms are used to identify the price of parts to wholesalers, retailers, and commercial buyers. The Air Force believes the suggested list, or retail price, is the most uniform term and chose it as the basis of contract pricing.

Since the contractor's purchase cost may vary greatly between sources of supply, the contract format is structured to provide individual bid items by source of supply. Four major price categories are:

--Automobile and truck manufacturer parts. These parts, commonly called dealer items, are available only from the manufacturer's distribution system and are usually sold at small discounts to commercial customers.

--Special-purpose vehicle manufacturer parts. These parts, like the automobile and truck manufacturer parts, are available only from the manufacturer's distribution system. However, the manufacturers of special-purpose equipment--such as tractors, lawnmowers, forklifts, and construction equipment--usually do not have a widespread distribution system like the automobile and truck dealers.

--Rebuilt parts. These parts usually cost less than new parts; however, the range of rebuilt parts available is limited. These parts are priced based on exchanging a like, worn item, called a core, for the rebuilt part.

--Independent aftermarket parts. These parts are usually the most economical because they are available from several competitive sources, both independent manufacturers and distributors, as well as the parts divisions of major automotive manufacturers.

The bidder bids a single discount on parts from each of these market categories.

The bids are evaluated by applying the bidder's discounts by market categories to the Government dollar estimates of expected purchases at retail prices. The computed values are added to the expected nonpriced purchases plus service charges. The bidder bidding the lowest overall computed cost is considered the apparent low bidder, and if otherwise qualified, is awarded the contract.

Nonpriced parts are to be supplied from the highest level available in the manufacturer's distribution network. The Air Force does not consider this as a bid evaluation factor in awarding the contracts. Instead, it relies on compliance with proposed contract terms to assure uniformity among bidders.

This method of soliciting and evaluating results in a contract in which the parts are not priced with certainty. During contract performance, the price of a specific part will be determined by its market source and its price list. If the part is not included in a price list, it is sold as a nonpriced part. These critical pricing determinations are made primarily by the contractors who, we believe, consider that fact when developing a bidding strategy.

Contract pricing uncertainty

The COPARS contracts we reviewed did not require that parts be sold from the market source offering the lowest contract price. A purchase preference clause, based on the lowest price, was added in the most recent contract format revision; but, we believe purchase decisions will remain largely within the contractor's control. With this control, the contractor can bid both large and small discounts calculated to win the award and then sell mostly from the sources with the smallest discounts. If contractors have unrestricted source selection, they can sell at the highest price available. The new clause is intended to restrict the practice, but will not eliminate it.

The fundamental problem of determining a part's price based on its category will remain, since the contractor will still decide what price lists to furnish and what parts to stock for resale. The following examples illustrate this pricing problem.

A new vehicle carburetor can be obtained from either an OEM dealer or a replacement parts supplier. In the Lackland AFB contract, the winning contractor bid a 10-percent discount on OEM--automotive and truck parts and a 45-percent discount on replacement parts. With these discounts, a carburetor for a 1974 Chevrolet pick-up truck would be priced as follows:

OEM--automotive and truck	List price	Percent of discount	Net
General Motors carburetor--part number 17065022	$87.00	10	$78.30
Replacement:			
Delco carburetor--part number 22-3119	$87.00	45	$47.85

Under the contract terms, the contractor can sell similar carburetors for either $78.30 or $47.85. The carburetor was sold for $78.30.

A rebuilt carburetor should have also been available, but neither we nor the store manager could cross-reference the OEM part number or the replacement part number to a rebuilt part from the contract approved rebuilt carburetor source. The list price for a rebuilt carburetor is usually less than for a new carburetor and under the Lackland AFB contract would have sold at a 50-percent discount--the largest discount offered in the contract. The carburetor, like most major engine accessories, can sell for three different prices, depending on whether it is purchased from an OEM dealer, a replacement vendor, or a parts rebuilder.

The duplicating effects between market sources on prices becomes even more confusing when identical parts may be sold at different prices based on sources. This can happen with common items, such as windshield wipers, filters, and electrical or ignition components. The seven-way electrical socket, shown in figure 1 on page 11, packaged in an OEM box with an OEM part number is also marketed by its manufacturer as a replacement part with a replacement part number. Both the OEM supplier and the manufacturer were included in the Lackland contract as approved sources, one at a 10-percent OEM discount and the other at a 45-percent replacement discount. The identical seven-way socket in this contract sold for either $9.49 or $5.35, depending on which source the contractor chose. The switch was sold for $9.49.

Finally, contract pricing can become very confused when parts from replacement sources are marketed in boxes similar to OEM boxes and have the same part number. These parts, called look-a-like parts, can be mispriced easily. The two sets of piston rings shown in figure 2 on page 12 are packaged in boxes of the same color with the same OEM part number printed on them. The OEM logo on the box at the right is the only clearly distinguishable difference, yet one would sell at the OEM discount and the other would sell at the replacement discount.

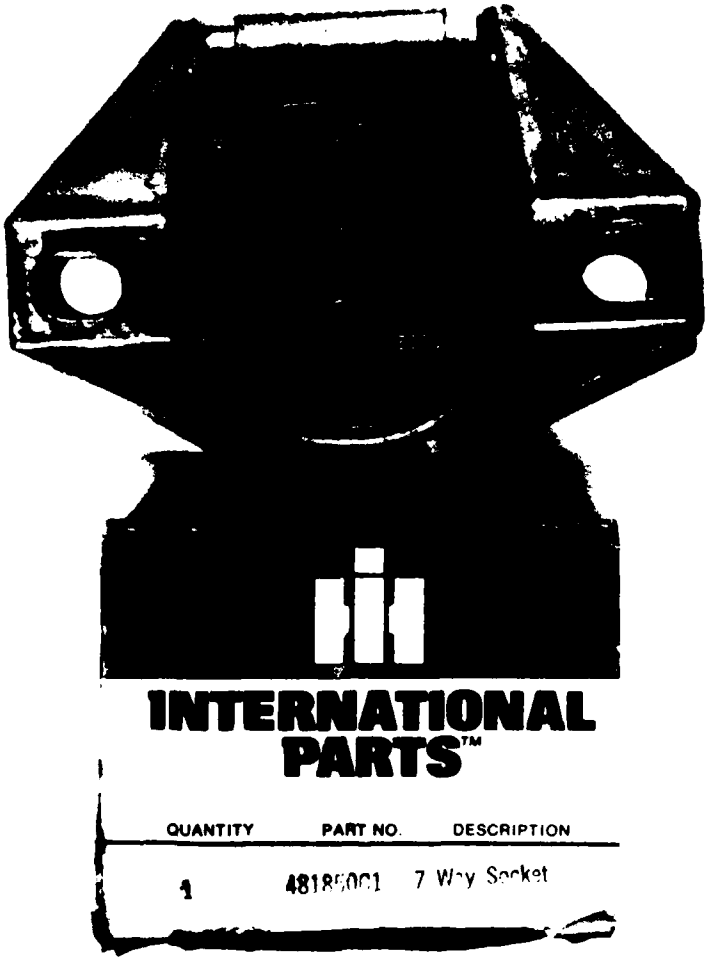


FIGURE 1
COMMON REPLACEMENT PART PACKAGED IN OEM BOX

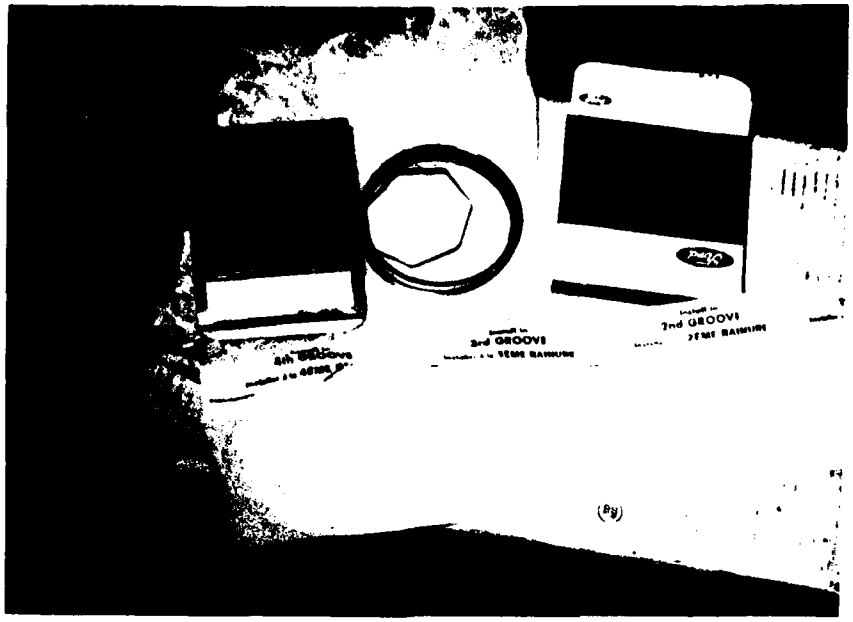


FIGURE 2

LOOK–ALIKE PARTS–RING SET

Unbalanced bidding by sources

The term "unbalanced" is applied to bids on procurements which include a number of items as to which the actual quantities to be furnished is not fixed, in which a bidder quotes high prices on items which he believes will be required in larger quantities than those used for bid evaluation, and/or low prices on items of which he believes fewer will be called for. The COPARS contractor, using the contract's provisions, can concentrate his sales in a category for which he has bid a low discount and avoid categories with high discounts. Parts sales under an unbalanced bid can be weighted heavily towards the lowest discount category and away from the higher discounts. This, we believe, occurred in the Lackland AFB contract and caused the contract cost to increase.

In awarding the Lackland AFB contract the base followed the normal procedure of estimating the retail value of their purchases by market category using prior experience. The base estimated $109,195 of priced purchases, 11 percent from OEM--automobile and truck dealer, 12 percent from OEM--equipment dealers, 45 percent from rebuilders, and 32 percent from common replacement sources. The winning bidder, One Stop Motors, Inc., offered the following discounts by market category.

	Percent
OEM--automobile and truck (1.A)	10
OEM--special purpose equipment (1.B)	2
Rebuilt (1.C)	50
Common replacement (1.D)	45

The large discounts bid on rebuilts and common replacements had a significant effect on the award evaluation because 77 percent of the requirements (45 percent and 32 percent, respectively) were expected to be supplied from these two categories. Conversely, the 10-percent discount on OEM--automobile and truck--had a negligible effect on award evaluation because only 11 percent of the requirement was expected to come from this category.

The actual performance on this contract is shown in figure 3 on page 14. These graphs compare by category the base's estimated purchases with the store's actual sales for 2 contract years and a 3-month extension. The graphs show that the base originally expected to acquire only 11 percent of its total requirement from OEM--automobile and truck category, but acquired 25, 39, and finally 44 percent of its requirement from the OEM source at a 10-percent discount. Conversely, the base did not acquire the volume of rebuilt parts it had expected to acquire at the 50-percent discount rate.

In commenting on the draft report, the Lackland AFB contractor, One-Stop Motor Parts, Inc., stated that an unbalanced bid was not submitted. A part of the differences, shown in figure 3, according to the contractor, would be accounted for as unreasonable Government estimates. Since the contractor profit margins are higher on common replacement parts, the contractor stated that it was not in its best interest to supply OEM parts when common parts were available.

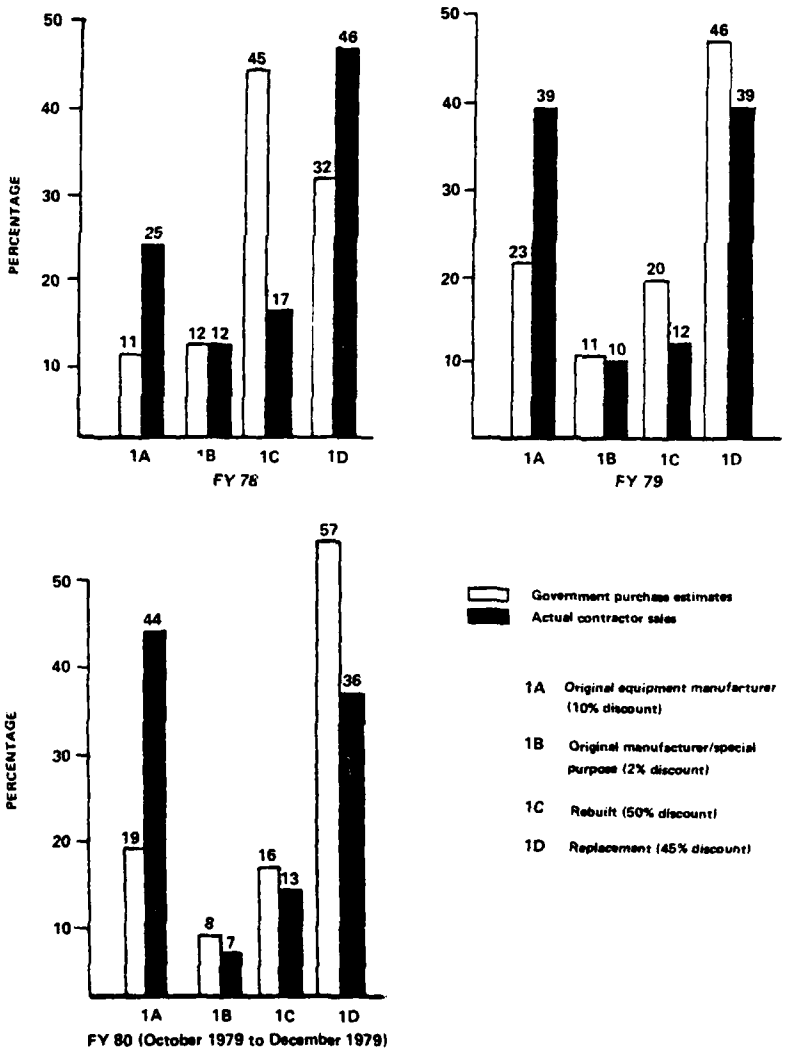
We recognize that estimating errors could account for some differences; however, we believe figure 3 clearly shows that stocking decisions made by the contractor will affect the price paid by the Government. When the contractor does not have common replacement or rebuilt parts in stock, the Government will pay the higher OEM price.

