
BY THE COMPTROLLER GENERAL

**Report to The Chairman,
Joint Committee On Printing**

OF THE UNITED STATES

**The Government Printing Office Can More
Effectively Manage Its General Sales Program**

At the request of the Joint Committee on Printing, GAO studied the policies, procedures, and management of the Government Printing Office's General Sales Program in 1982. The Sales Program is conducted primarily through mailorder and bookstore operations.

GAO found that while significant improvements have been made in the Program during the past 2 years, opportunities exist to further improve operations by developing and using available information to better select, price, and manage documents for sale. GAO also found that the bookstores were financially viable in 1982 and concluded that increased management attention would improve their operations.

This report contains recommendations to the Public Printer to achieve these additional improvements in the General Sales Program.



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

B-208380

The Honorable Augustus F. Hawkins
Chairman, Joint Committee on Printing
Congress of the United States

Dear Mr. Chairman:

This report is our response to the former Chairman's April 16, 1982, request that we study the Government Printing Office's General Sales Program. The report discusses the need for GPO to better manage (1) its bookstore operation, (2) its process for selecting publications for sale, (3) the method for pricing Government documents, and (4) the General Sales Program's inventory.

As arranged with your office, we are sending a copy of this report to the Public Printer, U.S. Government Printing Office.

Sincerely yours,

A handwritten signature in cursive script, reading "Charles A. Bowsher", is written over the typed name.

Comptroller General
of the United States

COMPTROLLER GENERAL'S
REPORT TO THE JOINT
COMMITTEE ON PRINTING

THE GOVERNMENT PRINTING OFFICE
CAN MORE EFFECTIVELY MANAGE
ITS GENERAL SALES PROGRAM

D I G E S T

At the request of the Joint Committee on Printing (JCP), GAO undertook a comprehensive review of the policies, procedures, and management of the Government Printing Office's (GPO's) General Sales Program, which sells Government documents to the public through the mail, bookstores, and other outlets. Total sales in 1982 were \$55 million including \$42.7 million in mailorder sales. Bookstore sales were \$7 million while distribution centers and consigned agents had sales of \$5.3 million. GAO was asked to review policies and procedures for selecting, pricing, and managing the documents inventory, cost accounting methods, and general operations of the Program.

Overall, GAO found that the Program was self-sustaining in 1982 after losses in the prior three years. The bookstore operation, which incurred a loss in 1981, was also financially self-sustaining in 1982. However, the bookstores can significantly benefit from increased management attention to improve bookstore marketing, locations, operating procedures, training, and manager compensation. (See ch. 2.)

GAO also found that the Public Printer and the Superintendent of Documents have made significant improvements in selecting documents for sale, managing inventory, and promoting the Program to the public. While these improvements have corrected some of the past problems that resulted in the need to destroy significant amounts of excess inventory, GPO can develop and use more timely and accurate information from available sources to further improve the effectiveness of the Program. Specifically, GAO found that:

- Improved information on prior sales and the expected markets for future publications can be developed and used to improve the selection of documents for sale and to reduce future destructions of unsalable documents. (See ch. 3.)
- Improved information on costs can be accumulated to price documents accurately and equitably. (See ch. 4.)
- Information on available inventory on hand and potential slow moving documents can be used to more effectively manage the inventory. (See ch. 5.)

GAO/AFMD-84-20

MORE MANAGEMENT ATTENTION IS NEEDED
FOR THE BOOKSTORE OPERATION

The Public Printer, in an October 9, 1981 letter to the Joint Committee on Printing, proposed reducing the number of bookstores in Washington, D.C., and closing all the out-of-town bookstores. The bookstores, in his opinion, did not operate on a self-sustaining basis, based on 1981 and prior years financial results, and were not consistent with public policy, cost effective or essential to the mission of making government documents available to the public.

GAO found that the bookstore operation was financially viable in 1982 and contributed \$2.3 million to the absorption of other General Sales Program operating costs (See p. 6.). Furthermore, GAO identified a number of areas in the bookstore operations which management can significantly improve to increase sales and operating effectiveness (See p. 8.). Specifically, GAO found the bookstores can benefit from:

- Increasing marketing support at the local level.
- Improving locations to increase access by the public.
- Clarifying operating procedures in areas such as reporting of sales.
- Simplifying recordkeeping requirements, particularly for inventory records.
- Increasing training of bookstore managers, particularly in marketing and merchandising.
- Increasing the monitoring and supervision by management through field visits.
- Evaluating bookstore manager compensation based on current responsibilities and considering an awards program.
- Evaluating the present policy of making only temporary appointments and promotions.

In addition, 400 letters to the Joint Committee on Printing and responses to a GPO survey indicated strong support for the bookstores. This is apparently because they offer personal attention, opportunity for inspection of documents for sale, and immediate delivery of purchases. GAO found that in 1982 the bookstores provided these additional services to the public while earning a profit percentage comparable to commercial retail operations.

GPO HAS IMPROVED THE SELECTION
OF DOCUMENTS FOR SALE BUT BETTER
DATA AND PROCEDURES ARE NEEDED

GPO has significantly improved its selection and marketing of documents since the Requisition Review Board was established in 1981 and a Marketing Director was hired. However, GAO reviewed a sample of documents and found several purchases which substantially exceeded actual sales. Documents which are slow selling or unsalable must be stored for long periods and ultimately destroyed. Unsuccessful document selection decisions, as a consequence, increase program storage and destruction costs. These costs must be absorbed by the public through higher document prices. GAO was unable to determine all the possible reasons some documents do not sell well but identified several procedural improvements which could reduce weaknesses found:

- Develop information about the current public demand for Government documents for use in improving selection decisions. (See p. 19.)
- Use more complete and up-to-date information on prior document sales and the quantities currently on hand to make document selection decisions. (See p. 20.)
- Allow Inventory Management Specialists more time to make selection decisions. (See p. 22.)
- Develop better selection procedures documentation. (See p. 22.)

IMPROVED COST DATA SHOULD BE USED
TO ESTABLISH DOCUMENT SALES PRICES

GAO found that GPO's document pricing formula, used before the adoption of the GPO Publication Pricing Task Force's recommendations in April 1983, did not accurately recover costs of the Program. Specifically, many of the factors in the formula used to establish prices more than recover the related costs. For example, review of 100 publications showed that the printing and binding costs used in the formula were, on the average for these documents, 54 cents higher per copy than actual costs incurred (See p. 28.). Moreover, GPO implemented price increases in 1982 which were not related directly to increased costs (See p. 33.). These problems can be avoided in the future by development and use of adequate cost data. In addition, implementation of the Pricing Task Force's recommendations will require the development of such information. Pricing documents based on costs incurred will help ensure that their cost to the public is kept to a minimum. Lower document prices should also encourage purchases by the public.

INVENTORIES CAN BE BETTER
MANAGED BY INCREASED USE OF THE
AUTOMATED INVENTORY SYSTEM

While stock levels have been reduced and warehouse space consolidated, further improvements can be made to more efficiently manage the inventory of documents for sale. GAO found the inventory at September 30, 1982 contained over \$2.6 million of documents which were potentially excess under current inventory management policies (See p. 44.). The completion of the comprehensive automated inventory system begun in 1974 and development of revised policies and procedures to handle excess inventory could (1) improve the GPO inventory management decisions by eliminating incomplete and outdated information, (2) reduce the extensive amounts of time spent maintaining manual records, and (3) ensure the prompt identification of potential excess stock.

RECOMMENDATIONS

GAO is making a number of recommendations to the Public Printer to make improvements in the operation of the program. Summarized below are GAO's principal recommendations to the Public Printer:

- Direct the Superintendent of Documents to (1) perform a cost-benefit analysis to determine the amount of marketing support appropriate for promoting bookstore sales, (2) evaluate the bookstores locations in terms of their visibility and accessibility to the public, (3) develop clear and complete bookstore operating procedures, (4) simplify bookstore recordkeeping requirements, (5) provide increased training to bookstore managers, (6) regularly monitor and supervise the bookstore operation, (7) evaluate bookstore manager compensation based on current responsibilities, and (8) evaluate the practice of making all bookstore personnel actions temporary. (See p. 14.)
- Develop information about the current demand for Government publications for use in the selection process through (1) customer surveys of interest in planned publications, (2) reports from the present system on prior sales, and (3) requests to Federal agencies to supply data on potential markets which OMB requires the agencies to develop. (See p. 23.)
- Ensure that (1) costs incurred by the General Sales Program are carefully determined and accurately reflected in the GPO pricing formula, (2) estimates are periodically compared to actual costs, and (3) price increases are adequately supported. (See p. 38.)
- Direct the Superintendent of Documents to complete the comprehensive automated inventory system as soon as possible and to develop new policies and procedures related to excess inventory. (See p. 46.)

GAO makes other recommendations for improvements in the General Sales Program operation on pages 14, 23, 38-39, and 46.

AGENCY COMMENTS AND GAO'S EVALUATION

While GPO did not comment on each of the specific recommendations, the Public Printer stated that GAO's recommendations were generally consistent with GPO's ongoing efforts to improve operations. (See app. VI). However, GPO did provide specific comments on some of the conclusions and recommendations contained in GAO's report. These comments and GAO's evaluation of them are presented in the appropriate chapters of the report. GPO's principal comments and GAO's evaluation of them are summarized below.

First, the Public Printer pointed out that his recommendation to close the out-of-town bookstores was based on fiscal 1979, 1980, and 1981 financial data. He further stated that 1982 financial data showed that 12 of the 20 out-of-town bookstores incurred losses and that more efficient operations may result from closing of individual bookstores. GAO believes that the bookstore program and the individual bookstores should be evaluated based on the contribution they make toward General Sales Program overhead costs. In 1982, the out-of-town bookstores contributed \$1.3 million and the Washington, D.C., stores \$1 million to absorb overhead costs. GAO also found that individual bookstores suffer from numerous problems, including poor locations, and believes correction of these problems should favorably impact the bookstores financial performance.

