



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

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CIVIL ACCOUNTING AND
AUDITING DIVISION

GAO 00900

AGC 00095

JAN 27 1969

Dear Dr. Haworth

During our review of various grant programs administered by the National Science Foundation, we noted that grantees have not been authorized to use General Services Administration (GSA) supply sources in the procurement of equipment and supplies needed for the activity financed under the grant. In several instances our reviews indicated that savings could have been realized if the grantees had used the GSA supply source for supplying and equipping the grant project.

For example, during our current review of university science development grants we found that certain items of equipment purchased by the institutions for use under the grant could have been acquired through GSA sources at a significant saving, as indicated by the following illustration.

<u>Item</u>	<u>Price paid by institution</u>	<u>GSA price</u>	<u>Savings</u>
Bench vices	\$396.48	\$195.20	\$201.28
Belt and disc sander	329.00	202.28	126.72
Tilting arbor saw	463.00	263.45	199.55
Oscilloscope	1,395.00	1,331.40	63.60
Camera	159.95	116.00	43.95

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In addition, we noted that one of the institutions had been authorized by the Office of Economic Opportunity to use GSA supply sources in connection with a grant awarded by that Office, and officials at the institution expressed an interest in obtaining similar authorization from the Foundation.

General Services Administration Bulletin FPMR A-17 dated November 7, 1967, to the Heads of Federal Agencies encourages the use of GSA supply sources by grantees of Federal agencies. The bulletin points out that the functions performed by a grantee are generally an integral part of the Federal agency's program for which the funds were appropriated; consequently, if such Federal agency deems it appropriate and in the best interest of the Government, such agency may, except

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where prohibited by law, authorize the use of GSA sources of supply by grantees in carrying out the purpose for which the agency made a grant. GSA requires that, prior to the use of its sources by grantees, the authorizing Federal agency will arrange with GSA mutually agreeable assurances that payment for supplies and services obtained from these sources will be made.

Regarding the potential savings to be obtained from the use of GSA supply sources, its bulletin specifically states

"The President has emphasized that cost reduction practices and techniques should be utilized in all Government agencies whenever applicable. Furthermore, he has directed operating officials throughout the executive branch to seek opportunities for cost reduction and to take appropriate action to achieve them. In this connection, supplying and equipping the numerous and growing Federal grant programs through GSA supply sources offers potential economies of considerable magnitude. Funds provided to grantees will generally be saved by using GSA sources and savings can be applied to grantee projects."

It should be noted that GSA Bulletin A-17 does not call for the mandatory use of GSA supply sources by grantees, but merely authorizes such use if it is deemed in the best interest of the Government. The grantee would not be obliged, under the authorization to be made by the grantor agency, to use GSA supply sources when its own commercial sources of supply would allow for procurement of needed equipment, supplies or services at the same or lower cost, or under special circumstances when use of GSA supply sources would unduly delay the grant project.

In some of the NSF grant programs reviewed by us, we found that grantee institutions were able to purchase equipment at prices equal to or less than those available through GSA. In these cases, of course, the procurement should be made at the most economical price available.

In view of the potential economies available through the use of GSA supply sources and the President's directive that cost reduction practices and techniques be utilized in all Government agencies whenever applicable, we believe that the Foundation should authorize the use of GSA supply sources by its grantees when deemed advantageous to the Government.

We would appreciate receiving your comments as to any action which is being taken or contemplated to effect the potential economies available through the use of these sources.

Sincerely yours,

A handwritten signature in cursive script that reads "Frederick K. Rabel". The signature is written in dark ink and is positioned above the typed name.

Frederick K. Rabel
Assistant Director

The Honorable Leland J. Haworth
Director, National Science Foundation

Enclosed is a copy of the letter we have sent the Administrator of General Services recommending (1) continuance of the six-year/60,000 mile replacement criteria for the present; (2) maintenance of their study of replacement policy on a continuing basis, and (3) study of a more comprehensive alternative, the relative costs of leasing versus ownership of the Government's vehicle fleet.

Sincerely,

A handwritten signature in black ink, appearing to read "Caspar W. Weinberger". The signature is written in a cursive style with a large initial "C".

Caspar W. Weinberger
Deputy Director

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

NOV 20 1970

Honorable Robert L. Kunzig
Administrator of General Services
Washington, D.C. 20405

Dear Mr. Kunzig:

This is in response to your January 30, 1970, letter which transmitted the General Services Administration Automobile Replacement Policy Study and Program Memorandum.

We have reviewed the study and have discussed its contents with your staff at various times since you transmitted the study. The study reflects careful planning and the competent application of appropriate analytic techniques.

Our reaction to the study may be summarized as follows:

1. The economic analysis generally supports a one-year replacement policy over the long-term for GSA motor pool vehicles.

2. Our analysis indicates that the cost of the added capital outlay required to accelerate the replacement cycle to one year would defer the realization of economic benefits for at least six years. Your staff has a copy of this analysis.

3. The results of the analysis are highly susceptible to relatively small cost changes, which would reduce or eliminate anticipated benefits.

4. The estimated long term benefits do not appear to justify assigning a high priority to achievement of a one-year replacement cycle when the investment required is considered in relation to other demands upon the budget.