The contractor's practice of filling parts orders mostly from the OEM--automobile and truck source--was aided by the using organization's interpretation of the definition of OEM parts. The contract defines OEM parts as items available only from the original equipment manufacturer. However, the users interpreted the definition as meaning parts not readily available from an alternate source.

We found alternate sources were available for 54 percent of the sales we tested. The alternate source prices were always lower than the OEM prices paid. A 24-percent savings could have been made on the sample items by purchasing at the lowest con-

FIGURE 3

PRICE LISTED PARTS REQUIREMENTS BY SOURCE CATEGORY
EXPECTED VS ACTUAL
LACKLAND AFB



Parts Purchases,
Actual Versus Alternate Sources

Part	Part number	Supplier used	Replacement or rebuilt (R) sources available	Suggested retail	Discount	Net price
					(percent)	
Starter	AT18025	John Deere	-	$163.75	2	$160.48
	ST8384	-	Unit Parts (R)	62.15	50	31.07
Muffler	D5TZ5230M	Ford	-	45.40	10	40.86
	332	-	Merit	38.85	45	21.37
Switch	1375212	General Motors	-	17.20	10	15.48
	1375212	-	Delco	17.20	45	9.46
Carburetor	17065022	General Motors	-	87.00	10	78.30
	22-3119	-	Delco	87.00	45	47.85
Filter	213445R91	Intl. Harvester	-	5.90	10	5.31
	51251	-	Wix	3.90	45	2.15
Fuel pump	M-6347	Carter	-	28.75	45	15.81
	FP6347	-	Unit Parts (R)	12.20	50	6.10
Water pump	PC427	Sealed Power	-	38.50	45	21.18
	WP238	-	Hy-Test (R)	24.65	50	12.33

tract price. The above schedule illustrates the types of savings obtainable.

The purchase preference clause added to the revised COPARS format dated April 1980 is intended to aid in reducing purchases from higher cost sources. However, the contractor can still buy from any source to provide urgently needed parts, and will still decide which sources to submit for contract approval. Consequently, the contractor's stocking and source selection decisions will still affect purchase cost. We also found the purchase preference clause favoring rebuilt parts instead of new parts was often not followed. (See p. 35.) The new, more detailed clause, we believe, will also be difficult to administer and follow.

The revised format also inadvertently changed the invoice arrangement previously used so that contractor billings are no longer itemized by discount category. Without this information, the bases will have no ready means of estimating future purchases by category.

In commenting on the draft report, the contractor stated that the Air Force does not require that price be the sole or most critical criteria for sales. Indeed their experience, the contractor stated, had been that parts availability was probably equally

important. Therefore, higher priced parts are sometimes provided if they are available when the lower priced parts are not available.

Parts availability, we believe, is a basic shortcoming of the contract store. Under the exclusive store contract, the Air Force must buy its parts from the store inventory even though lower priced parts are available from local suppliers or the Government central supply system.

Unbalanced bidding also results from the contract structure for bidding the OEM--special equipment source category. Under this category, the contractor selects the brand names to be covered by price lists, and must include at least 50 percent of the brands specifically requested. The Air Force provides a list of base equipment by brand name and an inventory of all vehicles and equipment on base. However, the bidder bids to cover only 50 percent of the specific brand names requested, not 50 percent of the equipment.

For example, if the request listed only two equipment brand names, Ford tractors and John Deere tractors, the bidder could comply with the 50-percent requirement by checking one. If the inventory contains 80 Ford tractors and 20 John Deere tractors, the bidder who checks John Deere would provide price-listed parts for only 20 percent of the inventory; nonprice-listed parts would be furnished for the other 80 percent. Conversely, the bidder who checked Ford tractors would provide 80 percent of the special purpose equipment fleet with price-listed parts.

In award evaluation, both bidders would be treated as providing the same price-listed coverage. However, the first bidder, who provides only 20 percent coverage, could offer higher discounts because he would provide fewer priced parts.

If many brand names and a large equipment inventory is involved, the situation is more complex but the bidding strategy can produce essentially the same results. For example, at Beale AFB, California, the contract solicitation listed 14 equipment brand names; the bidders were instructed to select at least 7 brands for price-list coverage at the discount rate bid for this category--OEM, special purpose vehicles. Ideally, the 14 brand names offered for bidder selection should provide price-list coverage for a major part of the special purpose vehicle fleet maintained by the Vehicle Maintenance Branch. The base equipment inventory included in the solicitation was listed in five categories as follows:

Equipment category	Number of brand names	Quantity of equipment items	Quantity of equipment items covered by brand names in request
Truck bodies/mounted equipment	19	48	1
Specific purpose equipment	30	121	51
Miscellaneous equipment	35	120	3
Generators	7	27	26 (engines only)
Ground support equipment	29	268	-
Total	120	584	81

In listing the 14 brand names, the base officials should have made sure each brand represented a significant number of equipment items in the inventory, but they did not. Some brands requested were not represented and others had only a few equipment items in the inventory.

The winning bidder, Hust Brothers, Inc., took advantage of this mistake by offering a 50-percent discount on seven of the brand names, compared to discounts of 5 percent or less from four competing bidders. We found that five of the seven brand names selected by Hust had no equipment identified in the special purpose equipment category. The two remaining brand names had eight equipment items identified. By selecting brand names without equipment, Hust covered only eight of the special-purpose equipment items. The brand names he selected covered 26 generator engines and 1 piece of miscellaneous equipment, but none of the mounted equipment or ground support equipment.

This minimal coverage was further diminished after contract award when Hust notified base officials that price lists for the two brand names selected with equipment were unobtainable. Base officials told us they contacted these manufacturers and found that the manufacturers did, indeed, choose to keep their price lists captive. Consequently, no special-purpose vehicles were covered by price lists furnished by Hust. The base had estimated it would buy $18,500 worth of special-equipment parts at the 50-percent discount rate, but purchased only $900 worth of price-listed parts at this discount.

In commenting on the draft report, the Beale AFB contractor, Hust Brothers, Inc., stated that the responsibility of seeing that a proper request is issued lies with the Air Force. If the Air Force issues a vehicle fleet listing containing inaccurate estimates, the contractor is forced to submit an unbalanced bid. The contractor sees it as a good business tactic for locating the loopholes which enabled it to qualify as a bidder. The

contractor said it provided a 50-percent discount on all items sold even though it was not obligated under the contract terms requiring price lists.

The contractor did provide parts for the brand names it bid at the 50-percent discount, but because of the limited coverage, only $900 of the expected $18,500, 2d year purchases could be made from these brands. Remaining parts had to be bought as nonpriced.

We recognize that the Air Force is responsible for contract structure and content. By offering contracts which are vulnerable to opportunistic bidding strategies, the Air Force limits successful participation in the bid process to bidders who know the methods and benefits of making unbalanced bids.

Price lists not considered

In the award process, the Air Force does not evaluate the bidders discount against its price lists to find out what the actual purchase price of parts will be. Instead, it evaluates bids based on the discounted value of the Government estimated purchases at retail. This practice, we believe, encourages bidders to use price lists which offer the highest suggested retail price available. Obviously, the ultimate selling price will depend on both the discount and the suggested retail price, but the Air Force considers only the discount.

Some Air Force officials believe that the suggested retail prices of most parts, regardless of supplier, are substantially the same, based on their experience with contract price lists. It would be impractical to compare the prices of 10s of thousands of brand name automobile parts to reach a firm conclusion on this issue, but based on our work, we believe that the Air Force's confidence in the uniformity of suggested retail prices is not well founded.

In our examination of individual contract sales, we found major differences in suggested retail prices. We also found major differences when we compared selected parts prices between suppliers. Our comparison of electrical and rebuilt items between suppliers showed that prices could vary substantially on individual parts. For example, we found

--13 percent variations in the price of a rebuilt alternator for a 1971 Dodge truck,

--34 percent variations in the price of a replacement rotor cap for a 1972 Dodge truck,

--43 percent variations in the price of a rebuilt water pump for a 1977 Ford truck, and

--64 percent variations in the price of a replacement ignition coil for a 1975 Chevrolet truck.

We believe the variations between price lists must be considered in contract evaluation to assure the lowest bidder is awarded the contract. To illustrate, a bidder who offers a 40-percent replacement parts discount from the Motorcraft price list would sell the ignition coil for a Chevrolet truck at $30.45 each. The bidder who offers a 10-percent replacement parts discount from the P&D, another parts distributor, price list would sell the ignition coil for the same truck at $27.83. Yet under the Air Force's bid evaluation procedure--considering only discounts--the first bidder would be the low bidder. The current evaluation method not only favors the bidder with the highest price lists, but also encourages the bidders to inflate price lists. We found that some contract price lists were inflated 280 percent. (See p. 39.)

The disadvantages of using price lists in the COCESS contracts were recognized when the Air Force found they were awarding contracts based on discounts from price lists developed and controlled by the contractor. We also found price lists to be a problem in the COPARS contracts. However, price lists are still the only method used for contract pricing.

Defects in the COCESS contracts

The current COCESS contract format provides for prepricing thousands of items listed and described in the request for proposals. The price offered on each individual item is extended by the estimated quantity required. The extended values are then totaled and added to the estimated nonpriced purchases and service fee to arrive at the total offer.

The total offer is negotiated with attention to the service fees and any individual item prices that vary substantially from the Government estimate, if available, or from other bidders' individual item offers. For example, at Barksdale AFB the offers by the two remaining offerors were as follows:

	Offerors	
	Century Industries, Inc.	Wheeler Bros., Inc.
Individually priced items (2,100 items)	$1,099,640.74	$1,209,499.64
Nonpriced items (Government estimate)	233,639.00	233,639.00
Service fees	47,712.00	40,620.00
Total	$1,380,991.74	$1,483,758.64

The two offerors' prices on individually priced items varied substantially on 523 items, or about one-fourth of the total items. Efforts to negotiate the individual items proved fruitless, so the

Air Force negotiators accepted Century's final offer, incorporating all individually priced items as proposed.

This evaluation and award process can result in questionable awards, unreasonable prices, and an onerous administrative workload to maintain the integrity of the individual item prices. The primary defect in the process is the listing of materials called MRL. To be effective, MRL must

--completely and accurately describe the item needed with reasonable assurance that it will remain so during the contract period,

--estimate with reasonable accuracy the quantity needed,

--include most of the items needed,

--specify the units of purchase most frequently required, and

--exclude most of the items not needed.

To produce an effective MRL is time consuming and difficult. All three MRLs we examined did not meet the criteria.

Questionable award

At Beale AFB, a MRL containing about 5,700 items was included in the request for proposals on the 1978 follow-on contract. Initial proposals were received on this contract from two offerors. One was a local company, the other was the incumbent contractor--Hatfield Plumbing Supply Company, Inc. The offers were evaluated, and the offerors were then requested to propose their best and final offers. Hatfield's best and final offer was the lowest by $46,565.21, and thus, was awarded the contract. The initial and final offers leading to award were as follows:

	Initial	Best and final
Local company	$2,221,943.60	$1,758,092.41
Hatfield	1,877,127.19	1,711,527.20

Our analysis of Hatfield's final offer disclosed that about $53,411.94 of the net reductions came from changes in two items--General Electric heat pump, 4 ton model PNWA948A1A, and General Electric heat pump, 3 ton model PNWC036A1A. The initial and final bids on these two items were as follows:

		Initial		Final	
Item	Quantity	Unit price	Total	Unit price	Total
1	26	$1,105.56	$28,744.56	$22.05	$573.30
2	27	952.94	25,729.38	18.10	488.70

Although this drastic reduction should have alerted contracting officials to the possibility of an unreasonable price, no action was taken and the award was made. Then, shortly after award, the contractor advised the contracting officer that the two heat pumps would not be available because the manufacturer had discontinued those models. The new models, PNBWB948A100A and PNBWC036B100C, were offered at $1,169.55 and $1,007.96 each, respectively, and the contracting officer accepted the revised prices.

Our check of the model number contained in the MRL disclosed that one had been discontinued before July 1976 and the other before 1974. Because of the description error and the bidding strategy used to take advantage of it, the incumbent contractor was able to reduce its offer. After the contract began, prices on the same items were revised, totally eliminating the offered reduction.

In commenting on the draft report, the President of Hatfield Plumbing Supply Company, Inc., told us that the company had supplied the discontinued models under the prior contract. Even though the models had been discontinued by the manufacturer, the president said the company carried a limited inventory. They exhausted their supply in late 1978. Sometime between the initial and final offer on the follow-on contract, Hatfield became aware of the discontinued models. Because of that knowledge, the president said the items were priced in the best and final offer at a "low and arbitrary price." No questions were asked, and the contract was awarded. The president said the status of these model numbers was available through General Electric to any bidder or to the Government.

Unreasonable prices

The prices offered on MRLs suggest that the offerors are gambling that the item descriptions or estimated requirements are incorrect. The gamble involves offering the lowest total price by offering high prices on items that are likely to be sold and low prices on items that are not likely to be sold. To illustrate, if many MRL items are incorrectly identified, or the need for them is substantially overestimated, the offeror can offer low prices with some assurance of not having to sell the items. The offeror can then offer high prices on other items which are likely to be sold. The low prices counterbalance the high prices to produce a total low offer which is unbalanced.

The Barksdale AFB COCESS contractor provided insight into this bidding strategy while attempting to increase a "no charge" price for an electrical plug. In correspondence, the contractor stated the no charge bid was made because the supplier gave assurance that the requested plug was no longer in production. After award, the plug was found to be available and would have to be supplied. In February 1979 the contractor requested a contract change in the price from no charge to $1.59 each. Unsuccessful

in this attempt, the contractor requested that another plug be added to MRL, identical to the first plug except for color, priced at $3.51. The new plug was added in April 1980. Since adding the new plug, the contractor has avoided furnishing the no charge plug. Base contract records show that the contractor supplied about 300 of the plugs at no charge but refused to supply the plug from November 1978 until May 1979. During this period the base bought about 300 plugs as nonpriced items for $655.