The Public Printer also stated that the current marketing program is a nationwide effort with the bookstores as a component and that a city-by-city effort may not be effective. GAO recognizes that there are numerous methods to adequately promote the overall program and the bookstores. A study should be made to determine the most cost-effective methods to promote the bookstores at the local level.

The Public Printer stated that GPO is increasing coordination with publishing agencies to improve information available for document selection decisions but noted there are limitations on GPO's ability to require agencies to provide complete and timely data. GAO recognizes that only the JCP can issue regulations requiring agencies to submit data on publications. Consequently, GAO believes GPO should consider requesting the JCP to issue regulations to resolve the matter.

In regards to pricing of documents, the Public Printer commented that estimates of costs must be used in the development of document prices. GAO agrees and has clarified its recommendation that estimates, when used, be periodically compared to actual costs incurred to ensure that document prices recover costs.

Finally, the Public Printer stated that unsalable publications cannot be totally eliminated, that a variety of factors must be considered in making inventory management decisions, and that these decisions cannot be totally automated. GAO agrees that unsalable publications cannot be totally eliminated. GAO also recognizes the complexities of these decisions and that the automation of the inventory will not eliminate unsalable publications. However, GAO believes that the automation of the entire inventory will provide GPO improved information to reduce the number of unsalable publications.

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ABBREVIATIONS

GPO	Government Printing Office
IMS	Inventory Management Specialist
JCP	Joint Committee on Printing
OMB	Office of Management and Budget
PRCS	Publication Receipt Control System
SARABCS	Special Accounts Reporting and Billing Control System
ROPS	Retail Order Processing System

CHAPTER 1

INTRODUCTION

At the request of the Joint Committee on Printing (JCP), we undertook a study of the policies, accounting procedures, and management decisions that affect the Government Printing Office's (GPO's) General Sales Program (See app. I.) The Program is one of several under management of the Superintendent of Documents, and its operations are governed by Title 44 of the U.S. Code and regulations established by the JCP.

GENERAL SALES PROGRAM

The General Sales Program was established in 1895. Its mission, as stated in GPO's recent 5-year plan, is to make available for sale to the public those U.S. Government publications for which a demand or need exists. The Program is conducted by the Document Sales Service, which employs about 750 people within GPO's Superintendent of Documents' operations. This unit is responsible for purchasing, warehousing, advertising, and distributing Government documents for sale. All Program costs are intended to be recovered. The Program offers over 16,000 different titles to the public through various sources--the mail; 25 GPO bookstores; distribution centers in Laurel, Maryland, and Pueblo, Colorado; and consigned agents in Federal agencies. Total sales in 1982 were \$55 million including \$42.7 million in mailorder sales. Bookstore sales were \$7 million while distribution centers and consigned agents had sales of \$5.3 million.

Three major types of Government documents are offered for sale: publications, dated periodicals, and basics with supplements. Publications are documents that are sold on a single copy basis; they range from pamphlets selling for \$1.50 to a bound book selling for \$140. Dated periodicals are documents printed on a regular basis (for example, monthly magazines) and sold through subscriptions which range in price from \$4.75 to \$9,525. Basics with supplements are documents that include a basic text, such as the Federal Personnel Manual, and periodic supplemental updates. They are also sold on a subscription basis.

While the Program is responsible for making documents available to the public, the Superintendent of Documents is free to determine which documents should be selected for sale and how many copies to order. Federal agencies, GPO's Customer Service office, or Regional Procurement or Printing Offices inform the Superintendent of Documents that a publication will be produced. The decision on whether to select the publication for sale is made based on the topic of the document, sales of similar documents, and similar information.

Significant problems have been encountered in the past in selecting documents. In 1979 and 1980, the General Sales Program incurred total losses of \$9.7 million due, in large part, to \$9.3

million in unsalable publications. In 1981, the Sales Program incurred an additional loss of \$9.7 million due primarily to the destruction of \$10.9 million of unsalable documents which had accumulated in the warehouses over several years.

OBJECTIVES, SCOPE, AND METHODOLOGY

This review was requested because the Joint Committee on Printing was concerned about (1) the trend of the losses incurred by the Program in the three years ending in fiscal 1981, (2) complaints from the Federal agencies and the public about increases in the prices of government documents, (3) reductions in the number of documents selected for sale by the program, and (4) the Public Printer's proposal to reduce the number of GPO bookstores in Washington, D.C., and close the out-of-town stores.

Our study of the General Sales Program included the following specific areas:

- Policies and procedures for determining which publications should be selected for sale.
- Policies and procedures for pricing of documents.
- The Superintendent of Documents' inventory system.
- The operations of the bookstores.

We also studied three other issues which have been presented to the JCP separately in briefings. These are:

- Bookstore revenue and expense data supplied by the Public Printer to the Joint Committee on October 27, 1981, and December 10, 1981.
- The current methods and formats used to report cost and sales information to the JCP relative to the General Sales Program.
- The impact of the General Sales Program on GPO's revolving fund.

We will also review the new pricing formula being developed by GPO in relation to our recommendations on the pricing of documents in chapter 4.

We made our study at GPO headquarters in Washington, D.C., with particular emphasis on the Document Sales Service and its five divisions: (1) Sales Management, (2) Order, (3) Warehouse, (4) Retail Distribution, and (5) Field Operations.

We researched available legislative history relating to the General Sales Program and reviewed regulations and procedures on its operations. We also reviewed recent reports the GPO Inspector

General issued concerning the program.

In addition, the study included the warehouse and retail distribution center in Laurel, Maryland, and 11 bookstores located across the United States. A list of these bookstores is included in appendix IV. In selecting the locations visited, we chose bookstores with both large and small sales volumes in various geographical locations throughout the country.

During our visits to the bookstores, we reviewed and tested accounting records to determine whether inventory was properly recorded and reported to GPO headquarters. We interviewed store managers on how they process customer orders, select and order Government documents for their stores, control their inventory, and market publications. We also interviewed GPO officials responsible for administering the General Sales Program.

Our study included a sample of 100 publications which we selected from a universe of 17,298 document titles on file at the Laurel warehouse and retail distribution center as of August 31, 1982. We reviewed these publications to determine (1) if the Superintendent of Documents had sufficient information to decide whether to offer the publication for sale to the public, (2) if the selling price was based on costs, and (3) the impact of price increases. We did not project our sample results to the universe of publications. Any extrapolations of estimates to the universe would not be precise because of our small sample size. Accordingly, the sample results presented in the report reflect only sample cases and are not necessarily representative of the entire universe. However, cases from this sample are used to illustrate weaknesses we found during our analysis of the Program.

Our study was performed from May 1982 through June 1983 and in accordance with generally accepted government auditing standards.

CHAPTER 2

BOOKSTORE OPERATION IS FINANCIALLY VIABLE,

BUT MORE MANAGEMENT ATTENTION IS NEEDED

TO EFFECTIVELY OPERATE STORES

In October 1981, the Public Printer proposed reducing the number of GPO bookstores in Washington, D.C. and closing all the out-of-town bookstores. In his opinion, the bookstore operation was not self-sustaining, based on 1981 and prior year financial results, and was not consistent with public policy, cost effective or essential to the mission of making government documents available to the public.

Our review of the 1982 financial results of the bookstore program showed that it was financially viable and contributed \$2.3 million to absorbing other General Sales Program operating costs. Furthermore, we believe that sufficient management attention to a variety of current problems and needs of the bookstores should favorably impact the bookstores financial performance.

GPO'S BOOKSTORE OPERATION

GPO's retail bookstore program was initiated under the auspices of the JCP in 1921, when the first outlet was established at the GPO building. In 1946 and 1947, stores were opened at the Department of Commerce and the International Communications Agency, respectively.

The first bookstore outside the Washington, D.C., area was authorized by the JCP in 1966, opening in Chicago on March 21, 1967. Between 1967 and 1971, nine additional stores were authorized and opened--the Pentagon, the Department of State, Kansas City, Boston, San Francisco, Denver, Atlanta, Los Angeles, and Dallas. In September 1971, the JCP approved guidelines for establishing future bookstores and authorized:

"the Public Printer to establish such bookstores whenever he determines through careful review and analysis, that the combination of factors involved in each instance fulfills the best interests of the government."

An official mission statement has not been developed for the GPO bookstores, but when asked at the 1980 Legislative Branch Appropriations hearings to describe the purpose of the stores, the then Superintendent of Documents, responded that the bookstore program was in existence:

". . .to make it possible for the broadest segment of U.S. citizens to have direct access to U.S. Government publica-

tions. It also enables the general public to have direct contact with employees of GPO who can tell them what documents are available, quote prices, and guide their purchasing of U.S. Government publications from GPO. . ."

The bookstore operation currently employs 83 people, with stores in 20 cities across the country and 5 within the Washington, D.C. area. Each bookstore is run by a manager, who reports to the Field Operations Division in Washington, D.C. In fiscal 1982, the bookstores sold over \$7 million in Government documents.

The bookstores vary in size and sales volume. The Houston store, for example, occupies 4,759 square feet, whereas the Pentagon store occupies 500 square feet. Sales generated by the stores ranged from \$79,833 at the Department of Health and Human Services to \$976,994 at GPO. Most bookstores are located in Federal office buildings, but some are in suburban shopping centers. The number of titles carried at each store ranged from 700 at the Pentagon bookstore to about 3,000 at the GPO and Houston bookstores.

BOOKSTORE OPERATION IS FINANCIALLY VIABLE

In an October 1981 letter to the Chairman of the Joint Committee on Printing, the Public Printer proposed reducing the number of bookstores in the Washington, D.C., area and closing the 20 out-of-town bookstores. In his opinion, the bookstores were not self-sustaining, based on 1981 and prior year financial results, nor consistent with public policy, cost-effective, or essential to the mission of making U.S. Government documents available to the general public. In addition, a GPO study indicated that the General Sales Program would save about \$1 million annually if the stores were closed. A key assumption of the study was that 75 percent of the bookstores' sales would be retained by the mail order operation.

