

B-146778



REPORT TO THE CONGRESS

Number Of Items In Federal Supply Catalog Can Be Reduced

B-146778

General Services Administration
Department Of Defense

**BY THE COMPTROLLER GENERAL
OF THE UNITED STATES**

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OCT. 21, 1974



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

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

This is our report on reducing the number of items in the Federal Supply Catalog. Our examination 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, Office of Management and Budget; the Secretary of Defense; the Administrator of General Services; the Secretary of the Interior; and the Secretary of Transportation.

James P. Stacks

Comptroller General
of the United States

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ABBREVIATIONS

DESC	Defense Electronics Supply Center
DISC	Defense Industrial Supply Center
DLSC	Defense Logistics Services Center
DOD	Department of Defense
DSA	Defense Supply Agency
FAA	Federal Aviation Administration
FSC	Federal supply class
FSN	Federal stock number
FSS	Federal Supply Service
GAO	General Accounting Office
GSA	General Services Administration
OMB	Office of Management and Budget

CONTROLLER GENERAL'S
REPORT TO THE CONGRESS

NUMBER OF ITEMS IN FEDERAL
SUPPLY CATALOG CAN BE REDUCED
General Services Administration
Department of Defense B-146778

D I G E S T

WHY THE REVIEW WAS MADE

Eliminating similar items in the Government's supply and cataloging systems reduces the workload and amount of money necessary to operate its logistics system. The Department of Defense (DOD) and the General Services Administration (GSA) are responsible for operating programs to identify and eliminate those items which are similar in size and kind.

GAO wanted to find out whether DOD's and GSA's item-reduction programs effectively reduced the number of items carried and, if not, what could be done to correct matters.

FINDINGS AND CONCLUSIONS

Although the item-reduction programs have existed for a number of years, the number of items in the Federal supply system has remained relatively constant. The system had 4.5 million active items in 1970 and still had more than 4.3 million as of January 1974. (See p. 1.)

DOD and GSA spend about \$42 million annually in various projects aimed at standardizing items the Government uses. Part of this money is used for item-reduction studies. (See p. 1.) These studies are not helping to reduce logistics workloads because DOD and GSA do not follow through and actually eliminate from the supply and cataloging systems many of the

items identified as no longer needed. (See p. 26.)

DOD's semiannual reports to the Congress on its cataloging and standardization programs contain numerous examples of item-reduction accomplishments and indicate that thousands of items have been designated as no longer procurable and have been earmarked for deletion. However, many items are still active in the supply systems years after they have been classified as nonpreferred. GAO questions the practice of spending millions of dollars studying thousands of items and finding suitable replacements, yet not deleting the non-preferred items within a reasonable time. (See p. 28.)

Although DOD and GSA are required to coordinate their item-reduction programs, they have not adequately done so. (See p. 5.)

Over 143,000 active items are cataloged in the 68 Federal supply classes for which GSA has the item-reduction responsibility. GSA's item-reduction program for these items has been ineffective due to

- the low priority given to item-reduction studies,
- incomplete program guidelines, and
- inadequate control and followup of item-reduction decisions. (See p. 14.)

GSA could save \$6 million annually in cataloging, supply management, and warehousing costs by overcoming these problems. (See p. 17.)

Item-reduction study staffs lack guidelines on obtaining technical descriptions of items. Because of inadequate descriptions for 11 percent, or about 396,000, of the active items in the Federal catalog, DOD has been unable to make intelligent item-reduction decisions. (See p. 19.) Potential yearly savings in cataloging, supply management, and warehousing costs alone would exceed \$19.6 million if the unnecessarily similar items were phased out. (See p. 23.)

DOD's item-reduction program has also been hindered by delays in item-reduction studies. Although they were estimated to take about 13 months to complete, the studies are actually taking 29 months. (See p. 20.)

Low priority given the studies has caused untimely interoffice and intraservice support in assembling data, reviewing decisions, and recording decisions in the Federal catalog. (See p. 20.)

Before preferred items are issued, DOD policy requires that non-preferred items be issued until supplies are exhausted. This policy is known as force issue. GSA does not have a force issue policy. DOD and GSA supply activities generally do not follow the force issue policy. DOD and GSA supply activities generally do not follow the force issue concept because they operate on the philosophy that only the requisitioner knows his needs. This philosophy conflicts with the item-reduction decisions which

establish the items' interchangeability and is a costly practice since it results in holding non-preferred items for extended periods and finally just disposing of them. (See p. 26.)

Because military and civilian activities and our foreign allies declined to withdraw or delayed withdrawing their user interest, 39 percent of 3,480 items that were declared nonpreferred were still in the supply system 5 to 8 years later.

More attention could be given to informing all users of the item-reduction decisions and explaining what the users' responsibilities are because of these decisions. If this were done, an estimated 178,000 non-preferred items could be eliminated from the supply and catalog systems, and the Government could save \$22.3 million a year in cataloging and supply management costs. (See p. 26.)

RECOMMENDATIONS

If the Government is to realize the potential \$47.9 million annual logistics savings, the Director, Office of Management and Budget, along with the Secretary of Defense and the Administrator of General Services should:

- Establish a Government standardization program steering committee to develop a coordinated standardization program and to provide a forum to resolve problems affecting operation of interagency programs, such as item-reduction programs. (See p. 11.)

The Secretary of Defense and the Administrator of General Services also should:

--Develop yearly program guidance to provide the approximately 100 standardization program offices with objectives and goals to be achieved with resources committed to the item-reduction programs. (See p. 12.)

--Clarify the standardization coding system in the Federal Manual for Supply Cataloging to preclude uncertainties as to which agencies should record the codes and maintain the validity of the codes for each item. (See p. 12.)

--Give the item-reduction program enough management attention and priority to insure that all participants in item-reduction studies (1) give adequate priority to controlling and completing item-reduction work, (2) promptly record decisions in the Federal catalog system, and (3) elevate problems encountered, such as in obtaining technical data, to a management level that can resolve the issue. (See p. 24.)

--Establish 3 months as the minimum time allowed for standardization study staffs and the users of items being studied to coordinate all proposed item-reduction decisions and to negotiate any differences. If users fail to respond within 3 months, study staffs should be authorized to assume this means agreement with their proposals. (See p. 24.)

--Adopt and enforce a force issue policy which authorizes the item manager to issue nonpreferred items before issuing the

preferred item, and make it the requisitioners' responsibility to justify any request which can be met only with the preferred item. (See p. 41.)

--Revise cataloging policies and practices to provide that at a specified time after the issuance of onhand nonpreferred materials, users listed on the catalog records automatically be deleted unless they can justify continued need for the items. (See p. 41.)

Finally, the Administrator of General Services should:

--Establish a project to develop a completely and adequately defined item-reduction program. This is necessary to overcome existing uncertainties among various GSA offices as to how the item-reduction program is to operate and interface with other agencies. (See p. 17.)

AGENCY ACTION AND UNRESOLVED ISSUES

DOD agreed generally with GAO's findings and recommendations. Action is being taken to resume issuing standardization program guidance, implementing a strengthened program planning function, and planning a new DOD manual on management of technical data and to institute a review of users listed as interested in nonpreferred items.

DOD, however, is not taking action to clarify the meaning of the alphabetical and numerical symbols used in the Federal standardization coding system and is not providing the item-reduction study staff with the necessary authority to insure the timely completion of studies.

Although GSA generally agreed with issues in the report, it was concerned that establishment of a Government standardization program steering committee would impose another administrative level. GSA realizes certain policy issues would require resolution through the Office of Management and Budget and considers itself capable of developing the coordination necessary with DOD to insure that provisions of the 1952 Defense Cataloging and Standardization Act are met.

GSA, DOD, and the Department of Transportation did not agree with our recommendation that a force issue policy should be followed to insure the timely use of remaining nonpreferred stocks and the deletion of items from the logistics systems. Agency officials do not consider their supply personnel or systems capable of maintaining the detailed interchangeability decisions agreed to in the item-reduction studies and therefore are concerned that wrong items will be furnished.

GSA agreed with the recommendation that its program needed to be adequately defined but said the recommendation cannot be implemented unless resources are received. GSA, therefore, is operating its item-reduction program without adequately defined methods of operations and thus is achieving very little from the studies conducted and is not achieving the \$6 million yearly savings this program is potentially capable of generating.

MATTERS FOR CONSIDERATION
BY THE CONGRESS

DOD, GSA, and other Government agencies should be able to improve logistics operations and save millions of dollars a year in operating costs by taking effective action on GAO's recommendations.

Since advantages of standardization and particularly the item-reduction program have been generally accepted, the Congress may want to determine why the agencies have not developed a coordinated Government-wide program.

CHAPTER 1

INTRODUCTION

The Federal Government spends \$57.5 billion annually for goods and services. Two of the largest buyers are the Department of Defense (DOD) and the General Services Administration (GSA). The catalog and supply systems that these agencies operate contained 4.5 million items in 1970 and 4.3 million active items¹ as of January 1974. New items enter the supply systems at a rate of 300,000 a year. To avoid purchasing or managing unnecessary or duplicative items, the Congress established the Federal Standardization Program, managed by GSA, and the Defense Standardization Program, managed by DOD. The programs' annual expenditures are \$42 million, and its objectives are to (1) control the entry of items into the Government's supply systems and (2) reduce the varieties and sizes of similar items already in the systems. We reviewed both DOD and GSA item-reduction programs. These two programs, along with material managers' decisions, the Defense Inactive Item Program, and the catalog data improvement actions form the total DOD and GSA item elimination effort.

The Federal Property and Administrative Services Act of 1949 (Public Law 81-152), approved June 30, 1949, established GSA's standardization program. The act stated that GSA was to provide an economical and efficient system for prescribing standard purchase specifications. (Specifications are an item-entry control mechanism which each Federal agency used.) Emphasis on item-reduction activities, however, was lacking.

To improve the effectiveness of the Government's cataloging and standardization activities, the Congress enacted the Defense Cataloging and Standardization Act of 1952 (Public Law 82-436), approved July 1, 1952 subsequently repealed and reenacted in 70A Stat. (Codified as 10 U.S.C. sections 2451-2456). This legislation entitled 'Defense' because of the large role DOD had in cataloging, emphasized the need for controlling the entry

¹Agencies which use an item are required to register this fact in the item catalog record. Items with registered users are referred to as active items.

of items into the Government's supply systems and explicitly called for programs to reduce the number of sizes and kinds of items in the systems. To avoid duplication, the act directed GSA and DOD to work together in their standardization and cataloging activities.

ORGANIZATIONAL STRUCTURES

The Office of Standards and Quality Control, Federal Supply Service (FSS), is responsible for implementing GSA's standardization program. The Office develops Federal procurement specifications, engineering and supply standards, and qualified products lists and also makes item-reduction studies.

The Office of the Assistant Secretary of Defense (Installations and Logistics) is responsible for DOD's Standardization Program. This Office has delegated responsibility for standardization to the Army Materiel Command, the Naval Materiel Command, Air Force headquarters, and the Defense Supply Agency (DSA). The activities develop military specifications and standards, prepare qualified products lists, and make item-reduction studies.

Under DOD and GSA item-reduction programs, all items in the Federal supply systems are intended to be systematically reviewed. The studies decide which items will be authorized for further procurement (preferred items) and which will not be authorized for procurement (nonpreferred items). These decisions are recorded in the Federal catalog and in standardization documents, such as specifications and standards.

The 4.3 million active items in the Federal catalog system as of January 1974 were in 595 Federal supply classes (FSCs)¹. DOD, through agreement with GSA, has

¹An FSC is a group of supplies having similar physical or performance characteristics. For example, all power-driven handtools are grouped in one FSC. A Federal supply group comprises several FSCs.

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assumed responsibility for annually planning the standardization program actions, such as item-reduction studies, for each FSC. About 100 DOD and civil agency standardization offices are to follow these plans. Of the FSCs, 248, or 42 percent, lack standardization potential, so no plans have been made for them. Of the other 347 FSCs, DOD is responsible for performing the item-reduction studies in 308 and GSA for 39.