In commenting on the draft report, the contractor, Century Industries, Inc., stated that its bid on the plug was a simple bidding error. The change to the second plug, it contends, corrected both the Government's MRL description error (wrong color) and the bidding error (wrong price). The contractor stated that it did not submit an unbalanced bid and it was erroneous for us to draw such a conclusion on the basis of its bid on the plug.

Our conclusion that bidding patterns on COCESS contracts were unbalanced is based on our overall evaluation of bids on three COCESS contracts, not the bidding on a single item. As stated on page 19 of this report, prices proposed by the two final offers for this contract varied substantially on 523 items or about one-fourth of the total items. One such item was the plug bid at "no charge" by Century and $12.12 by Wheeler. The plug example, we believe, offered some insight into the reason for such a price variance. Century bid no charge to supply an estimated annual quantity of 300 because they believed, incorrectly, that the plug described by brand and part number, was not in production.

Item prices examined at Beale and Little Rock AFBs indicate similar disparities. At Beale prices offered on several hundred items varied drastically from the Government estimate, but were not negotiated. Some items were deleted from the MRL, but the remainder were incorporated without negotiating individual item prices.

At Little Rock AFB, a new contract with an expanded MRL (2,100 items) was being negotiated to replace a prior COCESS contract that had been partially dependent on price lists. An Air Force official told us that they did not intend to negotiate individual item prices even though some of the item prices were obviously unreasonable. The official told us they expected the best and final offers to be more realistic.

The logic of accepting unreasonably high and low prices and expecting the total purchases to be reasonable is valid only if all items are purchased in the quantities estimated. The contractors, as illustrated in chapter 3 (see p. 29), may avoid selling low priced items. In addition, the contract provides for economic price adjustment over the period of the contract, usually 1 year, with options to renew for two additional 1-year periods.

Economic price adjustments

The economic adjustment clause of the contract permits 10 or 20 percent annual increases to compensate for price changes. This clause creates an administrative burden because each of the several thousand items is subject to price adjustment, and if not handled properly, these adjustments can result in unjustified price increases. We found economic price adjustments were not handled properly at Barksdale AFB and unjustified price increases occurred.

The Barksdale COCESS contract provided economic price adjustments if an item's established price changed. However, the contract administrator was adjusting contract prices based on notification that the item's price had changed without first determining if the adjustment was proper. The contract administrator had processed about 5,500 price adjustments in 2 years on the basis of the percentage of asserted price increases.

For example, the contractor notified the administrator that its price of a door had increased and requested a 10-percent price increase. The door had a contract price of $110.82 each, and a vendor quoted price of $51.91. The vendor said that its sales price would increase by $5.03, or about 10 percent. The contract administrator allowed the contract price to be increased $10.98, or about 10 percent to $121.80. An increase under the contract clause could not be made unless the contractor could show that a substantial quantity of doors had been sold to the general public at the $121.80 contract price--the test for established price under this adjustment clause. We found the door was quoted for $56.94 in the local commercial market.

The contractor stated that COCESS sale prices could not be equated to its prices to the general public because of unique costs in addition to those usually associated with commercial operations. The unique costs identified were distant freight, fixed prices for extended periods, heavy administrative burdens for price increases, operation of a satellite store, minimum stock and delivery requirements, warranties in excess of manufacturer's warranty, restocking charges, and inventory obsolescence.

Therefore, the contractor contends that its initial pricing would not be expected to conform to its sales to the general public, which do not have these same cost risks. Also, the contractor said it would not have public sales of some items because it was not a dealer for all items supplied under the contract. The contract requires that contractors be a dealer for only one of the several building trade lines provided.

The problems of unbalanced bidding and price escalation in the current MRL pricing method can be minimized if the Air Force adds local trade prices to MRL before solicitating and requires offerors to propose percentage discounts or premiums against the total requirement. (See p. 55.) However, this will not eliminate

the time-consuming effort of preparing a proper MRL or the problem of assuring accurate item descriptions.

PERFORMANCE DATA--MORE AGGRESSIVE ACTION NEEDED

In 1977 the Air Force established a special investigations program to examine the growing irregularities in COPARS and COCESS contracts operations. In 1978 a data bank was established to assemble data on contractor performance at Headquarters, Strategic Air Command. A file of data on each contractor was to be collected and used to evaluate contractor responsibility when making future contract awards. Other commands were to provide information on their experiences with contractors to keep the data bank current. The data bank would summarize the data and give it to contracting officers on request. Headquarters, Air Force Procurement, directed that no contract was to be awarded and no option exercised without first obtaining and considering the data.

The success of the data bank, actually a set of index cards showing contract data, ultimately depends on whether the data is current and whether it is used. Although contracting officers have requested the data, they have been unable to make much use of it, and since little additional performance data has been supplied, the data bank is out of date. Further, even when requested data showed evidence of unsatisfactory performance and integrity, the contractor was still determined to be responsible and surveillance of the contractor's operations was not increased.

Air Force investigations

Since 1970 the Air Force has conducted over 75 separate investigations of contractor-operated stores. About 41 investigations have been conducted since the special investigations program was started in 1977. The following types of irregularities were disclosed.

Price list abuses

--Contractors billed price-listed items as nonprice-listed items, thereby overcharging the Air Force.

--Contractors submitted inflated price lists for contracting officer approval. In some cases, the inflated price lists were created by altering bona fide price lists. In other cases, contractors submitted phony price lists from "sweetheart" suppliers. The Air Force defines sweetheart suppliers as those who have a closer than normal business relationship with the contractor.

--When more than one price list existed for the same or similar items, contractors consistently ordered from the highest priced source.

Use of sweetheart suppliers

--Fictitious suppliers were used to submit inflated billings to the Air Force.

--Contractors used affiliated suppliers to inflate Air Force billings.

--Some contractors colluded with bona fide suppliers to inflate Air Force billings and split the resulting profits.

--Sweetheart companies were used to submit duplicate invoices and bill double for items sold to the Air Force.

Item substitutions

--Contractors stocked items of lower quality and price than approved by the Air Force.

--Items of lower quality and price were intermingled with approved items.

--Items of lower price and quality were packaged in boxes very similar in appearance to higher quality items required by contracts.

--Contractors provided rebuilt parts but billed for new parts.

--In a few instances, contractors were alleged to have been obtaining such items as engines from junkyards, cleaning and repainting them, and selling them to the Air Force as rebuilt items.

Short shipments and over ordering

--Contractors billed for more items than they actually sold. This was done by altering sales slips after the items were issued or by purposely issuing fewer items than the customers signed for.

--Items in excess of Air Force needs were ordered and issued to store customers to increase sales.

Despite the many investigations conducted, the Air Force has had little success in persuading the Department of Justice to pursue investigations aggressively and to attempt criminal prosecution. The main problem the Air Force identified was that the investigations were localized, and usually the fraud substantiated amounted to relatively small dollar amounts. Therefore, the cases did not rate a high priority for prosecution.

Irregularities we found

We found similar irregularities in the contract-store operations (see ch. 3, p. 29). More important, we found that even though data bank summaries showed prior unsatisfactory performance, the bases allowed similar performance again without challenge.

For example, the performance summary information showed that in 1978 One Stop had purchased nonprice-listed items through Rex-Tex Equipment Corporation, Dallas, Texas, and a Florida company for delivery under one of its COPARS contracts. The investigation showed the Air Force paid inflated prices on the purchases from Rex-Tex. The base had withheld $4,145.15 from the final contract payment as a result of this investigation.

One Stop believes it acted in the best interest of the Air Force in buying hard to find parts from Rex-Tex. One Stop commented that it accepted the withholding as a reasonable alternative to resolving a complex and time-consuming contract dispute.

A summary containing pertinent information on this investigation was available to the contracting officer at Cannon AFB, New Mexico, when One Stop's contract at that base was extended for 1 year in July 1979. We believe the data should have alerted the contracting officer to the possibility that the contractor could perform unsatisfactorily on the Cannon AFB contract, but the officer determined the contractor to be responsible and did not check for inflated purchases from Rex-Tex.

Our review at Cannon AFB showed that One Stop purchased about 65 percent of its nonprice-listed goods from Rex-Tex. We also found that in samples of sales the goods were priced 20 to 25 percent higher than prices quoted by authorized dealers. (See ch. 3, p. 44.)

Similar circumstances were found at Bergstrom AFB. There the COPARS contractor, East Bay Auto Supply, Inc., was purchasing nonpriced items from its operating division, Vehicle Industrial Parts, for resale to the base even though they were not always the lowest priced source. (See ch. 3, p. 45.)

The performance data on East Bay supplied to the contracting officer at Bergstrom AFB showed that the contractor was suspected of being affiliated with a firm known as Vehicle Industrial Parts, possibly a sweetheart company. Even though the contracting officer was notified of the arrangement, purchases were still made from Vehicle Industrial Parts at higher prices.

The performance data on Century Industries, Inc., compiled in 1976 showed that the price list it provided to the Air Force as the basis for offering a contract discount contained higher prices than the price lists provided to its retail customers. The Air Force intended to prohibit the special marked up price

list in all future contracts; however, we found excessive prices in the Little Rock AFB's 1978 contract. (See ch. 3, p. 45.)

Contractor responsibility determinations

The Defense Acquisition Regulations (1-904.1) provide that no purchase shall be made from, and no contract shall be awarded to, any person or firm unless the contracting officer first makes an affirmative determination that the prospective contractor is responsible. The minimum standards for responsible contractors (1-903.1) require that the prospective contractor must, among other things, have a satisfactory record of performance and a satisfactory record of integrity. The signing of the contract by the contracting officer constitutes an affirmative determination that the contractor is responsible.

If an affirmative determination cannot be made, a determination of nonresponsibility must be written setting forth the basis of the determination along with the supporting documents. Prior performance and conduct are probably the best measurement of expected performance and conduct. While isolated events or happenings on prior contracts, standing alone, would not warrant a determination that a bidder is not presently responsible, a continuing pattern of unsatisfactory performance and conduct would indicate present nonresponsibility. Debarment or prior criminal convictions are very serious matters and weigh extremely heavy in the overall judgment of current responsibility.

Contracting officers who must make this judgment have broad statements of policy and criteria to follow, but no specific objective criteria. For example, the regulation states that the contractor must "* * * have a satisfactory record of integrity * * *," but provides no objective criteria as to what constitutes adequate evidence of an unsatisfactory record of integrity except reference to whether the contractor has been debarred or suspended. In the absense of criteria, the contracting officers' judgments can vary significantly. For example, the Air Force found that in awarding contracts one of its major commands was denying awards to a COCESS contractor, not included in our review, through nonresponsibility determinations while at the same time two other major commands were awarding COCESS contracts to the same contractor without challenging its responsibility.

Contracting officers, we believe, generally determine a contractor responsible unless the contractor has been convicted of defrauding the Government or debarred. The contracting officer at Cannon AFB, for example, noted that the prior investigation of the One Stop and Rex-Tex business arrangement had not warranted prosecution. Consequently, the contracting officer considered the contractor responsible and accepted the same business arrangement at Cannon AFB even though it was known to have resulted in inflated prices on the other contract.

Although the Air Force had extensive information on COPARS and COCESS irregularities and on the contractors who used these schemes, the contracting officers seldom considered the information sufficient to warrant the administrative action of challenging the contractor's responsibility. Finding a contractor to be nonresponsible is a serious step, but we believe it should be done when the contractor has a pattern of unsatisfactory performance and integrity. However, the contracting officer's tendency to primarily rely on criminal convictions to support nonresponsibility determination links this administrative action with criminal prosecution action which can be decided on facts not directly related to the contractor's performance and integrity. Specific criteria on what constitutes adequate evidence of unsatisfactory performance and integrity should be provided. (See p. 55.)

CHAPTER 3

COPARS AND COCESS PURCHASES ARE PLAGUED WITH IRREGULARITIES

Purchases from COPARS and COCESS have encountered a variety of pricing and delivery irregularities traceable to either a breakdown in contract management or defects in the contract. Management breakdowns were characterized by disorganized base-level contract management and excessive reliance on the contractor to perform according to the contract terms and conditions.

Contract management includes maintenance, procurement, and supply functions and should be organized to adequately meet the needs of each function. Maintenance needs responsive delivery of quality materials to perform its work. Procurement needs to have materials ordered, priced, and delivered according to the contract. Supply needs assurances that the materials ordered and billed are delivered. To represent these interests, the Air Force provided for a contract administrator and a Quality Assurance Evaluator (QAE) to monitor the day-to-day operations of the store.

We found a QAE was usually assigned to the using organization (maintenance), and was often more responsive to its needs than to the needs of procurement and supply. Maintenance personnel usually received goods directly from the stores and were more concerned with obtaining repair parts than with assuring contract compliance. Indeed, goods were often received by personnel who were unaware of the contract terms and relied on the contractor to comply with the contract.

Both the COPARS and COCESS contracts depend heavily on the contractor to sell items at prices agreed to in the contract, but leaves the contractor wide latitude in ordering, pricing, and delivering items. The contract defects (see ch. 2, p. 7) were significantly magnified by the breakdowns in contract management. Contractors given opportunities to increase their profits or minimize their losses have, in our opinion, taken advantage of the latitude provided to sell items at higher prices. Irregularities occurring in both priced and nonpriced sales on the COPARS and COCESS contracts are discussed in the following sections.

IRREGULARITIES IN COPARS PRICE-LISTED SALES

The COPARS contract calls for pricing on the basis of discounts from suggested list prices. Each bidder bids a separate discount for each market category and the contract is awarded to the bidder offering the greatest overall discount. During contract performance, the contractor is required to research each request for parts, identify the part needed, obtain the part from an approved vendor, and deliver it to the Air Force at the

agreed upon discount from suggested list prices shown in a vendor price list approved by the contracting officer.