Our analysis of the bookstore operation showed that it was financially viable in 1982 and contributed \$2.3 million to absorb other General Sales Program operating costs. In addition, GPO financial data showed that the net income of the bookstores was \$195,000 in fiscal 1982. However, we found that errors in allocating overhead costs to the bookstore operations caused this net income to be understated by \$195,000. The adjusted fiscal 1982 bookstore net income of \$390,000 was a significant improvement over the stores fiscal 1981 loss of \$111,000. The \$195,000 understatement did not affect our opinion on GPO's fiscal 1982 financial statements since the bookstore program net income is not shown separately in the statements.

Superintendent of Documents overhead costs are allocated to the General Sales Program based on the personnel costs of the program. This overhead is in turn allocated to the individual operations of the General Sales Program based on revenues. We found that in determining 1982 Superintendent of Documents overhead costs, GPO did not update the list of organizational units to be

considered in calculating overhead nor were the actual incurred overhead costs determined. Instead, GPO used data originally developed in 1980 based on 1980 organizational units and costs. That data was inappropriate for use in 1982 because some units had been reorganized and costs incurred had changed.

Bookstores' Contribution to Fiscal 1982
Operating Costs of General Sales Program

	<u>Total</u>	<u>Out-of-town</u>
Income after direct expenses	\$2,262,199	\$1,262,781
Less expenses allocated to but not incurred by bookstores		
GPO overhead	369,689	219,900
Superintendent of Documents overhead	1,220,240	917,622
Unsalable publications incurred at Laurel Warehouse	<u>281,857</u>	<u>184,606</u>
Net Income	<u>\$ 390,413</u>	<u>\$ (59,347)</u>

The net income after direct expenses of approximately \$2.3 million represents the contribution of the bookstores toward overhead costs, which would generally be considered fixed costs, and as such, might not be reduced significantly even if all the bookstores were closed. In addition, closing just the out-of-town bookstores would potentially eliminate approximately \$1.3 million of income which offset these fixed costs.

Furthermore, our analysis of the financial results of the mailorder, Laurel and consigned agent operations compared to the bookstore operation showed that fiscal 1982 net income, as a percentage of revenues, was 8 percent for the combined mailorder, Laurel and consigned agents operations and 5.5 percent for the bookstore operation. While the bookstore net income percentage was less than that of the mailorder operation, we believe it is favorable when compared to an average of 1.8 percent for the 50 largest retailing companies in the United States for 1982 as reported in Fortune Magazine, June 13, 1982.

The bookstore percentage was computed using the adjusted net income of \$390,000 mentioned above. Also, since GPO does not prepare a schedule of revenues and expenses for the mail order and other operations similar to that shown in appendix V for the bookstores, we determined the net income of the mailorder and other operations using the cost reports and allocation bases GPO used to allocate costs to bookstores.

The assumption that the mailorder operation would retain 75 percent of the out-of-town bookstores' sales, if they were closed, is critical to GPO's estimate of \$1 million in annual cost savings from its proposed closing of the bookstores. In 1982, out-of-town bookstores had sales of almost \$5 million. Direct costs were \$3.7 million resulting in the contribution, shown above, of \$1.3 million to offset overhead costs. Obviously, if all the sales of the out-of-town bookstores are lost, even with the elimination of their expenses, the program would lose the \$1.3 million contribution and thus would not gain from closing the out-of-town stores.

We were unable to find adequate support for GPO's assumption that the mail order operation would retain 75 percent of the out-of-town bookstore sales. We discussed the assumption with the GPO management personnel involved in its development and found that the 75 percent retainage estimate was only their judgment and was not supported by any research to determine what customers would do if the bookstores were closed.

In addition, while we found support for the bookstore operating costs that GPO said would be eliminated by its proposed closings, we also noted that GPO had not included any increase in the costs of the mailorder operations. If 75 percent of the 1982 out-of-town bookstore sales had been processed by the mailorder operation, it would have represented a 8.8 percent increase in mailorder volume. GPO does not believe costs would increase because the mail order operation has the capacity to process the orders. A detailed study has not been conducted, however, and such an increase in volume would normally, in most cases, increase variable operating costs.

Finally, the public was not surveyed before the proposal to close the bookstores. Consequently, the needs and desires of the public were not fully known. More than 400 letters were received by the JCP strongly supporting continuation of the bookstores after the proposed closings were announced. In addition, GPO's Office of Inspector General surveyed 200 customers at 6 bookstores in 1982, after the original proposal to close the bookstores. This survey found that 169 customers (85 percent) would still shop at the bookstores even if prices were raised 25 percent to keep the bookstores open. We believe this information reflects support for continuation of the bookstore program.

MORE MANAGEMENT ATTENTION NEEDED TO EFFECTIVELY OPERATE BOOKSTORES

While we found, as discussed above, that the bookstores are financially viable, we also found a number of operating areas which

management can significantly improve to increase sales and operating effectiveness. Specifically, we found that bookstores could benefit from:

- Increasing marketing support at the local level.
- Improving locations to increase access by the public.
- Clarifying bookstore operating procedures in areas such as reporting of sales.
- Simplifying recordkeeping requirements, particularly for inventory records.
- Increasing training of bookstore managers, particularly in marketing and merchandising.
- Increasing the monitoring and supervision by management through field visits.
- Evaluating bookstore manager compensation based on current responsibilities and considering an awards program.
- Evaluating the present policy of making only temporary appointments and promotions.

Bookstore operations would benefit from
increased marketing support

Marketing is an important management tool for making potential customers aware of an organization and the products it has to offer. We found that the bookstore managers believe more marketing support from GPO headquarters would assist them in making the public aware of the bookstores and the publications available for sale. We believe a study should be made to determine the appropriate level of marketing support for bookstores.

In the GPO Inspector General survey of 200 bookstore customers, the most common suggestions made by customers were for more publicity and advertising to increase the public's awareness of the bookstores' selections and locations. The May 6, 1982 Report of the GPO Bookstore Study Group recommended development of a specific marketing strategy for the stores as part of its suggestions for improving bookstore operations.

While GPO has aggressively sought to improve the public's awareness of the availability of Government documents by introducing new catalogs and public service announcements on television and radio, these efforts have been directed primarily toward the mail order operation. For example, the public service announcements are directed at a nation-wide marketing campaign rather than on a city-by-city basis, although provision has been made for 5 second identification of local bookstores at the end of the announcements.

Many bookstore managers reported they were not trained in current marketing techniques or provided financial resources to promote sales. In addition, they desired to participate more fully in marketing efforts. Our visits to the bookstores showed that some bookstore managers have been rather successful in obtaining free promotional opportunities through such means as local newspaper contacts, community groups, and libraries.

GPO management advised us that only a proportion of marketing funds should be spent to promote the bookstores since they only account for a small percentage of General Sales Program revenues. However, a cost effectiveness study, which has not been performed as yet, is necessary to determine an appropriate level of support for the bookstores. Without such an analysis, it is difficult to determine whether a higher pro-rata volume of sales would be generated at the bookstores if a larger segment of the marketing budget was used to promote local sales.

GPO's Marketing Division currently has plans to provide the bookstores with displays, signs, and handouts. It has also developed a marketing plan whereby staff from the Marketing Division would visit stores in the major cities and teach general marketing techniques to managers. Store managers would be instructed on how to use local advertising to bring customers to their stores. Store managers would also be required to complete a monthly marketing report to help GPO management monitor their efforts. Because this marketing program has not been implemented, its potential for success is unknown. Furthermore, discussions with GPO management indicated the program will not be implemented until the future status of the bookstore operation is decided.

Bookstore locations should be reevaluated

We found that 7 of the 11 bookstores we visited were not highly visible or easily accessible to the public, thereby discouraging walk-in customers.

A common suggestion made to the GPO Inspector General survey team was for larger stores and improved locations. The GPO Bookstore Study Group also noted there were problems with the space, visibility, and accessibility of many of the stores and recommended that changes in these areas be a major focus of the improvement program.

Of GPO's 26 bookstores, 22 are located in Federal office buildings and 4 are in shopping centers. We found that some are easily accessible and highly visible, while others are inconvenient and hidden from public view. The bookstore in Pueblo, Colorado, for example, is highly accessible to the public. It is located in a commercial building, on a main street, in the central business district, with parking nearby. The store in Atlanta, Georgia is

also easily accessible. Located on the ground level of a Federal building, its window displays make it highly visible to passers-by. On the other hand, the bookstores in Pittsburgh and Birmingham are not visible or easily accessible. The Pittsburgh store is located in the side corridor of a Federal building, with no window displays or ample parking. The Birmingham store is located in the side alley of a suburban shopping center. While there is ample parking, the location, in our opinion, is not sufficiently visible to the public.

A bookstore's location can be crucial to attracting customers. The GPO Bookstore Study Group noted in its report that the locations of the Houston and Los Angeles bookstores in more convenient shopping center stores were very successful. This is typical of industry experience which indicates that location is one of the key factors in the success or failure of a retail store.

Bookstore operating procedures should be clarified

A bookstore manager's primary source of instructions for operating his or her store is the Bookstore Operating Manual. However, we found that some of the instructions in the manual should be more clear and complete. Moreover, changes to the manual should be better communicated to store managers.

The current edition of the Bookstore Operating Procedures Manual was written in October 1980, and numerous changes have been made to it since then. The changes are currently issued to the bookstore managers through interoffice memos and the "Bookstore Update," a management newsletter.

We found numerous instructions in the manual that should be clarified. For example, although logs are required for inventory transactions, the manual does not instruct the bookstore managers on how to maintain these logs. As a result, the way in which managers maintained and supported inventory amounts was not uniform. Five of the bookstores we visited prepared handwritten inventory logs; the other 6 used shipping tickets as their log. In addition, the GPO Inspector General's December 1982 report noted that the log books of half the bookstores the Inspector General staff visited contained insufficient detail about the publications being reported as received and the date they were received. In both our audit and the Inspector General's, it was difficult to support the dollar value of inventory received through the documents maintained at the bookstores.

The operating manual also is not explicit about how stock control cards, which are the primary inventory control record, are to be maintained. Although instructions issued through a management newsletter explained what data should be recorded on the cards, no

mention was made of how the cards should be maintained. As a consequence, the cards were not consistently maintained by all the managers. Most bookstore managers we visited maintained their stock control cards in a file, separate from the publications. However, a few placed the cards behind or inside the publications on display. In the latter instance, cards were often misplaced or lost when the publications were sold.