All users of items recorded in the Federal catalog are required to register with the Defense Logistics Services Center (DLSC). DLSC records this information in Federal catalog files and uses it to send cataloging data and change notices to users. Item-reduction study staffs use the information to determine which Federal agencies will be involved in item-reduction decisions.

ITEM-REDUCTION STUDIES

Item-reduction studies generally have concluded that about 30 percent of the items studied should be eliminated from the supply systems. By eliminating unneeded items, the Government can reduce its logistics workload and can save a great deal. DOD has estimated savings at \$165 a year for each item eliminated from the supply system. This includes supply management, cataloging, and warehousing costs. Undetermined additional savings would also accrue because larger purchases of preferred items should mean reduced unit costs.

Item-reduction studies involve the following segments of work.

- DOD standardization program planning offices and GSA headquarters or regional offices identify groups of similar items which appear to offer item-reduction potential.
- The item-reduction study is assigned a project number. A study staff identifies the items to be reviewed and estimates the expected costs and benefits.

- The study staff assembles and evaluates the technical data which describes the items. Tentative decisions are made on which items will be listed as preferred and nonpreferred.
- The proposed decisions are distributed to all DOD and civil agencies which use the items. These users review the proposed decision for each item and respond to the study staff with agreement or nonagreement. If a user does not agree with the proposed decision, the study staff must resolve the differences and reach a final decision.
- The study staff summarizes the item-reduction study showing all items studied and final decisions reached. It distributes this summary to all activities which participated in the study and to DLSC, which updates the Federal catalog records.
- DLSC records in the Federal catalog only those data changes that the study staff directs it to record, such as reclassification from a preferred to a nonpreferred status. DLSC then notifies all agencies interested in the item, such as inventory managers, of the changes in the items' standardization status. Inventory managers are responsible for phasing out all nonpreferred stocks.
- After stocks of nonpreferred items have been removed from the supply system and agencies recorded as users no longer have interest in the items, these agencies are required to submit user withdrawal notices to DLSC. When all users have done so, DLSC holds the items in inactive status for 5 years and then removes them from the catalog.

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CHAPTER 2

IMPROVING GSA AND DOD COORDINATION

OF ITEM-REDUCTION PROGRAMS

Because DOD and GSA have split the responsibility for performing the item-reduction function, they must understand their roles and responsibilities and work in coordination with each other. Neither is to have a dominant role in standardizing Government supplies. They are legislatively equal in their respective areas of operation. Although required to coordinate their item-reduction programs, they have not adequately done so. DOD and GSA have not specifically agreed on their roles and methods of operation as required. This has resulted in

- problems in planning for item-reduction studies,
- uncertainties about recording standardization decisions in the Federal catalog, and
- purchases of nonpreferred items rather than promptly phasing them out of use.

NEED FOR SPECIFIC AGREEMENT

The lack of a specific DOD-GSA agreement on how the Government's item-reduction programs should be coordinated has impaired their ability to eliminate unnecessary items from the Federal catalog system.

In December 1964 DOD and GSA signed an agreement governing supply management responsibilities for the FSCs transferred to GSA. This agreement, which was intended to last at least 5 years and which could be revised by mutual consent of DOD and GSA, stated:

"* * * the supply management capabilities of each of the respective agencies can, through cooperative arrangements, successfully be fitted together to form a coordinated supply system for the Federal Government, with clearly defined responsibilities of each component, and with sufficient control

concerning assigned responsibilities retained by each to assure successful performance of basic missions."

The agreement did not address item-reduction responsibility. Current practices have evolved from verbal agreements and differing opinions and interpretations of supply management and cataloging practices.

Since the 1964 agreement, GSA has assumed supply management responsibility for more FSCs. In May 1971 DOD and GSA made a new supply management agreement which superseded prior ones. The new agreement reiterated the objective of avoiding duplication in the DOD-GSA supply systems, but it was less explicit about supply management responsibilities than prior agreements and still did not address item-reduction responsibility. According to GSA and DOD officials, procedures for coordinating item-reduction programs again were agreed to only verbally.

PROBLEMS IN PLANNING FOR ITEM-REDUCTION STUDIES

In the early 1960s GSA assumed from DOD the responsibility for managing the supply items in 68 FSCs. DOD remained responsible for the standardization program planning for these FSCs because DOD and GSA officials felt that assigning an internal DOD programing, control, and reporting system to GSA would be unrealistic. DOD's field organizations, known as assignee activities, carry out the planning responsibility. The following table shows the assignee activities for the 39 classes managed by GSA which DOD assignees have concluded offer standardization potential.

<u>Number of FSCs managed by GSA</u>	<u>DOD assignee activity responsible for the standardization program plan</u>	<u>Number of FSCs for which plans may be prepared</u>
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Army:

47	Army Natick Laboratories	30
10	Army Mobility Equipment Command	4
2	Army Materiels and Mechanics Research Center	2
2	Army Electronics Command	1

Navy:

2	Naval Ships Systems Command	-
2	Naval Facilities Engineering Command	-
1	Naval Air Systems Command	1

Air Force:

1	Warner-Robins Air Materiel Area	1
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Other:

<u>1</u>	Not assigned	<u>-</u>
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Total FSCs offering 39
standardization
potential

On the basis of yearly guidance from the Assistant Secretary of Defense (Installations and Logistics), these activities make program analyses which (1) assess the FSCs' potential for standardization, (2) identify standards and specifications that may need to be revised or developed and groups of items that offer item-reduction potential, and (3) serve as bases for budget requests of activities that will do the work. However, after GSA receives DOD's program analyses, it can, independent of the analyses, make whatever item-reduction studies it deems necessary. These studies are

supposed to be incorporated into annual simplification plans which GSA is supposed to distribute to DOD assignee activities.

We observed the following problems with the planning system for the item-reduction programs:

- GSA has no formal input into the yearly program guidance on which program analyses are based.
- In 1970 the Assistant Secretary of Defense (Installations and Logistics) stopped issuing the yearly program guidance.
- GSA has never prepared a simplification plan.
- The program analyses are often inadequate.

We examined selected program analyses and found many did not fulfill the objectives set forth in the DOD standardization policy manual. They did not assess the FSCs' standardization potential, identify problems, or list projects necessary to attain a good standardization posture, and therefore failed to provide bases for standardization program budget requests.

DSA's Standardization Program Office made similar observations in its 1972 study and later established a standardization management project to improve its program analyses. This project has gained acceptance throughout DSA; however, other military activities have not accepted it.

RECORDING DECISIONS IN FEDERAL CATALOG

Because GSA's and DOD's item-reduction programs are not coordinated, uncertainties exist about recording GSA's decisions in the Federal catalog. Although GSA decides which items are nonpreferred, it does not record those decisions in the Federal catalog. Instead, it submits the results of the studies to DOD assignee activities for input into DLSC. This practice stems from GSA's having relied on DOD to record these decisions in the past and its interpretation of DOD's responsibility for standardization

program planning as also meaning that only DOD can submit item-reduction decisions to DLSC.

For example, the Army Natick Laboratories and GSA officials interpreted the standardization status codes in the Federal Manual for Supply Cataloging as applicable only to DOD-used items. (See app. II.) Therefore they believed that only DOD could record decisions in the Federal catalog and that Natick Laboratories could not code items used only by civil agencies.

Recognizing the coding problem in December 1970, the Army Natick Laboratories recommended either the standardization codes be changed from the DOD designation to a Federal designation or additional codes be added for use by civilian agencies. However, this was never done. In June 1973 the Laboratories again cited the present coding system as a problem which was brought to Army headquarters attention. While awaiting headquarters' response, the Laboratories decided to code nonpreferred items used only by civil agencies. It decided not to code preferred items used only by civil agencies unless the military services agree to adopt the items.

DOD cataloging officials stated that GSA could use the asterisked codes and could apply them to items used only by civil agencies. These officials insisted that GSA could directly record decisions in the catalog system because GSA is a valid submitter of catalog data. We found no reason why GSA could not do so.

To test whether GSA could record standardization decisions, we asked GSA to code two items and to submit those decisions directly to DLSC. DLSC accepted the decisions as valid catalog data and recorded them.

BUYING NONPREFERRED ITEMS

The lack of a uniform system for recording item-reduction decisions has caused various procurement problems. Because of GSA's misunderstanding of the standardization codes, it has procured nonpreferred items for stock and has issued them to requisitioning activities. The following table shows some examples of GSA's procurement of nonpreferred items during fiscal year 1973.

Nonpreferred items	Procured		Issued	
	Number of items	Value	Number of items	Value
7510-281-6180 Looseleaf binder	177,716	\$117,292.56	134,536	\$100,902.00
7930-205-2868 Scouring powder	734,448	66,100.32	715,036	71,560.20
7930-664-7050 Floor wax remover	19,818	60,444.90	18,662	56,919.10
7510-579-2750 Looseleaf binder	63,800	62,524.00	38,827	38,050.46
7930-291-0410 Sweeping compound	9,069	60,762.30	4,627	31,000.90
7510-559-9835 Looseleaf binder	34,688	33,974.64	28,134	27,571.32
7930-664-6909 Glass cleaner	227,866	54,687.84	107,524	25,805.76
7510-559-9834 Looseleaf binder	48,375	55,631.25	17,369	19,874.35
7930-269-1277 Dishwashing compound	1,799	<u>18,169.90</u>	1,705	<u>17,220.50</u>
Total		<u>\$529,587.71</u>		<u>\$388,904.59</u>

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Supply management records indicate that each year GSA is purchasing and stocking for issue most of the non-preferred items we reviewed. GSA procures locally or contracts for other nonpreferred items to be included in the Federal Supply Schedules, from which Government agencies order the materiel directly from the manufacturer. Records of the amount of purchases by these means are not available, but a GSA official said the presence of Federal stock numbers (FSNs) on the Federal Supply Schedule is a strong indication that they are being procured. As an example, in January 1970 GSA developed a Federal standard for sharpening stones that declared two items as nonpreferred. However, GSA is buying the two items for stock and the Federal catalog still shows one of the items as procurable. From January through September 1973 GSA procured 10,000 units of this item.

Military activities are also procuring nonpreferred items from GSA because the items are listed in GSA stock catalogs or in the services' Federal Supply Catalog Identification Lists. Thus, DOD is not adhering to the item-reduction decisions it originally agreed to.

CONCLUSIONS

DOD and GSA have not adequately coordinated their item-reduction programs. The agencies' roles, responsibilities, and methods of operation are uncertain because of the numerous interpretations of verbal agreements and written policies. Standardization decisions are not uniformly recorded in the Federal catalog and are frequently ignored in the procurement process.

RECOMMENDATIONS

We recommend that the Director, Office of Management and Budget, along with the Secretary of Defense and the Administrator of General Services:

- Establish a Government standardization program steering committee to provide Government-wide oversight of the program and to insure that an adequately defined and coordinated item-reduction program is developed.

We also recommend that the Secretary of Defense:

- Resume the yearly program guidance, coordinated with GSA, to establish objectives and goals for the item-reduction program.
- Adopt DSA's standardization management project as a way to strengthen the entire DOD standardization program planning function.
- Clarify the standardization coding system in the Federal Manual for Supply Cataloging, to preclude the continued procurement of nonpreferred items.

We further recommend that the Administrator of General Services:

- Adopt the standardization coding system.
- Insure that the proper standardization status code is shown in the Federal catalog for each item.
- Insure that all activities understand that they should not buy nonpreferred items.

AGENCY COMMENTS AND OUR EVALUATION

On March 20, 1974, we submitted our report to DOD and GSA for their comments. Copies of the report were furnished to the other agencies included in our review. Their comments have been included in this report where appropriate.

