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REPORT TO THE CONGRESS

Opportunities For Savings Through The Elimination Of Nonessential Stock Items

B-114807

General Services Administration

BY THE COMPTROLLER GENERAL
OF THE UNITED STATES

MAY 22, 1970

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WASHINGTON, D.C. 20548

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To the President of the Senate and the
Speaker of the House of Representatives

This is our report on the opportunities for savings through the elimination of nonessential items from the General Services Administration's stock system. Our review was made pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

Copies of this report are being sent to the Director, Bureau of the Budget, and to the Administrator of General Services.

A handwritten signature in cursive script, reading "James B. Stacks".

Comptroller General
of the United States

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ABBREVIATIONS

DOD	Department of Defense
FSN	Federal stock number
GAO	General Accounting Office
GSA	General Services Administration
TVA	Tennessee Valley Authority

D I G E S T

WHY THE REVIEW WAS MADE

The General Services Administration (GSA) provides a wide range of supplies and equipment to civil agencies and the military services through its stock system. The number of stock items has increased almost six-fold--from about 8,500 to 48,000--and the value of inventories has increased from about \$51 million to \$255 million during the last decade. This substantial growth is attributable mainly to a national supply system begun in 1964 under which classes of items being managed by both GSA and the Department of Defense are assigned to either one agency or the other, the majority being assigned to GSA.

During its continuing examination into GSA's supply activities, the General Accounting Office (GAO) has noted items in the stock system which appeared to be nonessential to the Government's needs and has brought these to the attention of GSA. GAO defines nonessential as (1) inactive and low-demand items not justifying continued stocking and (2) uneconomical items, namely those which are not the best buy for the Government.

Nonessential items make a supply system unwieldy and result in unnecessary inventory investment and excess storage and inventory management costs. This report evaluates GSA's efforts to eliminate nonessential items.

FINDINGS AND CONCLUSIONS

GSA did not have either an effective program for the elimination of inactive and low-demand items or the data necessary to implement an effective elimination program. (See p. 5.)

At the request of GAO, GSA prepared a computer program to extract various demand data from GSA's automatic data processing system. Analysis of this information indicated that:

- There were over 15,000 items in the stock system for which less than six orders were received during fiscal year 1969.
- No orders were received for about 6,275 of the items during that period.

--The value of inventories of the 15,000 items exceeded \$15 million.
(See p. 7.)

Because of the rapid increase in the number of items in the GSA stock system, the implementation of a program to identify and eliminate inactive and low-demand items becomes increasingly important for purposes of efficiency and economy.

GSA also had made little progress in eliminating uneconomical items from the stock system primarily because responsibility had not been effectively assigned. (See p. 11.)

GAO cited examples of items in GSA's stock system which were more expensive than other available stock items with similar or identical functional and performance characteristics and which should be considered for elimination. Elimination of these items could have saved up to \$768,000 during fiscal year 1969. (See pp. 11 through 22.)

For instance, GSA stocks wiping rags made from reclaimed cotton fabrics for use in cleaning operations such as dusting, polishing, and removal of grease and oil. Two of the rags are of the same quality. One is available in white, the other in mixed colors. The cost of the white rags averages about \$4 more for each 50-pound bale than the cost of the colored rags. Since the colored rags can be used in lieu of the white rags, GSA agreed to eliminate the white rags. This action will result in savings of about \$266,000 annually. (See p. 11.)

There are, therefore, opportunities for GSA to realize significant savings in the Government's procurement costs through the timely identification and removal of uneconomical items from the stock system.

RECOMMENDATIONS OR SUGGESTIONS

GAO proposed that GSA implement effective programs to delete nonessential items from the stock system.

AGENCY ACTIONS AND UNRESOLVED ISSUES

GSA agreed that there were opportunities to realize significant savings by removing nonessential items from the stock system and advised that it had:

--Implemented a program to delete inactive and low-demand stock items. GSA established a goal to reduce the stock system by 6,000 items before July 1, 1970, and an additional 4,000 items before July 1, 1971. (See p. 9.)

--Established a program to identify those items which should be eliminated because they are uneconomical. This program will receive

specific and concerted effort of all interested elements within GSA. (See p. 26.) GSA's comments on the examples of uneconomical items cited by GAO are included on pages 14, 15, 18, and 22.

--Fixed the responsibility for overall administration of the item elimination programs. (See p. 25.)

The GSA internal auditors should review the progress being made to eliminate nonessential stock items. (See p. 10 and p. 26.)

MATTERS FOR CONSIDERATION BY THE CONGRESS

This report is being submitted to the Congress because of its continuing interest in the efficiency and economy with which the Government's supply systems are managed.

CHAPTER 1

INTRODUCTION

The General Accounting Office has reviewed selected aspects of the supply management activities of the Federal Supply Service, General Services Administration, involving the identification and elimination of nonessential items from the stock system. The scope of our review, which did not include an overall evaluation of GSA's supply management activities, is described in chapter 4.

The Federal Property and Administrative Services Act of 1949, as amended (40 U.S.C. 471), made GSA primarily responsible for providing an efficient and economical system for procurement and supply of common-use supplies, equipment, and services needed by Federal agencies and Government-related organizations. The Federal Supply Service operates GSA's supply system under which goods and services are made available through (1) a stock system, (2) Federal Supply Schedule contracts, and (3) a nonstock direct-delivery system. The stock system was established with the objective of providing customers with common-use items having a repetitive demand at prices lower than individual agencies could obtain.