Moreover, changes to the manual should be more effectively communicated to the bookstore managers. An August 1982 newsletter, for example, changed the category on which subscription sales were reported on the Bookstore Daily Summary. The change gave bookstores credit for such sales whereas the old instructions did not. However, about 40 percent of the managers we visited were still following the old procedures because they were unaware of the policy change. The Field Operations Division is currently revising the Bookstore Operating Manual and new procedures for issuing revisions are being developed.

Bookstore recordkeeping requirements should be simplified

We found that bookstore managers currently prepare numerous reports and documents including the bookstore daily summary, bookstore inventory transaction report, inventory received log, stock control cards, and replenishment requests. They also receive many reports and documents from GPO headquarters including picking tickets from the Laurel warehouse, packing and manifest sheets, adjustment sheets, filled/shipped reports, price change reports, and microfiches of listings in the publications reference file. In our opinion, some of these reports and documents are duplicative and should be consolidated. Bookstore managers, for example, record information on inventory received, transferred, and destroyed on the bookstore daily summary, the inventory transaction report, and the inventory log book. The Laurel warehouse, on the other hand, reports information on inventory shipped on the picking tickets and packing and manifest sheets it sends the bookstores.

Also, the price increases in 1982 created recordkeeping problems for the bookstores since all publications and subscriptions were subject to price increases. Bookstore managers were instructed to change the pricing labels on all affected titles as soon as possible and to record the overall price differences on their bookstore daily summaries and log books. However, price changes were noted on both microfiche and price change reports from the Documents Control Branch. We found that bookstore managers generally had to review the microfiche listings of publications and compare each stock control card with the most current price to update the price of a publication. Most managers did not use the price change reports because they did not consider them to be as complete as the microfiche.

Managers we visited said that the process for identifying inventory changes, repricing documents, and updating stock cards was too time consuming in relation to their overall management duties. This process could be simplified by using electronic cash registers. Although GPO has studied such a purchase for its bookstores, a final decision has not been made.

Bookstore manager training
should be increased

Only limited training is available to bookstore managers. The training includes an operating manual, the manager conference, and training kits. The operating manual contains instructions on completing the necessary forms to report sales to the central office. The managers' conferences, which have been held annually since 1977 with the exception of 1981, provide an opportunity to raise concerns, discuss operating procedures, and exchange ideas. The training kits, which consist of prerecorded tapes and booklets, provide information on customer relations and marketing.

These tools are useful but they do not give managers the training they need to efficiently and effectively run a bookstore. The GPO Bookstore Study Group included increased training in its recommendations. The bookstore managers we visited said they need management courses in merchandising, inventory management, record-keeping and marketing. However, none had received training in any of these areas, either internally from GPO or externally. The Superintendent of Documents does not have an internal training program, nor does he provide funds for the managers to receive job-related external training.

Increased monitoring and supervision
of bookstore operations is required

Field Operations Division personnel are responsible for overall management and administration of the bookstores. In carrying out these responsibilities, they formulate guidelines, analyze and evaluate established methods of bookstore operations, and recommend practices to improve efficiency and effectiveness. In addition, they visit the bookstores to observe operations and ensure that established procedures are being followed.

However, we found that five of the 11 bookstores we went to have not been visited by management in over 2 years and that 2 have never been visited. The visits that did occur were generally for one day or less and involved personnel matters, job interviews, bookstore openings, or discipline problems. According to the bookstore managers, none of the visits provided support in improving

operations. We did note that GPO personnel visited a number of the bookstores in fiscal 1983 after we had made our visits and that GPO plans to visit bookstores more frequently in the future.

Bookstore manager compensation
should be reevaluated

Bookstore manager compensation may not properly reflect current responsibilities of operating the bookstores. We found that bookstore manager grade levels have not been updated since 1975, when the Field Operations Division, in conjunction with the GPO Personnel Division, developed criteria to measure the relative complexities of each individual bookstore location and to designate an appropriate grade level for each position. The criteria was based on sales volumes, titles carried, customers, and staffing requirements.

The current grade levels, which range from a GS-7 with a salary of \$16,559 to \$21,527 to a GS-10 with a salary of \$22,307 to \$29,003, are not based on current sales volumes and staffing requirements. We reviewed the grade levels in relation to current data for each bookstore and identified 12 of the 25 locations where the manager's grade level was no longer current based on the factors. Based on current data, some manager's grades were too low and some were too high.

In addition, in our view, individual manager compensation should reflect, in addition to the size of the bookstores, the individual manager's performance, as measured by increased sales volume and profitability. This could be accomplished through an awards program.

The practice of making only temporary
appointments and promotions of bookstore
personnel should be evaluated

Beginning in February 1982, GPO placed all newly hired bookstore personnel in temporary 2-year positions. In addition, all promotions of bookstore personnel were classified as temporary. This practice was adopted because the Public Printer had proposed reducing the number of stores in Washington, D.C., and closing the 20 out-of-town bookstores. While this practice allows management flexibility if it is subsequently decided to close some or all of the bookstores, we found during our visits to bookstores that this practice had adversely affected the morale of the employees given the length of time the closings have been under consideration. In our view, this practice also acts as a disincentive in hiring and retaining competent employees.

We believe the practice should be evaluated in light of the present status of the proposal to close the bookstores, the need for management flexibility and the impact of the practice on employee morale.

CONCLUSIONS AND RECOMMENDATIONS

We found that the overall bookstore operation was financially viable in 1982. The operation, however, can be significantly improved by management attention to marketing, bookstore locations, operating procedures and requirements, training, monitoring and supervision, and bookstore manager compensation. More attention to these areas should improve the stores' sales and operating effectiveness.

Accordingly, we recommend that the Public Printer direct the Superintendent of Documents to develop an improvement program. The program should include the following efforts.

- Bookstore managers should be more involved in the current marketing efforts being conducted and consideration should be given to having a cost-benefit analysis performed to determine the appropriate share of marketing funds to be directed toward the bookstore operation for local sales promotion activities.
- Bookstore locations should be reevaluated to determine if the stores are in the best locations considering costs and benefits.
- Bookstore operating procedures should be made clear and complete. Also, changes should be labeled as such and issued separately so that store managers can easily insert them in their operating manuals.
- Bookstore recordkeeping requirements should be simplified and duplication avoided. The inventory records should be automated unless GPO's current review documents that it is not cost effective.
- A training program should be developed to provide bookstore managers with the skills necessary to effectively manage their stores, including current marketing techniques, and the annual meetings should be continued.
- Regular field visits should be conducted to ensure that bookstore personnel are performing well and are provided adequate support and supervision.
- Bookstore manager compensation should be evaluated to ensure the bookstore managers are appropriately compensated for their current duties and responsibilities. Consideration should be given to an incentive awards program.
- The practice followed since February 1982 of making appointments and promotions of bookstore personnel temporary should be evaluated.

AGENCY COMMENTS AND OUR EVALUATION

The Public Printer stated that our recommendations were consistent with many of GPO's ongoing efforts to improve operations but did not specifically comment on each the recommendations in this chapter. (See appendix VI). The Public Printer did point out that his recommendation to close the out-of-town bookstores was based on 1981 and prior information and that the 1982 data on which our report is based was not available. We believe we have clearly indicated that his recommendation was based on 1981 and prior year data and that our conclusions are based on 1982 financial results.

He also noted that the out-of-town bookstores had a net loss of \$59,347 in 1982 and that GPO does not consider the overhead costs allocated to the bookstores as fixed costs, but rather variable costs. We believe it is significant that the out-of-town stores contributed \$1.3 million to offset overhead costs in 1982 and that the individual and total contribution of the bookstores to offset these overhead costs is a more meaningful basis for evaluating the viability of the bookstore program. Also, in our opinion, the Superintendent of Documents overhead costs allocated to the bookstores would not be significantly reduced by closing the stores because they are relatively fixed. For example, we believe unsalable publications costs would not be reduced by closing the bookstores. To the extent that bookstore sales were lost because of closings, unsalable publications expenses might increase. In addition, the bookstore managers are not responsible for deciding which publications the General Sales Program will purchase or destroy.

The Public Printer believes that the bookstore managers have limited knowledge about the overall bookstore program and the General Sales Program. The bookstore manager opinions were considered by us in relation only to the operation of the bookstores and we believe the managers are a key source of information on the operation of their stores.

The Public Printer also notes that GPO estimated that approximately 75 percent of out-of-town bookstore sales would be retained if the stores were closed and that the mail order operation had capacity to process the additional orders. As discussed on page 7, we were unable to find adequate support for these opinions.

Finally, the Public Printer stated that the current marketing effort being undertaken is directed toward nationwide marketing. We encourage this effort but believe that it may not effectively balance local and national promotion. We have recommended that further study should be made of the optimum funding and promotion methods for the increasing public awareness of the individual bookstores, their locations and publications on hand.

CHAPTER 3

SELECTION OF PUBLICATIONS PROCESS IMPROVING BUT BETTER DATA AND PROCEDURES NEEDED

In the last 2 years, GPO has improved its selection of documents for sale and marketing of them to the public, but further improvements should be made. The improvements implemented include a more thorough management review of documents considered for sale and an intensified marketing program. These efforts are essential if GPO is to reduce future destructions of unsalable documents. We found, however, that the information and operating procedures used in the selection process are not adequate to ensure the number of unsalable documents is minimized. Specifically, we identified several weaknesses:

- Information about the current public demand for Government publications is not adequately developed and used to influence selections.
- Sales and inventory data used in the selection process is not always complete and accurate.
- Selection procedures documentation is inadequate.

Because of these weaknesses, some unsuccessful documents continue to be selected for sale. Documents that cannot be sold must ultimately be destroyed thus increasing the prices the public must pay.