This sales process is subject to a great deal of abuse because of excessive reliance on the contractor's parts research, selection of sources, billings, and the disorganized management of contract purchases.

For example, at Eglin AFB, 18 organizations have authorized 82 employees to purchase and receive parts at the COPARS contract store. The number of employees authorized to use the store ranged from 1 employee at a tenant organization to 30 employees at the Base Transportation Squadron, Vehicle Maintenance Branch. Our interviews with 33 employees authorized to purchase and/or receive parts for the Vehicle Maintenance Branch and the Base Civil Engineering Squadron disclosed that they had almost no knowledge of the COPARS contract terms. The following table shows the results of our interviews:

Question	Number employees	Answers			
		Yes	No	Qualified Yes	Qualified No
Are you familiar with the terms and conditions for ordering and receiving parts under the COPARS contract?	33	5	28	0	0
Do you know the contract schedule and pricing formula? (1A., 1B., 1C., and 1D)	33	3	30	0	0
Do you know the order of precedence for ordering parts? (Rebuilt, replacement, and OEM)	33	2	29	2	0
Have you signed for parts that were picked up by other employees?	33	7	26	0	0
Is this sales slip prepared according to the contract? (We showed each employee three sales slips which were incorrectly priced)	33	23	1	6	3

Many of the bases we visited had a large number of personnel receiving parts. When these personnel were not trained in receiving or were unfamiliar with contract terms, they relied on the contractor to assure that purchases were according to the contract. This approach did not work. The bases, we found, bought

--items priced at the wrong discount rate,

--items from one source priced as items from another source,

--new items when they should have purchased rebuilt items,

--items priced from inflated price lists, and

--excessive parts for the same vehicle.

The abuses varied, but they all resulted in increased cost to the Air Force.

Incorrect discounts

The store operator delivers the requested part accompanied by a sales slip showing the part number, source, list price, contract discount rate, and net price. This data can be verified to parts catalogs and price lists maintained by the contractor and to the contract pricing provision. Responsibility for this verification rests with the contract administrator and the maintenance organization.

At Eglin AFB, the Government bought aftermarket items priced at the OEM--automobile and truck discount rate of 15 percent rather than the applicable replacement rate of 46 percent. Our screening of parts billed at the OEM discount rate during March and April 1980 disclosed that about 17 percent were identified on the sales slips as replacement parts but sold at the OEM discount rate of 15 percent. The Air Force was overcharged $1,708 during the 2 months we tested.

For example, the Government paid $2,114 for 16 carburetors identified by replacement part numbers and suppliers. These carburetors should have been discounted at the 46-percent replacement parts rate but were discounted at the 15-percent OEM rate, thus resulting in an overcharge of $767.93. To illustrate, on April 4, 1980, the Government bought a carburetor identified on the sales slip as supplied from Carter, a replacement supplier, for a list price of $116.15, less 15-percent discount, for a net price of $98.73. This carburetor should have been priced at $62.72.

The base contract administrator and QAE routinely approved payments of the incorrect billings, even though both were responsible for assuring that purchased parts were properly classified according to the schedule and pricing formula in the contract.

The contract administrator and QAE told us that they were not aware of the duplicate coverage in price lists until we brought it to their attention. The QAE said it was up to the contractor store manager to determine the proper classification of parts and the method for billing. According to the contract administrator, verification of the price of parts was made by tracing some of the sales to a price list, but the administrator

had not determined the proper classification. In this case, we believe the base paid more for parts than it should have because discounts were based on incorrect market sources.

The COPARS contractor, Wheeler Brothers, Inc., in response to our draft report, said that a small number of these items were mistakenly billed as OEM parts. It believed, however, that the vast majority were correctly billed as OEM parts. The contractor interpreted the contract to define an OEM part as any part manufactured by only one source. Consequently, the contractor considers carburetors and other items manufactured by only one source to be OEM parts even though their distribution is not controlled by the vehicle manufacturers or their dealers.

In other COPARS contracts we examined, single manufacturer parts, not controlled by the vehicle manufacturer or their dealers, have been sold as replacement parts according to the Air Force's interpretation of the contract definitions of OEM parts. Any ambiguity in this definition must be resolved if the Air Force continues the contracts because the definition significantly affects the price of parts as well as the bidding expectations of the competing contractors.

Parts misrepresentation not detected

The sales slip serves as the Air Force's receiving report. The individual receiving the item is expected to verify that the item received is correctly described on the sales slip. This verification is important because it is the only time the sales slip and part are together and can be cross verified. In several instances, however, receiving personnel did not detect obvious discrepancies between the part delivered and the part sold, and the Air Force paid for the wrong part.

At Lackland AFB, Texas, our inspection of installed parts showed that in 53 percent of the items we inspected, the parts installed were not the same as the parts shown on the sales slip. For example, a muffler was described on the sales slip as a new Ford muffler with a net contract price of $40.86. The muffler was ordered to repair a 2-1/2-ton Ford truck. The installed part was clearly identifiable as a Merit muffler, as shown in figure 4.

FIGURE 4

MERIT MUFFLER SOLD AS A FORD MUFFLER

The Merit muffler, a contract-approved replacement part, had a net contract price of $21.37, or $19.49 less than the Ford muffler billed.

An air-conditioner compressor was described on the sales slip as a new Motorcraft compressor with a net contract price of $74.28. The installed part was clearly identified as a rebuilt compressor as shown in figure 5.

FIGURE 5
REBUILT AIR CONDITIONER COMPRESSOR SOLD AS NEW

The rebuilt compressor could not be identified with a contract-approved rebuilt source, and no contract price was available.

Similar instances were found at Barksdale, Bergstrom, and Beale AFBs. At Barksdale the COPARS contractor, 555 Inc., billed the base for TRW chassis parts, but supplied MOOG parts which had been relabeled as TRW parts. (See fig. 6.)

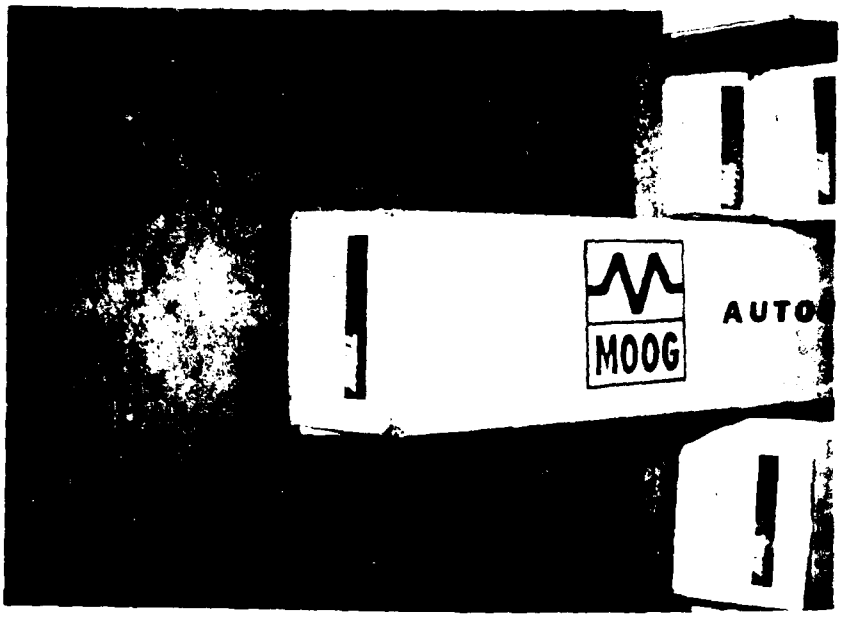


FIGURE 6
MOOG PARTS RELABELED AS TRW PARTS

Reboxing and relabeling are common in the automobile parts distribution industry, and in this instance, part of a major switch in product lines. However, this practice can affect contract prices which are based on brand names. For example, the base was billed for TRW bushings, but received MOOG bushings. The MOOG bushings are priced in sets of two at $10.16. The TRW bushings are priced separately at $10.29 each or two for $20.58.

At Bergstrom AFB, the COPARS contractor, East Bay Auto Supply Co., billed the base for a new Carter carburetor but supplied a rebuilt carburetor. Inspection of the installed carburetor showed that it was marked "Quality Remanufactured."

New parts sold instead of more economical rebuilt parts

For the contracts we reviewed, the standard COPARS contract provides that rebuilt parts will be sold in preference to new items. Special Provision 12, "Stockage and Availability of Parts," states in section e, "Rebuilt Parts," that:

> "Rebuilt parts will be stocked and sold in preference to new items to the extent of their availability. Requirements for new parts in lieu of rebuilt will be specifically identified by the Government representative at the time of ordering * * *."

Material control sections of using organizations are also directed in their manuals to make sure that parts requests are economical.

At Lackland and Randolph AFBs, we found that new parts were bought when rebuilt parts should have been provided. Our evaluation of a small number of items available from parts rebuilders showed that the bases could have saved about 70 percent by purchasing rebuilt items instead of new items. The magnitude of savings is illustrated in the following table.

New versus Rebuilt Purchases

Part	Part number	Supplier	Net cost new	Net cost rebuilt	Net savings
Carburetor	3614110	Mopar	$ 82.39	-	-
	C3602	Unit Parts	-	$24.35	$ 58.04
Fuel pump	M6347	Carter	15.81	-	-
	FP 6347	Unit Parts	-	6.10	9.71
Water pump	PC427	Sealed Power	21.18	-	-
	WP238	Hy Test	-	12.33	8.85
Fuel pump	M6178	Carter	13.77	-	-
	FP6178	Unit Parts	-	5.85	7.92
Starter	4091975	Dodge	123.31	-	-
	04-334	Hy Test	-	27.35	95.96
Total			$256.46	$75.98	$180.48

At Beale AFB, the COPARS contractor, Hust Brothers, did not provide a rebuilt price list for water pumps as required, and only new water pumps were being sold. However, the contract administrator's price list checks in April 1978 and July 1979 did not detect this omission. After we brought the omission to base officials' attention, a rebuilt price list was furnished which contained prices 22 percent below new list prices.

The contract preference for rebuilt parts was also not followed at Bergstrom and Eglin AFB. At Eglin, new parts were sold instead of rebuilt parts. For example, an International Harvester Company engine assembly was sold to the base as an OEM item for a net contract price of $2,350.25. The contract provided for rebuilt engines/short blocks to be supplied by Toronado at a 30-percent discount. This engine assembly was available rebuilt from Toronado for a net contract price of $1,325.97--$1,024.28 less than the new engine assembly purchased.

Another example at Eglin AFB involves carburetors. The contract provides for the contractor to sell rebuilt carburetors available from Delco Rochester. However, the contractor sold the base new carburetors identified on sales slips as supplied from

a replacement supplier for a net contract price of $71.57. These carburetors were available as rebuilts from Delco Rochester at a 30-percent discount, for a net contract price of $30.72 each. The base could have saved $40.85 on each of the carburetors had they been purchased as rebuilt.

According to the store manager at Eglin AFB, the manager determines whether new or rebuilt parts would be sold based on their availability and dependability and whether base personnel requested new or rebuilt parts. The QAE told us it was up to the store manager to supply parts according to the contract.

In response to the draft report, the contractor stated that the Government specifically requested the new engine instead of a rebuilt engine. The contract provides for such requests and does not require the request to be documented. In the past, Eglin officials said they had requested new engines because of poor quality experience with the rebuilt supplier, but this problem had been corrected by changing to the current rebuilt supplier.

Concerning the sale of new instead of rebuilt carburetors, the contractor said new carburetors were stocked to support new vehicles for which rebuilt carburetors were not available. The contractor said it needed to sell out its new stock before restocking rebuilt carburetors. The national distributor for the rebuilt carburetors discussed above told us they had marketed that rebuilt carburetor since 1968. Therefore, the rebuilt carburetor has been in distribution for about 12 years, an adequate period, we believe, to be stocked.

Price list irregularities

Bidders on the COPARS contracts were required to submit a schedule of price lists to be used and were advised to provide, for contracting officer approval, price lists that were in normal distribution in the trade. Further, price lists for rebuilt parts were not to be developed solely for the COPARS contractor. We found that some approved price lists did not comply with these provisions.

Special price lists provide the two-fold advantage of allowing the contractor to offer a large discount in its bid to win the contract award and still sell the items at a substantial markup over its purchase cost. We found special price lists for rebuilt engines, transmissions, and automotive hardware items which illustrate this point.

The rebuilt engine price lists supplied by East Bay at Bergstrom AFB and by Hust at Beale AFB were from an engine rebuilder and distributor, Bokan Bros., Sacramento, California. Our comparison of the price list furnished under the contracts with the price list in normal distribution disclosed that although both price lists were effective the same day, July 10, 1979, and printed in identical format, the price list furnished to the Air Force

contained higher prices than those in the rebuilder's normal price lists.

A comparison of the same page from these two price lists is shown in appendix I on pages 60 and 61. The comparison shows, for example, that one of the engines bought by the base, a complete Chevrolet truck engine designated as a 292, is priced at $805.20 ($732 plus 10 percent) on the normal price list, but is priced at $1,172 on the inflated price list.

Bokan officials, in commenting on the draft report, told us the list was developed to give the company a new price structure and to also protect the company's prices in the event of a Government price freeze. They said a new price structure was needed because their business changed from a jobber status to a warehouse distribution status. In this new status, they sold to jobbers; therefore, they wanted a price structure similar to that of major automotive parts manufacturers. The new price structure--list less 50 percent, less 25 percent equals jobber price--they said was similar to the industry price structure. Bokan officials said the new list prices were distributed to all their customers.

We contacted six of Bokan's commercial distributors and none were aware of the marked-up price list. All six quoted prices from the normal price list. Bokan officials said that if their distributors discarded or did not use the marked-up price sheet it was beyond their control.