In a letter dated May 24, 1974, DOD agreed with three of the four recommendations shown above but indicated that it would not be appropriate to change the Federal Manual for Supply Cataloging to preclude the continued procurement of nonpreferred items. DOD feels the Manual already adequately defines items no longer authorized for procurement. Instead, DOD said a common standardization effort should be made through the steering committee we recommended be established.

As its preface explains, the Federal Manual for Supply Cataloging includes the policies, rules, and procedures of the catalog system for all Government agencies to use, including the standardization coding system. Since civilian and DOD agency personnel are unclear as to the meaning and use of the codes, we continue to believe that DOD, as principal administrator of the Federal Cataloging System, should use the Federal Manual for Supply Cataloging to initiate corrective action.

In its letter of May 17, 1974, GSA concurred generally with our recommendations but expressed doubt that a Government standardization program steering committee would serve any useful purpose. GSA recognized that a lack of communication among agencies has created oversights in the standardization program. GSA considers itself now capable of developing the coordination necessary with DOD to insure that the provisions of the 1952 Defense Cataloging and Standardization Act are met. Although opposing the formation of a Government standardization program steering committee, GSA realizes that certain policy issues would require resolution through the Office of Management and Budget (OMB).

DOD and GSA have had a reasonable time to attain effective coordination but have not done so. Legislation strengthening the standardization program and requiring GSA and DOD to work together has been in force since 1952 but they have not adequately coordinated their standardization work. Therefore, we feel that an interagency steering committee, with OMB providing the Government-wide leadership, could contribute to the continuing development of this program.

CHAPTER 3

PROBLEMS IN GSA'S ITEM-REDUCTION PROGRAM

GSA's item-reduction program has been ineffective in eliminating unnecessary items from the Government's supply and catalog systems because of

- the low priority assigned to item-reduction studies,
- incomplete program guidelines,
- inadequate control of studies, and
- inadequate followup procedures to insure implementation of item-reduction decisions.

Without GSA's full commitment to the program, 143,000 active items in the supply and catalog systems will go unchecked for possible duplication and elimination.

LOW PRIORITY FOR ITEM REDUCTION

GSA's item-reduction program has a low priority, and virtually no studies have been done in the past 5 years. Agency officials attribute the lack of available manpower for item-reduction studies to the fact that other projects, such as preparation of procurement specifications and engineering standards, have higher priority.

INCOMPLETE PROGRAM GUIDELINES

GSA's procedures for administering Federal programs are normally set forth in the Federal Property Management Regulations. When the need arises, GSA also issues handbooks on procedures and roles.

However, neither the regulations nor handbooks had been prepared for the item-reduction program. Because the item-reduction program was not clearly defined, it was appended to the Federal cataloging and standardization programs. In implementing the standardization program, GSA's Office of Standards and Quality Control uses the Federal Standardization Handbook, which addresses only the Federal specifications and standards program.

As the need for item-reduction guidance became apparent, GSA prepared directives and incorporated changes in its Organizational Manual. This manual is not specific on whether the Standardization Division itself is to initiate item-reduction studies. The manual states that the Office of Supply Control, FSS, is to initiate item-reduction studies and to forward the results to the Standardization Division, Office of Standards and Quality Control. The Division is to make a technical review of the study and to obtain the comments of other Government agencies on the proposed decisions. The Office of Supply Control, however, has not initiated any item-reduction studies, whereas the Standardization Division has made a few. GSA internal auditors noted this problem in their February 1973 report, as follows:

"The FSS Office of Supply Control has not initiated formal item reduction studies based on demand history. Item reduction studies for FYs 71 and 72 were initiated within the Standardization Division and were seldom productive. Only two of 20 studies reviewed were satisfactorily completed. We selected stock items from 12 studies reported as closed and traced the items to master records of FSS. We found that the proposed standardization action was neither accomplished nor in process. Subsequently, * * * we were informed for the first time that the Office of Standards and Quality Control had discontinued all item reduction studies about 1 year ago because of the lack of manpower resources and the ability to 'mesh' with the DOD standardization coding system."

Several memorandums by division directors address procedures to be followed in making these studies. However, GSA personnel who have followed the procedures have had problems with report format and presentation of conclusions.

INADEQUATE CONTROL AND FOLLOWUP OF STUDIES

GSA does not adequately control followup procedures to insure that item-reduction decisions are implemented.

Consequently, many nonpreferred items have remained procurable and have not been eliminated from the supply and catalog systems.

GSA auditors also reported that item-reduction studies were not closely controlled. Management control logs were not complete or current; 18 of 20 studies begun in fiscal years 1971 and 1972 were not satisfactorily completed, and GSA management did not follow up on delinquent studies to correct problems. In addition, DOD item-reduction studies were not properly accounted for in the GSA management control logs but were lying unprocessed in an office that is not responsible for processing these studies. These delays hinder the formulation of final decisions.

If GSA is to assume a more active role in the item-reduction program by directly recording decisions in the catalog, as suggested in chapter 2, it must develop adequate followup procedures to insure that all decisions are properly recorded and implemented. If decisions are not properly recorded, nonpreferred items will continue to be procured.

ITEM-REDUCTION POTENTIAL

Although GSA is responsible for making item-reduction studies of the 122,000 items in 39 FSCs offering standardization potential, it has not studied many of these items. The Army Natick Laboratories, for example, has reported that GSA's largest class of items, FSC 5120 handtools, offers excellent opportunities for item reductions. Of the 45,000 items in the FSC, 78 percent, or 35,000, have not been assigned a standardization status code. GSA has indicated that it does not have sufficient resources to do this work and has asked for DOD's help.

GSA personnel, however, are making progress in their study of 107 looseleaf ring binders. They have proposed that 46, or 43 percent, be earmarked as nonpreferred and phased out of use.

If DOD's experience were to apply to the 122,000 items in the 39 FSCs, about 30 percent of 36,000 items could be eliminated. Using conservative DSA estimates of \$165 a year for cataloging, supply management, and warehousing costs, about \$6 million a year could be saved.

CONCLUSIONS

GSA has continuing opportunities to realize savings in Government logistics costs by identifying and removing unnecessary items from the catalog and supply systems. The logistics workload associated with many nonpreferred items continues because GSA has not actually eliminated these items from the logistics systems. Other items, if subjected to item-reduction studies, would also be eliminated. However, GSA has put little effort into organizing and operating the item-reduction program, and GSA activities lack central guidance on their roles, responsibilities, and procedures.

If the unnecessary items are deleted from the catalog and supply systems, the scope of all GSA's logistics functions, such as item management, procurement, cataloging, warehousing, and future standardization projects, will be reduced and will give GSA a better opportunity to accomplish its workload with existing resources.

RECOMMENDATION

We recommend that the Administrator of General Services give adequate priority to developing a complete and adequately defined item-reduction program. This is necessary to overcome existing uncertainties as to how the program is to operate and to insure that GSA management obtains the greatest benefit from the resources it commits to future item-reduction studies.

AGENCY COMMENTS AND OUR EVALUATIONS

In its letter dated May 17, 1974, GSA agreed with our recommendation but indicated it could not be implemented unless sufficient resources were received to support such a project. As a start GSA has made an organizational change which, for the first time, placed the responsibility for all item-reduction studies in one office.

CHAPTER 4

PROBLEMS IN DOD'S ITEM-REDUCTION PROGRAM

DOD's item-reduction program has been hindered by the lack of technical data describing about 11 percent of the active items in the Federal catalog system. Without this data, DOD cannot make intelligent item-reduction decisions. In addition, long delays in the decisionmaking process have prevented thousands of unneeded items from being promptly phased out of the supply and catalog systems. As a result, the Government is not realizing the potential savings from a reduced logistics workload.

LACK OF TECHNICAL DATA

In preparing for an item-reduction study, one initial step is to assemble technical data on the items' descriptions, sizes, shapes, reliabilities, capabilities, and applications. DOD's policy manual lists Federal catalogs, procurement specifications, engineering drawings, and industrial cross-reference documents as typical data. However, it does not specify sources of this data or methods for obtaining it. Although the instructions seem to be adequate to eliminate most of the items, many more might be eliminated if the sources of data or the methods for obtaining it were included in the instructions. At June 30, 1973, about 11 percent, or 396,000, of the items in the Federal catalog system lacked sufficient technical data. As a result, DOD cannot make many needed item-reduction decisions.

For example, in FSC 5905, which includes electrical resistors, 18,000 items--over 10 percent of the active items in the class--cannot be studied. Until November 1970 the Defense Electronics Supply Center (DESC) requested missing technical data from the military services using the items. Some data was found, but these requests imposed a heavy workload on the services, so DESC discontinued the practice. DESC also instituted a policy of requesting technical data from manufacturers when new items were cataloged. About 15 percent of these requests are honored at no additional cost to the Government.

A similar problem exists at the Defense Industrial Supply Center (DISC). During fiscal years 1969-72, 16 of the 49 studies, or 33 percent, undertaken were canceled because of inadequate technical data for about 21,000 common hardware items, such as thumbscrews, setscrews, washers, and shims.

In a 1972 study of 1,000 machine screws, DISC personnel obtained technical data from catalog records. Although this data was insufficient to make intelligent item-reduction decisions, the study staff did not request data from the manufacturers because it believed that it would not receive the data on time and that cataloging and/or procurement action could later resolve the problem. The study was canceled after 475 hours of work over 6 months, and the items were coded in the Federal catalog to indicate that insufficient technical data precluded making an item-reduction decision.

DELAYS IN ITEM-REDUCTION STUDIES

Item-reduction studies take an inordinate amount of time. They are usually estimated to take 13 months to complete, but some studies take over 30 months. (See app. I.) Delays in assembling technical data, coordinating and making decisions, and recording the decisions in the Federal catalog system contribute to the lengthy time.

Assembling technical data

Once a group of similar items requiring an item-reduction study has been identified, the study staff (1) identifies and assembles cataloging and technical data, (2) evaluates the items and reaches tentative standardization decisions, and (3) prepares a proposed list of these decisions.

These actions took DISC an average of 12 months for the 20 item-reduction studies it completed during fiscal year 1972 and 1973. The average study included 1,600 common hardware items. Most of the delays were attributable to the low priority assigned to reduction studies. The studies generally were made by item managers, catalogers, and technical personnel after they completed their normal duties, and interoffice and intraservice cooperation was not adequate.

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In 8 item-reduction studies, randomly selected from the 20 completed at DISC, the following types of problems delayed assembling of technical data.

Study number	Months required to assemble data	P r o b l e m s					
		Manpower shortage	Priority problems	Preparing ADP (note a) data requests	Obtaining cataloging data	Obtaining drawings and specifications	Preparing the item-reduction proposal lists
1	8			x	x	x	
2	15		x	x	x	x	x
3	17			x	x	x	
4	18	x	x	x			
5	7	x	x				
6	12	x	x				
7	8		x	x	x	x	
8	13				x	x	x

^aAutomated Data Processing

Project number 5340-0480, involving 2,702 quick-release pins, was initiated in March 1967. Due to the low priority of item-reduction studies, work was not started and the project was canceled March 17, 1970. Project number 5340-0855, involving the same items, began on March 17, 1970, and required 12 months to accumulate and evaluate the technical data.

Reaching final item-reduction decisions

All users must agree with tentative item-reduction study decisions before the study staff can implement them. This coordination process is complex and time consuming, since more than 20 users may have to concur in a single decision.

At DESC we selected two item-reduction studies for review. Proposal 5905-14A, dated June 15, 1968, involved resistors and proposed that 1,216 items be nonpreferred.

Proposal 5935-01-5, dated August 25, 1967, involved electrical connectors and proposed that 1,111 items be non-preferred. Using random-sampling techniques, we concluded that only 70 percent of the DESC-proposed decisions on nonpreferred items were coordinated within 8 months. Some proposals took more than 2 years to coordinate. The DOD policy manual established a goal of 2 to 3 months within which users should respond to the item-reduction study staff. This time was frequently exceeded at DESC.