PUBLICATION SELECTION PROCESS

The process for selecting documents for sale is vital to the effective functioning of the General Sales Program. The Superintendent of Documents does not currently make all documents available for sale. If a document is not selected for sale or if too few copies are purchased, the public may not be able to purchase a desired document. On the other hand, if too many copies of a document are purchased and all cannot be sold, the excess documents must ultimately be destroyed. In the past, the tendency had been to select documents for sale and order copies based on the goal of maximum service to the public. This resulted in the massive destruction of \$10.9 million of documents in 1981 and, at least in part, in the need to increase prices in 1982.

The process for selecting documents is complex and varies depending upon the type of document being considered for selection. The following sections briefly describe this process. A more detailed description is included in Appendix II.

The selection process begins when an inventory management specialist (IMS) within the Sales Management Division is informed of a proposed publication via a "Notification of Intent to Publish," GPO Form 3868, from the originating Federal agency or via a telephone call from GPO's Planning Services Division or Regional Printing Procurement Offices.

The IMS must determine, generally within 24 hours, whether to recommend the document for purchase by the General Sales Program. The IMS begins by estimating the publication's sales potential based on information such as the following:

- Title of the publication.
- Specifications and description of the contents.
- Planned publicity for the publication by the originating agency.
- Publicity of the topic in current news.
- Quantity recommended for sale by the originating agency.
- Whether the publication will be seasonal or revised yearly.
- Selling price (actual or estimated).
- Quantity the originating agency will distribute free.
- Sales history of previous editions, or similar publications if the publication is being offered for the first time.
- Anticipated sales life based on timeliness of the subject matter.

The above information comes from the Form 3868, discussions with originating agency personnel, and sales history cards maintained by the Documents Control Branch. To estimate the sales potential of a publication, the IMS relies heavily on the sales history cards of previous editions of the publication, or similar publications if it is being offered for the first time. The cards are maintained manually and contain information such as price and number of copies ordered, received, and sold.

After the publication's sales potential is determined, the IMS compares the amount expected to be sold to the Program's selection requirements. The requirements established by the current Public Printer are:

- The quantity recommended for purchase should not exceed what can reasonably be expected to be sold within 18 months.
- The expected retail revenue should be at least \$1,000.

If the publication meets these requirements, the IMS recommends that the appropriate quantity be purchased for the General Sales Program. This recommendation must then be approved by the Chief, Documents Control Branch; Chief, Sales Management Division; and the Requisition Review Board. The Board, which meets daily,

consists of the Director of Marketing; Director, Documents Sales Service; and Chief, Sales Management Division. If the publication meets the Board's approval, it is purchased for the General Sales Program. After the publications are printed, they are delivered to the Laurel warehouse, where they are stored until an order is received from a customer, bookstore, or consigned agent.

THE SELECTION AND MARKETING OF GOVERNMENT PUBLICATIONS HAS IMPROVED

In the past 2 years, GPO has made significant improvements in selecting and marketing Government publications. First, the Director, Documents Sales Service, established the Requisition Review Board in January 1981 to monitor the IMSS' purchase recommendations. Since the Board's establishment, the percentage by which purchases exceeded publications sold has dropped considerably. For example, in fiscal 1979, the cost of documents purchased totaled \$22.6 million, which was almost twice the cost of documents sold; whereas, in fiscal 1982 purchases were slightly less than the cost of documents sold.

Second, in November 1981, the Public Printer hired a Marketing Director to develop a marketing program to make the public more aware of the General Sales Program. Before that, marketing was conducted through promotional items such as the free "Selected U.S. Government Publications" which contained up to 200 publications and were sent to between 300,000 and 700,000 recipients 11 times a year. Since then, marketing efforts have included (1) radio and television public service announcements, (2) the introduction of the "U.S. Government Books" catalog, (3) the "New Books" catalog, and (4) increased management interaction with originating agency personnel.

BETTER INFORMATION AND PROCEDURES CAN IMPROVE SELECTION PROCESS

Evidence indicates that purchasing decisions made since the Requisition Review Board was established were generally appropriate in terms of the titles selected and the quantities ordered. However, some selections we reviewed were not totally successful.

We reviewed 100 publications selected for sale and identified 34 that were purchased since the Requisition Review Board was established. Of the 34 publications, 6 had sales over 12 months of less than 50 percent of the quantity ordered. For example:

--300 copies of "Guidelines for Performing Condition Surveys for Earth Embankment Dams" were ordered in fiscal 1981. One year later, only five copies had been sold.

--200 copies of "Position Classification Standards for Safety Engineers-Series GS-803" were ordered in fiscal 1981. One year later, 182 copies were destroyed because the publication did not sell. The remaining copies were given to the Office of Personnel Management, the originating Federal agency.

While we were unable to determine exactly why selections such as the above do not sell, our review of the selection process identified several weaknesses. Specifically, we found that:

- Improved information about the current public demand for Government publications could be developed to influence selections.
- Sales and inventory data used in the selection process could be more complete and accurate.
- IMS's could have more time to make selection decisions.
- Selection procedures could be clarified and more consistently applied.

Information regarding current public demand
for Government publications could be
developed to influence selections

Although the mission of the General Sales Program is to make available those Government publications for which there is a demand, GPO does not currently conduct marketing studies to determine that demand. Marketing studies are often used by other publishers to determine which publications will have a demand and for establishing prices and quantities to be printed. Without such studies, publishing decisions are "guess estimates" at best.

We noted IMSs, in determining the potential demand for a publication, relied primarily on the sales history cards of previous editions of the publication, or similar publications if it was being offered for the first time. Sales recommendations from the originating Federal agency were also considered when available on the GPO Form 3868, "Notification of Intent to Publish."

Given the technical nature of many Government publications, we believe a limited amount of marketing research would be beneficial in determining potential audience size and reducing incorrect selection decisions. For example, GPO could:

- Incorporate a customer survey into the order form published in the "United States Government Books" and "New Books"

catalogs. The survey would include a list of publications GPO is considering for purchase or reprint, and customers would be asked to indicate their interest. GPO could obtain information from agencies on which publications to include in the survey from the regular meetings it plans to hold with the publishing agencies.

- Generate a report from the Retail Order Processing System (ROPS) to identify customers interested in various subject areas for targeted surveys as part of the current program by the Marketing Director to improve information.
- Enhance the reports from ROPS to provide summary information on popular titles which IMSS use in selecting new publications and reprints.
- Consider having the originating agency furnish it with support for the estimates of the potential audience for the publication. This could be done based on the requirements contained in the Office of Management and Budget Bulletin No. 81-16 "Elimination of Wasteful Spending on Government Periodicals, Pamphlets, and Audiovisual Products." This bulletin requires agencies to determine the need for their publication and the potential audience size.

The Pricing Task Force created by the Public Printer to review the formula used to price Government documents, which we discuss in detail in chapter 4, also recommended that a reasonable amount of market research be conducted and that publishing agencies be supplied such information.

Data used in the selection process
could be more complete and up-to-date

As we discussed earlier, the "Notification of Intent to Publish," Form 3868 and sales history cards are the primary tools IMSS use to determine the sales potential of a publication and the quantities to be purchased. However, our review of the Forms 3868 and sales history cards showed that they are neither complete nor up-to-date.

Our review of Forms 3868 for 34 publications selected for sale since the Requisition Review Board was established showed that only 6 were completely filled out. For example, information was often missing on the quantity the originating agency planned to distribute, the quantity it recommended for sale, and its plans, if any, to publicize the publication.

The GPO Inspector General made a similar analysis in a July 1982 report, covering a period from 1961 to 1981, and found that IMSS located 41, or 22.7 percent, of the 181 Forms 3868 in its sample supporting their purchasing decisions. However, none of the 41 forms provided all the requested information.

GPO stated they do not have legal authority to require agencies to complete Form 3868 or to provide specific information on the form. We believe that GPO should, as part of its improved coordination with publishing agencies, stress the need for the forms and information as early as possible in the publishing process. The JCP does have authority to issue regulations to agencies regarding submission of data on publications and consequently, consideration should also be given to requesting the JCP to issue regulations regarding the complete and timely submission of the forms.

Agencies have been provided instructions for completing Form 3868 in the GPO "Agency Procedural Handbook for Commercial Procurement of Printing Services." In our review of these instructions, we noted that they do not provide specific guidance on the information required or the basis that should be used to develop the information. Improved instructions for the agencies may improve their completion of the form.

Furthermore, while the Form 3868 does not require the originating agency to explain how it plans to distribute its copies of the publication, we believe that this data is essential to the selection process. Without such data, an IMS can easily overestimate quantities and the Requisition Review Board would have little reason to question them. For example, in January 1982, the General Sales Program received 1,000 copies of "El Cuidado De Su Bebe," and 8 months later had sold only 71 copies. We contacted the Department of Health and Human Services, the originating agency, in November 1982 and learned that it had ordered 10,000 copies of the publication in September 1981 and was distributing them free upon request. In addition, the originating agency had been advertising the availability of the free publication on radio and television, as well as through direct mail advertisements, to target markets. While free distribution may or may not affect sales by GPO, we believe it is a critical piece of information which should be considered in all selection decisions.

We also found that information on the sales history cards, which are maintained manually, may not be complete and up-to-date at all times. During the year, the sales history cards do not reflect all current stock on hand, sales, and other transactions unless they have been manually updated based on the PRCS system reports and specially requested inventory counts performed by warehouse personnel. Our discussion with IMSS and review of the stock cards from our sample indicated that, while the IMSS can and do update the cards from PRCS and request the special physical counts by warehouse personnel, this process is cumbersome and not always done before inventory decisions are made, particularly in light of the requirement to make decisions in 24 hours or less. To the extent the IMSS do not update the cards, request special counts of the retail stock, or contact consigned agents or the bookstores, the inventory cards do not reflect complete and up-to-date information on all stock on hand in the Program. In addition, inventory shrinkages due to losses, destructions, thefts, and other shortages must

be manually reflected in the stock adjustment column of the sales history card and notations about the nature of the adjustment must be made in the remark sections of the cards. The sales history cards are discussed further in ch. 5.