Discarding or not using the marked-up price sheet, we believe, is understandable because the distributor had no need of it. Their buying and selling prices were available from the normal price list. Since the new list price was a 100-percent markup of the net price in the normal price sheet, the list price, less a 50-percent portion of Bokan's new price structure, simply returned the marked-up list price to the original net price from which jobber prices are computed. The "garage price" or quoted selling price is marked up 25 percent above net, which gives the commercial distributor a 50-percent margin and a competitive selling price. The only use for the marked-up list price, we believe, would be to quote a large sales discount.

The Bergstrom AFB store contract also contained another rebuilt engine price list which offered lower prices. If the 292 engine had been ordered from this supplier, its list price would have been $600, less the 37-percent rebuilt engine discount, for a purchase price of $378--about $360.36 less than the same engine from Bokan Bros. The store operator's decision to order from the special Bokan Bros. price list increased the base's purchase price.

The COPARS contractors at Bergstrom and Beale AFBs were using price lists which had been developed solely for them. The price list was from Bowman Distribution Company, Cleveland, Ohio, and

covered assorted automobile products, including screws, washers, springs, cleaners, and fasteners.

Officials of Bowman Products told us that all direct sales to the Government and COPARS contractors are made at prices shown on Bowman's national accounts price list. Bowman, they said, did not suggest a markup price to its commercial customers, but at the request of three COPARS contractors, East Bay, Hust, and One Stop, Bowman provided price lists marked up by 280 percent for East Bay and Hust and 400 percent for One Stop. Bowman officials, in commenting on the draft, said it was their understanding that the prices for its products and services paid by the Government were at least as low as the prices charged by other vendors supplying similar items through the COPARS contracts.

Bowman Distribution Company sales to these three COPARS contractors and the marked-up prices are shown below.

Bowman Distribution Direct Sales and Marked-up Prices

	January 1, 1979, to July 18, 1980		
COPARS contractors	Direct sale	Percent markup	Marked-up price
East Bay Auto Supply, Inc.	$262,322	280	$ 734,502
Hust Brothers, Inc.	142,150	280	398,020
One Stop Motor Parts, Inc.	31,503	400	126,012
Total	$435,975		$1,258,534

Items sold to the Air Force would be discounted from the marked-up price list when this price list is included in the contract as it was at Bergstrom and Beale AFBs.

The president of One Stop Motor Parts, Inc., told us the Bowman price list was used in only one contract. In that instance, the base requested the continued use of Bowman products introduced by the previous COPARS contractor. The president said the company stopped using the Bowman products because of the excessive cost.

Hust, the COPARS contractor at Beale AFB, also furnished a special price list for automatic transmissions and torque converters provided by STE Transmissions, Sacramento, California. This price list, called the confidential E-5 price list, contained list prices 40 to 50 percent higher than the prices on the price list in normal distribution. (See app. I, pp. 62 and 63 for comparison.) For example, the transmission designated as an AA77 is listed at $530 in the normal price list, but is listed at $760 on the inflated E-5 price list. Hust offered a 40-percent discount on purchases from this price list and sold the base 24 transmissions during the second contract year. The discounted

price, 40 percent off the inflated list price, is only about 15 percent lower than the normal list price.

The vice president of STE Transmissions told us the company has prepared the special price lists for COPARS contractors since about 1966. In addition, since the contractors had to offer large discounts to win contract awards, they needed list prices which would allow them to sell at large discounts and still make a profit. The vice president believed that all the large COPARS contractors have his company's specially inflated E-5 price list.

IRREGULARITIES IN COPARS AND COCESS NONPRICE-LISTED SALES

Under both the COPARS and COCESS contracts, the contractor provides nonpriced items when the item needed is not specified in the priced portion of the contract. The nonpriced items are provided at net contractor cost, as supported by the supplier's invoice, after all trade discounts are deducted. The contractor's only compensation for buying nonpriced items is a service fee. In addition, under the COPARS contracts and some of the COCESS contracts, the contractor may be reimbursed for authorized transportation and communication expenses that are directly associated with the purchase of nonpriced items.

We found three types of irregularities with nonpriced sales: (1) priced items were sold as nonpriced, (2) nonpriced items were sold using invalid supplier invoices, and (3) nonprice-listed items were not purchased from the most economical source. Again, we found the contractor, not the customer, decided whether an item was priced or nonpriced.

Priced items sold as nonpriced

Priced items are sold as nonpriced primarily because receiving personnel cannot readily determine the difference. We found that receiving personnel usually accept the contractor's determination that the item is not priced in the contract.

At Eglin, the COPARS contractor sold engine parts for lawn care and special-purpose equipment parts as nonprice listed even though they were price listed under the Special Purpose Equipment Manufacturer market category. Under this section the Eglin store agreed to provide Briggs and Stratton, Kohler, Tecumseh, and Wisconsin engine parts at a 45-percent discount.

Our examination of nonpriced sales during March and April 1980 showed that $2,277.48 of these sales involved parts which should have been sold as priced parts at a 45-percent discount. The proper contract price for these parts would have been $1,249.31.

Most of these parts were supplied to two lawnmower repair shops and were received by employees in those shops. Neither

the employees receiving the parts nor their supervisors were aware the parts were covered by price lists. These officials told us that they

--were not familiar with the terms and conditions for ordering and receiving parts under the COPARS contract and

--did not know the contract schedule and pricing formula.

The COPARS store manager was not aware that lawn care and special-purpose equipment were powered by the various types of engines. The store manager said it would be difficult to cross-reference the individual equipment manufacturers part numbers to the engine part numbers. Moreover, the store manager said that his parts cross-referencing capabilities were limited. The contract required the contractor to provide research and identification capabilities.

The contract states that part numbers furnished by the Government are only to assist the contractor in item identification and shall not relieve the contractor of its responsibility for cross-referencing research to determine whether the part is price listed or nonprice listed.

In response to the draft report, the contractor stated that only about 14 percent of the parts for lawn care equipment were sold as nonpriced between January 1, 1980, and October 1, 1980. Some of these parts, it said, were not listed in the equipment manufacturers price lists and therefore could only be sold as nonpriced.

The contractor said no commercial parts interchange manual was available for interchanging equipment manufacturer parts to the applicable engine manufacturer's parts. Since the base ordered parts using the equipment manufacturer's part number instead of the engine manufacturers part number, the contractor was unable to interchange the numbers and provide discounted parts. The contractor said it was not its intention to use nonprice-listed sales as a means to avoid offering a contract discount, but in many cases it was used as a means of expediting delivery when sufficient ordering information was not available.

The Eglin AFB store also sold American Motors Corporation parts as nonpriced even though the contract provided that the contractor would sell American Motors Corporation and American Motors Corporation Jeep parts as price listed under the OEM category at a 15 percent discount. Our examination of these sales during the months of March and April 1980 disclosed that 86 percent of the parts were sold as nonpriced parts. The contractor said that the parts were erroneously billed as nonprice listed, but that the price in most cases was more favorable to the Government. The QAE said that it did not have access to purchase records for nonpriced items and did not detect the erroneous billings.

Another example involves a transmission. The contract provides for transmissions to be furnished from the Barney & White rebuilt price list. Instead, a transmission for a 1972 Dodge refueler truck was sold as nonprice listed. The sales slip showed the price to be $1,500 plus a $600 core charge.

This transmission was purchased from Murdock Enterprises Incorporated, a company owned by the Wheeler family. Murdock invoiced it to Wheeler Brothers, Inc., at $1,500 plus a $600 core charge. The contractor should have provided the transmission from the approved source, Barney & White, who list that transmission at $1,500 less a 30-percent discount, or $1,050. The overcharge was $450.

The COPARS store manager told us that he referred the transmission purchase to Murdock even though Barney & White was their contract source of rebuilt transmissions. The QAE said that it checked the transmission manufacturer's price list, and the price was more than the price shown on the sales slip; therefore, the price billed was accepted.

In response to our draft report, the contractor stated that the transmission sold did not appear in the contract supplier's catalog. While this is factually correct, the supplier's catalog states that for transmissions not listed, call the supplier's toll-free telephone number. The supplier sells this transmission and it was listed in its price sheets under "Allison MT 40 Series." The list price, confirmed by the supplier, was $1,500.

At Barksdale AFB, the COCESS contractor, Century Industries, Inc., sold items as nonpriced when similar items were on the priced item listing. When the contract was awarded, the base expected to acquire only about 17 percent of its requirements as nonpriced items. In the first and second contract years, however, the base bought 42 and 47 percent of its requirements, respectively, as nonpriced--over twice what was expected. A part of this increase, we believe, can be attributed to the fact that slightly different items were furnished as nonpriced.

The contractor, in commenting on the draft, said it sold the base what they ordered. If the base chose not to order what was on the MRL or to not include on it what was required, the contractor should not be held responsible.

We agree that it is primarily the AFB's responsibility to minimize the use of nonprice-listed purchases. However, the contractor, in some instances, contributed to the use of nonpriced purchases.

For example, the MRL contained an item described as "Coil, solder silver bound, 5 troy oz." This item, priced at $22 a coil, was supplied several times. However, in March 1980 the contractor advised that its vendor could no longer supply the identified item. A vendor representative, according to the contractor, stated that

the solder was not packaged in coils and was not sold in troy ounces. Consequently, the MRL description was not adequate for filling an order. We believe the vendor information relayed by the contractor was misleading. The vendor's latest price list showed the solder was sold in 1-, 3-, and 5-troy ounce packages. The price list did not specify whether the package was a roll or a coil, but it was solder sold by the troy ounce in three different package sizes.

The base officials accepted the contractor's assertion that the MRL description was not adequate, and the contractor filled silver solder requirements with a nonpriced purchase. The contractor supplied a 3-troy ounce roll of silver solder for $59.40 plus a $13.50 service charge. The cost to the Air Force was over three times the contract price for the 5-troy ounce coil described in the MRL.

The contractor's decision not to supply the MRL item, we believe, was driven by cost considerations in the above example. The contractor told base officials that the MRL item silver solder should be deleted because world silver prices had increased and were very unstable. They replied that economic price adjustments was the only contractual relief available and did not delete the items as requested. After this exchange the contractor said that silver solder could no longer be identified by its MRL description.

We did not determine the total volume of items supplied as nonpriced which had like or similar items listed in MRL, but we found that the base officials depended primarily on the contractor to decide which MRL descriptions were adequate for supplying priced items.

Use of invalid supplier invoices

The contracts provide that nonpriced sales must be supported by a supplier's invoice showing the net cost to the store contractor. At Barksdale AFB, we found that between January 1, 1978, and May 31, 1980, the base had bought $16,827.94 in nonpriced items from the COPARS contractor, which were supported by invoices from one supplier.

We found that as many as five copies of the same numbered invoices were submitted to support different nonpriced billings, generally on different dates. For example, one invoice was submitted five times for payment of five different nonpriced items totaling $539.14. We also found that some items were billed several times for different Air Force vehicles on the same invoice. For example, one invoice number was submitted to support four sales of wheels and frames for different lawn care equipment.

Officials at the supplier's office told us the prenumbered, five-part manifold forms submitted to the base as invoices were actually order forms which are available blank to all their regular customers; they were not legitimate sales invoices. Using the

supplier's sales records, we identified only $2,880.91 in sales to the COPARS contractor from January 1979 to May 1980. The contractor, during the same period, sold the base $9,851.86 of nonpriced sales, allegedly supplied by this one supplier.

When advised of our finding, the contracting officer at Barksdale AFB requested a contract refund for all nonpriced sales supported by this supplier's invoices and referred the matter for criminal investigation.

Most economical source not used

The contracts provide that nonpriced purchases will be made at the lowest price available, usually from the nearest authorized distributor. However, according to the contract, the contractor is reimbursed his net cost, and therefore, is provided no real incentive to search for the lowest price.

At Cannon AFB, for example, the COPARS contractor, One Stop, purchased about 65 percent of its nonpriced items from Rex-Tex Equipment Company, Dallas, Texas. Rex-Tex officials told us that they were distributors for some of the items purchased but also said they markup their prices 20 to 25 percent to cover their handling costs.

Our examination of $6,348.24 in purchases from Rex-Tex showed that other authorized dealers could have provided the same goods for $4,873.34--$1,474.90 less than Rex-Tex charged. For example, the COPARS contractor ordered a carburetor for a Hyster forklift from Rex-Tex. The carburetor was supplied by C. H. Collier Company, Dallas, Texas, an authorized Hyster dealer. The C. H. Collier Company shipped the part directly from Dallas, Texas, to the COPARS at Cannon AFB, New Mexico. Rex-Tex provided an invoice billing the part to the contractor for $89.68, plus freight from Dallas, Texas. Officials at C. H. Collier told us that they would sell the carburetor to the Air Force, the COPARS contractor, or any commercial account for $73.39--$16.29 less than billed by One Stop.

In another sale, the COPARS contractor ordered a shaft for a Schafer disc harrow from Rex-Tex. The shaft was supplied by Yellow Parts Distributor, Pratt, Kansas, an authorized distributor for Schafer products. Yellow Parts shipped the shaft direct to the store at Cannon AFB, New Mexico, and Rex-Tex provided an invoice for $128.46, plus freight from Pratt, Kansas. A representative at Yellow Parts Distributor told us they sell the shaft for $77 to any commercial account--$51.46 less than billed by One Stop.

The services provided by Rex-Tex in researching, locating, and ordering parts should have been provided by One Stop. The contractor is also required to buy all nonpriced parts from the manufacturer or from the highest level in the manufacturer's distribution system to which it has access. According to the

contract, the source selected will provide the lowest price obtainable in the normal course of business.

We found similar buying from intermediate sources at Bergstrom AFB. Although the contract provides that affiliated companies must be disclosed and that prices cannot be increased because of affiliated companies, neither provision was observed at Bergstrom AFB. The COPARS contractor, East Bay, did not disclose that one of its suppliers, Vehicles Industrial Parts, was actually one of its operating divisions.

The COPARS contractor bought about $2,100 of nonpriced parts in April 1980 from this operating division for resale to the base. Our evaluation showed the items were marked up 10 to 27 percent over quoted dealer prices. For example, the store operator ordered a switch for a grader from the operating division. The invoice showed $264.06 which the base was billed for. An authorized distributor quoted $192.11 for the switch--$71.95 less than the billed amount.

