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

GENERAL GOVERNMENT
DIVISION



July 18, 1975

Mr. William C. McKinney
Director
Department of Environmental Services
District of Columbia
Room 309, 415 12th Street, N. W.
Washington, D. C. 20004

C. 159

Dear Mr. McKinney:

I received your letter of June 26, 1975, outlining improvements you are going to make to your supply management system.

Often suggestions are received with the best intentions for implementation but do not materialize, usually due to the lack of good follow-up procedures. I appreciate the fact that you intend to periodically report the progress you are making to us.

Purpose of inquiry

We are assessing the efficiency and effectiveness of the city's systems for supplying materials to its agencies. Since there is no central supply manager for the city who knows what stocks are on hand, we selected three major departments for review, including DES.

We did not do a lot of detailed verification work to measure, for example, the accuracy and completeness of stock record cards. Rather, we decided to quickly assess how well each department is managing its supply stocks and to inform departmental officials of our observations and suggested solutions. Later, when we prepare a report, we hope to show the positive steps that city officials have taken to improve conditions. In addition, since many problems have to be resolved--some at the department's level and others at the Mayor or City Council level, we set out to start an early dialogue on possible remedies. For these reasons I have prepared this somewhat detailed explanation for your benefit.

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Findings to date

The basic objectives of a supply management system are to: (1) limit investment in stocks kept on hand; (2) physically safeguard items to prevent deterioration, waste, or theft; (3) use resources on hand rather than procuring new material, and (4) dispose of property when no longer needed.

As early as 1912, the House of Representatives recommended that a facility be built to warehouse supplies " x x x stored at scattered points throughout the District, to be issued x x x on proper requisitions and with an accurate system of current records, so that the stocks on hand and the deliveries to any department can at any time be accurately known."

In 1959, the GAO reported that " x x x the procurement and warehousing of common use materials and supplies on a decentralized basis is uneconomical and hinders the adopting of uniform policies and procedures."

In 1969, GAO reported to the Mayor the following observations:

"After several years, the (central) catalog and central supply management program has not been developed, and no reports are generated that could be used by agency or Procurement Office personnel for making decisions with respect to reducing the number of individual items purchased, increasing or decreasing inventories, or determining requirements for consolidated procurements. [GAO concluded that] x x x improvement x x x appears to be dependent in part upon the development of a District-wide supply management program that includes requirements planning and inventory control x x x."

In 1972, the Nelsen Commission found there was no central control over District inventories and expenditures for supplies. As in the past, there was duplication of stock and excessive inventory investment in all departments. In other words, the Commission found that nothing had been done.

The Commission completely opposed the approach adopted by the District at that time to centrally manage supply stocks--i.e., to establish a commodity management system, which provides that a designated department supply specific categories of materials to all users. As you know, this approach was abandoned earlier this year.

We believe that the city and each department can realize substantial savings by implementing a centrally managed supply system. For example, a central authority for the city might warehouse and distribute items commonly used by departments or, have them shipped directly from the vendor to the requesting department. In addition, this central authority could periodically review items stocked by departments (peculiar to their operations) to assure that only minimal quantities are kept on hand. However, we recognize that initiating such a system would require the approval of city officials and possibly a few years before it is fully implemented.

We believe one logical place to begin is establishing a good supply management system in each department. Up-to-date and accurate records are essential in each department to show what stock is on hand, how much is used, and how much stock is obsolete or excess.

At present, all locations in your department do not have this basic information. Decisions on what to stock, when and how much to reorder, are often, at best, a guess. In addition, there are many items that are stocked at more than one location--e.g., plumbing and electrical supplies--for no apparent reason except convenience. We found instances where one location had excess quantities of an item on hand, while at the same time, another location was out buying this item to replenish stocks.

GAO comments on supply management improvements in DES

Mr. Rogers' letter to Mr. Ingram (copy furnished to GAO with your letter of June 26, 1975) shows that the basic supply management problem in your department has been recognized--i.e., to establish current and reliable inventory and usage data. There are two items in Mr. Rogers' letter that I believe deserve your personal attention: (1) establishment of a revolving fund in order to be able to routinely order the same item for all locations, and (2) departmental authority and responsibility for operating your supply system.

(1) Revolving Fund

Consolidating orders for an item enables the purchasing office to obtain better prices and reduce administrative paperwork--i.e., preparing separate purchase orders and contracts. This can be done without changing accounting or financing methods, assuming ordering locations know at what point and how much to order and, the departmental central purchasing office can get requisitioners to operate on the same ordering cycles for the same items.

However, a revolving fund to account for departmental stock inventories and finance replenishing stocks should make it easier and administratively less cumbersome to consolidate orders. It implies that there would be one inventory value for the department and one stock manager.

At present, stocks are financed, ordered and accounted for separately by source of revenue--e.g., general, sewer, and water fund. A revolving fund, eliminates the need to separately identify stocks by source of revenue and any artificial barrier to consolidating stocks and orders would be eliminated.

Revolving funds used by other Federal agencies to finance supply operations has been known to foster more economical and efficient supply systems. Such a fund includes accounts for cash, accounts receivable, inventory, and accounts payable. The stock manager must be concerned with an inventory turnover rate which will satisfy customer demands and require a minimum dollar investment. If inventories increase and issues decrease, more of the fund capitalization is tied-up in inventory; consequently, less cash is available for the procurement of new supplies.

I am not suggesting that you adopt a new method of financing and accounting for your departmental inventories. However, I would like to know if you consider a change in method, to for example, a revolving fund, desirable and feasible.

(2) Supply management authority

At present, it appears that Mr. Rogers serves in an advisory capacity for supply management matters in your department. His charter seems to be limited to issuing policy statements on supply. Any changes he considers necessary, appears to require the voluntary cooperation of many personnel in your department--e.g., administration and bureau chiefs as well as supply personnel assigned to them.

My staff recently visited several other cities for comparison purposes. The City of Baltimore essentially has one department that supplies all city agencies. All personnel report to one authority.

The City of Philadelphia has a centrally managed system. Supply personnel are assigned to individual departments, not the central supply authority. However, if the central supply authority determines that an item should no longer be carried in stock or too much stock is on hand in comparison to usage to satisfy program requirements, the central authority can order that the stock be transferred or disposed.

* * *

Please let me know what you plan to do about these matters.
If you have any questions, please call.

Sincerely yours,

Frank Medico

Frank Medico
Assistant Director

cc: Mr. John Ingram, DES
Mr. Frank S. Borris, DES
Mr. Charles R. Rogers, DES