GSA stocks supplies in 16 warehouses and 10 annexes located throughout the United States and publishes a Stores Stock Catalog which lists the items available. In certain instances, rather than making shipments from warehouse stock, GSA arranges for supplies ordered by agencies from the Stores Stock Catalog to be sent directly to them by the suppliers. During fiscal year 1969, sales from warehouse stocks amounted to about \$528 million and sales of stock system items which were shipped directly from contractors to agencies amounted to \$57 million.

The principal officials responsible for the administration of activities discussed in the report are listed in appendix IV.

CHAPTER 2

INACTIVE AND LOW-DEMAND ITEMS¹

The number of items in GSA's stock system has increased almost sixfold--from about 8,500 to 48,000--during the last decade. The related value of inventories has increased from about \$51 million to \$255 million during the period, and GSA estimates that by 1974 the value of its inventories will be \$364 million.

This substantial increase in GSA's stock system is attributable mainly to the implementation, beginning in 1964, of a national supply system under which common-use items being managed by both GSA and the Department of Defense (DOD) are assigned to either one agency or the other. For instance, the number of items available through GSA's stock system was greatly increased by the transfer from DOD of the supply responsibility for (1) about 24,000 paint and handtool items transferred primarily around January 1964 and (2) 52 commodity classes comprising approximately 5,600 items transferred in July 1967.

During the period January 1964 to June 1969, approximately 50,000 items entered GSA's stock system. During the same period of time, about 12,000 items were removed from the system. In June 1969 we discussed with GSA officials the scope of GSA's efforts to delete inactive and low-demand items. We were advised that items had been deleted from the stock system for various reasons but that, for the most part, deletions had resulted from directives external to GSA--such as notification by a using activity to discontinue procurement or notification by a manufacturer that an item is no longer available. The officials stated that some items had been deleted as a result of direct actions on the part of GSA. In our opinion, GSA's efforts to

¹In the context of this report, inactive items are those for which no orders were received during a 12-month period. Low-demand items are those for which 1 to 5 orders were received during a 12-month period.

remove inactive and low-demand items from the stock system have not been wholly effective.

GSA EFFORTS TO DELETE INACTIVE
AND LOW-DEMAND ITEMS

GSA officials advised us that GSA's periodic efforts to delete stock items had been limited to military items under the DOD Inactive Item Program, which GSA adopted as part of its supply-support responsibility for the commodity classes transferred from DOD under the national supply system concept. The objective of the Program is, according to DOD regulations, the systematic detection and deletion from the supply system and the Federal catalog system of military supply items no longer required to support assigned missions.

Within GSA, the Inactive Item Program involves the semiannual identification, on a manual basis, of military supply-support items in the stock system for which no demand has been experienced during the 24 months preceding the semiannual dates of June 30 or December 31. A list of the items identified by GSA for deletion is submitted to DOD for its concurrence. After querying military agencies as to their needs for the items, DOD advises GSA to either retain or delete the items from the supply system.

From January 1966 through December 1969, GSA conducted under the Program six reviews which resulted in the submission to DOD of lists of about 7,950 items. As of May 31, 1969, DOD had advised GSA that about 3,650 items (46 percent) should be retained and that about 2,600 items (33 percent) should be deleted. No reply had been received from DOD on the balance of about 1,700 items (21 percent).

As of October 1969, about half of the 2,600 items which DOD agreed should be deleted were still in the system. We discussed this matter with GSA officials who advised us that no follow-up action was taken by GSA to determine whether the items designated for deletion were actually removed from the stock system.

We also inquired into the status of the 3,650 items that DOD requested GSA to retain in the supply system. We

found that GSA had taken little action to evaluate the feasibility of reclassifying the items as nonstock.¹

IDENTIFICATION OF INACTIVE
AND LOW-DEMAND ITEMS

The extent of inactive and low-demand items in GSA's stock system could not be readily determined from available records. In June 1969 we discussed with GSA officials the feasibility of extracting various demand data from GSA's automatic data processing system. In July 1969, GSA began preparing a computer program to obtain the information, and in November 1969 the first printout was available. Our analysis of the data is shown in the following tabulation.

Number of orders received during fiscal year 1969	Number of stock items	Inventory as of November 22, 1969	
		Quantity	Value (note a)
0	6,275	1,078,460	\$ 4,585,795
1	3,575	1,180,290	3,582,338
2	1,933	553,604	2,763,141
3	1,385	427,238	2,070,779
4	1,136	588,779	1,420,634
5	<u>875</u>	<u>456,373</u>	<u>1,156,229</u>
	<u>15,179</u>	<u>4,284,744</u>	<u>\$15,578,916</u>

^aBased on GSA's selling price.

INTERNAL AUDIT REPORT

The need to eliminate inactive and low-demand items from the stock system was brought to the attention of GSA officials in an internal audit report in June 1966. The

¹A nonstock item is one which is available in the supply system for acquisition by agencies but not stocked in a GSA depot.

internal auditors were informed that a program dealing with the problem had been approved by GSA. The internal auditors advised us that they had not followed up to determine whether GSA had effectively implemented the item elimination program.

DEVELOPMENT OF PROGRAM TO DELETE INACTIVE AND LOW-DEMAND ITEMS

In September 1969, GSA approved a low-demand-item deletion program directed toward converting to a nonstock status those stock items having five or less calls recorded during a 12-month period and in the stock system for at least 2-years. The program, which includes the operational procedures, organizational responsibilities, and short- and long-range goals, was prefaced by the following comments:

"The GSA depot system includes several thousand slow moving items which, based upon activity alone, do not economically justify their retention as stock items. Excessive costs are incurred, for example, in inventory investment, item management, storage, obsolescence risk, and regional and [national] computer processing times. Many of these items could be more economically supported through other supply programs without jeopardizing service to ordering activities. Because of the restrictive demand criteria used to identify potential candidates for deletion under this program, the impact on our supply support posture and non-stores procurement volume will be negligible."