Therefore, in view of the budgetary situation, the Office of Management and Budget recommends that the present sedan replacement policy be continued at least through fiscal year 1972. We suggest that you consider maintaining your study on a current basis for possible resubmission at a time when the budgetary

situation is improved and potential benefits would represent a higher priority in comparison with other budget requirements. We suggest that any updating of the study should also include consideration of current factors influencing cost criteria, such as the recent passage of P. L. 91-243, approved September 26, 1970, which could raise the effective purchase price of new Government sedans and increase the resale value. In view of GSA's government-wide responsibility for motor vehicle operations, we also suggest that GSA discuss any future policy proposals with other Federal agencies to provide a coordinated government-wide approach.

In addition to maintaining your study of replacement policy on a current basis, we would appreciate your undertaking an analysis of the relative costs of leasing versus ownership of the Government's vehicle fleet. OMB staff will be in touch with your staff to discuss the development of a plan for such a study.

Sincerely,

/s/ Caspar Weinberger

Caspar W. Weinberger
Deputy Director

APPENDIX III

Column 7 Subsequent cycle cost (col. 6 - trade-in)	Column 8 Perpetuity factor $1/ (i \times n)$	Column 9 Cost of future cycles (col. 7 x col. 8)	Column 10 Total cost (col. 6 + col. 9)
\$ 283.5 ^a	12.5	\$3,543	\$5,263 ^b
747	6.25	4,658	6,508
1,124	4.16667	4,683	6,642
1,573	3.125	4,915	6,994
1,796	2.5	4,490	6,694
2,008	2.08333	4,183	6,502

Column 7 Subsequent cycle cost (col. 6 - trade-in)	Column 8 Perpetuity factor $1/ (i \times n)$	Column 9 Cost of future cycles (col. 7 x col. 8)	Column 10 Total cost (col. 6 + col. 9)
\$ 152.5 ^a	12.5	\$1,906	\$3,626 ^b
648	6.25	4,050	5,890
1,049	4.16667	4,370	6,329
1,527	3.125	4,771	6,850
1,759	2.5	4,398	6,602
1,979	2.08333	4,122	6,441

APPENDIX III

The major variable costs of retaining a sedan in GSA's interagency motor pool under different replacement cycles are depreciation costs; maintenance, repair, and tire costs; and interest on investment. These costs are analyzed for a single sedan on the preceding pages to determine the most economical cycle. The columns in the analyses have the following meanings.

Column 1--The numbers, 1, 2, 3, 4, 5, and 6 should be interpreted as first year, second year, etc., in relation to columns 2, 3, and 4. They should be interpreted as 1-year cycle, 2-year cycle, etc., with respect to all other columns.

Column 2--These amounts represent maintenance and repair (M&R) and tire costs for the various years as developed by GSA for its 1970 report.

Column 3--For convenience, we regard M&R and tire costs as occurring at the beginning of the cycle. For this reason, we apply the present value factors shown in this column, on the basis of an interest rate of 8 percent, to obtain their present values at the beginning of the cycles.

Column 4--These are the present value amounts obtained.

Column 5--The present value of M&R and tire costs for a 2-year cycle will be \$37 the first year and \$120 the second year for a cumulative total of \$157. In this column are accumulated the items in column 4 to obtain the total present value of M&R and tire costs for each cycle.

Column 6--Each item in this column represents the present value of the costs for the initial cycle consisting of the cost of a new car and the M&R and tire costs incurred during each cycle as shown in column 5.

Column 7--In subsequent cycles there will be cars sold. The resale values are a setoff against the purchase price of new cars. Taking this into account each item in this column shows the present value cost of a subsequent cycle. An amount of \$6.50 has been added to the cost of a 1-year

cycle to cover GSA's estimate of the additional cost of selling an increased number of cars.

Column 8--The cycle costs in column 7 cannot be compared directly with each other because they are not on an equal basis. For example, the costs of a 1-year cycle are incurred during a 1-year period whereas the costs of a 6-year cycle are spread unevenly over a 6-year period. Applying the perpetuity factors shown in this column will transform the cycle costs of column 7 into present values of perpetuities and thus put all the cycles on an equal footing.

Column 9--These amounts represent the present value of the costs for all future cycles based on an interest rate of 8 percent.

Column 10--This column shows total present value costs, composed of the present value costs of the initial cycle (col. 6) and the present value cost of all future cycles (col. 9). The most economic cycle is the one that minimizes the present value of total costs. The 1-year cycle is the most economical.

APPENDIX IV

PRINCIPAL OFFICIALS RESPONSIBLE
FOR THE POLICIES AND THE CONDUCT OF THE
ACTIVITIES DISCUSSED IN THIS REPORT

<u>Tenure of office</u>	
<u>From</u>	<u>To</u>

GENERAL SERVICES ADMINISTRATION

ADMINISTRATOR OF GENERAL SERVICES:

Robert L. Kunzig	Mar. 1969	Present
Lawson B. Knott, Jr.	Nov. 1964	Feb. 1969
Bernard L. Boutin	Nov. 1961	Nov. 1964

OFFICE OF MANAGEMENT AND BUDGET

DIRECTOR, OFFICE OF MANAGEMENT AND
BUDGET:

George P. Shultz	July 1970	Present
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DIRECTOR, BUREAU OF THE BUDGET
(now OMB):

Robert P. Mayo	Jan. 1969	June 1970
Charles J. Zwick	Jan. 1968	Jan. 1969
Charles L. Schultze	June 1965	Jan. 1968
Kermit Gordon	Dec. 1962	June 1965