DISC had similar delays in coordinating item-reduction decisions. Of the 20 item-reduction studies completed in fiscal years 1969-72, we reviewed 8 and found that coordination took an average of 9 months. (See app. I.)

The DISC study of tapered roller bearings took 34 months to coordinate. The study proposals were sent to the Army, Navy, Air Force, and National Security Agency in March 1970. With some exceptions, the Army and the National Security Agency agreed with the study within 2 months. The Navy took 9 months to agree with some exceptions, and the Air Force disagreed with the entire study in 3 months. Unsuccessful attempts were made to resolve the differences with the Air Force. In January 1973 all items involving the Air Force were dropped from the study, and decisions agreed to by the other services were implemented.

In DISC's study of slotted hexagon nuts, the proposed decisions were sent to the military services in March 1972. Within 1 month the Army, Air Force, and Marine Corps agreed with minor exceptions. The Navy, however, delayed concurring for 12 months.

DESC and DISC officials believed the low priority assigned to item-reduction studies caused the delays in coordination. They explained that users tend to disagree when they are pressured for a decision and are lacking time and manpower. Disagreement signals the start of negotiations, which can take months, between the study staff and the users.

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Recording final decisions

The last step in a DOD item-reduction study is to record the decisions in the Federal catalog at DLSC. DOD's policy manual requires that the decisions be submitted to DLSC without delay.

At DISC, delays of 1 to 11 months occurred because decisions on specific items were held until the entire study, which usually involved hundreds of items, was completed. Another delay of 1 to 8 months occurred because low priority was given to preparing the input data cards necessary for reporting decisions to DLSC.

On March 17, 1972, DISC sent out for coordination proposal 5310-0716 involving slotted hexagon nuts. DISC proposed that FSN 5310-043-1811, which is used only by the Army, be declared nonpreferred and the FSN 5310-894-2246, which already had been declared preferred, replace it. The Army reported on April 3, 1972, that it agreed. DISC, however, did not report this decision to DLSC until August 1, 1972, when it had coordinated all decisions in the study.

DESC, on the other hand, sends item-reduction decisions to DLSC immediately after each is coordinated. This piecemeal method allows the relatively easy item-reduction decisions to be promptly implemented.

CONCLUSIONS

DOD's lack of emphasis on the item-reduction program prevented many unnecessary items from being promptly phased out of the supply system. Study staffs did not obtain the technical data necessary to make intelligent item-reduction decisions. DOD's experience indicates that, if adequate technical data could be obtained, 30 percent of the 396,000 inadequately described items, or about 119,000, could be eliminated. Using DOD's estimate of \$165 in savings per item, \$19.6 million in cataloging, supply management, and warehousing costs would be saved annually.

Item-reduction studies were delayed because (1) personnel who made the studies had higher priority work and (2) some decisions were not submitted to DLSC until the entire study was completed. Since 90 percent of the proposed decisions are resolved in favor of the study staffs' positions, we question DOD's practice of allowing delays in coordinating decisions.

RECOMMENDATIONS

We recommend that the Secretary of Defense:

- Explain in the DOD policy manual how and where technical data should be obtained and emphasize the importance of obtaining it.
- Give item-reduction studies enough management attention to insure that all participating activities give adequate priority to completing their tasks.
- Make the current 2- to 3-month goal for coordinating item-reduction decisions the maximum time allowed for users to respond to proposals and for study staffs to negotiate differences. If users do not respond within this time, study staffs should be authorized to assume that users agree with their proposals.
- Clarify DOD's policy on submitting item-reduction decisions to DLSC and require piecemeal submissions.

AGENCY COMMENTS AND OUR EVALUATIONS

DOD in its letter of May 24, 1974, generally agreed with our recommendations and specifically indicated that a new DOD manual dedicated to management of technical data is currently planned.

DOD does not agree in fixing an absolute 2- to 3-month time for coordinating item-reduction decisions but indicates it would establish realistic goals and a reporting system to alert Departmental Standardization Offices when the goals are exceeded. We believe both realistic goals of 2 to 3 months and a reporting system exist in the current DOD program.

They are not effective, however, because the time frame is simply a goal and not a mandatory requirement and the item-reduction study staff and the Departmental Standardization Offices have no means, other than the power of persuasion, to compel users to respond to an item-reduction proposal.

CHAPTER 5

ITEM-REDUCTION DECISIONS DO NOT

INSURE ELIMINATION OF ITEMS

Many items, even after they are declared nonpreferred, are not eliminated from the supply and catalog systems. Although suitable nonpreferred items must be issued before preferred items, this generally has not been done. This practice is not consistent with the item-reduction decisions to which the users agreed. As a result, the Government continues to pay for holding and managing nonpreferred items.

The Government has also incurred costs because many users decline to withdraw, or delay withdrawing, their user interest in nonpreferred items. If DOD and GSA made sure that the list of users contained only those with valid interest, about 178,000 nonpreferred items might be eliminated from the supply and catalog systems and, on the basis of DSA's estimate of \$125 per item in supply management and cataloging costs, the Government could save about \$22.3 million a year.

INEFFICIENT PRACTICES CONCERNING ISSUE, DISPOSAL, AND ITEM-REDUCTION DECISIONS

DOD policy (called force issue) requires that, before preferred items are issued, nonpreferred items be issued until supplies are exhausted. However, because DOD supply activities believe that only the user knows its needs, they issue preferred items if the user requests them and continue to store the nonpreferred items. Since most nonpreferred items are finally just disposed of, decisions on the substitutability of preferred and nonpreferred items are defeated. Similarly, GSA follows the practice of issuing only the items requested, whether preferred or not.

DOD practices

Although DOD's standardization policy manual provides that inventory managers force issue nonpreferred items until stocks are exhausted rather than issue preferred items, DOD supply activities have not done so.

Both the Navy Aviation Supply Office and the Marine Corps Supply Activity issue nonpreferred items only when they receive demands for the items. As a result it takes many years to deplete the stocks.

At DSA, force issuing is not an accepted practice, so nonpreferred items are not being eliminated promptly or economically. DSA's policy is to issue nonpreferred items to requisitioners of preferred items only after the item manager obtains the requisitioner's approval. Consequently, the DSA centers usually satisfy the requisitions by issuing preferred items. Because of the low dollar value of hardware items, DISC item managers very seldom ask the users for approval to issue nonpreferred items.

Before DSA issued a new disposal policy in 1972, DISC disposed of nonpreferred items about 120 days after the item-reduction decisions were submitted to DLSC, unless DISC item managers objected. In December 1972 DSA revised its policy to require its supply centers to retain all serviceable nonpreferred items for 2 years before disposing of them.

This policy change will have little effect on increasing DISC's use of nonpreferred items. Because DISC does not notify users of the availability of nonpreferred material, it will simply store the nonpreferred items for 2 years and then dispose of them.

GSA practices

GSA, like DOD supply activities, operates on the philosophy that only the user knows its needs, and therefore GSA usually issues only the items requested.

When GSA declares an item nonpreferred, the item manager is responsible for determining if onhand stock will be retained. If demands for the nonpreferred item have been significant, GSA holds it for possible future use; if demands have been low, GSA disposes of the item.

Because GSA issues the nonpreferred items only if the preferred items are out of stock, the nonpreferred items are not promptly eliminated. For example, in 1966 a laundry soap was declared nonpreferred and the onhand stocks were retained. During fiscal year 1973, about eight times as many replacement items than nonpreferred items were issued, so quantities of the nonpreferred items were still on hand at June 30, 1973. The nonpreferred item could have been depleted from stock if GSA had issued it before issuing the replacement item.

NONPREFERRED ITEMS STILL ACTIVE IN SUPPLY AND CATALOG SYSTEMS

All DOD units, civilian agencies, and foreign allies are required to register their interest in those cataloged items which they use. This data is used to identify managers of the items and users interested in receiving updated catalog data. It is also used by item-reduction study staffs to determine which agencies will be involved in coordinating decisions.

When DLSC notifies a user that an item has been declared nonpreferred, the user is supposed to send DLSC a card withdrawing user interest in the item. In this way, DLSC's files are kept up to date. When all registered users withdraw their interest in an item, DLSC declares the item inactive and holds the cataloging records for 5 years. After this period, DLSC eliminates the entire record on the item from the Federal catalog.

Nonpreferred items are not being promptly eliminated. Because of varying cataloging and equipment support policies and, in some instances, lack of knowledge of procedures, users often decline or delay withdrawing their user interest, even though they have agreed upon replacement items. For example, our analysis of three DESC and

DISC item-reduction studies showed that 5 to 8 years after the studies were completed, 39 percent, or 1,358, of the nonpreferred items were still active in the supply and catalog systems because of recorded user interest. Our analysis follows.

<u>Item-reduction studies</u>	<u>Total items designated nonpreferred as of March 1973</u>	<u>Total nonpreferred items retained in supply and catalog systems as of March 1973 with user interest shown</u>
Machine screw (MSS-5305-25) completed 2/8/65	1,375	393
Electrical resistor (5905-14a) completed 2/5/69	1,105	475
Electrical connector (5935-01-5) completed 5/22/68	<u>1,000</u>	<u>490</u>
Total	<u>3,480</u>	<u>1,358</u>
Percent	100	39

We selected these DESC and DISC item-reduction studies from about 155 studies conducted between 1963 and 1972. The items included in the studies were common-type materiel, available from various manufacturers and having wide applications. For each item declared nonpreferred, a replacement had been designated and this information had been disseminated to all U.S. military and civilian activities which had recorded their interest in the items. From a random sample of the 3,480 items declared nonpreferred, we found, as on March 1973, no stock on hand for many of the items and no recent procurements of the items, in some cases as far back as January 1, 1966.

The 1,358 nonpreferred items shown in the above table are considered active items because user interest has been recorded in the catalog records. A total of 867 items, or about 64 percent, have been retained because foreign allies are recorded as users. The remaining 36 percent represents various users, such as U.S. military and civilian agencies.

Scope of user problem

A Federal catalog management report showed about 75,000 nonpreferred items with recorded users as of June 30, 1973. However, in the catalog records we found 178,000 such items as of June 14, 1973. This significant difference shows that insufficient management attention is given to the completeness of the catalog reports and also shows that the more than 250 activities that use cataloging information have given insufficient attention to reviewing and updating user information.

To find out the characteristics of the 178,000 items, we examined

- the length of time the items had been nonpreferred,
- the types of users interested in the items,
- these activities' stockage policies, and
- the types of items involved.

Time items have been nonpreferred

The following table shows that 57 percent of the 178,000 items were assigned nonpreferred status at least 4 years ago. It is important to emphasize that each of these items has a preferred replacement available, which the users agreed to. Enough time has passed for the users to have adopted the preferred items and to have withdrawn their interest in the nonpreferred.

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	<u>Years items have been nonpreferred</u>				<u>Total items</u>
	<u>Under 4</u>	<u>4 to 6</u>	<u>7 to 9</u>	<u>10 or more</u>	
Numbers of items	76,000	30,000	46,000	26,000	178,000
Percent of total	43	17	26	14	100

Users retaining interest

According to the Federal catalog records, our foreign allies have recorded their interest in 66 percent of the nonpreferred items. A total of 118,000 nonpreferred items are being retained in the catalog and supply systems because of their interest. As shown in the following table, 80,000 nonpreferred items are being held solely because of foreign interest.

<u>Users retaining interest in nonpreferred items</u>	<u>Number of items</u>	<u>Percent of total</u>
Foreign allies	80,000	45
U.S. military	44,000	25
U.S. civil agencies	13,000	7
Military and civil	3,000	2
Civil and foreign	12,000	7
Military and foreign	20,000	11
Military, civil, and foreign	<u>6,000</u>	<u>3</u>
Total items	<u>178,000</u>	<u>100</u>

Method of obtaining nonpreferred items

The Federal catalog, besides recording users, also shows what method--supply stockage policy--each user has adopted for obtaining the nonpreferred items. Each of

the nonpreferred items may have more than one user listed on the catalog user list. As shown in the following table, over 582,000 users were recorded as interested in the 178,000 nonpreferred items. This is an average of three different users recorded as interested in each of the items.

