



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

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U The Honorable Joe L. Evins
Chairman, Committee on Small Business H 5300
House of Representatives

Dear Mr. Chairman:

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P This report is in response to the recommendation in an
October 16, 1974, report of a Subcommittee of the House of
Representatives' Permanent Select Committee on Small Business. H 6100
That report recommended that we investigate the Postal Serv-
ice's centralized automotive parts distribution system to
determine if it is achieving real savings or whether it
might be more profitable to obtain automotive parts from
local distributors. The Subcommittee requesting this work
no longer exists. As agreed, we are submitting our report
to your Committee which now has jurisdiction over this area.

We reviewed selected vehicle maintenance facilities in
the Service's Eastern Region to (1) determine the total dol-
lar value of repair parts purchased from local distributors
versus other sources, (2) compare the price paid for parts
procured from local distributors with the cost of these
parts from the centralized distribution system, and (3)
determine the time required to receive parts through the
system.

Our examination showed:

- Only 8.8 percent of the dollar value of automotive repair parts and supplies used by selected vehicle maintenance facilities were acquired from the centralized distribution system.
- The Service is saving about 40 percent on parts acquired through the centralized automotive parts distribution system.
- The time required to place and receive an order through the centralized distribution system averaged about 10 days and does not appear to hamper vehicle maintenance facilities' operations.

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--Small businesses supplied about 68 percent, by dollar value, in the first 9 months of fiscal year 1975 of the parts acquired for centralized distribution.

Because of the economies involved and because small businesses, albeit not local, are participating, we believe the Service should assure that vehicle maintenance facilities use the centralized distribution system to the maximum extent practicable.

BACKGROUND

The possibility of achieving savings through a centralized automotive parts system was brought to the attention of Service officials in a December 1966 internal audit report. At that time, each of the approximately 245 vehicle maintenance facilities was responsible for buying and storing the repair parts needed to service its assigned vehicles. The facilities purchased about half their parts through General Services Administration contracts and the other half from local suppliers.

The Service's success with centralized distribution of mail-processing equipment parts coupled with the internal audit recommendation led to a consultant study to identify those vehicle parts that could be centrally supplied. To maximize savings, the Service intended to stock only those parts with a high use rate and a large retail markup. Therefore, the system was to provide only partial parts support and the facilities were to continue to buy the remaining parts.

The consultant concluded that 1,011 different repair parts could be stocked centrally at estimated annual savings of about \$1.6 million. On July 1, 1971, the Service established a centralized automotive parts system at its Western Area Supply Center in Topeka, Kansas.

POSTAL POLICY ON USING THE SYSTEM

Service instructions to the vehicle maintenance facilities stated that the parts center was to be the source for the repair parts it stocked unless (1) there was an emergency need for the part or (2) parts could be purchased locally at less cost than through the central system. However, as a practical matter, facilities' managers continued to have wide latitude in obtaining vehicle repair parts. Service officials told us that, although facilities were encouraged to use the centralized distribution system, they were not closely monitored to insure that the instructions were followed.

REPAIR PARTS PROCUREMENT

Vehicle maintenance facilities purchase automotive repair parts from either General Services Administration contractors--nationwide--or local vendors in addition to parts acquired through the system. In fiscal year 1974, the facilities used repair parts costing about \$17.1 million. Of this amount, parts with a value of \$1.6 million, or about 9.3 percent, came from the center.

The Eastern Region is divided into 10 districts, which are further divided into 42 management areas each containing a sectional center facility responsible for processing mail in its area. Generally, a vehicle maintenance facility is close to a sectional center facility and is under the sectional center manager. There are 43 facilities servicing about 18,600 vehicles in the Eastern Region. We selected 9 facilities, responsible for the maintenance and repair of 3,618 vehicles, for review. (See enc. I.)

Our review of the procurement activity of the selected vehicle maintenance facilities for fiscal year 1974 showed that an average of about 8.8 percent of the total value of all parts used were obtained from the centralized parts system. However, the table below shows that individual facilities' use of the system varied greatly.

TABLE I
Procurement of Repair Parts
FY 1974

<u>Vehicle maintenance facility</u>	Obtained from center (note a)	Purchased from other sources	<u>Total</u>	Percent center to total
Continental	\$ 2,871	\$ 98,373	\$101,244	2.8
Lakewood	2,191	40,897	43,088	5.1
Wilmington	3,502	61,202	64,704	5.4
Harrisburg	4,419	65,646	70,065	6.3
Lancaster	2,569	19,167	21,736	11.8
Roanoke	2,301	21,488	23,789	9.7
Merrifield	16,226	125,819	142,045	11.4
Annapolis	3,463	21,315	24,778	14.0
Silver Spring	<u>11,752</u>	<u>56,245</u>	<u>67,997</u>	17.3
Total	<u>\$49,294</u>	<u>\$510,152</u>	<u>\$559,446</u>	
Average percent				<u>8.8</u>

a/ The center bills the facilities at cost.

