

USE OF GENERAL ADMINISTRATION SERVICES AS SOURCES OF SUPPLY BY
GOVERNMENT CONTRACTORS

Our reviews of procurement contracts negotiated by the Department of Defense indicates that the Government could realize substantial savings, if contractors engaged primarily in defense contract work had been authorized and required to procure office furniture and common operating supplies through the General Services Administration rather than from more costly commercial sources.

Specifically, in 1965 we reported to the Congress three instances (see note) when the Government should have been able to save as much as \$1.5 million annually, if the two contractors cited in these reports were authorized and required to procure certain office furniture and common operating supplies at prices that were no higher than the prices available to Government agencies for similar items from the General Services Administration.

For several years, these two contractors had been engaged almost exclusively in the design, development, and production of certain weapons and space systems for the Government. Over 98 percent of their work had been performed under numerous cost-reimbursement-type contracts and essentially all the remaining work was performed under other types of negotiated Government contracts. Under these contracts, the contractors had procured, for their own account, significant amounts of office furniture and common operating supplies from commercial sources at prices higher than the prices contained in General Services Administration schedules. The prices paid by the contractors were indirectly charged, through overhead, to Government contract costs.

The Armed Services Procurement Regulation provides for granting authorization for the use of General Services Administration supply sources to contractors performing under individual cost-reimbursement-type contracts. However, although the regulation provides for the use of General Services Administration sources by contractors where items obtained are charged direct to specific cost-reimbursement-type contracts, these sources cannot be used by contractors that have essentially all cost-reimbursement-type work under a number of contracts where the items are not charged direct to individual contracts but are charged to these contracts through overhead.

The Department of Defense has consistently expressed opposition to contractor procurements from General Services Administration sources under fixed-type contracts and for cost-type contracts when the items are to be procured under a number of contracts and charged to Government contract costs through overhead.

The General Services Administration has proposed a change in Federal Procurement Regulations. Under this proposal, contractors and subcontractors would be permitted, subject to conditions and limitations prescribed by the contracting agency, to use the Administration's supply sources where agencies determine it is in the best interest of the Government for contractors to utilize these sources in performing Government cost-reimbursement contracts and other types of contracts when a substantial dollar portion of a contractor's contracts are of a cost-reimbursement nature. The proposed regulation would provide for use of GSA services when items are procured and charged to Government contracts through overhead.

The Department of Defense has recently reconsidered the proposed change and advised us on April 26, 1967, that it would not recommend expanding the use of General Services Administration sources of supply by contractor.

NOTE

B-132992, dated February 9, 1965, entitled Potential Savings Through Procurement of Operating Supplies From General Services Administration Sources by Martin-Marietta Corporation, Denver Division, Denver, Colorado.

B-146975, dated April 30, 1965, entitled Potential Savings Through Procurement of Office Furniture From General Services Administration Sources by Lockheed Missiles & Space Company, Sunnyvale, California.

B-146975, dated May 13, 1965, entitled Potential Savings Through Procurement of Operating Supplies From General Services Administration sources by Lockheed Missiles & Space Company, Sunnyvale, California.