About 65 percent of the users, mostly foreign allies, had not reported their stockage policies. The catalog records do not show how the users would obtain nonpreferred items, and we question the continued need for these items, which in most cases were declared nonpreferred more than 4 years ago.

About 30 percent of the users have reported that the nonpreferred items are kept in stock and will be supplied from that source as needed. For most of these items, DOD users are reporting that the onhand material will be issued until supplies are exhausted. No further procurements are authorized. However, 39,000 users, primarily civil agencies, are reporting that they centrally procure, stock, and distribute the nonpreferred items.

In addition, 29,000 recorded civil agency users, or about 5 percent of the 582,000, are also reporting that the nonpreferred items will be procured as needed.

In many cases the recorded users' supply stockage policies do not agree with the item-reduction decisions reached and do not help delete the items, but instead, tend to retain the items in the supply system for prolonged periods.

<u>Stockage policies for nonpreferred items</u>	<u>Number of users</u>	<u>Percent of total</u>
No status	376,983	65
Stocked items:		
Centrally stocked for users	39,318	
Stocks being de- pleted	132,158	

<u>Stockage policies for nonpreferred items</u>	<u>Number of users</u>	<u>Percent of total</u>
Stocked for military assistance 660		
Insurance items <u>1,240</u>	173,376	30
Procurable items:		
Locally procurable 29,214		
Centrally procurable <u>22</u>	29,236	5
No longer available:		
Semiactive, phasing out 2,436		
Reference <u>420</u>	<u>2,856</u>	<u>-</u>
Total	<u>582,451</u>	<u>100</u>

Types of nonpreferred items

Two major Federal supply groups comprised the bulk of the nonpreferred items. About 46 percent of the items were in Federal supply group 59, which included electrical and electronic equipment components, such as resistors, capacitors, connectors, and switches. About 24 percent were in Federal supply group 53, which included common hardware and abrasives, such as screws, bolts, washers, rivets, and packing. Because of the large number of items in these groups, we reviewed actions taken to eliminate these items.

USERS' REASONS FOR RETAINING INTEREST

We selected a random sample of 160 nonpreferred items from the 1965 DISC machine screw study shown on page 29. We asked the users of these items as of November 1972 why they retained their interest.

Most of the users retained interest to preserve the catalog data for possible future cross-reference between the nonpreferred and the preferred items. They usually withdrew interest only after the equipment on which the items were used was phased out of agency use. Users also lacked policies and procedures for user withdrawal or were unfamiliar with the requirement.

Marine Corps Supply Activity

The Marine Corps Supply Activity, Philadelphia, will retain its user interest in nonpreferred items until the equipment on which the items are used is phased out. The items needed to support equipment are identified in stock list publications which are issued with the equipment. Because of the large volume of such publications, they are not revised or updated as each item-reduction decision is made. To alert its field activities to changes in the stock lists, the Marine Corps issues monthly management data lists which cross-reference the nonpreferred and preferred items. However, the Marine Corps still contends it needs to keep its name in the Federal catalog user lists for cross-referencing nonpreferred items. This practice duplicates files and we question it.

As of June 1973 the Marine Corps was registered with DLSC as a user of about 270,000 items. Included in this total were about 10,164 nonpreferred items, of which 55 percent had been declared nonpreferred more than 4 years ago.

In addition, the Marine Corps keeps cataloging data on about 109,000 items which are not registered in the Federal catalog. It contends that these items, which pertain to equipment it no longer uses, are retained for cataloging identification and cross-referencing. These items are similar to the 10,164 nonpreferred items in which the Marine Corps retains user interest, in that future need for the items appears remote.

In our sample of 160 items, the Marine Corps was listed as a user of 10 items and designated as the single manager of these items for the Government. Of the 10

items, 8 had no stock on hand, 2 had only a minimal amount, and none of the items had been purchased in recent years.

Navy Aviation Supply Office

The Navy Aviation Supply Office, Philadelphia, will also retain its user interest in nonpreferred items until the equipment on which the items are used is phased out of the Navy. Those items for which there is no stock on hand and no demand but which can still support equipment are identified in the Supply Office's records as program support interest.

As of June 1973 the Supply Office was registered with DLSC as a user of about 360,000 items, including 22,718 nonpreferred items of which 27 percent had been nonpreferred for 4 to 10 years.

The Supply Office was listed as a user of 3 of the 160 machine screws in our sample. Federal catalog, DISC, and Supply Office records showed discrepancies. Supply Office records indicated that it had begun to transfer management of the nonpreferred items to DISC, which is the manager of the preferred items. However, DISC records and the Federal catalog still showed the Supply Office as the manager and user of the items. The Supply Office concluded that the most practical way to resolve these discrepancies would be to withdraw its interest in the three items, including one item for which there was less than \$30 worth of stock on hand.

Bureau of Mines

The Bureau of Mines does not have a centrally managed supply system to fill requisitions from operating activities. Each Bureau operating activity keeps its own stocks, which it generally purchases either commercially or through the Federal Supply Schedule. The Bureau seldom, if ever, enters a new item into the Federal supply system.

According to Bureau officials, when the Federal cataloging program began, the Bureau, at GSA's request, listed itself on DLSC's files as a user of various Federal stock numbers. The Bureau continues to be

listed as a user of nonpreferred items on DLSC's files because it has no procedures for, and does not know about, withdrawing user interest. Bureau officials said they would not use a nonpreferred item if they were aware that a preferred item was available.

As of June 14, 1973, the Bureau was registered in the catalog as a user of 15,962 items, of which 14 percent were nonpreferred. About 21 percent of the items had been nonpreferred for 4 to 10 years, and the entire amount is still shown as authorized for procurement.

After we discussed the issue with Bureau officials, they realized the problems that the erroneous user list would cause and agreed to review, with GSA's assistance, their need for retaining user interest in nonpreferred items.

GSA cataloging officials recognized that the invalid user list was a Government-wide problem. They therefore proposed a project to help not only the Bureau but also all civilian agencies to correct the list. This project will involve about 34,000 nonpreferred items.

Federal Aviation Administration (FAA)

FAA's Aeronautical Center, Oklahoma City, Oklahoma, and its National Aviation Facilities Experimental Center, Atlantic City, New Jersey, remain registered in the Federal catalog as users of nonpreferred items as long as FAA uses the equipment these items support.

The frequently requested items are recorded in a computer data file. Those items not on hand and infrequently requested are dropped from the computer file and maintained in an item transaction file, which was started in 1970. If no demands for these items are recorded after 5 years, FAA plans to withdraw its user interest in the items. As explained in chapter 1, after all users withdraw their interest, DLSC holds the items in inactive status for another 5 years. Retaining catalog files on nonpreferred items for 10 years is questionable.

FAA's Experimental Center initiates catalog changes, such as withdrawing user interest for those items it no longer needs. It sends catalog changes to FAA's Aeronautical Center, which processes them to DLSC. In our sample of 160 nonpreferred machine screws, the Experimental Center was still listed as a user of 10 screws. Officials of that Center indicated that, in May 1970, they had sent a user withdrawal for the items to the Aeronautical Center. However, the Aeronautical Center's records as of September 1974 still listed the Experimental Center as a user of the nonpreferred items.

We reviewed 27 sample nonpreferred items on which the Aeronautical Center was listed in the catalog as a user. Supply management records were available on 13 items, and stock was on hand for only 7 of the 13. We also reviewed the 27 preferred items which replaced these nonpreferred items and found that the Aeronautical Center had supply management records on only 14. We question retaining user interest in the nonpreferred and preferred items for which FAA has no supply management records.

GSA

GSA is recorded as a user of 25,185 nonpreferred items in the catalog system. Approximately 66 percent of these nonpreferred decisions were made 4 or more years ago.

GSA has not promptly withdrawn its interest in most of the 1,800 nonpreferred items it manages because it regards the standardization status codes as DOD codes. (See p. 8.) For a stocked DOD nonpreferred item, GSA may eventually withdraw its user interest if the item has been used by both DOD and civilian agencies and if no demands have been received for the past year. However, items used only by civilian agencies are not subject to a demand history review and may remain indefinitely. Items which GSA does not stock but which are provided through Federal Supply Schedules are also likely to remain indefinitely because no demand history data is maintained on which to base an inactive-demand decision. This can be resolved if the DOD standardization status codes are adopted as the official codes of the Federal catalog system.

GSA also will not withdraw interest in the 23,385 nonpreferred items for which it is the cataloging agent until the agency for which GSA is agent withdraws its interest in the item. Because of the problems in maintaining valid user data listings, GSA may also remain listed as a user of these items indefinitely.

The yearly savings from withdrawing interest in the 25,185 nonpreferred items would be great. GSA should withdraw its user interest in these items and should help other agencies withdraw their interest. GSA's proposed project to correct the user list is a good start. (See p. 36.)

Foreign allies

To determine if our foreign allies still required the nonpreferred items for which they were the only recorded users, we obtained the assistance of DLSC's International Codification Division. In July 1973 the Division queried Canada, France, Germany, and the United Kingdom with respect to 25 nonpreferred machine screws for which these countries were recorded users.

The Chief of the International Codification Division told us that the 4 countries reported no need for 98 percent of the items and withdrew interest in 98 of the 100 sample items.

These countries had not withdrawn their user interest because they usually had no activity to maintain standardization catalog data. Also, of these countries, only France and Germany received standardization data from DLSC. Neither country, however, withdrew its name from the catalog files when item-reduction decisions were announced.

Because of our inquiry, other foreign allies indicated an interest in starting a standardization program similar to the U.S. program and requested a detailed presentation on the standardization coding structure. Because foreign allies were listed as users of 66 percent of the 178,000 nonpreferred items in the catalog system as of June 1973, the invalid foreign user data warrants further management attention.

CONCLUSIONS

The Government is not achieving the savings possible from item-reduction studies because the item-reduction process has not been followed through to its final objective--eliminating unnecessary items from the supply and catalog systems.

Materials were not properly eliminated from the supply system because DOD and GSA did not force issue nonpreferred items. Item managers operate on the philosophy that only the user knows its needs, and therefore, managers issue only the items requested. The impact on nonpreferred items varies from premature disposal of serviceable assets to holding the nonpreferred material for 2 years before disposing of it. In any event, the process of economically and effectively phasing out nonpreferred items is hindered.

These problems could be corrected by redefining the force issue policy and requiring item managers to abide by it. The force issue policy should mean that the item manager has the authority to issue all nonpreferred items before issuing the replacement (preferred) item. This would insure prompt orderly draw down of the nonpreferred item and would curtail the disposal of serviceable material. There will be instances when only the preferred item will fill a need, so every system should have a means of handling exceptions. In these exceptions, it should be the requisitioner's responsibility to justify his need for the preferred item.

Nonpreferred items have not been promptly eliminated from the Federal catalog system because users have unnecessarily retained their interest in them. As long as invalid interest remains recorded, nonpreferred items cannot be eliminated from the supply and catalog systems. The primary reasons for this problem were:

- Federal cataloging agencies did not adequately inform users of the importance of up-to-date user data. One user had no procedures for withdrawing user interest.

- Foreign allies generally did not receive standardization data from DLSC and did not have activities to maintain the data.
- GSA was uncertain about the validity of DOD standardization status codes and therefore did not initiate actions to phase items out.
- Users maintained that they needed the Federal catalog data to cross-reference nonpreferred and preferred items, although they had their own cross-reference files.
- Users retained interest in both the preferred and nonpreferred items as long as the equipment, to which the items applied, was in inventory.
- Item managers were not aware of user data problems because of discrepancies in supply management records.
- Catalog management reports did not account for all nonpreferred items and therefore did not provide management with an adequate indicator of possible problems.