The responsibility for this program has been fixed with the GSA Office of Supply Control, which is discussed on page 25.

CONCLUSIONS

We believe that there are opportunities for GSA to realize significant savings by removing inactive and low-demand items from its stock system--giving due consideration to factors such as an item's commercial availability and the costs of ordering, holding, and distributing

compared to an alternate supply method. Because of the rapid growth in the number of items in the stock system and related inventories, the implementation of an effective program to identify and eliminate inactive and low-demand items becomes increasingly important to the maintenance of an efficient and economical supply system.

GSA's efforts, which in our opinion have not been wholly effective, to remove inactive and low-demand items from the stock system have been almost exclusively focused on inactive military supply-support items. Little, if any, attention has been directed toward the deletion of (1) non-military inactive items and (2) military and nonmilitary low-demand items.

GAO PROPOSALS AND AGENCY COMMENTS

We proposed to the Administrator of General Services that GSA (1) implement on a timely basis an effective program to delete inactive and low-demand items from the stock system, (2) give consideration to expanding its approved low-demand-item review program to include evaluation of items having more than five calls during a 12-month period to ensure maximum identification of potential deletion candidates, and (3) establish controls to ensure that those items designated, under the DOD Inactive Item Program, as "deletes" are removed from the supply system and those items designated as "retentions" are reviewed to determine the feasibility of reclassifying them as nonstock items.

In a letter dated December 24, 1969, commenting on a draft of this report (see app. III), GSA agreed that there were opportunities to realize significant savings by removing inactive and low-demand items from the stock system. We were advised that GSA had implemented its low-demand-item review program in October 1969 and that future reviews of inactive items would cover nonmilitary as well as military stock items. Further, GSA established a goal to reduce the stock system by 6,000 items before July 1, 1970, and by an additional 4,000 items before July 1, 1971.

Also, we were advised that our suggestions concerning the low-demand-item review program and the DOD Inactive Item Program were pertinent and would be adopted.

RECOMMENDATION

We recommend to the Administrator of General Services that the internal auditors review the progress being made to eliminate inactive and low-demand items from the stock system.

CHAPTER 3

UNECONOMICAL ITEMS

Our review indicated that there were numerous uneconomical items in GSA's stock system that should be deleted and that GSA did not have an effective program to identify and eliminate such items. Following are examples of items in GSA's stock system which are more expensive than other available stock items with similar or identical performance and functional characteristics. The elimination of these more expensive items could have saved up to \$768,000 during fiscal year 1969.

WIPING RAGS

GSA stocks various paper and cloth items for use in cleaning operations such as dusting, polishing, and removal of grease and oil. Two of these items, designated as grade B wiping rags, are made from reclaimed cotton fabrics. GSA offers using agencies a choice of selecting the grade B rags in either white or mixed colors.

The functional characteristics and the quality of the white and colored rags are identical since GSA procures both under the same Federal specification which provides that (1) both are for use in the removal of excess lubricants from machinery and similar cleaning operations, (2) bales of both must contain the same types of reclaimed cotton fabrics, and (3) both must meet the same technical requirements such as those concerning the required oil and water absorbency rates and the allowable degree of moisture content in the fabrics themselves.

The cost of the white rags averages about \$4 more for each 50-pound bale than the cost of the colored rags. GSA representatives advised us that the higher cost of the white rags was attributable to the relative scarcity of white rags and to the additional labor necessary to perform such operations as bleaching colored rags and sorting rags.

During fiscal year 1966, we visited several agencies that used the rags. These agencies indicated that both wiping-rag items were being used for essentially the same purposes.

In June 1966 we brought our preliminary findings to the attention of GSA. In July 1966 the Procurement Operations Division, GSA, conducted a review to determine the need for retaining the white rags in the stock system. The Division's review disclosed no information which demonstrated a need for the white rags that could not be provided by the colored rags. The Division concluded, however, that the existence of substantial demand for the white rags indicated that agencies had a need for these rags.

In October 1966 the Standardization Division, GSA, conducted a survey of nine Government activities to obtain information concerning what wiping rags the activities procured and their comments, where applicable, regarding their particular needs for white rags. Of eight respondents, only the Tennessee Valley Authority (TVA) expressed a need for white rags. TVA advised GSA that it used both grade B colored and white rags and a grade A white rag¹ which is also available from stock. In this connection, TVA stated that some wiping jobs could be done only with lint-free, good quality white rags and that, if the white rags were eliminated from the stock system, it would have to award its own annual contracts for such items.

In December 1966, on the basis of the results of the survey, GSA proposed to representatives of the wiping-rag industry that the grades A and B white rags be deleted from the stock system. GSA records showed that the industry representatives expressed the view that the elimination of

¹Grade A white rags are made from better quality, lighter weight fabrics such as pillowcases, sheets, etc., and have more wiping surface to the pound than the grade B rags. This grade must meet material requirements that are more stringent than those established for grade B rags.

the white rags would not be in the best interest of the Government. The question as to whether only the grade B white rag could be deleted was not dealt with.

In January 1967, at the request of GSA, TVA advised that the retention of the grade B white rags would be helpful; however, it also indicated that only the discontinuance of grade A white wiping rags would be detrimental to its operations.

In September 1968, GSA Standardization officials advised us that, because of TVA's expressed need for white rags and because of the rejection by the industry representatives of GSA's proposal to eliminate white rags, it was decided that both white and colored rags would be retained in the stock system. As previously stated, TVA's expressed need was for only the grade A white wiping rags.

In November 1968 we again discussed with GSA officials the feasibility of eliminating the grade B white rags from the stock system and were advised that further study of the matter would be made.