IRREGULARITIES IN COCESS PRICED SALES

The COCESS contract differs from the COPARS contract in that priced items are listed individually on a MRL and a unit price is established for each individual item. Most COCESS contracts are now awarded using the MRL, but price lists were used in previous contracts and some sales continued under the price-list format. The Air Force discarded the price-list method of sales because of difficulty in assuring reasonable price lists. While the MRL pricing method fixes the item price with more certainty than price lists, it is vulnerable to irregularities, including item substitution and unreasonable prices.

Price list irregularities

At Little Rock AFB the COCESS contractor, Century Industries, Inc., was providing about 56 percent of the price-listed sales from price lists established by the contractor, a wholesale hardware supplier. Our limited test of these prices indicated that this method of pricing provided no assurance that prices paid would be reasonable.

For example, Century's catalog showed that steel reinforcing bars (3/4 inch diameter, 20 feet long) had a suggested list price of $81.57 each. The contract provided for a 50-percent discount from the list price, thus fixing a net price to the Air Force of $40.79 each.

Base civil engineers required these bars for a project but refused to pay $40.79 a bar because they considered it outrageous. Like reinforcing bars were quoted in the Little Rock AFB area for $6.67 each. The base ultimately negotiated a price of $12.43 a bar and bought 70 bars for the project.

The contractor, in commenting on the draft, told us there was a price error in its catalog but they cooperated with the Air Force to reduce the price.

This contract was completed August 1, 1980, and the new contract format will eliminate pricing based on price lists. Instead, pricing will be based on a MRL.

The MRL pricing method was first tested by the Air Force at Barksdale AFB in 1978. Our review of the Barksdale contract, now in its third and final year, disclosed that having store sales based on MRL did not eliminate item substitution and unreasonable prices.

Store operations--item substitution

At the Barksdale AFB store, 8 of the 10 employees we observed ordering and receiving material were not authorized to receive goods from the store. This practice was permitted by the base to allow craftsmen to get parts needed in their jobs. The sales slips for these and other purchases were often incomplete and did not provide enough data to determine what was bought. For example, a sales slip showed the purchase of a "filter" identified on the MRL for $18.09. MRL contains at least 35 different filters ranging in price from $.48 to $25.92, all described by the noun filter. The brand name and model number or other descriptive data should have been included to identify the filter clearly.

In this case, MRL calls for a "Sporlan #C-303 Filter, Drier," but the store stocks another brand name of this item. Employees receiving the item were either unaware of what brand was required or did not notice the substitution. In either event, they did not receive the item identified on MRL.

Our test of 182 stocked items disclosed that 19 percent of the items stocked were not the brand name or quality specified on the MRL. For example, MRL called for

--copper split-bolt connectors, but the store stocked aluminum split-bolt connectors;

--brass key blanks, but the store stocked nickel-silver key blanks; and

--Hammond Boiler Drain Valves, but the store stocked drain valves from the Serling Faucet Co.

An additional 6 percent of the stocked items could not be matched to the MRL description because of inadequate markings. Since the contract is awarded based on fixed unit prices for specifically described items, these items should be provided.

The contractor, in commenting on the draft report, stated that in each instance where a substitution was made, the

substitute item was at least equal or better than the MRL item. Also, while some of the bins had been mislabeled, the correct MRL item was always furnished as requested. Since each order is a purchasing action, we believe it is important for the Air Force to know and agree when items are being substituted for those described in the contract.

Unreasonable fixed prices

In the Barksdale AFB contract, the two final offerors' individual item prices differed significantly on 524 MRL items. The winning offeror, Century, was low on 290 of the items and high on 228. With this magnitude of price variation between offerors, it is difficult to determine which is the reasonable price. The determination in this case was even more difficult because the Government had no estimate of the item prices. If the price is too low, the contractor may avoid supplying it, supply a substitute item, or request a contract modification. If the price is too high, the base will pay an unreasonable price.

While the losing offeror's total price was higher, it offered lower unit prices on 228 items. Since the individual item prices were not negotiated, the higher item prices offered by the winning offeror were incorporated into the contract. Moreover, the contracting officer concluded that the contract was based on price competition even though 228 items were known to be higher than the competing contractors prices.

For example, the winning offeror in March 1978 proposed to supply 240 pails of plastic roofing cement for $24.35 per 5-gallon pail. The losing offeror had proposed to supply the same roofing cement for $8.54 per pail. Our test of local supplier prices showed that the roofing cement was quoted at $12.14 a pail in August 1980. Meanwhile, the contractor had obtained economic price adjustments to increase the contract price to $27.92 a pail--over twice the quoted local market price.

We tested 110 contract item prices against the local market price and found 45 percent were priced below local prices and 36 percent were priced above local prices. Local vendors could not quote on some of the items because they could not identify the item from its MRL description. Price quotes were also difficult to obtain on some items because of confused units of issue.

Confused units of issues can be costly. For example, MRL listed and described a steel reinforcing bar as 1/4 inch diameter, 20 feet long, and showed a unit of issue as "each." The contract price was $.60. Our check with a local vendor disclosed that the reinforcing bars were sold by the hundredweight but could be equated to a cost per 20-foot bar for smaller orders. The local vendor's quoted price per bar was $1.50. When the base ordered five of the 20-foot bars, the contractor charged $12 per bar or $.60 per foot. The contractor had interpreted the each price to be a per foot price.

Similar instances of confused units of issue were also noted in different pipe sizes all described as 21 feet in length, but with units of issue shown as "length" or each. Cold rolled steel rods were described as 20 feet in length, but the unit of issue was "foot." Painter's putty was described as a 5-pound container but the unit of issue was "quart." Confused units of issue make the MRL difficult to bid, bill, and review. We believe MRL should use the unit of issue normally followed in the trade. (See p. 55.)

Base officials realized that some of the offered prices were questionable and could incorporate both high and low prices into the contract. However, they reasoned that by purchasing the total contract requirement they would have to pay high prices on some items, but they would also enjoy the benefits of paying low prices on other items. Therefore, the overall price would be fair and reasonable. This assumption is valid only if all items are bought in the quantities and prices specified. Two factors worked against this assumption. First, if the item description was inaccurate, the item might be sold as nonpriced rather than at its contract price. Second, if the base's actual requirements differed from the estimated requirement, the outcome would be different.

For example, the contractor offered to provide five colors of interior semigloss latex paint from $4.40 to $4.60 a gallon. The competing offeror's price had been $5.77 per gallon. But, 46 days after the contract's effective date, it was modified because the paint desired was inaccurately described in MRL. The contract modification increased the unit price of the paint to $7.15 and $9.08 a gallon for an estimated 3,500 gallons of paint, thus totally eliminating the lower prices originally offered.

The contractor also offered to supply 288 lock backsets in 2 lengths at $24.20 and $25.40 each. This was the lowest offeror on these items. During the second contract year the contractor supplied about 80 backsets. The lock backsets, we found, were available from local vendors at $4.39 and $5.41 each. One of the lock backsets is pictured in figure 7.

FIGURE 7

LOCK BACKSET PROVIDED BY CONTRACTOR

By incorporating all offered prices into the contract without first determining that they are reasonable, the Air Force encourages unbalanced bidding and the resulting unreasonable prices.

In commenting on the draft report, the contractor stated that overall its prices were reasonable. COCESS prices, it said, could be higher than local store prices because of Government requirements. The lock backsets, it said, were incorrectly bid as another more expensive item. In addition, the unit of issue was sometimes confusing, but also could rebound to the detriment of the contractor.

Overall, the contractor stated that any defects referred to are wholly within the control of the Government. We concur that more carefully prepared MRLs would serve the Government's interest. Reasonable unit prices for each item are also in the interest of the Government, but we believe they cannot be readily obtained under the current contracting procedures.

QUESTIONABLE COPARS PURCHASES--EXCESSIVE PARTS AND WARRANTIES

Parts bought from COPARS are usually charged to the vehicle on which they are installed. The Air Force's operating procedures provide for parts and materials to be bought only for a valid work order, but exceptions are made for certain inexpensive, high-use items that are routinely stocked in the work areas. The store is not to sell parts except to persons with work orders. The store is to provide warranty information to the customer and honor warranties when requested.

Our examination of materials charged to specific work orders raised serious questions about Air Force controls over ordering and receiving parts from the contract store. At Eglin AFB, we found that excessive quantities of automobile parts were purchased for individual vehicles. For example, the maintenance records for a 1973 International Harvester V/8 panel truck showed work orders for

--48 spark plugs during a 6-month period,

--two starters and two alternators between June 10 and July 25, 1979,

--a new two barrel carburetor on March 21, 1980,

--a two barrel carburetor kit on March 26, 1980, and

--a four barrel carburetor kit on April 15, 1980.

The following excessive purchases were found while obtaining vehicle descriptions from the maintenance files:

--A 1978 Chevrolet pickup requiring four shock absorbers was charged with two shock absorbers, part number AX273A, on February 23, 1979; two shock absorbers, part number AX213A on February 26, 1979; two shock absorbers, part number AX63A on April 12, 1979; and two shock absorbers, part number AA202, on April 30, 1979. This vehicle had been driven 3,052 miles during the 2-month period it was charged with eight shock absorbers.

--A 1973 fire truck was charged with an oil filter on March 28, March 29, October 12, October 25, and an unspecified date in October 1979. A total of five filters were charged to the vehicle, although it requires only one filter, which is usually installed when the oil is changed. The vehicle had been driven only 199 miles during the period.

--A 1978 Chrysler Volare 6-cylinder sedan was charged with six spark plugs on May 17, 1979; eight spark plugs on January 10, 1980; five spark plugs on July 7, 1980; and six spark plugs on July 18, 1980.

The work center supervisor should inspect repaired vehicles and equipment, as needed, to make sure that work specified on work orders has been done. However, transportation officials at Eglin AFB told us that there has been a lack of control over purchasing and receiving parts from COPARS. They could only speculate as to what might account for the excessive purchases.

At Beale AFB we also found repetitive part orders for the same vehicles. For example, rebuilt alternators or starters were being issued two or three times to the same vehicle. Our analysis showed that 44 alternators or starters were issued to 19 vehicles.

Eighteen of the 25 repeat issues were issued within the 90-day warranty period. To illustrate, a Ford pickup was issued a starter on January 18, 1980. About 67 days later, on March 25, 1980, the same truck was issued another starter. The contractor was not required to replace this or any of the other starters under the warranty provision. Our analysis also disclosed that all of the alternators and starters supplied were an unauthorized brand. The contractor had been supplying the unauthorized brand since at least 1978.

In another instance, a Chevrolet Step Van was issued four new water pumps in an 8-month period. None of the water pumps were replaced under the vendor's 1-year warranty because the base officials believed the warranty period was 3 months or 4,000 miles. Transportation officials told us the parts were not replaced under warranty because procedures broke down and none of the items were identified as warranty replacements.

The COPARS contractors are in business to sell parts. They cannot and should not be expected to exercise purchase controls for the bases. However, in awarding store contracts the bases, we believe, have lost sight of the fact that each store transaction is a purchase which requires the care and diligence normally afforded small purchases. By permitting open access to the store, some bases have lost control of their purchases.

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While much can be done to improve the contracts and contract management (see recommendation, p. 54), the bases would still have to rely extensively on the contractor's parts research and source location services, and the contractor's interests will not always be the same as those of the base consumers.

CHAPTER 4

ALTERNATIVE DIRECT PURCHASING CONCEPT

When the Strategic Air Command began establishing COCESS at its bases in the early 1970s, it also established a Government-operated store at Offutt AFB, Nebraska. In 1976 the cost and effectiveness of the Offutt base store was compared to a contractor-operated store at another base. The Strategic Air Command's management study (No. 76-05), issued in June 1976, concluded that the Offutt base store was more cost effective. According to the study, savings of about 12 percent annually were being realized compared to the cost of purchasing the same goods through the contractor-operated store.

The Strategic Air Command has since used the Government-operated store concept at two other bases. These bases reported savings of 3.7 and 10.8 percent. However, Air Force headquarters will not approve changing over to Government-operated stores unless the conversion is supported by a cost study according to the criteria set forth in the Office of Management and Budget Circular A-76. The circular establishes the policies and procedures used to determine whether needed commercial work should be done by contract with private sources or in-house using Government facilites and personnel, but is not necessarily applicable to COPARS/COCESS contracts. (See pp. 56 and 57.)

The Government-operated store concept differs from the contractor-operated store concept in several ways, but both depend on buying items in the commercial market. The more important differences are as follows:

--The Government store uses blanket purchase orders awarded to local merchants to acquire commercial items at prevailing market prices. The contractor-operated stores use the single-store contract with its pricing provisions.

--Government procurement personnel buy for the Government-operated store and are located in the maintenance section. The buyers solicit price quotes and delivery dates from the participating local merchants and buy at the most favorable terms offered. All buying in the contractor-operated store is done by contractor personnel according to the contractor's buying policies.

--Government material control personnel operate the Government store and do all parts stocking and reordering and make issues to maintenance personnel. Contractor personnel operate the contract store, perform these functions, and make issues to either the Government material control personnel or directly to maintenance personnel. The material control personnel stock, order, and issue the material they receive from the contract store and base supply.

--In the Government store the cost of material is incurred when the Government receives the goods in the store. In the contractor-operated store, the cost of material is incurred when the store issues the goods to the Government. The contractor incurs the cost of holding the store inventory.

The difference between the Government-operated store concept and the traditional base supply support concept is the store provides dedicated supply support to the maintenance section. Goods are received and stocked in the maintenance work area, and local procurement buyers are in direct contact with the user. Items needed can be discussed quickly between users, buyers, and suppliers before ordering to reduce mistakes.

The evaluation study considered only the alternative of a Government-operated store. Disadvantages of the traditional base supply support concept had already been considered in recommending the transition to a store concept. The evaluation study considered most of the cost elements involved.