Users have agreed to the item-reduction decisions, yet thousands of items remain years after the decisions have been made. If the true value of the item-reduction study results is to be realized, nonpreferred items must be removed from both the supply and cataloging systems.

Also, there must be a change in the present practice under which a user must withdraw its interest in an item in order for it to be removed from the Federal Catalog.

Current Federal cataloging procedures do not establish a reasonable time within which users must withdraw interest or justify continued listing of their names in the catalog records. Following the prompt and orderly draw down of onhand nonpreferred materials, user activities should be given a specified time, such as 6 months, to adopt the preferred item. At the end of this time users

should be deleted from the catalog records of nonpreferred items unless they have justified their continued need for nonpreferred items.

RECOMMENDATIONS

We recommend that the Secretary of Defense and the Administrator of General Services:

- Adopt a force issue policy giving the item manager authority to issue all nonpreferred items before issuing the preferred item and making it the requisitioner's responsibility to justify any request which can be met only with the preferred item.

- Revise cataloging policies and practices to provide that at a specified time after the issuance of all onhand nonpreferred materials, user interest lists automatically be deleted from the catalog records unless users justify the continued need for the items.

AGENCY COMMENTS AND OUR EVALUATIONS

DOD in its letter of July 2, 1974, disagreed with the force issue recommendation and agreed with the intent of the catalog policy change. DOD's concern with the force issue practice is that many items have only one-way interchangeability and without prior query to the requisitioner could result in the issue of the wrong item. DOD plans revisions to the Defense Inactive Item Program to achieve a timely review of the users interested in nonpreferred items.

The Department of the Interior agreed with the report's conclusions and recommendations.

In its letter of May 17, 1974, GSA disagreed with the force issue recommendation and agreed with the catalog policy change. GSA's concern on the force issue recommendation is that the requisitioner of supplies has little

knowledge as to the end use(s) of the items ordered and could neither justify the use of the preferred item or readily determine the technical acceptability of a non-preferred item.

In its letter of May 8, 1974 the Department of Transportation also disagreed with the force issue and cataloging recommendation. Transportation's concern with a force issue practice is that its equipment is unique and that it would be incorrect for DOD or GSA item managers to make assumptions on the requirements, use, or interchangeability/substitutability of nonpreferred items.

We believe that, in commenting on the force issue question, DOD, GSA, and Transportation have overlooked the fact that, during an item-reduction study, technical personnel are reviewing the items and making interchangeability and substitutability relationship decisions. These tentative decisions are then reviewed by the users of the items during the coordinations of a study, and all parties listed as users of the materials must agree to the decisions before they can be incorporated in the cataloging and supply management records. Therefore, supply personnel are not required to make technical interchangeability/substitutability decisions in ordering supplies, but must (1) properly record the technical decisions agreed to in the item-reduction study, and (2) abide by the decisions in the supply requisitioning function.

Transportation is also concerned that a revision in cataloging policies and practices related to delisting users from the nonpreferred item files would prematurely force items out and defeat one of its purposes, which is proper item identification.

It is not the intent of our recommendation to delete cataloging data which is actively used. Our objective is to overcome the problems with the current system which has allowed user data to become invalid. The data is invalid because the current system requires the user to initiate all updating actions, such as file maintenance.

In our recommendation, deletion of data relating to non-preferred items would be automatic and would only require action by the user if a valid need existed for the catalog data. Maintaining hard copy of the catalog and supply management data for historical reference, as currently done by Transportation, would not be affected by our recommendation.

CHAPTER 6

SCOPE OF REVIEW

We studied the legislation establishing the item-reduction programs and DOD and GSA policies, directives, and procedures. We held discussions with agency officials at various levels of management responsibility and obtained information from four foreign countries that participate in the Federal cataloging system.

We made our review at the following locations.

General Services Administration:

Headquarters, Federal Supply Service
Washington, D.C.

Federal Supply Service, Region 6 office
Kansas City, Missouri

Department of Transportation, Federal Aviation Administration:

Aeronautical Center
Oklahoma City, Oklahoma

National Aviation Facilities Experimental
Center
Atlantic City, New Jersey

Department of the Interior, Bureau of Mines:

Headquarters
Washington, D.C.

Pittsburgh Coal Research Center
Pittsburgh, Pennsylvania

Department of Defense:

Office of the Deputy Assistant Secretary of
Defense for Production Engineering and
Material Acquisition
Washington, D.C.

Defense Item Entry Office
Alexandria, Virginia

Department of the Army:

Headquarters, Army Materiel Command
Alexandria, Virginia

Army Tank - Automotive Command
Warren, Michigan

Army Natick Laboratories
Natick, Massachusetts

Department of the Navy:

Navy Aviation Supply Office
Philadelphia, Pennsylvania

Department of the Air Force:

Air Force Headquarters
Washington, D.C.

Defense Supply Agency:

Headquarters, Defense Supply Agency
Alexandria, Virginia

Defense Industrial Supply Center
Philadelphia, Pennsylvania

Defense Electronics Supply Center
Dayton, Ohio

Defense Logistics Services Center
Battle Creek, Michigan

Foreign allied countries:

Canada

France

Germany

United Kingdom

DISC ITEM-REDUCTION STUDIES REVIEWED

<u>Type of items included in each study</u>	<u>Number of items in each study</u>	<u>Number of items proposed as nonpreferred</u>	<u>Number of nonpreferred item decisions finalized</u>
Roller Bearings	2,982	956	901
Ball bearings	2,765	634	621
#2 machine screw	841	732	602
½-inch machine screw	568	132	149
Lock washer	1,654	232	226
Slotted nut	7,010	159	157
Preformed "O" ring	519	253	267
Quick-release pin	2,702	746	681

TIME REQUIRED TO COMPLETE DISC ITEM-REDUCTION STUDIES

Type of items included in each study	Total months required to complete study	Months required to			
		Reach tentative decisions	Coordinate decisions with users	Finalize item- reduction decisions	Submit decisions to DLSC
Roller bearings	50	8	34	3	5
Ball bearings	25	15	10	-	-
#2 machine screws	31	17	6	7	1
½-inch machine screws	33	8	3	22	-
Lock washers	15	7	3	4	1
Slotted nuts	34	18	13	2	1
Preformed "O" rings	25	7	2	7	9
Quick-release pin	32	12	1	8	11

APPENDIX I

STANDARDIZATION STATUS CODE

Code	Term	Explanation
*1	Item authorized for procurement.	An item authorized for procurement which was initially so identified as the result of a formal item reduction study and which was accepted as a replacement for one or more items not authorized for procurement.
*2	Item authorized for procurement.	An item authorized for procurement which has been included in an item reduction study and which initially does not replace an item not authorized for procurement.
*3	Item not authorized for procurement.	An item, which as a result of a formal item reduction study, is accepted as not authorized for procurement.
4	Departmental Standard Item.	Item of supply determined to be a standard for departmental procurement and so recorded in a standard, drawing, or other document officially identified as a standard of a department.
5	Item authorized for procurement.	An item authorized for procurement that has not yet been subject to item standardization.
*6	Item authorized for procurement.	An item authorized for procurement that is in a specific FSC class or item name grouping consisting primarily of items which are "one-of-a-kind" and therefore little or no potential exists for elimination of items through formal item reduction studies.
7	Reserved for DoD Use	
8	Reserved for DoD Use	
9	Civil Agency not authorized for procurement.	Item of supply determined by GSA standardization action as not authorized for procurement and so designated by official GSA documentation.
*0	Item authorized for procurement.	Standardization status code is not applicable, except items under the specification control of AEC or NSA.
*A	Item authorized for procurement.	A new item processed through a DTRA and authorized for procurement that cannot be replaced with an existing item.
*B	Item authorized for procurement.	A new item authorized for procurement that is contained in a new or revised superseding specification or standard that replaces prior items. This item will not be assigned an FSN or an item standardization code until a requirement for the item is generated.
*C	Item authorized for procurement.	An item authorized for procurement that has been included in an item reduction study but an intelligent decision could not be made due to lack of technical information.
*D	Item authorized for procurement.	A new item processed through a DTRA and authorized for procurement but an intelligent decision could not be made due to lack of technical data.
*E	Item not authorized for procurement.	An item no longer authorized for procurement which has been replaced by a new item as the result of new or revised superseding specifications or standards being promulgated. The replacement item will not have an FSN assigned until a requirement is generated. In the interim period, the specification or standard part number shall be shown as the replacement.

* Official DoD Item Standardization Codes

APPENDIX III

UNITED STATES OF AMERICA
GENERAL SERVICES ADMINISTRATION
WASHINGTON, DC 20405



MAY 17 1974

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

Dear Mr. Staats:

Thank you for the opportunity to review the draft report to the Congress on Progress and Challenges Facing the Item Reduction Programs. It is a very useful report.

We are pleased to provide you, as an attachment to this letter, our comments on the recommendations made in this report.

Sincerely,

Dwight Ink
Dwight A. Ink
Acting Administrator

Enclosure

Keep Freedom in Your Future With U.S. Savings Bonds

APPENDIX III

GSA Comments on GAO Draft Report to the Congress on Progress and Challenges Facing the Item Reduction Programs (Code 947039)

GAO FINDINGS AND RECOMMENDATIONS

During a survey to determine if the DoD/GSA item reduction programs effectively minimize the number of items carried, GAO found that: (1) Item reduction programs have been in existence a number of years yet the number of items in the Federal Supply System remains relatively constant; (2) Full benefits of item reduction studies are not realized because DoD and GSA do not follow through and actually eliminate items identified as no longer needed; (3) DoD and GSA have not adequately coordinated their item reduction programs; (4) DoD's item reduction program has been hindered by delays in coordinating and responding to item reduction studies; and (5) Years after items were declared non-preferred, a large percentage of such items were still active in the supply system. GAO made the following recommendations to DoD/GSA, which are shown below with GSA comments.

GSA POSITION

Specific comments concerning each recommendation follow:

Recommendation 1. The Director, Office of Management and Budget, along with the Secretary of Defense and the Administrator of General Services, establish a Government Standardization Program Steering Committee to provide Government-wide oversight of the programs and to insure development of an adequately defined and coordinated item reduction program.

Comment. Do not agree. Cannot foresee that creation of another administrative level will serve a truly useful purpose since the other recommendations, to the degree implemented, will eliminate the most important

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oversights and areas in which a lack of communication appears to exist. GSA considers OSD and GSA capable of jointly developing a coordinated Federal Government-wide item reduction program, recognizing that there may well be certain policy issues in which the resolution requires OMB involvement.

Recommendation 2. The Secretary of Defense resume the yearly program guidance, coordinated with GSA, to establish objectives and goals for the item reduction program.

Comment. Concur. However, in addition, recommend priorities be established between and among item reduction studies to permit optimum allocation of scarce resources, and that a coordinated schedule of planned item reduction projects be made available to the agencies in advance of the budget year in which the item reduction studies are to take place.

Recommendation 3. The Secretary of Defense adopt DSA's standardization project as a way to strengthen the entire standardization program planning function.

Comment. Concur.

Recommendation 4. The Secretary of Defense clarify in the Federal Manual for Supply Cataloging the standardization coding system, to preclude the continued procurement of nonpreferred items.

Comment. Concur. Assignment of a nonpreferred designation to an item should always automatically preclude the continued procurement of the item by the item manager.

Recommendation 5. The Administrator of GSA adopt the standardization coding system.

Comment. Concur. When the Defense Integrated Data System (DIDS) is implemented, Chapter 3 of the DIDS Procedures Manual will be the source for standardization coding information and will replace the Federal Manual for Supply Cataloging. This document will accomplish the recommendation.

Recommendation 6. The Administrator of GSA insure that the proper standardization status code is shown in the Federal catalog for each item.

Comment. Concur provided assignment of such codes is fully coordinated with GSA.

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Recommendation 7. The Administrator of GSA insure that all activities understand that they should not buy nonpreferred items.