IMSS could have more time to make selection decisions

Section 1705 of Title 44 states that the Public Printer shall print additional copies of Government publications for sale by the Superintendent of Documents "without interference with the prompt execution of printing for the Government." GPO interprets this section to mean that printing of agency documents cannot be delayed by the General Sales Program. As a result, under GPO policies, the IMS's have 24 hours or less to make selection decisions. This is particularly difficult when the only notice of a publication is a telephone call. We believe that increased coordination with agencies should be initiated to improve this situation. In most cases, the development of a publication by a agency will take months and the agencies should be able to provide GPO with information about documents being developed before GPO receives the order for printing. GPO should also consider revising the requirement on Form 3868 for one week's notice to lengthen it to a more realistic time.

Selection procedures documentation could be improved

Our review of the process used to select Government publications for sale showed that the selection procedures documentation used by IMSS could be improved.

As discussed earlier, an IMS must consider many factors when estimating the sales potential of a publication. While these factors are listed in a February 1, 1978 Sales Management Division memorandum, there are no instructions regarding how the IMSS should evaluate the factors for a publication in order to determine whether the publication should be purchased. For example, one of the factors to be considered is the sales history of similar publications. The memorandum does not specify how the IMSS should determine a "similar" publication and what to look for in the sales history cards.

CONCLUSIONS AND RECOMMENDATIONS

Despite significant improvements in the selection and marketing of Government publications over the past 2 years, further improvements should be made in selection procedures to reduce the potential for unsuccessful publications. While the occurrence of unsuccessful selections cannot be eliminated, the number can be reduced by strengthening the selection process. With improved marketing and inventory information, and better selection procedures, the selection process can be made more effective.

We recommend that the Public Printer direct the Superintendent of Documents to:

- Develop information about the current demand for Government publications for use in the selection process through (1) customer surveys of interest in planned publications, (2) reports from the present system on prior sales, and (3) requests to Federal agencies to supply data on potential markets which OMB requires the agencies to develop.
- Improve instructions for completing Forms 3868 and increase coordination with originating agencies to encourage them to submit completed Forms 3868. Consideration should be given to requesting the JCP to issue a formal regulation regarding the submission of the forms in a more complete and timely manner by the agencies.
- Increase coordination with publishing agencies to identify planned or in process publications and consider revising the required one week notice on the Form 3868 to a more realistic time period.
- Develop and implement detailed written procedures for IMSS to use in estimating the sales potential of a publication and provide training in the procedures.
- Request additional periodic internal audits to ensure procedures are followed effectively.

AGENCY COMMENTS AND OUR EVALUATION

The Public Printer believes our recommendations are generally consistent with efforts by GPO to improve operations. (See appendix VI). In his letter, however, the Public Printer points out that GPO must rely on the voluntary cooperation of publishing agencies to provide information and cannot require timely, accurate, and complete information from them. He also noted that GPO has increased coordination with agencies. We have recommended that consideration be given to requesting the JCP to issue formal regulations regarding complete and timely submission of information.

In addition, he notes that the potential applications of market research in the Sales Program are limited due to the small quantities of documents which are often purchased and the limited time to make decisions. Based on this point, we have revised our report to recognize the time constraints imposed on the IMSS and have recommended that consideration be given to increasing the notification period for Form 3868.

He also indicates the Director of Marketing will explore methods to perform market research. We support these efforts and agree that the actual methods used to perform market research must be cost effective.

CHAPTER 4

IMPROVED COST DATA SHOULD BE USED TO ESTABLISH

DOCUMENT SALES PRICES

The General Sales Program revenues from the sale of documents have not always equaled costs. GPO's pricing policy--to recover all costs incurred by the General Sales Program--is based on 44 U.S.C. 1708. To implement this policy, a pricing formula was developed for establishing the price of individual documents while eliminating the burden of calculating the costs of purchasing and selling each document. From 1972 to 1977, appropriated funds were required for the \$52 million by which the Program's costs exceeded sales revenues. In fiscal 1978 the funding of the program was changed to eliminate the appropriated funds. The program was to be financed in the future solely from sales revenues. In fiscal 1979, 1980, and 1981, however, the Program lost an additional \$19.4 million because GPO's prices did not recover all costs, including substantial unsalable publication costs. In 1982, prices were increased to prevent further losses. By yearend, revenues exceeded costs by \$4.9 million, partially offsetting the prior year losses.

These significant losses reflect the difficulty in relating sales prices and costs. If such losses are to be prevented in the future, GPO must develop (1) a formula with factors more closely related to the types of costs incurred by the Program, (2) more refined estimates of costs to be incurred, (3) more reliable data on actual costs incurred, (4) procedures for the comparison of actual costs incurred to the original estimates and, (5) a consensus on the period over which revenues are to equal costs. Without such improvements, the prices charged for documents will not be based on actual costs incurred, and the Program will not operate on a self-sustaining basis.

GPO, recognizing that certain problems existed in the pricing of documents, formed in September 1982 the Publication Pricing Task Force to review and make recommendations on the problems associated with publication prices. The Task Force issued their report in April 1983, and the Public Printer adopted their recommendations. As a result, GPO implemented a new pricing formula effective October 31, 1983 incorporating the recommendations. For the new pricing formula to be credible and to maximize sales potential, it must consider the above recommendations. We intend to review the new pricing formula in relation to the Task Force recommendations to ensure the new formula improves the relationship between sales prices and costs.

RESULTS OF THE PROGRAM

Documents are to be priced in accordance with 44 U.S.C. 1708, which states that "price . . . shall be based on the cost as deter-

mined by the Public Printer plus 50 percent."

From 1972 to 1977, however, total Program operating expenses exceeded revenues by almost \$52 million because, even after applying the 50-percent factor in the pricing formula, GPO did not recover all costs. The Program did not incur a deficit in those years because salaries and administrative expenses of the program were funded by a separate appropriation. It should be noted that in any individual year where revenues and appropriations exceeded expenses, the excess funds were returned to the Treasury as required by 44 U.S.C. 1708.

Beginning in fiscal 1978, the Superintendent of Documents ceased to receive Congressional appropriations to operate the General Sales Program. Instead, the Program was to become self-sustaining, operating solely on the revenues generated by sales of publications to the public. While the Program was to be on a self-sustaining basis, however, it had a cumulative net loss of over \$19 million through fiscal 1981. This loss has been partially offset in fiscal years 1982 and 1983, as shown in the following chart.

Fiscal year	Net income (loss) (000's)	Cumulative income (loss) (000's)
1978	171	171
* 1979	(6,541)	(6,370)
* 1980	(3,209)	(9,579)
1981	(9,674)	(19,253)
1982	4,931	(14,322)
* 1983(1st 8 mos.)	8,842	(5,480)

*1979 and 1980 were not audited by GAO. In addition, 1983 includes certain estimates which can only be refined at the end of the year.

GPO'S PRICING POLICY

The Public Documents Pricing Committee, composed of three GPO officials, is responsible for making pricing recommendations to the Comptroller, who in turn, makes recommendations to the Public Printer. The Committee developed the formula for pricing Government documents. The GPO Comptroller said that the current formula was submitted for informational purposes to the JCP in 1975. He also said, since the Program is operated on a self-sustaining basis, the pricing strategy has been to project costs that need to be recovered within the next year.

The formula for pricing publications consists of eight factors, as shown on the following page.

$$\begin{array}{ccccccc}
 & (1) & & (2) & & (3) & & (4) \\
 \text{selling price} = & \boxed{\begin{array}{c} \text{printing} \\ \text{and} \\ \text{binding} \\ \text{cost} \end{array}} & + & \boxed{\begin{array}{c} 3\% \\ \text{reprint} \\ \text{factor} \end{array}} & + & \boxed{\begin{array}{c} \$1.75 \\ \text{handling} \\ \text{charge} \end{array}} & + & \boxed{\begin{array}{c} 10\% \\ \text{unsalable} \\ \text{factor} \end{array}} & + \\
 & & & & & & & & \\
 & (5) & & (6) & & (7) & & (8) \\
 & \boxed{\begin{array}{c} 50\% \\ \text{by-law} \\ \text{factor} \end{array}} & + & \boxed{\begin{array}{c} \text{postage} \\ \text{factor} \\ (\text{varies} \\ \text{based} \\ \text{on} \\ \text{size}) \end{array}} & + & \boxed{\begin{array}{c} \text{add-on} \\ \text{factor} \\ (\text{varies} \\ \text{based} \\ \text{on} \\ \text{size}) \end{array}} & + & \boxed{\begin{array}{c} \text{rounding} \\ \text{factor} \end{array}}
 \end{array}$$

While the selling price of each type of document is based on the formula, some minor differences exist between the way the formula is used to price publications and the way it is used for dated periodicals and basics with supplements. This is discussed in greater detail in appendix III.

In response to concerns from various parties about the rising prices of Government documents, GPO created a Pricing Task Force on September 29, 1982, to develop improved methods for pricing and distributing documents. On April 8, 1983, the Task Force recommended eight actions to the Public Printer which he subsequently adopted. Of the eight, four relate to pricing and four to distribution. Because of the scope of this report, we limited our discussion to the pricing recommendations, which were as follows:

- Develop a new pricing formula for implementation by October 1, 1983, and apply it to all new titles offered for sale after that date. The new formula (1) will recognize an expanded number of product categories, such as small publications, low demand and small quantity titles, and hard copy publications reproduced on demand from microfiche and (2) will eliminate the reprint and unsalable publications factors as they are currently applied.
- Reduce the cost elements in the current pricing formula by 10 percent and use this revised formula to price all new publications or subscriptions offered for sale between now and October 1, 1983. In addition, revise the rounding factor to eliminate upward rounding.

- Use the actual commercial printing and binding rate, or the best estimate available, in establishing the sales price of publications printed by contractors. The in-house printing and binding rate should be used for publications printed in-house.
- Adopt a new reprint policy when the new pricing formula is implemented on October 1, 1983. Under the new policy, GPO will bear the costs associated with reprints if the reprints are ordered within 6 months after Documents has purchased the publication for sale. After 6 months, the publishing agency should bear the reprint costs.

