



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

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Dear Senator Proxmire:



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Your office requested that we look into the procedures and practices followed by the Defense Personnel Support Center, Philadelphia, Pennsylvania, for pricing produce for sale to military commissary stores. You were concerned particularly with whether produce was being sold to the commissaries at less than cost to the Government. The results of our inquiry were previously discussed in detail with your office and are summarized in this letter.

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We found that items could be offered for sale at prices which were either more or less than actual cost because of the Center's pricing procedures. The Center, for administration purposes, establishes produce prices at least 5 weeks before the effective date of the price list. Consequently, standard prices are set which may be more or less than the prevailing market prices on the effective date of the price list.

CATALOGING AND PRICING SUBSISTENCE ITEMS

The Federal Supply Catalog contains subsistence items approved for troop issue and for sale to commissary resale stores. The catalog is revised at least once every 2 years, and change bulletins showing interim additions and deletions are issued quarterly. The Center is responsible for establishing standard prices for all subsistence items listed in the catalog.

The Federal Supply Catalog Perishable Subsistence Price List is published quarterly, and price change notices are listed monthly. Standard prices are generally established for all centrally managed items for inventory accounting and billing purposes. Some catalog items may not be shown on the price list either because they are procured in limited quantities in several geographical areas at varying prices or because they are currently out of season.

The Center also publishes a handbook of unlisted catalog items. These items are not stocked by Center depots and generally are available only for sale to the commissary stores and not for troop issue. They are requisitioned through the Center for direct delivery to the commissary stores at cost plus transportation charges.

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Procedures for computing standard prices

No specific formula has been prescribed for computing the standard prices of produce items; judgment and experience of the price analysts play an important part in the process. The analysts are supposed to consider many elements, including typical quantities of procurements, frequency of procurements, and historical market trends. In addition, the analysts are provided with information on the most current costs for subsistence items and with monthly summaries of procurement transactions.

After a cost has been determined for each item, a surcharge of 2.5 percent is added to cover retail and wholesale losses and transportation charges and the total amount is published in the price list as the standard price.

The process of determining standard prices for produce generally starts 5 weeks before the prices become effective so that the price lists will be printed and in the hands of the users about 15 days before the effective date. Since these prices will remain in effect for at least 1 month, the analysts must, on the basis of the information available to them at the time, establish prices which they feel will be appropriate 5 to 9 weeks in the future.

Although price analysts try to hold standard prices reasonably stable in the hope that cost fluctuations will average out in the long run, the Center recognizes that unanticipated market conditions occurring after prices are established may warrant adjustments of the approved prices.

Prices for most items listed in the Federal Supply Catalog are reviewed every 3 months, but the prices for items considered best sellers--those accounting for at least 80 percent of the dollar value of total Subsistence Stock Fund sales--are reviewed monthly. At the time of our review, there were about 100 perishable subsistence items classified as best sellers, including apples, oranges, cabbage, lettuce, carrots, and celery.

ANALYSIS OF STANDARD PRICES

We reviewed the procurement history and standard prices of 17 produce items listed in the Federal Supply Catalog for a 10-month period. Six of the items were best sellers, and purchases of the 17 items for the period totaled \$14.3 million.

We compared the standard price of each item with an average procurement price. The standard prices of five of the items exceeded the average procurement prices by \$200,000 for transactions during the period. The standard prices of the other 12 items were less than the average procurement prices by \$1.4 million for transactions during the period. The net difference of \$1.2 million represented about 8.6 percent of the total procurement value of all the items during the period. Two lettuce items accounted for almost one-half of the \$1.4 million difference. Establishment of a standard price for lettuce is difficult because of the lack of seasonal trends and the continuous fluctuations in costs.

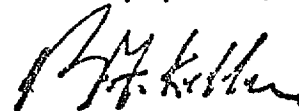
We could not determine what portion of the difference related to transactions for resale to commissary stores because Center records did not distinguish between transactions for commissary resale stores and those for troop issue. We visited commissary stores at Fort Dix and at McGuire Air Force Base and found that neither store had purchased any catalog-listed produce items from the Center for resale during the 10-month period we reviewed.

Officials at these commissaries stated that they did not consider the Center as a regular source of supply for produce items. They cited several reasons, such as the lack of the right to reject substandard deliveries, shortage of storage space which necessitated more frequent deliveries than the Center could provide, longer leadtime for requisitions and lack of flexibility to make changes, and additional paperwork and loss of requisitions experienced in dealing with the Center.

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We hope the information we have furnished will satisfy your interest in this matter. We shall be glad to discuss the matter further with your office if you desire. No further distribution of this report will be made unless copies are requested and we obtain your agreement or unless you publicly announce its contents.

Sincerely yours,



Deputy Comptroller General
of the United States

The Honorable William Proxmire
United States Senate