The study showed the cost of purchasing material directly averaged about 15 percent less than purchasing through a contract store. This savings, along with savings on contractor service and handling fees and Air Force contract monitoring costs, more than offset the increases in Government personnel and inventory holding costs to produce a savings of about 12 percent. The study also showed that the Government store adequately met the needs of the maintenance user.

Although the study is dated, we believe its conclusions favoring a Government store are accurate. The difficulty with studying the cost of direct purchasing is that a comparison of item unit costs, as made in the study, does not give a true picture unless purchase volume is also considered. A favorable contract price is of no real benefit if the base cannot buy the item at that price. Also, if large quantities of goods are purchased at unfavorable prices, savings realized on the few items favorably priced will be more than offset.

Considering only the difficulty and uncertainty of prepricing thousands of items in the store contract as opposed to direct purchasing the same items locally at prevailing market prices, it makes the Government store concept a workable alternative. In addition, the potential for cost savings makes it an even more attractive means of supply support.

CHAPTER 5

CONCLUSIONS AND RECOMMENDATION

CONCLUSIONS

The current COPARS/COCESS operations are unsound, unmanageable, and exposes the Government to potential contract fraud and abuse. The basic problem of prepricing thousands of items for future sale has not been solved even though the Air Force has made extensive efforts to solve it. Some contractors have used opportunistic bidding strategies and deception to gain contract award and to take advantage of uncertainties in the contract pricing structure. During contract performance, contractors have taken advantage of contract latitudes and lax contract management to increase their profits or minimize their losses. While each incident of abuse has been relatively small, the cumulative effects, in our opinion, have been substantial, both in dollar losses and in lost procurement system integrity.

The contracts, in effect, permitted the contractor-seller to make the key decisions on what items would be bought, where they would be bought, and what price would be paid for them--decisions that should be made by the consumer. Conversely, Government-operated stores permit the Government--not the contractor--to make these buying decisions based on prices set in the competitive marketplace. In our opinion, Government-operated stores are workable, cost-effective alternatives to provide better purchasing controls. Other methods of supply used by the Air Force may also provide workable alternatives to COPARS and COCESS.

RECOMMENDATION

If the Secretary of Defense determines that an A-76 study is unnecessary (see pp. 56 and 57), he should direct the military services to discontinue the COPARS and COCESS contracting program with as little disruption of maintenance operations as possible. COPARS and COCESS contracts should not be renewed once they expire. Instead, the military services should establish either Government-operated automotive and civil engineering supply stores or develop other workable alternative methods of supply.

We recognize that staffing and other constraints may preclude the Secretary from implementing this recommendation at all locations. If COPARS and COCESS contracts are continued, in certain cases, we believe a number of actions must be taken to strengthen the Government's control over these purchases in order to overcome the problems discussed in chapters 2 and 3. These are listed below.

COPARS contracts

--The bid evaluation procedures should be revised to include a satisfactory means for determining what each bidder's

parts prices will be and to use this data in making the award. This determination would require a preaward evaluation of price lists and a preaward comparison of both price lists and discounts among bidders.

--The bid evaluation procedures should include a history of each bidder's performance and a complete evaluation of contractor responsibility. Also, the Department of Defense should consider providing contracting officers with specific objective criteria by means of the Defense Acquisition Regulations to aid in determining what constitutes adequate evidence of unsatisfactory performance and integrity. (Also applies to COCESS contracts.)

--The solicitation should contain a separate line item for research services, including complete catalogs, cross references, and industry indexes. Research material was not always in the store.

--An adequate number of full-time, trained contract personnel should be assigned to order and receive goods from the store. Receiving controls should assure that the item delivered is (1) the item billed, (2) the lowest priced item available, and (3) the item needed.

--The contractor's monthly invoice should be arranged so that sales by each market category are listed separately to aid the bases in estimating annual requirements by category. The most current contract format inadvertently changed the invoice arrangement previously used.

COCESS contracts

--The request for proposals should contain a complete MRL showing valid item descriptions, a local trade price, and an estimated annual requirement for each item based on the Air Force's consumption data.

--An alternate contract proposal arrangement should be used whereby offerors propose percentage discounts or premiums for supplying the listed items at the established trade prices developed by the base. To prevent unbalanced bidding on individual items, discounts or premiums should be by trade category, not individual items.

--An adequate procedure should be developed to handle changes in manufacturer's model numbers and packaging practices when these identifiers are included in MRLs. Unit pricing in the list should follow the custom of the trade.

--Adequately trained contract monitoring personnel should be assigned to receive goods to assure that items delivered are (1) the items billed, (2) the most favorably priced items, and (3) the item needed.

We have not determined the cost of making these changes, but we expect it will be substantial.

AGENCY AND CONTRACTOR COMMENTS AND OUR EVALUATION

On January 19, 1981, we asked the Secretary of Defense and 11 contractors to comment on a draft of this report. Because of delays in coordinating with its attorney, one contractor requested and was granted a delay in responding to the draft.

In a March 11, 1981, letter (see app. II), the Acting Assistant Secretary of Defense (Manpower, Reserve Affairs and Logistics) gave us the Department of Defense's comments and stated that, although our report notes a number of deficiencies associated with the contracts we reviewed, the report did not offer enough evidence to warrant disbanding all COPARS and COCESS contracts. According to the Acting Assistant Secretary of Defense, COPARS and COCESS operations will be reviewed according to the Executive policy set forth in the Office of Management and Budget Circular A-76 and will be converted to a Government operation when it is justified. It was also stated that for operations found to be more economical under the COPARS and COCESS concept our recommendations for improving contract award and administration will be pursued. The Acting Assistant Secretary of Defense noted that cost analyses already performed on three Army COPARS stores had disclosed a substantial cost savings favoring COPARS.

The COPARS/COCESS contracts involve private sector contracts for supplying automotive and civil engineering parts. Our recommendation does not envision eliminating that private sector involvement. Using local parts stores for the private sector may not necessarily constitute the "new start" addressed by the circular, in which case a cost study would not be required. In both cases, the Government would be acquiring supplies from the private sector rather than providing them in-house.

The OMB and DOD Cost Comparison Handbooks, which are used to implement Circular A-76 when a cost study is required, provide that the cost of administering a private contract must be calculated at 4 percent of the contract price. The cost of contract administration is defined as the costs incurred by the Government in assuring that the contract is faithfully executed by both the Government and the contractor. Often, however, estimates by DOD installation officials of the actual costs to administer contracts exceed the 4 percent required under Circular A-76. This situation caused us to recommend in a prior report 1/ that, to assure an accurate comparison of contract versus in-house costs, DOD and OMB jointly conduct a complete review of the standard 4 percent figure

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1/"Factors Influencing DOD Decisions to Convert Activities from In-house to Contractor Performance" (PLRD-81-19, Apr. 22, 1981).

for contract administration costs. We believe that the COPARS/COCESS contracts may provide an excellent example of why such a review is necessary.

The fundamental concept of the COPARS and COCESS contracts makes administration of these contracts difficult in the extreme. This is due primarily to the complexity and uncertainty of pricing the literally thousands of items covered by the contracts. We believe substantial costs would have to be incurred to provide adequately trained Government personnel who would assure the receipt of goods and that each item delivered is (1) actually the item billed for, (2) properly priced under the terms of the contract, and (3) the most favorably priced item that will meet the Government's needs. We believe such costs often will substantially exceed the 4 percent required for purposes of a cost comparison under A-76. Thus, the A-76 study is an altogether untrustworthy means of determining whether the COPARS/COCESS concepts are, in the words of the Acting Assistant Secretary, "more economical" than the direct purchasing concept which this report demonstrates to be an eminently more workable and economical alternative.

In commenting on the draft, the Department of Defense officials noted that we reviewed only Air Force store contracts, and only one of those contracts was held by a local contractor. The remaining contracts were held by national contractors. The Air Force had about 120 store contracts. Since the Army and Navy had only nine contracts that are patterned after the Air Force contracts, we believe they could experience the same abuses. Also, prior service investigations and audits have shown award and administration problems similar to those we found.

Our review concentrated on national COPARS and COCESS contractors because these contractors held over one-half of the Air Force contracts and have frequently been cited as abusing the contracts. Therefore, we were more interested in their store operating practices. Moreover, the COPARS contract we reviewed held by a local contractor showed similar problems with contract administration. We concluded that the implementation of the contractor-operated store concept is unsound, unmanageable, and exposes the Government to potential fraud and abuse. We believe the contracts should be discontinued.

In our draft report we suggested that DOD use Government-operated stores. In response to DOD's comments, we recognize there may be other methods of providing needed purchasing controls. Purchasing controls under COPARS and COCESS are almost nonexistent as far as the Government is concerned. Purchasing control is vested with the contractor. In our opinion, buying commercial parts through a Government-operated store would allow the Government's buyers to obtain and compare price quotes on the specific parts needed from local suppliers rather than awarding contracts which fix prices by inadequate methods of price list discounts or MRLs.

The basic difference between contract stores and Government stores is that under the contract store operations maintenance craftsmen are frequently allowed to order (buy) parts from the store even though they are not skilled or trained in buying. Also, the fixed prices are uncertain and depend largely on the contractors' stocking and buying decisions. Government stores buying directly from local suppliers would require trained parts buyers to make these purchases. Using trained Government parts buyers would provide the needed purchasing controls which are now lacking.

Pursuing our recommendations to strengthen the Government's control over COPARS/COCESS contract awards and administration will provide better purchasing controls over the contractor-operated stores. However, the resources necessary to accomplish this, we believe, will be substantial and will not always provide the lowest price available because of the exclusive store contract.

The contractors who commented on the draft of the report either held contracts or were suppliers used to buy parts provided under the contracts. All contractors agreed that the contracts should not be terminated. They said the contract provisions and Air Force implementation of contract administration were the basic problems, not the concept of contractors operating the stores. The contractors believe enlightened and consistent contract administration could reduce the instances of alleged abuse.

The contractors whose price lists or buying services were used generally stated that the Government knew or should have known what it was buying. They all expressed a belief that their products should not have been overpriced in comparison to other comparable products or services.

The COPARS contractors generally stated that contract confusion and misinterpretation, simple mistakes, or omissions accounted for most of the localized and specific problems identified in the report. Most contractors believe the contracts could be improved by changing ambiguous and defective contract provisions, bidding methods, and Government bid estimates. Also, most believe the Air Force did not have qualified personnel to manage a Government parts store.

According to the COCESS contractors, the defects referred to were wholly within the control of the Government. More carefully prepared MRLs would serve the Government's interest. If the Government chooses not to obtain data important to contracting or to order items not included on MRL, the contractors believed they should not be held responsible. In one COCESS contractor's opinion, the report makes sweeping generalizations from what are actually localized and isolated specific problems. We agree the problems identified were from specific local contracts, but all service investigations and audits have repeatedly found similar problems.

The contractors comments did improve the accuracy of specific examples but did not provide significant new information on the store operations.

While pricing under both contracts can be improved by pursuing the actions we recommend to strengthen administrative controls, we believe the cost of these improvements will be substantial. Also, having Government buyers purchase directly from the local economy will offer better purchasing control and reasonable prices. The Government must have qualified personnel to operate in either event. In our opinion, attempting to administer the COPARS and COCESS contracts without personnel knowledgeable of the contract terms and conditions and qualified to buy repair parts will perpetuate the current situation.

PRICE LIST PROVIDED TO COPARS CONTRACTORS

BOKAN BROS. REBUILT ENGINES

		REMARKS	SHORT BLOCK List	SHORT BLOCK Core	COMPLETE ENGINE List	COMPLETE ENGINE Core
CHEV. TRUCK - GMC (cont.)						
(1) 292		Specify if 7/16" of ½" flywheel bolts	816	120	1172	190
302	52-59	Specify if Air Brakes	940	180	1404	290
305 V-6		Specify if Air Brakes	1278	155	1736	250
307		HEAVY DUTY	870	155	1334	215
327			870	155	1334	215
348			1050	100	1730	200
350			870	155	1334	215
351 V-6		Specify if Air Brakes If Magnum add $40 00 Garage $30 00 Net	1328	180	1898	275
366		Chain Drive If Gear Drive add $80 00 Garage, $50 00 Net	1064	150	1538	220
379 V-6		Specify if Air Brakes	1588	200	2096	340
396			1064	170	1498	215
401 V-6		Specify if Air Brakes	1588	200	2096	330
401M V-6		Specify if Air Brakes	1664	200	2170	340
402		Big Block HEAVY DUTY	1064	170	1498	240
409			1130	100	1650	225
427		Gear Drive	1078	215	1592	300
454			1192	250	1726	375
478 V-6		Gas Specify if Air Brakes	1788	215	2554	330
478M V-6		Specify if Air Brakes	1868	215	2646	385
(1) CH 230T 250T 292T check core for water jacket cracks, water in oil, oil in radiator and cracked bolt at left head bolt Old core will be inspected before issuing credit						
CORVAIR						
145-164		Except with 4 one bbl Carb Less Sheet Metal			1530	100
CHRYSLER PRODUCTS						
Cricket 1498cc		★	870		1390	
Colt 1597cc		★	876		1430	
Colt 1995cc		★	940		1480	
170-225			770	110	966	155
218-230		Specify mount position. 4 or 8 hole flywheel			996	110
273		Specify (1) Pilot hole size 1 815 or 1 557 (2) Intake manifold bolt size (3) HYD or Mech Lifter	870	100	1176	150

PRICE LIST IN NORMAL COMMERCIAL DISTRIBUTION

BOKAN BROS. REBUILT ENGINES

	REMARKS	SHORT BLOCK			COMPLETE ENGINE		
		GARAGE	NET	CORE	GARAGE	NET	CORE
CHEV. TRUCK - GMC (cont.)							
(1) 292	Specify if 7/16" of ½" flywheel bolts	510	408	120	732	586	190
302 52-59	Specify if Air Brakes	587	470	180	877	702	290
305 V-6	Specify if Air Brakes	798	639	155	1085	868	250
307	HEAVY DUTY	543	435	155	833	667	215
327		543	435	155	833	667	215
348		656	525	100	1[illegible]	865	200
350		543	435	155	833	667	215
351 V-6	Specify if Air Brakes If Magnum add $40 00 Garage $30 00 Net	830	664	180	1168	949	275
366	Chain Drive If Gear Drive add $80 00 Garage, $50 00 Net	664	532	150	961	769	220
379 V-6	Specify if Air Brakes	992	794	200	1310	1048	240
396		664	532	170	935	749	215
401 V-6	Specify if Air Brakes	992	794	200	1296	1048	330
401M V-6	Specify if Air Brakes	1040	832	200	1324	1085	340
402	Big Block HEAVY DUTY	664	532	170	935	749	240
409		706	565	100	1031	825	225
427	Gear Drive	674	539	215	994	796	300
454		745	596	250	1078	863	375
478 V-6	Gas Specify if Air Brakes	1111	894	215	1572	1277	330
478M V-6	Specify if Air Brakes	1148	934	215	1632	1323	385
(1) CH 230T, 250T, 292T, check core for water jacket cracks, water in oil, oil in radiator and cracked bolt at left head bolt Old cores will be inspected before issuing credit							
CORVAIR							
145-164	Except with 4 one bbl Carb Less Sheet Metal				95[illegible]	766	100
CHRYSLER PRODUCTS							
Cricket 1498cc	★	543	435		868	695	
Colt 1597cc	★	547	438		893	715	
Colt 1995cc	★	587	470		925	740	
170-225		481	385	110	603	483	155
218-230	Specify mount position, 4 or 8 hole flywheel				622	498	110
273	Specify (1) Pilot hole size 1 815 or 1 557 (2) Intake manifold bolt size (3) HYD or Mech Lifter	543	435	100	735	588	150

10% INCREASE

10% INCREASE

All Engines may be ordered with pan and timing cover: additional $67 Garage, $54 Net; for those with oil pumps built into the timing cover — additional $91 Garage, $73 Net.