In October 1969, when we submitted the draft of this report to GSA for comment, the grade B white rags were still in the stock system. We expressed the view that the elimination of the grade B white rags would be both feasible and economical. The following schedule shows our estimates of savings that the Government could have realized during fiscal years 1967, 1968, and 1969 if colored rather than white grade B rags had been purchased.

Fiscal year	Average cost for each 50-pound bale of grade B rags			Issues of grade B white rags	Estimated cost savings through purchase of colored rather than white grade B rags
	White	Colored	Differ- ences		
1967	\$12.42	\$8.44	\$3.98	86,424	\$343,968
1968	12.15	8.10	4.05	62,467	252,991
1969	12.68	8.86	3.82	69,823	266,724

In commenting on our draft report, GSA stated that the grade B white rags would be deleted from the supply system effective March 1, 1970. The deletion action was consummated as planned.

MITER BOX AND SAW

A miter box is an apparatus generally used by carpenters to guide a handsaw at the proper angle in making a miter joint in wood. GSA procures the box and saw as a unit and as separate items. The miter box and miter saw, whether purchased as a unit or separately, are physically and functionally identical.

We noted that it was more economical to purchase the box and saw separately than as a unit. We estimate that, during fiscal years 1967, 1968, and 1969, GSA's expenditures for the box and saw combination units issued to Government agencies amounted to about \$9,700 more than had the items been purchased separately. We therefore proposed that GSA consider the elimination of the combined miter box and saw item from the stock system.

In its comments on a draft of this report, GSA advised us that the combination box and saw unit was being considered for elimination from the stock system.

FILAMENT-REINFORCED PRESSURE-SENSITIVE TAPE¹

Since 1958, GSA has stocked a low-tensile-strength (Type I) and a medium-tensile-strength (Type II) filament-reinforced tape for use by Federal agencies in their packaging operations. Each type of tape is provided in widths of 1/2 inch, 3/4 inch, and 1 inch and is procured under the same Federal specification. The specification requires that the tensile strengths of the Types I and II tapes be, at a minimum, 160 pounds and 300 pounds for each inch width,

¹Filament-reinforced pressure-sensitive tape consists of a backing material, such as paper or plastic, bonded to an adhesive compound which is reinforced with parallel alignments of synthetic fibers, such as rayon or glass. The tape requires no moisture, heat, or other special preparation prior to application and is generally used for such purposes as reinforcing containers, strapping, and bundling. The tape is produced in various tensile strengths.

respectively. The specification requires further that the low tensile strength Type I have an elongation (stretching) capability of from 12 to 20 percent, whereas the Type II tape's elongation capability is required to be within a range of 3 to 8 percent.

In May 1963, the Air Force Logistics Command found, on the basis of a study of the functional capabilities of the Type I and Type II tapes, that packaging had been improved and the related costs reduced by use of the stronger Type II tape. Following its study, the Air Force Logistics Command directed its activities to discontinue their usage of the more costly Type I tape and, in lieu thereof, to substitute the less expensive Type II tape. In June 1963 the Air Force notified GSA of the results of its study and its decision to discontinue usage of the Type I tape.

In early 1966 we noted that GSA was continuing to stock substantial quantities of Type I tape, which cost as much as 30 percent more than the Type II tape. In view of the economies that appeared to be obtainable through the substitution of the less expensive Type II tape, as pointed out by the Air Force study, we requested, in March 1966, GSA to provide us with information concerning any studies which it had conducted regarding the feasibility of eliminating the Type I tape from the stock system.

In response to our request, GSA advised us that it had not made any studies with a view toward the elimination of the weaker Type I tape from the stock system but that a technical analysis of the specification covering the tapes was then being conducted by the Standardization Division. Upon completion of the analysis, a further review would be made by GSA to determine whether both items should be retained in the stock system. We were also advised that the greater elongation capability of the Type I tape made it better for use in packaging irregularly shaped objects.

Regarding the matter of elongation, we noted that a question had existed for several years as to whether the greater elongation capability of the Type I tape was of sufficient importance to warrant GSA's retention of the weaker tape in the stock system. For example, a tape manufacturer had informed GSA as early as 1961 that one of the primary

requirements of a strapping tape was low--rather than high--elongation. In addition, the manufacturer stated that it was conducting a continuous research project in an effort to reduce the elongation capability of the Type I tape.

In June 1966, GSA requested comments from the Pressure Sensitive Tape Council, a trade association, concerning the feasibility of eliminating the Type I tape from GSA's stock system. In reply, the Council advised that the retention by GSA of the weaker Type I tape was advisable because this tape variety had considerable merit in certain applications requiring high elongation, such as packaging irregularly shaped objects.

We noted that the Council's views were not shared by all members of the tape-manufacturing industry. For instance, one of the leading manufacturers of both types of tape proposed in a June 1966 letter to GSA that the Type I tape be eliminated from the stock system in favor of the Type II tape. The following excerpt from the tape manufacturer's letter constitutes, in part, the basis cited for his recommendation.

"In determining the need for both types of tape in the Stores Stock System, an obvious question can be raised as to whether these tapes could readily and safely be substituted for each other and whether the higher strength medium tensile tape would perform equally well in all applications in which the low tensile tape might have been used. The answer to this question would seem to be in the affirmative based on our general knowledge of the use of these products both by Federal Government and private industry.

"It should be mentioned that the low tensile strength was the original type of filament reinforced strapping tape and is generally reinforced with rayon filaments. Rayon permits a higher elongation than glass filament reinforcement which is used in *** (Type II) ***. The higher elongation permits Type I tape to stretch or 'give' under impact without breaking. This was considered originally to be an advantage ***. Actual field

experience, however, during the course of many years in which Type I tape and Type II tape have been used alternatively, has shown that the performance of the higher strength Type II tape with less elongation is equal to or better than the performance of Type I tape having higher elongation. The higher tensile strength of the Type II tape compensates for the higher elongation of the Type I tape."

