



United States  
General Accounting Office  
Washington, D.C. 20548

150812

National Security and  
International Affairs Division

B-252726

February 18, 1994

The Honorable John Breaux  
United States Senate

Dear Senator Breaux:

This responds to your December 7, 1993, request for data used in compiling our report Minority Contracting: DOD's Reporting Does Not Address Legislative Goals (GAO/NSIAD-93-167, July 27, 1993). Specifically, we are providing data that supports the fact that DOD obligated a large portion of small disadvantaged business (SDB) contract dollars to a small number of companies. As discussed with your staff, we are also providing data on price premiums paid by the Defense Fuel Supply Center (DFSC) and the names of companies receiving most of those premiums.

As shown in our earlier report, each year about 1 percent of the SDBs receiving DOD contracts receive about 25 percent of the funds that DOD obligates to SDBs. Enclosure I lists these SDBs for fiscal years 1990 through 1992. For each year, we identify the companies that received the most obligations, their rank (with the company receiving the most obligations ranked one), and the total obligations for the 3 years. Although 30 plus contractors are identified for each year, the enclosure identifies only 61 contractors in total because 28 appear in the listings for at least 2 fiscal years. Fifteen contractors appear in the listings for all 3 fiscal years.

Price premiums are associated with contracts awarded under 10 U.S.C. 2323 preferential contracting procedures. Under DOD's implementing procedures, contracting officers, in evaluating competitively offered prices, are required to make SDBs' offers more competitive by increasing other offers by 10 percent. An SDB is awarded the contract if its price is lower than the increased offers of others. The premium is the difference between the price paid and the price that would have been paid if the low offer had

received the contract. Table I shows that for fiscal years 1990 through 1992, DOD reported price premiums (higher prices) of about \$32.5 million, with most of the dollars resulting from DFSC awards.

Table 1: Price Premiums to SDBs  
Dollars in millions

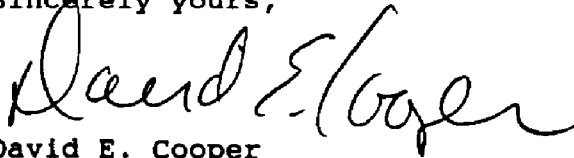
| Fiscal year | DOD premium amount | DFSC premium amount | DFSC premium as percent of total |
|-------------|--------------------|---------------------|----------------------------------|
| 1990        | \$13.7             | \$11.6              | 85                               |
| 1991        | 9.4                | 8.0                 | 85                               |
| 1992        | 9.4                | 9.1                 | 97                               |
| Total       | \$32.5             | \$28.7              | 88                               |

Enclosure II shows the companies that received the largest premiums for fiscal years 1990 through 1992 from DFSC. DFSC reported that 13 companies each received premiums of at least \$100,000, with 7 of the companies each receiving premiums of over \$1 million. The premiums reported by DFSC are based on estimated requirements when a contract is awarded and might differ from premiums paid, which are based on orders and deliveries under the contract.

We compiled the above data from DOD's contract award data (DD Form 350 file). This data is used by DOD in preparing its report to Congress on SDB utilization.

Please contact me at (202) 512-4587 if you or your staff have any questions concerning this report.

Sincerely yours,



David E. Cooper  
Director, Acquisition Policy, Technology,  
and Competitiveness Issues

Enclosures - 2

# Small Disadvantaged Business Concerns Receiving Most Contract Obligations in Fiscal Years 1990, 1991, and 1992

Dollars in millions

| Company name                    | Rank by fiscal year |      |                   | Total dollars |
|---------------------------------|---------------------|------|-------------------|---------------|
|                                 | 1990                | 1991 | 1992 <sup>a</sup> |               |
| R J O Enterprises Inc.          | 1                   | 10   | 9                 | \$164.0       |
| Phoenix Petroleum Company       | 2                   |      |                   | 13.1          |
| Barrett Refining Corporation    | 3                   | 1    | 3                 | 277.4         |
| CTA Incorporated                | 4                   | 4    | 7                 | 173.2         |
| Coisa Inc.                      | 5                   | 5    | 4                 | 153.8         |
| Infotec Development Inc.        | 6                   | 2    | 1                 | 241.3         |
| Pacifica Services Inc.          | 7                   | 34   | 31                | 73.4          |
| Balimoy Mfg. Co. of Venice      | 8                   |      |                   | 56.6          |
| Technology Applications Inc     | 9                   |      |                   | 61.0          |
| Las Energy Corp.                | 10                  |      |                   | 35.2          |
| Leal Petroleum Corp.            | 11                  |      |                   | 28.3          |
| Daedalean Inc.                  | 12                  |      |                   | 38.1          |
| Economics Technology Assoc.     | 13                  | 17   | 34                | 66.8          |
| Network Solutions Inc.          | 14                  |      |                   | 42.3          |
| Allied Petro. Inc.              | 15                  | 9    |                   | 59.5          |
| Turtle Mountain Mfg. Company    | 16                  | 14   | 15                | 82.3          |
| Modern Technologies Corp.       | 17                  | 8    | 10                | 93.3          |
| Frontier Engineering Inc.       | 18                  | 16   | 17                | 72.7          |
| Hilton Systems Inc.             | 19                  | 25   |                   | 56.8          |
| Nations Inc.                    | 20                  |      |                   | 44.7          |
| Comprehensive Technologies Int. | 21                  | 11   | 28                | 69.8          |
| National Systems & Research Co. | 22                  | 13   | 22                | 70.2          |
| Integrated Systems Analysts     | 23                  |      |                   | 35.5          |
| I Net Inc.                      | 24                  | 3    | 5                 | 136.9         |
| Naughton Energy Corp.           | 25                  |      |                   | 33.9          |
| Aleman Food Service Inc.        | 26                  |      |                   | 37.0          |
| Terry Manufacturing Co.         | 27                  |      |                   | 35.0          |
| Research Management Corp        | 28                  | 26   |                   | 42.5          |
| Integrated Microcomputer Sys    | 29                  | 19   |                   | 53.4          |
| Automation Res. Systems Ltd.    | 30                  | 30   | 33                | 53.7          |
| G Marine Diesel Corp.           | 31                  |      |                   | 18.3          |
| Aepco Inc                       | 32                  | 35   | 23                | 55.7          |
| Universal Energy Systems Inc.   | 33                  |      |                   | 36.8          |
| Sellers Oil Company             |                     | 6    |                   | 38.6          |
| Pride Products Inc.             |                     | 7    |                   | 32.0          |
| Interstate Landscaping Co. Inc. |                     | 12   |                   | 54.2          |