Comment. Concur provided that it is made clear that stocks of non-preferred items should be requisitioned "Until Exhausted" (see Recommendation 13).

Recommendation 8. The Administrator of GSA give adequate priority to a project aimed at developing a complete and adequately defined item reduction program.

Comment. Concur, but this recommendation cannot be implemented unless we receive sufficient resources to support such effort. As a start on such a project, however, after receipt of the draft report, the Administrator of GSA (in GSA Order ADM 5440.80) transferred the Logistics Data Management Division, which was responsible for initiating item reduction studies based on the range and characteristics of items (coordinating them with FSS elements and Government agencies) and implementing the study recommendations, from the Office of Standards and Quality Control to the Office of Supply Control, which is responsible for recommending item reduction studies based on demand history. Thus, for the first time, the responsibility for all item reduction studies is lodged in one office within GSA.

Recommendation 9. The Secretary of Defense explain in the DoD policy manual how and where technical data should be obtained and emphasize the importance of obtaining it.

Comment. Concur. However, it is considered that it would be redundant to stress in DoD 4120.3M the importance of technical data and explain how and where technical data should be obtained. DoDI 5010.12, Management of Technical Data, is considered to adequately cover the need for, the source of, and uses of technical data.

Recommendation 10. The Secretary of Defense provide item reduction studies sufficient management attention to assure that all participating activities give adequate importance to completing their tasks.

Comment. Concur. All participating activities should be directed to be responsive to the processing of item reduction studies and be cognizant of the importance of completion in accordance with schedules assigned by the preparing activity.

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Recommendation 11. The Secretary of Defense make the current 2- or 3-month goal for coordinating item reduction decisions the maximum time allowed for user activities to respond to proposals and for study staffs to negotiate differences. If users do not respond within this time, study staffs should be authorized to assume concurrence in their proposals.

Comment. Do not concur. As a more reasonable goal, recommend 6 months as a goal for completion, with piecemeal submissions being recognized a normal operating procedure. Three months does not allow adequate time to solicit missing technical data from industry and to review the data when received. Item reduction studies with large numbers of items (e. g., hand tools, paints, etc.), each with scores of applications, present a significant workload when a conscientious effort is made to review each and every end item application to determine if the recommended preferred item will actually serve in an improved mode in an operating environment. It must be clearly understood that a reviewing activity cannot agree that a recommended preferred item is adequate in all applications unless adequate technical data is available for every application/installation. Lack of technical data for but one application could preclude acceptance of the recommended preferred item. This is particularly true for hand tools where reliability, metal strength, tolerances, etc., are so critical that every application must be researched before acceptance of the recommended preferred item can be made. Accordingly, it is not considered appropriate for preparing activities to be authorized to assume concurrence at any time.

Recommendation 12. The Secretary of Defense clarify the DoD policy on submitting item reduction decisions to the Defense Logistics Services Center (DLSC) and require piecemeal submissions when appropriate.

Comment. Concur.

Recommendation 13. The Secretary of Defense and the Administrator of General Services adopt a policy of force issue, giving the item manager authority to issue all nonpreferred items prior to issuing the preferred item and making it the responsibility of the requisitioner to justify any request which can be met only with the preferred item.

Comment. Do not concur. The requisition is normally generated for stock resupply by agency supply activities. Supply activity personnel have little knowledge as to the actual end use(s) of the item(s) being

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requisitioned, particularly when ordered in quantity. Therefore, generally speaking, the requisitioner (often automated) could neither justify the use of the preferred item nor readily determine if the nonpreferred substitute is acceptable from a technical viewpoint in all applications. In addition, not only does the M1-7 Manual (Federal Manual for Supply Cataloging) not list a Cataloging Management Data Notification (CMDN) code for "force issue" but GSA ADP programs are not programmed to automatically make such a decision and force nonpreferred items on the requisitioner without obtaining his consent offline. For the more common type items subjected to item reduction studies in the high usage FSC's (e. g., hand tools, paints, etc.), usually requisitioned in quantity, adoption of the recommendation would create administrative and supply problems worldwide as hundreds if not thousands of requests for justification would result daily which would significantly impede supply readiness. To code nonpreferred items with "Use Until Exhausted" is by far the preferred, most feasible method of drawing down stocks of nonpreferred items.

Recommendation 14. The Secretary of Defense and the Administrator of General Services revise cataloging policies and practices to provide that 6 months after the timely issuance of all onhand nonpreferred materials, user interest lists would automatically be deleted from the catalog records unless users specifically justify the continued need for the items.

Comment. Concur. However, this will require development of detailed procedures for supply activities to notify DLSC.

As a final comment, the terms "preferred items" and "nonpreferred items" used throughout the report need to be defined for the purposes of the report. Military decision as to preferred and nonpreferred items is not representative of civil agency needs nor is it applicable to them.

APPENDIX IV



ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, D.C. 20301

24 MAY 1974

INSTALLATIONS AND LOGISTICS

Mr. Fred J. Shafer
Director, Logistics and
Communications Division
U. S. General Accounting Office
Washington, D. C. 20548

Dear Mr. Shafer:

This is in response to your letter of March 20, 1974, to the Secretary of Defense forwarding your draft report on "Progress and Challenges Facing the Item Reduction Programs", 947039-74-LCD-425(MM82) (OSD Case 3797).

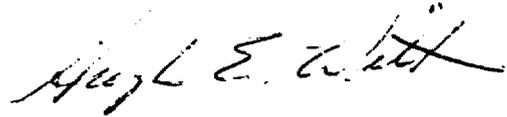
The draft report covering your review to determine whether the DoD and GSA item reduction programs effectively minimize the number of items carried is of great interest to this Department. We note that your review did not encompass the Defense Inactive Item Program (DoD 4120.32-M) which is the principal Item Reduction Program and, in fact, the program that actually makes the final determination for deletion of items designated as no longer authorized for procurement.

We consider the standardization item reduction program as complementary to the Defense Inactive Item Program in our overall item reduction efforts. We feel rather strongly that the standardization program's principal goals are those which control the entry of unneeded and duplicative items through the use of standards and specifications.

I am enclosing a copy of a revised DoD Directive 4120.3 which was approved last June 9. A Defense Materiel Specifications and Standards Board was established by this Directive to provide additional priority and emphasis to the DoD Standardization Program. The Secretariat to the Board is reviewing all aspects of the program and we expect many improvements in procedures as a result of this effort. Your report will be given every consideration in our assessment of item reduction through standardization.

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I am also enclosing a summary of the specific recommendations cited in your draft report and our comment on each of these recommendations. Our comments on those recommendations on page 54 concerning force issue and automatic deletion will be provided after completion of an in-depth review.

A handwritten signature in cursive script, appearing to read "Hugh E. Witt".

Hugh E. Witt
Principal Deputy Assistant Secretary of Defense
(Installations and Logistics)

Enclosures (2)

APPENDIX IV

GAO RECOMMENDATIONS

GAO RECOMMENDATION - We recommend that the Director, Office of Management and Budget along with the Secretary of Defense and the Administrator of General Services, establish a Government Standardization Program Steering Committee to provide Government-wide oversight of the program and to insure development of an adequately defined and coordinated item reduction program.
Page 18 [11]

DOD COMMENT Concur.

GAO RECOMMENDATION - We also recommended that the Secretary of Defense:
Page 19 [12] -- Resume the yearly program guidance, coordinated with GSA, to establish objectives and goals for the item reduction program.

DOD COMMENT The efficacy of issuing program guidance annually or on some other time cycle is under discussion between this office and the Departmental Standardization office.

GAO RECOMMENDATION - Adopt DSA's standardization management project as a way to strengthen the entire DoD Standardization Program planning function.
Page 19 [12]

DOD COMMENT This office issued a change to the Defense Standardization Manual on 18 December 1973 which incorporated DSA's management project pertaining to program analysis. These procedures will be implemented by the DoD Components.

GAO RECOMMENDATION - Clarify in the Federal Manual for Supply Cataloging the Standardization Coding System, to preclude the continued procurement of nonpreferred items.
Page 19 [12]

DOD COMMENT Standardization Status Codes are reflected in the Federal Manual for Supply Cataloging only for the purpose of identifying a data element in cataloging records. The Defense Standardization Manual, 4120.3-M, is the appropriate document for promulgating policies, procedures and definitions of standardization codes. The Federal Manual for

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- DOD COMMENT (cont'd) - Supply Cataloging currently provides for the assignment of acquisition advice codes that adequately defines items no longer authorized for procurement. It is our position that a common standardization effort should be mounted under the "Government Standardization Program Steering Committee" recommended earlier.
-
- GAO RECOMMENDATION - We recommend that the Secretary of Defense:
Page 32 [24] -- explain in the DoD policy manual how and where technical data should be obtained and emphasize the importance of obtaining it.
- DOD COMMENT - Concur. In addition, a new DoD Manual dedicated to technical management data is currently planned.
-
- GAO RECOMMENDATION - Provide item reduction studies sufficient management attention to assure that all participating activities give adequate importance to completing their tasks.
Page 32 [24]
- DOD COMMENT - Concur.
-
- GAO RECOMMENDATION - Make the current 2 to 3 months goal for coordinating item reduction decisions the maximum time allowed for user activities to respond to proposals and for study staffs to negotiate differences.
Page 33 [24]
- DOD COMMENT - Do not concur in an absolute fixed time as recommended. DoD will review and establish realistic goals and require notification to the Departmental Standardization Offices when certain time frames are exceeded.
-
- GAO RECOMMENDATION - Clarify the DoD policy on submitting item reduction decisions to DLSC and require piecemeal submissions when appropriate.
Page 33 [24]
- DOD COMMENT - Concur.
-
- GAO RECOMMENDATION - We recommend that the Secretary of Defense and the Administrator of General Services:
Page 54 [41] -- Adopt a policy of force issue, giving the item manager authority to issue all nonpreferred items prior to issuing the preferred item and making it the responsibility of the requisitioner to justify and request which can be met only with the preferred item.

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GAO RECOMMENDATION - Revise cataloging policies and practices to provide that 6 months after the timely issuance of all on-hand nonpreferred materials user interest lists would automatically be deleted from the catalog records unless users specifically justify the continued need for the items.

Page 54 [41]

DOD COMMENT

Deferred pending in-depth review.

GAO note: Numbers in brackets are page numbers to final report.



INSTA



ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, D.C. 20301

APPENDIX V

SS
INSTALLATIONS AND LOGISTICS

2 JUL 1974

Mr. F. J. Shafer
Director
Logistics & Communications Division
General Accounting Office
Washington, D. C. 20548

Dear Mr. Shafer:

This is in further reply to your Draft Report dated March 20, 1974, "Progress and Challenges Facing the Item Reduction Programs" (OSD Case #3797).

As stated in our initial response on May 24, 1974, two recommendations required further study prior to offering comments. Following are the Department of Defense (DoD) comments on these two areas:

Recommendation: That the Secretary of Defense and the Administrator of General Services:

--Adopt a policy of force issue, giving the item manager authority to issue all nonpreferred items prior to issuing the preferred item and making it the responsibility of the requisitioner to justify any request which can be met only with the preferred item.

Comment: We do not concur in the adoption of the force issue policy as recommended. Many items in the DoD supply system have one-way interchangeability; e.g., the preferred item is always substitutable for the nonpreferred but the nonpreferred item is not necessarily substitutable for the preferred. Substitutability is, of course, based upon the application of the item in the next higher assembly. The determination to designate an item "preferred" is based upon a technical review by all users of a given part, the results of which have indicated that the preferred item will perform the intended function in the assembly. Several different parts in several different applications may be involved. The determination is merely that the preferred item will work in all applications, not that the replaced parts are interchangeable in all applications. Forced issue of nonpreferred parts without prior query to the requisitioner could result in the wrong item being furnished.

Recommendation: Revise cataloging policies and practices to provide that six months after the timely issuance of all on-hand nonpreferred

APPENDIX V

materials, user interest lists would automatically be deleted from the catalog records unless users specifically justify the continued need for the items.