In August 1966, GSA conducted a survey of selected Government tape users to determine whether the Type II tape could, in their opinion, be satisfactorily substituted for the Type I variety. A Standardization Division official advised us that the results of the survey indicated that elongation was not a factor considered by users in the selection of either tape and that the users expressed no need for the weaker Type I tape. The Standardization Division concluded that GSA's retention of the Type I tape in the stock system was not justifiable and, in September 1966, recommended, with the concurrence of the Procurement Operations Division, that GSA discontinue the procurement of the weaker, more costly Type I tape.

Our review showed that, despite the joint recommendation by Standardization and Procurement Operations Divisions, GSA continued to stock Type I tape. Subsequently, in March 1968, GSA assigned to the Air Force Logistics Command the responsibility of updating the Federal specification for filament tapes. We were advised by GSA officials that the responsibility delegated to the Air Force activity included a request for a determination regarding the feasibility of eliminating Type I tape from the specification.

In our draft report, we expressed the opinion that the Government could achieve substantial savings through the elimination of the more expensive Type I packaging tape from the stock system. For example, during fiscal year 1969 agencies purchased about 1 million rolls of the Type I tape. Had Type II tape been purchased, costs would have been reduced by about \$174,000. (See app. I.)

In commenting on a draft of this report, GSA stated that (1) the Air Force Logistics Command recently made a

determination that Type I tape is required for the bundling of lumber millwork and (2) the tape is needed by the Forest Service. Therefore, GSA expressed the belief that the tape must be retained in the stock system.

In January 1970 we discussed the above matter with GSA officials and were informed that the Air Force Logistics Command's determination was concerned with retention of the Type I tape in the Federal specification and not with whether it should be retained in the stock system. Furthermore, the officials advised us that the Forest Service's need for the tape was based on the fact that it was listed in the Service's stock catalog rather than on an analysis of the Service's actual usage of the tape.

In view of the above information, we believe that a question remains as to whether retention of the Type I tape in the stock system is economical and that GSA should evaluate the matter further. If further analysis shows that the stock system is the most economical method of supply, we believe that GSA should give notice in the Stores Stock Catalog of the special uses of the tape in order that agencies may limit their purchases of the more costly Type I tape for such uses.

METAL OFFICE CHAIRS

GSA stocks six basic styles of metal chairs for general office use. Each style of chair is offered to using agencies in either of two types of metal--steel or aluminum alloy. The styles of both types of chairs appear to be comparable for their intended uses as illustrated by the following photographs of two of the six styles that we included in our review work.

ALUMINUM

(FSN 7110 - 264 - 5340)
CONTRACT COST \$39.00



SWIVEL CHAIRS

STEEL

(FSN 7110 - 782 - 3504)
CONTRACT COST \$22.00



ALUMINUM

(FSN 7110 - 264 - 5339)
CONTRACT COST \$27.00



STRAIGHT CHAIRS

STEEL

(FSN 7110 - 782 - 3502)
CONTRACT COST \$16.00



The costs of the aluminum chairs are considerably greater than the costs of the steel chairs. For example, during fiscal year 1969, the costs of the aluminum chairs ranged from about \$19 to \$44 a unit whereas the costs of the steel chairs ranged from about \$12 to \$25 a unit. As shown in the appendix II to this report, the unit costs of the aluminum chairs were about 48 to 84 percent greater than the unit costs of comparable steel chairs.

In December 1968 we made inquiries at 17 Federal agencies that had recently purchased aluminum office chairs from GSA to obtain an indication of their reasons for ordering aluminum rather than steel chairs. The responses we received indicated that the aluminum chairs were ordered because (1) they were listed in GSA's Stores Stock Catalog and no special order justification was required, (2) similar items had been ordered in the past, and (3) the agency personnel felt that the aluminum chairs were more comfortable, more attractive, and of better quality than the steel chairs.

We also discussed with officials and technicians of the GSA Standardization Division the need for retaining the more costly aluminum chairs in the stock system, the individual characteristics of the aluminum and steel chairs, and the reasons for the higher costs of the aluminum chairs. We were advised that GSA had not conducted any studies concerning the need to retain the aluminum chairs in the stock system or the comparability of the two types of chairs. In regard to the characteristics of the steel and the aluminum chairs, the GSA representatives indicated that certain physical features of the two types of chairs may vary somewhat; however, the overall qualities of both items are quite comparable. They stated that the aluminum chairs retain a better physical appearance because they are finished by an anodizing process whereas the steel chairs have a baked enamel finish which, although it prevents corrosion, may be susceptible to chipping under normal use. They stated also that the steel chairs, on the other hand, have a longer expected useful life since steel is a harder metal than aluminum and, therefore, is less susceptible to permanent damage.

Moreover, the GSA representatives informed us that the quality and expected useful life of the upholstery are the same for both types of chairs and that, although the aluminum chairs are slightly lighter than their steel counterparts, the difference in weight should not be a major consideration to the average user.

The GSA representatives attributed the higher costs of the aluminum chairs to the fact that aluminum is a more costly metal than steel and to the different methods used in manufacturing the bases of the two types of chairs. The representatives advised us that, although the aluminum chairs are more costly, they should be retained in the stock system because using agencies have, through their orders, expressed substantial demand for them.

We recognize that agencies' demand for particular items is a factor in GSA's supply-support decisionmaking process since it relates to the need for retaining those items in the stock system. We believe, however, that the demand factor does not, by itself, sufficiently justify retention of items in the stock system, particularly when the system contains potentially suitable substitute items at substantially lower costs.