PRICE LIST PROVIDED TO COPARS CONTRACTORS

EXCHANGE TRANSMISSION PRICE LIST

EFFECTIVE MARCH 1, 1980

- Confidential E-5 price schedule
- Supersedes and voids all previous price schedules
- Prices subject to change without notice
- Warranty is described in catalog
- Possession of this schedule does not entitle holder to buying power
- STE will not assume liability for error in price schedule

STE transmissions

Sacramento, California 95814
1131 C Street
(916) 442-5823
MAILING ADDRESS:
P.O. Box 1437
Sacramento, California 95807

STE NO	LIST	CORE DEP	DAMAGED CASE	DAMAGED REAR HSG.
AA77	760	150	100	
AF39	440	100		
AF390	510	100		
AK56	680	65	35	
AK57	680	65	35	
AK58	680	65	35	
AK59	680	65	35	
AK60	680	65	35	
AK61	680	65	35	
AK62	680	65	35	
AK63	680	65	35	
AK64	680	65	35	
AK65	680	65	35	
AK66	680	65	35	
AK67	680	65	35	
AK68	680	65	35	
AK69	680	65	35	
AK70	680	65	35	
AK71	680	65	35	
AL77	680	150	45	
AL78	680	150	45	
AS77	540	100	45	
AS78	540	100	45	
AT10	870	65		
AT14	460	100		
AT15	510	100		
AT71	770	100	45	
AT85	510	65		
AT86	460	65		
AT90	510	65		
AT96	400	65		
AT140	600	100	20	20
AT150	650	100	25	20
AT850	600	65		
AT860	600	65		
AT960	480	65		
BJ78	850	100	35	30
CA23	520	100	35	30
CA25	520	100	35	30
CA64	560	100	55	

STE NO	LIST	CORE DEP	DAMAGED CASE	DAMAGED REAR HSG.
CA65	600	100	55	
CA66	600	100	55	
CA67	600	100		
CA68	618	100	50	
CA69	618	100		
CA70	618	100	50	
CA71	618	100	50	
CA72	618	100	50	
CA73	680	100	50	
AUTO:				
CA74	680	100	50	
STD:				
CA74	450	50		15
CA75	680	100	50	
CA76	680	100	50	
CA77	680	100	50	
CA83	870	75	40	25
CA90	390	75	25	20
CF39	440	100		
CF64	520	50	35	
CF65	520	50	35	
CF66	520	50	35	
CF67	520	75	35	
CF68	580	75	35	
CF69	580	75	35	
CF70	580	75	35	
CF71	580	75	35	
CF72	580	75	35	
CF73	580	75	35	
CF74	720	75	35	
CF75	720	75	35	
CF76	720	75	35	
CF77	720	75	35	
CF78	720	75	35	
CH69	720	150	50	
CH70	720	150	50	
CH71	720	150	50	
CH72	720	150	50	
CH73	720	150	50	

AUTOMATIC TRANSMISSION PRICES INCLUDE TORQUE — CONVERTER

PRICE LIST IN NORMAL DISTRIBUTION

EXCHANGE TRANSMISSION PRICE LIST

EFFECTIVE MARCH 1, 1980

- Confidential Jobber price schedule
- Supersedes and voids all previous price schedules
- Prices subject to change without notice
- Warranty is described in catalog
- Possession of this schedule does not entitle holder to buying power
- STE will not assume liability for error in price schedule

STE transmissions

Sacramento, California 95814
1131 C Street
(916) 442-5823

MAILING ADDRESS:
P.O. Box 1437
Sacramento, California 95807

STE NO	LIST	NET	JOBBER	CORE DEP	DAMAGED CASE	DAMAGED REAR HSG
AA77	530	380	290	150	100	
AF39	315	220	165	100		
AF390	365	255	190	100		
AK56	480	340	260	65	35	
AK57	480	340	260	65	35	
AK58	480	340	260	65	35	
AK59	480	340	260	65	35	
AK60	480	340	260	65	35	
AK61	480	340	260	65	35	
AK62	480	340	260	65	35	
AK63	480	340	260	65	35	
AK64	480	340	260	65	35	
AK65	480	340	260	65	35	
AK66	480	340	260	65	35	
AK67	480	340	260	65	35	
AK68	480	340	260	65	35	
AK69	480	340	260	65	35	
AK70	480	340	260	65	35	
AK71	480	340	260	65	35	
AL77	480	340	260	150	45	
AL78	480	340	260	150	45	
AS77	380	270	205	100	45	
AS78	380	270	205	100	45	
AT10	610	435	325	65		
AT14	325	230	175	100		
AT15	365	255	190	100		
AT17	480	335	255	100	45	
AT85	365	255	190	65		
AT86	325	230	175	65		
AT90	365	255	190	65		
AT96	285	200	150	65		
AT140	425	300	225	100	20	20
AT150	465	325	245	100	25	20
AT850	425	300	225	65		
AT860	425	300	225	65		
AT960	345	240	180	65		
BJ78	610	425	300	150	50	
CA23	370	260	195	100	35	30
CA25	370	260	195	100	35	30
CA64	400	280	210	100	55	

STE NO	LIST	NET	JOBBER	CORE DEP	DAMAGED CASE	DAMAGED REAR HSG
CA65	425	300	225	100	55	
CA66	425	300	225	100	55	
CA67	425	300	225	100	55	
CA68	428	300	225	100	50	
CA69	428	300	225	100	50	
CA70	428	300	225	100	50	
CA71	428	300	225	100	50	
CA72	428	300	225	100	50	
CA73	469	329	248	100	50	
AUTO:						
CA74	469	329	248	100	50	
STD:						
CA74	320	225	170	50		15
CA75	469	329	248	100	50	
CA76	469	329	248	100	50	
CA77	469	329	248	100	50	
CA83	620	435	330	75	40	25
CA90	275	195	145	75	25	20
CF39	315	220	165	100		
CF64	450	320	240	50	35	
CF65	450	320	240	50	35	
CF66	450	320	240	50	35	
CF67	450	320	240	75	35	
CF68	450	320	240	75	35	
CF69	450	320	240	75	35	
CF70	450	320	240	75	35	
CF71	450	320	240	75	35	
CF72	450	320	240	75	35	
CF73	450	320	240	75	35	
CF74	450	320	240	75	35	
CF75	450	320	240	75	35	
CF76	450	320	240	75	35	
CF77	450	320	240	75	35	
CF78	450	320	240	75	35	
CH69	510	360	270	150	50	
CH70	510	360	270	150	50	
CH71	510	360	270	150	50	
CH72	510	360	270	150	50	
CH73	510	360	270	150	50	

AUTOMATIC TRANSMISSION PRICES INCLUDE TORQUE — CONVERTER

ASSISTANT SECRETARY OF DEFENSE

WASHINGTON D C 20301

SR
MANPOWER
RESERVE AFFAIRS
AND LOGISTICS

11 MAR 1981

Mr. W.H. Sheley, Jr.
Director
Procurement and Systems Acquisition Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Sheley:

This is in reply to your letter to the Secretary of Defense regarding your Draft Report dated January 19, 1981, on "Contractor-Operated Stores Contracts are Unmanageable and Vulnerable to Abuse", OSD Case #5596, GAO code 950568.

The Report recommends that the Department of Defense (DoD) replace Contractor Operated Parts Stores (COPARS) and Contractor Operated Civil Engineering Supply Stores (COCESS) with Government-operated stores. The Report further recommends that, in the event the DoD determines that the COPARS and COCESS program should not be discontinued, actions be taken to strengthen the Government's control over COPARS/COCESS contract awards and contract administration.

Only Air Force store contracts were reviewed by the GAO. Only one of those contracts was held by a local contractor holding only one contract. The other nine store contracts reviewed were held by nationwide contractors holding multiple contracts. As pointed out in the report, the original concept envisioned contracting with local merchants and for the first few years the majority of contracts were awarded to local contractors. In recent years the Air Force contracts have become dominated by a few companies operating nationwide and specializing in COPARS and COCESS contracts. The Air Force believes there is a correlation between the increased number of nationwide contractors and increased difficulties in administering contracts and increased allegations of contract abuses. The Army has three stores, located in isolated areas, under the COPARS concept and has found these to be cost effective. In view of the above, although the Report notes a number of deficiencies associated with the contracts reviewed, the Report does not offer evidence warranting total disbandment of all COPARS and COCESS contracts in the Department of Defense.

Office of Management and Budget (OMB) Circular No. A-76, Revised, dated March 29, 1979, establishes the policies and procedures used to determine whether needed commercial or industrial type work should be done by

contract with private sources or in-house Government personnel. A policy expressed in that Circular is that when private performance is feasible and no overriding factors require in-house performance, rigorous comparison of contract costs versus in-house costs should be used, when appropriate, to decide how the work will be done. The COPARS and COCESS operations will be reviewed in accordance with the Executive policy set forth in OMB Circular A-76 and will be converted to a Government operation when it is justified. For operations found to be more economical under the COPARS or COCESS concept, the GAO recommendations for improvement in contract awards and contract administration will be pursued. Cost analyses have already been performed on the three Army stores and have disclosed a substantial cost savings while operating under the COPARS.

Individual findings contained in the Report are discussed in the enclosure to this letter. The opportunity to comment on the Draft Report is appreciated.

Sincerely,

Robert A. Stone

Robert A. Stone
Acting Assistant Secretary of Defense
(Manpower, Reserve Affairs & Logistics)

GAO Draft Report, "Contractor-Operated Stores Contracts Unmanageable and Vulnerable to Abuse" (GAO Code 950568)) (OSD Case #5596) dated January 21, 1981

DOD RECOMMENDED CHANGES

1. Digest, page i, first paragraph, last sentence

"This contracting dilemma could be resolved by local direct purchasing, which a study has shown is more economical but the Air Force is reluctant to authorize local users to make direct purchases."

Chapter 4, page 84, second paragraph, last sentence

"However, we were told that Air Force headquarters will not approve changing over to Government-operated stores at all locations."

DoD Recommended Change

Recommend deletion or rephrasing. Commands have not been told that they could not convert to Government-operated stores. They were told that such changes would require a cost comparison pursuant to Office of Management and Budget (OMB) Circular A-76 and Air Force Regulation 26-1.

2. Digest, page ii, first paragraph, first full sentence

"The Air Force now uses two types of stores extensively for base support--Contractor-Operated Parts Stores (COPARS) and Contractor-Operated Civil Engineer Supply Stores (COCESS)."

DoD Recommended Change

In addition to the contractor-operated stores mentioned in the GAO Report, the Air Force provides materiel support to vehicle maintenance and civil engineering activities through the use of: (1) The standard base supply system, (2) Government-operated parts stores, and (3) The Logistics Civil Engineering Supply Support System. The names of (2) and (3) above vary depending on the Command, but are alternative means of support. Recommend the Report be revised to reflect that these methods of support exist.

3. Digest, page ii, first paragraph, last sentence

"The stores are similar to neighborhood auto parts and hardware stores except that prices are set by contract rather than by market competition."

DoD Recommended Change

Recommend the word "competition" be inserted between the words "contract" and "rather." This change will recognize that the prices are set by overall competition among firms competing for award of these contracts.

Note: Page references refer to pages in draft report.

4. Chapter 3, page 80, Heading

"QUESTIONABLE DELIVERIES OF COPARS SALES

DoD Recommended Change

The heading of the paragraph "Questionable Deliveries of COPARS Sales" implies an improper act by the contractor. The contractor is responsible for issuing parts only to authorized personnel. The control of actions on the part of Government personnel is a responsibility of the Government. In view of the substance of the paragraph, we recommend the title be changed to "Questionable Requisitioning."

5. Digest, page vii, first paragraph under the heading "RECOMMENDATION", Third Sentence

"Instead, the military services should establish Government-operated automotive and civil engineering supply stores and directly purchase needed supplies competitively from local commercial wholesale distribution system at prevailing market prices."

DoD Recommended Change

If GAO retains the recommendation to discontinue COPARS and COCESS in the Final Report, recommend that this sentence be revised to reflect that there are other methods of support in addition to Government-operated stores that are acceptable.

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