Comment: We concur in the intent of the recommendation. Accomplishment, however, must be outside the cataloging system since that system does not consider asset positions. It would appear more feasible to include this provision in the Defense Inactive Item Program (DIIP). DoD Directive 4140.32, "Defense Inactive Item Program" provides uniform DoD-wide policies whereby inactive items are detected and eliminated as items of supply from the supply system and from cataloging records on a progressive and systematic basis. For those items in question, the DIIP Manual (DoD 4140.32-M) makes provision for the assignment of Supply Status Code 9 (SSC-9) - Semiactive Item: a potentially inactive Federal Stock Numbered item of supply which must be retained because stocks of the item are in use or on hand below the wholesale level, or otherwise required for management purposes. For these items, stock is not on hand at the wholesale level nor is future wholesale stockage authorized. It is the intent of this criterion to permit the retention of such items in the system as items of supply, based on a judgment decision by the requiring Service/Agency. Retention decision is based on supportable documentation that the item is, in fact, in use below the wholesale level and must be retained in support of those in-use equipments. Those items assigned SSC-9 as a result of the DIIP are to be reviewed three years after coding and, if retention in the cataloging system is justified, annually thereafter until deletion. We feel that revisions to the DIIP to incorporate these review features will provide feedback to the catalog system necessary to comply with the intent of the General Accounting Office recommendation.

The opportunity to comment on this report in draft form is appreciated.

Sincerely,



ARTHUR I. MENDOLIA
Assistant Secretary of Defense
(Installations & Logistics)



OFFICE OF THE SECRETARY OF TRANSPORTATION
WASHINGTON, D.C. 20590

ASSISTANT SECRETARY
FOR ADMINISTRATION

May 8, 1974

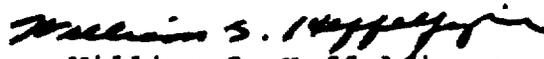
Mr. Henry Eschwege
Director
Resources and Economic
Development Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Eschwege:

This is in response to your letter of March 19, 1974, requesting the Department of Transportation's comments on the General Accounting Office's draft report entitled "Progress and Challenges Facing The Item Reduction Programs." I have enclosed two copies of the Department's reply.

The Department of Transportation supports the need for a continuing and effective item reduction program under the cognizance of the General Services Administration (GSA) and the Department of Defense (DOD). While the report recommendations are directed principally to GSA and DOD, we do have comments on two of the recommendations. Also, we are forwarding a suggested revision to a portion of the comments contained on pages 48 and 49 of the draft report which pertain directly to the Federal Aviation Administration (FAA). Comments related to the FAA portion of the report are also included.

Sincerely,


William S. Heffelfinger

Enclosures

APPENDIX VI

DEPARTMENT OF TRANSPORTATION STATEMENT ON GAO REPORT

- I. TITLE: Problems and Challenges Facing the Item Reduction Program - Department of Defense, General Services Administration, (Code 947039), March 1974.

II. GAO FINDINGS AND RECOMMENDATIONS:

The Department of Defense (DOD) and the General Services Administration (GSA) have the responsibility to operate item reduction programs whose objectives are to identify and eliminate those items (of supply) which are similar in size and kind. The General Accounting Office made this review to determine whether the DOD and GSA item reduction programs effectively minimize the number of items carried. GAO concluded that the full benefit of item reduction studies -- reduced logistics workloads -- are not being achieved because DOD and GSA do not follow through and actually eliminate from the supply and cataloging systems the items identified as no longer needed.

GAO made eight recommendations, principally directed to GSA and DOD. While none of the recommendations were directed to the Department of Transportation, we do have comments on two. These are:

- (1) Adopt and enforce a policy of force issue where the item manager has the authority to issue nonpreferred items prior to issuing the preferred item, and make it the responsibility of the requisitioner to justify any request which can be met only with the preferred item; and
- (2) Revise cataloging policies/practices to provide that six months after the issuance of on-hand nonpreferred materials, users listed on the catalog records would automatically be deleted unless the user can justify the continued need for the items.

In addition, we have comments on, and a proposed partial revision of, that part of the report which discusses the Federal Aviation Administration's participation in the Item Reduction Program.

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III. DOT Comments on Findings and Recommendations:

1. The Department of Transportation does not concur with either of the two recommendations quoted in II above for the following reasons:

Implementation of a policy of force issue as recommended by the GAO would cause problems for this Department in its capacity as a participant in the Federal Supply System. Because of the special nature of much of our equipment, it is incorrect to assume that any nonpreferred item of a technical nature within a family of items could be used in lieu of the preferred item requisitioned. Many preferred items stocked throughout the DOT could be common to various types of equipment; however, nonpreferred items listed as substitutes for the preferred may not be common. Therefore, an item manager in DOD or GSA who is unfamiliar with our requirements and the use to which the requisitioned item is to be put, would not be in a position to know which nonpreferred item would be an acceptable substitute for the preferred item requisitioned without first coordinating with the user. Such coordination in this Department would be difficult since the user in most instances is not the requisitioner.

Revision to the cataloging policies/practices which GAO recommends would prematurely force items out of the Federal Catalog System and defeat one of its fundamental purposes which is effective/proper item identification. Proper item identification requires that data be maintained on nonpreferred items so that the majority of fail type items within DOT can be identified to a National Stock Number (NSN). Nonpreferred items are controlled by NSN and effective standardization coding, which provides the data base for tailored cross-references, manufacturer-reference-number to NSN and NSN to all related manufacturer-reference-numbers; and, in addition, provides available descriptive data and/or other specifications which readily identify an item. Once a nonpreferred item is removed from the Federal Catalog Program all standardization relationships and identification to suitable substitute items - including the preferred item - are voided and purged from the system. Consequently,

APPENDIX VI

when a demand (occasioned by a part failure) arises for a deleted nonpreferred item, there is no way of identifying a suitable substitute already in the supply system. This would increase local purchases of technically non-preferred items and cause reintroduction of these items into the supply system without the benefit of proper standardization. [6]

2. We feel there is a need to revise paragraph 2, [36] page 48 of the draft report as it pertains to FAA. This paragraph as worded is not factual. Therefore, based on discussions by FAA personnel with the auditor for the U.S. General Accounting Office, we suggest that the following paragraphs be substituted by the GAO. [6]

[36] [6]
Suggested Revision - Page 48, Paragraph 2

The NSN for all items meeting the criteria for introduction into the FAA's supply system is maintained in a mechanical inventory record. The inventory record reflects a Standardization Status Code for each item as a part of the required management data to effectively manage an item of supply and to satisfy the demands on the supply system. The inventory record may reflect, for a standardized item or a family of items, the preferred and one or more nonpreferred items. The nonpreferred items stay on the inventory record until the on-hand stock is utilized or exceeded. The inventory record is so designed that a demand will be satisfied for the item actually requested if sufficient assets are on hand. If sufficient assets are not on hand under that NSN, the requirement is subjected to a substitute or interchangeability search to find an appropriate item with sufficient on-hand assets to satisfy the requirement. Demands are satisfied from the nonpreferred items whereas stock replenishment actions are maintained against the preferred item only. When the nonpreferred item reaches a zero stock position, the item is deleted from the inventory record and placed in a subsidiary delete/transfer file. All requisitions which reject after processing against the inventory record are processed against the delete/transfer file to determine if an item is in the system before rejecting for manual processing.

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Prior to 1970, FAA withdrew its user interest for an NSN based on a decision to discontinue stock and issue of an item of supply without regard to standardization status coding. Such actions were determined to be premature as preferred and bachelor items (an item which has no standardization relationship established) continued to be reintroduced daily with 50% of the items deleted in 1968 being reinstated in 1969 as a function of demands and/or provisioning screening actions. This was considered unacceptable to the FAA and in noncompliance with the intent of the Federal Cataloging Program. Current procedures call for the withdrawal of FAA user interest on an item of supply to be based simply on use. FAA will retain a recorded user interest as long as an item is subject to accountability, fabrication, maintenance, and/or replacement without regard to stockage. Withdrawal of user interest is accomplished routinely and continuously for those items identified as being an item for which FAA has no further interest. In addition, FAA plans to review and purge items within the system where no demand or other transaction has occurred in the past 5 years. As explained in chapter 1, after all users withdraw their interest, DLSC holds the items in inactive status for another 5 years. We believe that retaining catalog files on non-preferred items for 10 years is questionable.

3. The following comments are made with regard to GAO's discussion of FAA's participation in the Item Reduction Program:

[36] [6]

Page 48, Paragraph 2 (last 2 sentences)

We believe a nonpreferred item for which we have a user interest should be handled the same as any other item in the Federal Catalog System. The 5 years for which Defense Logistics Services Center (DLSC) holds the item as inactive serves an entirely different purpose than that of the needs of FAA. We support their retention of 5 years and believe this is perhaps the only situation for which a time frame is proper. FAA may have a vested user interest in a nonpreferred item for a period of 10 years or more.

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[37]

[1]

Page 48, Paragraph 3 (last sentence)

The GAO states that the Aeronautical Center will not process a user withdrawal for a certain National Aviation Facilities Experimental Center (NAFEC) item until 1975 when it will review the item transaction file. This statement is incorrect. The GAO was advised that all withdrawal actions submitted for NAFEC were processed through June 1973. In June 1973 the Aeronautical Center Depot suspended processing withdrawal of NAFEC changes when the Depot retained a user interest. At that time the Aeronautical Center was working with DLSC for a mechanical conversion of its files for both Cataloging Responsibility Codes and Inventory Management Codes for those items managed by an Integrated Material Manager.

[37]

[2]

Page 49, Paragraph 1 (last sentence)

The GAO questions the retention of user interest in the nonpreferred and preferred items for which FAA has no supply management records. We do not agree with this statement. Retention by FAA of a user interest in an item should not be restricted to those items which are recorded in the supply management records on which a determination to stock and issue is made. FAA has many items of a non-preferred nature in its delete/transfer files which are not construed to be part of the supply management record.

IV. STATUS OF CORRECTIVE ACTION:

The Department of Transportation fully supports the purpose and objectives of the Item Reduction Program. From a Government-wide viewpoint, we agree that continuing actions should be taken to foster full participation in the program, and to assure that it functions as efficiently and economically as possible. As actions are initiated by DOD and GSA to implement the GAO recommendations, the Department will cooperate to the fullest extent possible. In the interim, we will continue to give management attention to the Department's participation in the Item Reduction Program and to effect improvements wherever needed.

William B. Davis
Deputy Assistant Secretary
for Administration

GAO note: Numbers in brackets are page numbers to final report.

APPENDIX VII

PRINCIPAL OFFICIALS OF DOD AND GSA
 RESPONSIBLE FOR THE ACTIVITIES
 DISCUSSED IN THIS REPORT

Tenure of office
From To

DEPARTMENT OF DEFENSE

SECRETARY OF DEFENSE:

James R. Schlesinger	June 1973	Present
William P. Clements, Jr. (acting)	April 1973	June 1973
Elliot L. Richardson	Jan. 1973	April 1973
Melvin R. Laird	Jan. 1969	Jan. 1973
Clark M. Clifford	Mar. 1968	Jan. 1969
Robert S. McNamara	Jan. 1961	Feb. 1968

ASSISTANT SECRETARY OF DEFENSE
 (INSTALLATIONS AND LOGISTICS):

Arthur T. Mendolia	April 1973	Present
Hugh McCullough (acting)	Jan. 1973	April 1973
Barry J. Shillito	Feb. 1969	Jan. 1973
Thomas D. Morris	Sept. 1967	Jan. 1969

GENERAL SERVICES ADMINISTRATION

ADMINISTRATOR OF GENERAL SERVICES:

Arthur F. Sampson	June 1972	Present
Rod Kreger (acting)	Jan. 1972	June 1972
Robert L. Kunzig	Mar. 1969	Jan. 1972