During fiscal year 1969 agencies purchased approximately 28,000 aluminum chairs at a cost of about \$326,000 more than if a comparable quantity of steel chairs had been purchased. (See app. II.) In view of the substantial cost differences between the two types of chairs and the evidence that we obtained during our review, we suggested that GSA explore the feasibility of deleting the more costly aluminum chairs from the stock system.

GSA, in its comments on a draft of this report, stated that the Navy and the Coast Guard indicated that they require aluminum furniture because it is less susceptible than steel furniture to deterioration in a salt air and salt water environment, that aluminum chairs have a satin anodized finish which blends with differing decors more acceptably than the single color painted steel chairs, and that aluminum chairs are often used by personnel in professional and supervisory positions. GSA also advised us that it would coordinate with affected agencies any action to withdraw the aluminum chairs from the stock system.

GSA EFFORTS TO DELETE UNECONOMICAL ITEMS

On September 16, 1966, the President issued a directive to the heads of departments and agencies to reduce costs by the improvement of their procurement and supply management systems. The President stated that efforts should be directed to (1) reducing the number of items in the various supply systems and (2) holding down and reducing supply inventories.

In response to this directive, GSA issued Temporary Federal Property Management Regulation Number E-2 dated September 28, 1966, which directed agencies to eliminate items nonessential to their program needs and required them to substitute less expensive items, where practicable. In compliance with this regulation, which became part of the permanent regulations in August 1967, GSA initiated a two-phase item elimination review.

The first phase of the review consisted of a quick scanning of GSA's stock items and the Federal Supply Schedules to identify uneconomical items. GSA determined that 48 items should be deleted from the stock system and, in October 1966, so notified the heads of agencies. In this notification, GSA stated that, in selecting the items for deletion, it assured itself that less costly items serving the same general purpose would be available from stock.

As of October 1969, 18 of the items remained in the stock system. A GSA official advised us that the 18 items were most likely retained in the stock system at the request of agencies.

The second phase of the review was designed to identify and delete from the stock system items having similar or identical performance and functional characteristics. This study, which was initiated in September 1966, involved the operations of GSA's Standardization Division, Procurement Operations Division, and Inventory Management Division.

The Standardization Division was responsible for reviewing the items in the stock system with a view toward identifying those items which, on the basis of the

Division's technical knowledge, appeared to be similar in performance and nonessential to GSA's supply-support function. The Standardization Division was to develop a list of items which it determined to be potentially susceptible to deletion from the stock system and to forward the list to the Procurement Operations Division for concurrence.

The Procurement Operations Division was to review each item on the list provided by the Standardization Division and to designate those items which it agreed could be deleted from the system.

The revised list was then to be screened by the Inventory Management Division for compatibility with GSA's supply agreements with the various Federal agencies. The refined list was to be submitted through appropriate channels for approval by the Commissioner of FSS and used in the preparation of a GSA response to the President's directive. The project was to be completed by February 1967.

In September and November 1968, we requested information from GSA officials as to (1) the total number of items identified during the study, (2) the total number of items that were actually deleted from the stock system, and (3) the resultant cost savings. The only information we received, however, was in connection with the first-phase portion of the review involving the 48 items. We therefore reviewed GSA's records relating to the study and found that the Standardization Division's review of stock items resulted in the identification of approximately 1,200 items which the Division's technicians believed to be nonessential to GSA's supply function. The Procurement Operations Division's review of these items reduced the number to about 680. We were advised by GSA officials that the list was subsequently forwarded to the Inventory Management Division for review. GSA records, however, did not show whether the Inventory Management Division took any action on the items.

As of September 1969, about 600 of the 680 items concurred in by the Standardization and Procurement Operations Divisions were still in the stock system.

In its comments on a draft of this report, GSA advised us that it was unable to locate any record of final action taken on the items.

ESTABLISHMENT OF OFFICE OF SUPPLY CONTROL

In February 1969, GSA established within the Federal Supply Service the Office of Supply Control. One of the main functions of the new office is commodity management, which includes the administration of item reduction activities. The office has been given the responsibility for (1) the development and refinement of policies and procedures concerning item elimination, (2) the initiation and administration of item reduction studies, and (3) the ultimate removal from GSA's various supply systems of those items identified as nonessential.

According to GSA's regulations, the Office of Supply Control will initiate item reduction studies on the basis of historical data regarding using agencies' demands for particular items. The office will then forward the results of its studies to the Standardization Division for technical review and coordination with other Government agencies. The results of the Standardization Division's reviews will, in turn, be returned to the Office of Supply Control where determinations will be made regarding the items to be eliminated.

CONCLUSIONS

We believe that GSA has continuing opportunities to realize significant savings in the Government's procurement costs through the timely identification and removal of uneconomical items from the stock system. Our review shows that GSA has made little progress in the elimination of such items. In our opinion, this lack of progress has stemmed primarily from the absence of an effective assignment of responsibility.

We believe that GSA's action to place the responsibility for the overall administration of its item elimination activities in one office constitutes an important step toward realizing the potential savings to be derived from the effective elimination of uneconomical stock. Such savings will not, however, materialize without concerted effort.

GAO PROPOSAL AND AGENCY COMMENTS

We therefore proposed to the Administrator of General Services that GSA establish an effective program to eliminate uneconomical items from the stock system.

In commenting on a draft of this report (see app. III), GSA informed us that it established a program for the timely review of stock items to determine which items should be eliminated and that this program would receive specific and concerted effort of all interested elements within GSA.

RECOMMENDATION

We recommend to the Administrator of General Services that the GSA internal auditors review the progress being made to eliminate uneconomical stock items.