PRICING FORMULA SHOULD ACCURATELY RECOVER COSTS

Our analysis of GPO's pricing formula, used before the adoption of the Pricing Task Force recommendations in April 1983, disclosed that it did not accurately recover costs incurred by the General Sales Program. In fact, many of the factors in the formula over or underrecovered Program costs. Specifically, based on our analysis of the pricing formula in 1982, including review of 100 documents, we found that in many instances:

- The printing and binding factor overrecovered costs.
- The reprint factor did not recover costs.
- The handling charge overrecovered costs.
- The unsalable factor was not appropriately calculated to recover costs.
- The 50-percent factor subsidized various costs of the Program, such as discounts and small-sized publications.
- The postage factor could overrecover costs.
- The add-on factor may not have been recovering losses incurred for subsidizing small-sized documents.
- The rounding policy provided additional revenue by raising prices without any supporting cost element.

As discussed later in this chapter, one of the major reasons the pricing formula did not provide accurate results is that GPO did not always have reliable cost data available. In our opinion, the aggregate effect of the use of inaccurate cost data in the pricing formula in 1982 may have resulted in higher than necessary document prices, which potentially discouraged the public from buying government documents.

Printing and binding factor

The printing and binding factor in the formula can more than recover printing and binding costs actually incurred for a document. Document prices are established before documents are printed. Because actual printing and binding costs are not available then, document prices are based on rates used for printing and binding work performed "in-house" by GPO. This does not consider the fact that the majority of the documents the Superintendent of Documents purchases for the General Sales Program are procured from commercial printers. GPO's statistics for September 1982, for example, showed 55 percent of purchases by the Superintendent of Documents were printed by commercial printers.

We noted a large difference can exist between the printing and binding cost used in the pricing formula and that actually incurred. Our review of the 74 Government publications from our sample of 100, for which pricing data was available, showed that the printing and binding factor used in the formula was, on average for the 74 documents, 54 cents higher per copy than the actual cost incurred. In addition to these documents, we found that the current stock of "Infant Care," one of GPO's best sellers, was printed and bound at an actual cost of 17 cents per copy in September 1980, but the printing and binding cost used in the pricing formula is 43 cents. Use of this printing and binding cost instead of actual cost increased the selling price by 50 cents to \$4.75.

As previously mentioned, the Public Printer adopted the Pricing Task Force recommendation that in-house rates be used for documents printed by GPO and that either actual commercial printing and binding costs, or the best available estimate be used in establishing the price of documents printed by contractors. We agree with these recommendations and also believe that actual costs should be the basis for pricing of documents and that if estimates are used, they should be periodically compared to actual costs.

Reprint factor

The reprint factor may not be recovering actual costs. The Superintendent of Documents generally purchases a document for the General Sales Program at the same time the originating Federal agency purchases it. The originating agency pays the cost of setting up the printing and binding operations, while the Superintendent of Documents pays only the cost of printing additional copies, commonly referred to as the "rider rate." Occasionally,

however, the Superintendent of Documents has to reprint a document to replenish GPO's depleted stock. In cases where the Superintendent of Documents initiates this request, GPO is considered the originating agency and must pay all set-up costs. The reprint factor in the pricing formula is used to recover this cost, and it spreads the set-up cost to all documents, even those that may never be reprinted.

GPO's reprint factor has remained at 3 percent of printing and binding cost since 1976. This percentage, however, may not be recovering actual costs incurred by the Program because prior to fiscal 1983, the amount of setup costs was not identified. Furthermore, the Public Documents Pricing Committee Chairman was unable to locate supporting documentation for the original factor of 3 percent, and the individual who developed the data in 1976 no longer works at the agency. The GPO Controller said that the 3-percent factor was based on a limited 1976 study of reprint costs.

During the first six months of fiscal 1983, GPO statistics indicate that reprint expenses averaged 3.7 percent of total printing and binding expenses. As part of the implementation of the Pricing Task Forces recommendations, the reprint factor was removed from the pricing formula. However, to the extent reprint costs are incurred, we believe these costs should be recovered.

Handling charge

The handling charge may more than recover actual costs. As discussed in appendix III, the purpose of the document handling charge is to recover General Sales Program costs such as warehousing, ordering, data processing, and general and administrative expenses. Estimated costs are allocated to the three types of Government documents based on time spent by program personnel in support of each document type. The handling charge per copy is determined by dividing allocated costs by estimated sales for each type of document.

The Public Documents Pricing Committee estimated the 1982 handling costs to be \$2.07 for publications, 29 cents for dated periodicals, and \$2.61 for basics with supplements. The Committee, however, recommended the handling charges be set at \$1.75 for publications, \$.55 for dated periodicals, and \$2.75 for basics with supplements. This adjustment was done to reduce the prices of publications. As a consequence, dated periodicals and basics are essentially subsidizing publications.

We found GPO's original estimates used to establish the 1982 handling charges were inaccurate. Specifically, we found that:

--For fiscal 1982, the estimated sales volume used to determine overhead cost per copy differed significantly from actual sales. Specifically, about four million more copies than estimated were sold.

--For fiscal 1982, the estimates included in the handling charge calculation differed significantly from actual costs. GPO's estimate of total overhead costs was \$26.1 million while actual costs were \$24 million.

We calculated handling charges using actual overhead costs and document volumes for fiscal 1982 and found them to be \$2.30 for publications, \$.20 for dated periodicals, and \$1.41 for basics with supplements. Consequently, the handling charges the Committee used were, compared to actual costs, 55 cents low for publications, 35 cents high for dated periodicals, and \$1.34 high for basics with supplements.

The rates set by GPO were in effect only from May 1, 1982. We estimated, using prorated actual 1982 sales volumes, multiplied by the handling charge rates GPO set, that the Program recovered about \$3.3 million or 28 percent more for handling costs than than actual costs incurred in the last six months of 1982.

<u>Document type</u>	<u>Prorated sales volume * (fiscal 1982) (000's)</u>	<u>Established charge</u>	<u>Handling charge recovery (000's)</u>
Publications	3,389	\$1.75	\$ 5,931
Dated periodicals	7,697	.55	4,233
Basics with supplements	1,870	2.75	<u>5,141</u>
Total			\$15,305
Less prorated actual overhead			<u>11,993</u>
Estimated overrecovery			<u>\$ 3,312</u>

* Prorated by dividing fiscal 1982 actual data by two.

The Pricing Task Force recommended that the prices of documents be based on an expanded number of product categories. We believe that GPO should develop better procedures for estimating sales volumes and projected costs for use in developing the handling charges for documents. In addition, procedures for the comparison of actual sales volumes and costs should be implemented to identify major variations such as occurred in 1982.

Unsalable factor

The unsalable factor may not be appropriately calculated to recover actual costs. Copies of some documents are never sold because their contents may be revised by the issuing agency or they may be declared obsolete or the forecasted demand for the publication may never materialize. To recover the costs of these unsold documents, an unsalable factor has been included in the pricing formula. The factor for 1982 of 10 percent was established based on the actual unsalable expense for the prior two fiscal years, as well as forecasts of changes in the program. We calculated the unsalable factor based on 1981 and 1982 unsalable costs, excluding September 1981 because there were extraordinary destructions that month, and found it to be 8.8 percent. The Pricing Task Force recommended that the unsalable factor be eliminated from the pricing formula as it is currently applied. To the extent that unsalable publication expenses are incurred, we believe they should be recovered.

50 percent factor

Title 44 U.S.C. 1708 prescribes that the price of publications offered for sale "be based on the cost as determined by the Public Printer plus 50 percent." The legislative history indicates that the 50 percent factor was not intended to generate a 50 percent profit, but was rather to recover certain costs of the program. The 50 percent factor is currently used to subsidize various costs of the Program, such as discounts to bookdealers and quantity purchasers, small-sized publications, errors in calculating factors within the formula and miscellaneous costs. We noted in a previous GAO report to the Congress, entitled "Government Printing Operation Improvements Since 1974," that the purpose of the 50 percent factor was unclear because of the imprecise definition of "cost." In that report, we recommended that the JCP determine whether the 50 percent factor should be included in the pricing formula. Such a change would require amendment of Title 44.

The Pricing Task Force also considered, but did not include in their final recommendations, whether Section 1708 should be amended to remove the ambiguity of the phrase "cost as determined by Public Printer plus 50 percent." We believe that the pricing formula should be revised to identify specifically all cost factors and that consideration should be given to clarification of the 50 percent factor.

Postage factor

The postage factor may be more than recovering actual mailing costs. Before October 1, 1981, the postage factor in the pricing formula was based primarily on the size and weight of publications, assuming that all publications were mailed at the lowest possible postage rate. Effective October 1, 1981, the postage factor was increased by 10 percent on all new publications selected for the General Sales Program.

However, we found that the 10 percent increase was applied even though there were no increases in postage rates. Also, since all publications do not involve a mailing cost, such as those sold in the bookstores, the application of a postage factor to all publications more than recovers actual postage costs incurred.

In April 1983, the implementation of the recommendations of the Pricing Task Force resulted in the rescinding of the 10 percent price increase. Henceforward, the postage factor will be based on the size and weight of the document assuming that all documents are mailed at the lowest applicable rate.

We believe however, that postage should not be a factor in the pricing formula for all documents. Instead, it should be applied only to documents mailed. For example, GPO records indicate that 55 percent of out-of-town bookstore sales do not involve mailing documents to customers.

The Pricing Task Force considered, but did not adopt, that, as a general rule, whenever a method for purchasing Government publications is less costly to GPO -- for example, when no postage expense is incurred -- customers who use the method should benefit from lower prices. Conversely, whenever a method is more costly, for example, delivery by air mail, the added cost should be borne by customers who choose to purchase by that method.

Add-on factor

The add-on factor may not be recovering the losses incurred in selling small-sized documents. GPO's policy is to sell small-sized documents, those with 32 or less pages, for less than the formula-derived price. The minimum price is currently \$1.50.

Consequently, to recover any losses of revenue resulting from this policy, an add-on factor is applied to the price of documents longer than 32 pages. The amount of the add-on varies with the number of pages in a document to a maximum of 59 cents for documents over 300 pages.