(continued)

**Enclosure I  
Small Disadvantaged Business Concerns  
Receiving Most Contract Obligations in  
Fiscal Years 1990, 1991, and 1992**

Dollars in millions

| Company name                    | Rank by fiscal year |      |                   | Total dollars |
|---------------------------------|---------------------|------|-------------------|---------------|
|                                 | 1990                | 1991 | 1992 <sup>a</sup> |               |
| Texcom Inc.                     |                     | 15   |                   | 44.4          |
| Reyes Industries                |                     | 18   |                   | 39.7          |
| Technical & Mgt. Services Corp. |                     | 20   | 24                | 54.1          |
| Metters Industries Inc.         |                     | 21   | 11                | 69.5          |
| Crestmont Cleaning Svcs & Supp. |                     | 22   |                   | 28.2          |
| Navcom Systems Inc.             |                     | 23   | 19                | 49.7          |
| Childers Construction Co.       |                     | 24   | 18                | 48.8          |
| Systems Engineering & Mgt. Co.  |                     | 27   | 14                | 65.8          |
| Beneco Enterprises Inc.         |                     | 28   | 16                | 57.4          |
| Potomac Systems Engineering     |                     | 29   |                   | 43.1          |
| Engineering & Economics Res.    |                     | 31   | 12                | 62.7          |
| Burgos, Fred Construction Co.   |                     | 32   |                   | 30.6          |
| Piquini Management Corp.        |                     | 33   | 21                | 55.6          |
| Mil Ray Food Co.                |                     | 36   |                   | 27.5          |
| Sharp, George G. Inc.           |                     | 37   | 29                | 41.3          |
| Peerless Petrochemicals Inc.    |                     |      | 2                 | 71.0          |
| Gold Line Refining Ltd.         |                     |      | 6                 | 61.5          |
| Age Marketing Co.               |                     |      | 8                 | 50.7          |
| Red River Carriers              |                     |      | 13                | 33.1          |
| Industrial Data Link Corp.      |                     |      | 20                | 39.5          |
| Century Technologies Inc        |                     |      | 25                | 46.2          |
| Big Bear Oil Co.                |                     |      | 26                | 24.9          |
| Shadrock Petroleum Products     |                     |      | 27                | 18.5          |
| Systems Resources Corp.         |                     |      | 30                | 33.5          |
| Sumaria Systems Inc.            |                     |      | 32                | 28.3          |

<sup>a</sup>Because of a DD 350 correcting entry noted subsequent to our earlier report, the 34 companies listed in fiscal year 1992 received about 24 percent, not 25 percent, of the year's obligations to SDBs.

# Price Premium Obligated by Defense Fuel Supply Center Fiscal Years 1990, 1991, and 1992

Dollars in thousands

**Company Name** **Total**

**Fiscal Year 1990**

|                                    |                 |
|------------------------------------|-----------------|
| Barrett Refining Corp.             | \$3,648         |
| Phoenix Petroleum Co. <sup>a</sup> | 2,993           |
| Leal Petroleum Corp.               | 1,460           |
| Allied Petroleum Inc.              | 1,372           |
| Crysen Corp.                       | 1,000           |
| Naughton Energy Corp.              | 639             |
| Big Bear Oil Co. Inc.              | 156             |
| Sellers Oil Co. Inc.               | 135             |
| Eight other companies              | 217             |
| <b>DFSC total</b>                  | <b>\$11,620</b> |

**Fiscal Year 1991**

|                                    |                |
|------------------------------------|----------------|
| Barrett Refining Corp.             | \$5,808        |
| Sellers Oil Co.                    | 2,220          |
| Allied Petroleum Inc.              | 1,981          |
| Issca-Rusha Co. Inc.               | 136            |
| Yancey Minerals Inc.               | 132            |
| Crysen Corporation                 | 117            |
| Six other companies                | 202            |
| Phoenix Petroleum Co. <sup>a</sup> | -2,587         |
| <b>DFSC total</b>                  | <b>\$8,009</b> |

**Fiscal Year 1992**

|                             |                |
|-----------------------------|----------------|
| Peerless Petrochemicals Inc | \$3,770        |
| Gold Line Refining Ltd.     | 3,270          |
| Barrett Refining Corp.      | 1,470          |
| Naughton Energy Corp.       | 270            |
| Allied Petroleum Inc.       | 192            |
| Petro Star                  | 129            |
| Five other companies        | 42             |
| <b>DFSC total</b>           | <b>\$9,143</b> |

<sup>a</sup>This company defaulted on contracts, which were subsequently terminated by DFSC. The obligation of the premium is shown in 1990 and the deobligation in 1991.