CHAPTER 4

SCOPE OF REVIEW

Our review was directed to determining the existence in GSA's stock system of inactive, low-demand, and uneconomical items and to the need for GSA to retain them in the system. In addition, we examined into the existence and adequacy of GSA's practices and procedures relating to the identification and elimination of such items.

Our review also included an examination of pertinent GSA documents and records and discussions with cognizant GSA officials and internal auditors. We also interviewed various Federal agency representatives to obtain information concerning the various stock items included in our review.

Our review was performed primarily at the GSA Central Office, Washington, D.C., and the GSA Regional Office, Chicago, Illinois.

APPENDIXES

ESTIMATED ANNUAL COST DIFFERENCES BETWEEN
 THE LOW-TENSILE-STRENGTH (TYPE I) AND
 MEDIUM-TENSILE-STRENGTH (TYPE II)
 FILAMENT-REINFORCED TAPE
 FOR THE FISCAL YEARS 1967, 1968, AND 1969

<u>Fiscal year</u>	<u>Tape width</u>	Cost difference per roll between <u>Type I and Type II tape</u>	Annual issues of <u>Type I tape (rolls)</u>	<u>Estimated annual cost differences</u>	
				<u>By tape width</u>	<u>Total</u>
1967	1/2 inch	\$.086	83,911	\$ 7,216	\$ 96,021
	3/4 "	.118	239,615	28,275	
	1 "	.153	395,618	60,530	
1968	1/2 inch	.074	67,334	4,983	130,116
	3/4 "	.127	288,968	36,699	
	1 "	.178	496,819	88,434	
1969 ^a	1/2 inch	.084	79,858	6,708	174,413
	3/4 "	.138	350,951	48,431	
	1 "	.183	651,770	119,274	

^aBased on contract costs for the period May 1, 1968, through April 30, 1969, and fiscal year 1969 issues of the three sizes of tape.

ESTIMATED ANNUAL COST DIFFERENCES

BETWEEN ALUMINUM AND STEEL

GENERAL OFFICE CHAIRS

FISCAL YEARS 1967, 1968, AND 1969

Fiscal year	Federal stock number		Style	Unit cost	
	Aluminum	Steel		Aluminum	Steel
1967	7110-264-5340	7110-782-3504	Swivel, w/arms	\$42.58	\$20.48
	-264-5341	-782-3505	" , w/o arms	32.86	17.27
	-264-5339	-782-3502	Straight, w/arms	31.59	15.76
	-273-8781	-782-3503	" , w/o arms	22.74	10.32
	-262-6690	-782-3506	Clerical, swivel, w/arms	40.66	24.19
	-273-8798	-782-3507	Typist, swivel, w/o arms	22.08	18.25
	1968	-264-5340	-782-3504	Swivel, w/arms	39.57
-264-5341		-782-3505	" , w/o arms	35.23	18.40
-264-5339		-782-3502	Straight, w/arms	28.95	15.86
-273-8781		-782-3503	" , w/o arms	20.98	11.15
-262-6690		-782-3506	Clerical, swivel, w/arms	44.39	24.19
-273-8798		-782-3507	Typist, swivel, w/o arms	25.86	18.98
1969 ^a		-264-5340	-782-3504	Swivel, w/arms	38.65
	-264-5341	-782-3505	" , w/o arms	34.62	18.82
	-264-5339	-782-3502	Straight, w/arms	27.31	16.22
	-273-8781	-782-3503	" , w/o arms	19.07	11.56
	-262-6690	-782-3506	Clerical, swivel, w/arms	43.54	24.79
	-273-8798	-782-3507	Typist, swivel, w/o arms	27.94	18.90

^aBased on the July 23, 1968, through April 30, 1969, contract for aluminum chairs, the September 6, 1968, through September 5, 1969, contract for steel chairs and fiscal year 1969 issues of aluminum chairs.

<u>Cost difference</u>		<u>Issues of aluminum chairs</u>	<u>Annual cost differences</u>	
<u>Amount</u>	<u>Percent</u>		<u>By chair style</u>	<u>Total</u>
\$22.10	108	3,062	\$ 67,670	\$476,594
15.59	90	980	15,278	
15.83	100	6,739	106,678	
12.42	120	9,189	114,127	
16.47	68	7,550	124,349	
3.83	21	12,661	48,492	
17.33	78	2,418	41,904	393,722
16.83	92	766	12,892	
13.09	83	5,186	67,885	
9.83	88	8,690	85,423	
20.20	84	5,593	112,979	
6.88	36	10,558	72,639	
16.48	74	2,530	41,694	326,398
15.80	84	779	12,308	
11.09	68	5,417	60,075	
7.51	65	7,013	52,668	
18.75	76	4,692	87,975	
9.04	48	7,929	71,678	

UNITED STATES OF AMERICA
GENERAL SERVICES ADMINISTRATION
WASHINGTON, D.C. 20405



DEC 24 1969

Honorable Elmer B. Staats
Comptroller General of the United States
General Accounting Office
Washington, D. C. 20548

Dear Mr. Staats:

Attached are our comments to your draft report on "Opportunity for Savings through the Elimination of Nonessential Items from the Stores Stock System."

We agree with your conclusions and recommendations and appropriate corrective actions have been or will be instituted where necessary, as pointed out in the attachment.

We appreciate your bringing these matters to our attention and we are particularly pleased to have the opportunity to review and comment on your draft report.

Sincerely,

A handwritten signature in black ink that reads "Rod Kreger". The signature is written in a cursive, slightly slanted style.