Several reasons for the wide variance in vehicle maintenance facility's use of the system include:

- Differences in the number of vehicles assigned to various facilities for which parts are available from the center;
- Lack of knowledge by a facility about the system and available parts; and
- Vehicle maintenance facility's management preference for certain local vendors as a supply source.

Service headquarters officials believe that the system is not being fully used.

The Service does not maintain summary statistics showing the percent of parts purchased from each supply source. Our examination of data for purchases in fiscal year 1974 and the first 6 months of fiscal year 1975 at seven 1/ of the nine facilities showed about 50 percent of their parts being obtained through General Services Administration contracts. About 39 percent were obtained from local vendors, and 11 percent through the system.

COST COMPARISON

We selected 20 parts for the 1/4-ton delivery vehicle, the postal fleet's most common type of vehicle, and determined the cost of these parts when obtained from the center and from local vendors. As can be seen from enclosure II, the Service was generally obtaining a savings of about 50 percent--based on acquisition costs--when parts were obtained from the center instead of from local vendors. The net savings, however, are less because of the system's operating costs.

The system's operating costs for fiscal year 1975 were estimated by the Service to be about \$428,000. These costs can be categorized as follows:

1/ Records maintained at two facilities did not allow us to determine the percent of procurements from each source.

Personnel	\$203,000
Facilities (leased)	28,000
Equipment and supplies	8,000
Transportation (parcel post)	<u>189,000</u>
Total	<u>\$428,000</u>

The personnel cost represents the salaries and fringe benefits for 10 full-time employees and appropriate cost allocations for supervision, administration, and support personnel. The centralized distribution system is located in a building leased from the General Services Administration and \$28,000 of the annual lease cost is attributed to the system's operation. The equipment and supplies cost includes depreciation of capital equipment, expendable supplies, and computer costs.

Transportation cost records are not available but Service officials stated that parts shipments are currently sent parcel post. However, some shipments were sent first-class during 1975. To determine transportation cost, we selected parts requisitions from various sections of the country and calculated the mailing cost for each parcel using both first-class and parcel-post rates. The mailing costs averaged about 25 percent and 9 percent respectively of the shipment value. Based on fiscal year 1975 estimated sales of \$2.1 million, the system's transportation costs for that year ranged from \$189,000 to \$525,000.

Parts obtained by vehicle maintenance facilities from the center generally cost about 50 percent of the cost of buying the parts locally. The center's estimated automotive parts sales of \$2.1 million, therefore, would have cost the facilities about \$4.2 million if purchased locally. To make a valid comparison between central buying versus local buying, however, the system's operating cost must be considered. Adding the operating costs (\$428,000) to the center's automotive sales (\$2.1 million) gives a total cost to the Postal Service of about \$2.528 million. This is about \$1.672 million (\$4.2 million less \$2.528 million) less than the cost of purchasing parts locally and represents a savings of about 40 percent. Even if the system's shipments were all sent first-class, the Service would still be achieving considerable savings from operating its automotive parts system.

Center officials said that a large portion of center purchases for the system are from small businesses. During

fiscal years 1974 and 1975 (through April 3, 1975) the center obtained, by dollar value, 53 percent and 68 percent respectively of its automotive parts from small businesses. Although establishing the system reduced the amount of business the vehicle maintenance facilities did with local small business, a large portion of these sales were transferred to other small businesses.

TURNAROUND TIME

Turnaround time is the time elapsed from when the vehicle maintenance facility requested parts until they were received. The average turnaround time for the shipments tested was about 10 calendar days and ranged from 6 to 15 days.

Vehicle maintenance facility records showed an average of 3 days elapsing between the time the facility sent a requisition and when the center received it. Center officials stated that they strive to fill requisitions within 24 hours, and our tests confirmed that this was generally achieved. Another 6 days were required, on the average, to transport the parts to selected facilities from the center. In summary, it took an average of 10 calendar days to fill requisitions.

Vehicle maintenance facility officials stated that the time required to obtain parts from the center was not a problem and did not adversely affect facility operations.

RECOMMENDATION TO THE POSTMASTER GENERAL

For the Service to maximize the potential savings from operating its centralized automotive distribution system, we recommend that the Service institute formal followup actions to insure that facilities make maximum use of the system. As part of the followup, vehicle maintenance facilities not making maximum use of the system should be required to justify their nonuse.