Rod Kreger
Acting Administrator

Enclosure

COMMENTS ON DRAFT REPORT ON OPPORTUNITY FOR SAVINGS
THROUGH THE ELIMINATION OF NONESSENTIAL ITEMS
FROM THE STORES STOCK SYSTEM

I. Deletion of Uneconomical Items

We recognize our continuing responsibility to conduct simplification studies for the purpose of purging from the supply system those items meeting the criteria for elimination. In fulfilling this responsibility we have experienced limited success as evidenced by the simplification studies conducted in the past several years; paint and artists brushes, 1965; file folders, 1966; floor covering, 1967; chairs, straight, household, 1968; and cloth towels, 1969. However, recent developments indicate our item reduction program is becoming more effective.

As for the deletion of uneconomical items from stores stock, your report recognizes GSA's action to place the responsibility for administering this function in one office. We now have a program established for the timely review of family groups of stores stock items to determine those items which should be eliminated. This program will receive the specific and concerted effort of all interested elements within GSA.

Concerning your comment about the lack of evidence that Inventory Management Division took positive action on 680 items proposed for deletion in the Simplification Program, we were unable to locate any record of final action taken on the items. Some of the items were still listed in the October 1968 Stores Stock Catalog because it is our policy to make every effort to continue to merchandise an item scheduled for deletion until all on hand assets are exhausted. Normally, replenishment action is not taken on this type item.

The following actions or comments relate to items discussed in the body of your report:

Grade B White Wiping Rags

Since we no longer have any agency technical requirements to justify carrying this item, we are dropping it from the supply system effective March 1, 1970.

Tape, Pressure Sensitive Adhesive, Filament Reinforced, Type I.

Although the Air Force Logistics Command in 1964 indicated a desire to discontinue using this item, a recent determination has been made by them that there is a continuing, justifiable requirement for its use in bundling lumber millwork. The item is also required by the U. S. Forest Service. Therefore, we feel it must be retained in the stores stock system.

Metal Office Chairs, Steel or Aluminum

- a. Federal Standard No. 110a dated September 11, 1969, establishes various types, styles and classes of aluminum office chairs and adopts them as standard for the use of all Federal agencies. In accordance with this Federal Standard, agencies (military and civilian) have adopted some or all of these chairs as standard items within their supply system.
- b. The Navy and Coast Guard have indicated to GSA that they require aluminum furniture on board ship and in coastal installations because it is less susceptible to deterioration in a salt air and salt water environment than steel furniture.
- c. Aluminum chairs have a satin anodized finish which blends with differing decors more acceptably than the (single color) painted steel chairs.
- d. In view of the limitations on use of executive office furniture imposed by the Federal Property Management Regulations, the aluminum chairs are often used for personnel in professional and supervisory positions not authorized the executive office furniture.
- e. Based on the wide usage and standardization actions taken by Federal agencies, it is considered essential that coordination with the affected agencies be conducted prior to any action withdrawing these items from the Stores Stock system. We will pursue that course of action.

Mitre Box and Mitre Saw Combination

The combination item is being considered for elimination from the stores system. As the first step in this process, we have sent an inquiry to the using agencies to obtain their reaction to the proposed elimination of the item.

II. Inactive and Low Demand Items

We agree that there are opportunities for GSA to realize significant savings by removing inactive and low demand items from the stores system. Since about 80 percent of our stores system activity in recent years has been with the military services, we have given priority treatment to reviewing those items that entered the system as a result of military usage. Under our new low demand item review program approved in September 1969, and implemented in October 1969, we have incorporated the requirement to review all slow moving items regardless of registered users. Likewise, future reviews of inactive items will cover civil agency support items as well as military support items.

Your comment suggesting ways to improve the effectiveness of our new program for reviewing slow moving items is pertinent and will be adopted. Currently we have established a goal to reduce the stores stock system by 6,000 items before July 1, 1970, and to reduce by an additional 4,000 items before July 1, 1971. In keeping with your suggestion, we are taking steps to insure better control of the "deletion process" for items that have been designated for deletion in the inactive item review and to provide for a review of the "retention" items to determine the feasibility of transferring them to non-stock status.

The following comments pertain to specific points discussed in your coverage of Inactive and Low Demand Items:

Deletion of Inactive Military Items

In handling deletion actions for inactive military items, your report indicates GSA probably committed three errors of omission: (1) failure to follow up on 1,700 items for which no response was received, (2) failure to take follow up action on half the 2,600 items approved for deletion which apparently were not deleted as of October 1969, and (3) failure to take action to evaluate the feasibility of transferring the 3,650 items to be retained from the stores system to a non-stock status.

Since your review, we have established, on an interim basis, a semi-automated tickler file which will enable us to make appropriate follow up on all delinquent delete actions, both within GSA and with other interested agencies. Of a more permanent nature and with a view toward an optimum solution to the problem areas you revealed, we are developing a mechanized program which will incorporate all requirements for an effective inactive item review program and provide us with the checks and balances needed to ensure accomplishment.

PRINCIPAL OFFICIALS OF
THE GENERAL SERVICES ADMINISTRATION
AND THE FEDERAL SUPPLY SERVICE
RESPONSIBLE FOR THE MATTERS
DISCUSSED IN THIS REPORT

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
ADMINISTRATOR OF GENERAL SERVICES:		
Robert L. Kunzig	Mar. 1969	Present
Lawson B. Knott, Jr.	Nov. 1964	Feb. 1969
COMMISSIONER, FEDERAL SUPPLY SERVICE:		
H. A. Abersfeller	Mar. 1970	Present
Lewis E. Spangler (acting)	Dec. 1969	Mar. 1970
Arthur F. Sampson	June 1969	Dec. 1969
Lewis E. Spangler (acting)	May 1969	June 1969
H. A. Abersfeller	May 1964	May 1969