AGENCY COMMENTS

On September 15, 1975, the Postmaster General replied to our report and concurred with our recommendation. (See

B-114874

enc. III.) He stated that the report's recommendation has been instituted and will, in the future, be amplified.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "Thomas B. Atwater".

Comptroller General
of the United States

Enclosures - 3

NUMBER OF VEHICLES ASSIGNED TO SELECTED
VEHICLE MAINTENANCE FACILITIES IN THE
EASTERN REGION FOR MAINTENANCE AND REPAIR

<u>Vehicle Maintenance Facility</u>	<u>No. of Vehicles</u>
Continental Facility, King of Prussia, Pa.	482
Lakewood, N. J.	212
Wilmington, Del.	354
Harrisburg, Pa.	470
Lancaster, Pa.	145
Roanoke, Va.	494
Merrifield, Va.	993
Annapolis, Md.	159
Silver Spring, Md.	<u>309</u>
Total	<u>3,618</u>

RANGE OF AVERAGE UNIT PRICESPAID FOR SELECTED REPAIR PARTS

<u>Part</u>	Center Price (note a) <u>Low</u>	Commercial Price <u>Low</u>	Center Price (note a) <u>High</u>	Commercial Price <u>High</u>
Drum, rear brake	\$9.43	\$18.07	\$11.65	\$19.71
Bearing, axle	2.37	4.64	2.37	5.66
Wheel cylinder(front left)	1.94	4.04	2.64	5.66
Wheel cylinder(front right)	1.94	3.88	1.94	5.59
Kit, brake shoe lining	4.35	4.66	4.52	6.64
Master cylinder	9.79	16.76	10.94	24.81
Repair kit-master cylinder	3.19	9.34	3.19	9.34
Cable, hand brake	2.28	3.40	4.96	3.40
Front shock kit	1.52	3.37	1.53	3.58
Rear shock kit	1.64	0	2.32	0
Directional signal switch	8.49	16.07	10.01	17.41
Four-way flasher	0.63	1.19	0.71	1.19
Heater hose	1.87	1.38	1.88	2.93
Blade assembly	0.58	1.30	0.70	1.35
Arm assembly	1.07	2.26	1.09	3.12
Oil filter assembly	0.58	0.67	0.75	2.34
Regulator assembly	3.85	12.64	4.33	19.13
Condenser	0.20	0.21	0.21	1.03
Pump, water assembly	5.91	11.52	6.53	23.82
Air filter element	<u>0.57</u>	<u>2.93</u>	<u>0.61</u>	<u>2.93</u>
Total	<u>\$62.20</u>	<u>\$118.33</u>	<u>\$72.88</u>	<u>\$159.64</u>
Average saving of center over commercial	<u>47%</u>		<u>54%</u>	

a/ The unit prices do not include the center's operating cost.



THE POSTMASTER GENERAL
Washington, DC 20260

September 15, 1975

Mr. Victor L. Lowe
Director, General
Government Division
U. S. General Accounting Office
Washington, D. C. 20548

Dear Mr. Lowe:

Thank you for the opportunity to comment on your proposed report concerning the Postal Service's centralized automotive parts distribution system.

We concur in the report's recommendations that the Service--

--institute formal follow-up actions to insure that Vehicle Maintenance Facilities (VMFs) use the centralized automotive parts distribution system to the maximum extent practicable, and

--as part of the follow-up, VMFs not making maximum use of the system should be required to justify their nonuse.

Through our Office of Fleet Management, the report's recommendations have been instituted and will, in the future, be amplified. Quarterly computer printouts are being reviewed by management at Postal Service and Regional Headquarters. As appropriate, these usage reports will be increased in frequency and VMFs not making maximum use of the centralized automotive parts distribution system will be requested to justify the nonuse in writing.

The Postal Service periodically conducts procurement management assistance reviews at facilities engaged in obtaining supplies and services. We intend to enlarge the review team to include a representative from the Office of Fleet Management who will be responsible for visiting various VMFs to determine compliance with our directives and recommended corrective actions.

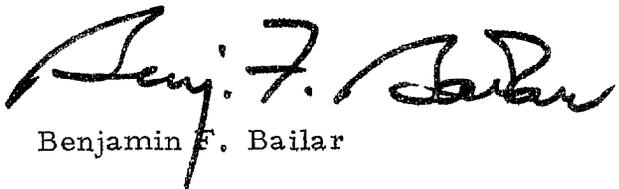
ENCLOSURE III

ENCLOSURE III

In addition, plans are in process to expand the range of line items now available which will increase our dollar savings and improve the capability of the centralized automotive parts distribution system.

The efforts of your staff in conducting this review are appreciated, and we are confident the actions we have taken, in keeping with the report's recommendations, will serve to effectively increase the Service's efficiency.

Sincerely,



Benjamin F. Bailar