Total estimated losses on small-sized documents are determined by multiplying the average loss for small-sized documents by the total estimated volume of small sized documents to be sold. The add-on factors are then derived for large-sized documents based on their respective share of total estimated volume of documents to be sold.

Our review showed that estimated volumes of documents to be sold, which are key to the calculations used to determine add-on factors, are based on the relationship between the number of titles listed by document size to the total titles carried by GPO. The

resulting percentages are not appropriate because they do not relate to sales volumes by size category. Furthermore, the Superintendent of Documents does not maintain complete and accurate records on the sizes of documents that are sold. To the extent that the estimated volumes of small documents are less than actual sales volumes, losses on these sales are not recovered through the formula.

Rounding policy

GPO's rounding policy does not represent any cost of the General Sales Program. The current rounding policy, we believe, results in more equitable prices than the prior policy which tended to increase prices. GPO currently rounds the formula derived price as follows:

--Prices up to \$4.99 are rounded to the nearest 25 cents.

--Prices between \$5.01 and \$9.99 are rounded to the nearest 50 cents.

--Prices above \$10.00 are rounded to the nearest \$1.00.

Before May 1982, prices below \$10.00 were rounded up to the next 25 cents or 50 cents, as appropriate, and between May 1982 and April 1983, prices over \$10.00 and below \$50.00 were rounded up to the next dollar, while prices over \$50.00 were rounded up to the next \$5.00.

The old practice of rounding upward can significantly increase selling prices. For example, if a publication's unrounded price is equal to \$10.01, its selling price would be "rounded" to \$11 under the old policy. This would be equivalent to a 9.89 percent increase over the formula-derived price.

PRICE INCREASES NEED TO BE ADEQUATELY SUPPORTED BY INCREASED COSTS

The fiscal 1982 price increases were not adequately supported by documentation of specific cost increases. In reviewing the price increases, we found that the October 1, 1981 price increase was not supported by documentation of increased costs and the May 1, 1982 price increase significantly increased the price of documents over the actual costs of publications on hand.

To determine the overall effect of both price increases, we calculated average revenues for all documents sold in fiscal 1981 and 1982. Based on total revenues received and total documents sold, we found average revenue for all documents sold to be \$1.76 in 1981 and \$2.12 in 1982. We also calculated the average cost for all documents sold and found that it declined 16 cents from \$2.09

in 1981 to \$1.93 in 1982. Therefore, on the average, Government documents sold in 1981 were 33 cents underpriced and those sold in 1982 were 19 cents overpriced.

In an August 3, 1982 letter to the JCP, the Public Printer stated that a 10 percent surcharge had been applied to the cost factors in the pricing formula effective October 1, 1981. This price increase was initiated because the General Sales Program had suffered losses of \$6.5 million in 1979, \$3.2 million in 1980, and \$9.7 million in 1981. The 10 percent surcharge was applied to the formula factors for all new documents. The selling prices of documents already in the Program inventory were also increased by 10 percent.

We found that GPO had not performed a cost analysis supporting the increase. This increase significantly affected the General Sales Program. Our calculations showed that the 10 percent increase added to the retail value of the inventory at October 1, 1981 increased future revenues by \$7.1 million, without the Program incurring any additional costs. Also, our review of 75 publications in the Program's inventory as of October 1, 1981 showed that the October 1981 price increase actually resulted in an average increase for the 75 documents of 13 percent over fiscal 1981 sales prices.

This was due, in part, to the effect of the rounding policy discussed previously. For example, a document priced at \$5.50 before the price increase would have an unrounded price of \$6.05 after application of the 10 percent increase. The rounding policy then in effect would increase the price to \$6.50. This represents an increase of 18 percent over the old selling price.

The 10 percent price increase was rescinded on April 12, 1983, when the Public Printer adopted the Pricing Task Force's recommendation to reduce the cost elements in the pricing formula by 10 percent. This revised formula was used to price all new publications or subscriptions offered for sale between then and October 1, 1983. The Pricing Task Force developed a new formula which was implemented by GPO on October 31, 1983. Documents already in the General Sales Program's inventory, however, will not be repriced for the 10 percent reduction.

The May 1, 1982 price increase also caused the price of Government documents to rise significantly. Our review of 57 publications that were repriced revealed an average price increase for a publication was 48 percent. This large increase resulted primarily from the use of 1982 estimates of printing and binding costs based on GPO's "in-house" rates. We found that the printing and binding cost used to reprice the publications was, on the average, 54 cents higher per copy than the actual costs for purchasing the publica-

tions, which in many cases took place before 1982. For example, "Obesity in America," which was purchased in 1980 at an actual printing and binding cost of 82 cents a copy, was repriced in May 1982 based on a current 1982 estimated printing and binding cost of \$1.25. The use of these printing and binding estimates increased the average selling price for the 57 publications by almost \$1.00 compared to a selling price based on actual printing and binding costs.

We believe that future price increases should be based on documented cost analyses in order to establish document prices that reflect, as closely as possible, costs of producing and selling documents to the public. In addition, consideration should be given to not applying price increases to documents already in inventory, at least to the extent that costs, such as printing and binding, have already been incurred.

IMPLEMENTATION OF THE PRICING
TASK FORCES RECOMMENDATIONS
REQUIRES RELIABLE COST DATA

The Pricing Task Force recommended that the prices of Government documents reflect an expanded number of product categories. Achieving this goal will require accurate data on the costs being incurred by all Superintendent of Documents organizational units. Such costs include those incurred for purchasing, warehousing, and distributing the various types of documents. We found, however, that GPO's estimates used to allocate costs among the Superintendent of Documents operations and programs were, in some instances, outdated and undocumented. The estimates are determined as part of the agency's budget process before the start of each fiscal year, and are not subsequently revised based on actual performance during the year. In developing the 1982 estimates only limited written instructions and training on cost determination methods were provided to managers responsible for developing the percentages. 1/

In allocating costs, the Superintendent of Documents should use surveys of time spent by personnel or analyses of operating statistics -- such as orders and documents processed by the various units of the Program. This could improve the accuracy of costs allocated to the various programs and operations which should, in turn, facilitate more equitable pricing of Government documents.

1/ Because these allocation percentages only affect the individual programs of the Superintendent of Documents and not GPO's operations taken as a whole, the above findings do not change our previously issued opinion that GPO's fiscal 1982 financial statements were fairly presented in accordance with generally accepted accounting principles (GAO/AFMD-83-50, January 28, 1983).

Allocation of revenues and expenses
to Superintendent of Documents
programs and operations

The Superintendent of Documents is responsible for a number of programs relating to the distribution of Government documents to the public. These programs include:

- Sales of documents to the public (General Sales Program)
- Cataloging and indexing of Government documents
- Distribution of documents as required by law, including depository libraries.
- Reimbursable mailings for Federal agencies.

As discussed previously, the General Sales Program functions of purchasing, warehousing, advertising, and distributing Government documents for sale are carried out by five divisions within the Documents Sales Service: Sales Management, Order, Warehouse, Retail Distribution, and Field Operations. The General Sales Program distributes documents through the mail, bookstores, consigned agents, and the Laurel, Maryland, and Pueblo, Colorado, distribution centers.

The General Sales Program is funded by revenues generated from sales while the other programs are funded by appropriations and reimbursements. Revenues for the various programs are determined based on actual sales and billings. Various costs are incurred in carrying out Superintendent of Documents' programs and operations. The most significant costs of the General Sales Program are personnel, publications sold, postage, and Superintendent of Documents overhead. As some of these costs are incurred, it is possible to identify which specific program incurred the cost. These costs are commonly termed direct costs. For example, the personnel costs of the bookstore employees are identified and reported as a personnel cost of the bookstore operation within the General Sales Program. In many cases, however, costs incurred by the Superintendent of Documents operations as a whole cannot be specifically identified. They must be prorated, or allocated to the various programs on some reasonable basis. These costs are commonly termed indirect costs.

Two of the major indirect costs are GPO and Superintendent of Documents overhead costs. These costs are allocated to the individual programs based on percentages developed during the budget process. Specifically, each organizational unit manager within the Superintendent of Documents operations estimates the percentage of effort his or her unit will devote to each program during the fiscal year for which the budget is being developed. These percentages are used first to plan the budget for that fiscal year and

then later used to allocate the costs incurred by the Superintendent of Documents operations to the individual programs.

The third major indirect cost is unsalable publications expense which is allocated between the sales distribution outlets of the General Sales Program based on the relationship of each outlet's revenue to total Sales Program revenues.

The allocation of various costs incurred by GPO and the Superintendent of Documents to the individual programs and operations is an acceptable business practice and the typical way in which entities allocate costs to individual operations. The goal of the allocation process should be to achieve the most accurate and equitable method for distributing costs.

Although estimates must often be used in the cost allocation process, they should be developed using characteristics of the cost and such information as (1) the amount of time being spent by personnel on various tasks or (2) an analysis of prior costs and operating statistics. The sources and methods used to determine the estimates should also be documented. Finally, estimates should be revised as actual information becomes available during a fiscal year's operations.

Cost allocation techniques should be improved

As discussed above, cost allocation percentages should normally be based on either statistical data about performance or appropriate cost-finding techniques. Analytical or sampling methods should be used to determine the relationship of costs being incurred by organizational units to the programs being conducted. Such studies should then be documented and periodically updated to revise allocation percentages on a current basis. We found that the techniques used to develop the cost allocation percentages based on work performed should be improved and the bases for the allocation percentages better documented.

We reviewed the instructions and forms used to prepare the 1982 and 1983 budget estimates and discussed the process with budget and Superintendent of Documents personnel. The instructions provided to personnel describe only the mechanical preparation of the forms; that is how to round percentages rather than the process and documentation to be used in developing the allocation percentages. While general budget training sessions were held in the 1982 and 1983 budget development process, more precise written instructions should have been provided to managers for developing the allocation percentages. Also, we found no documentation regarding the basis for the percentages managers reported on the budget forms.

While some organizational units report actual operating statistics for cost allocation purposes, most costs are allocated based on the estimates developed as part of the budget. Actual operations can reflect variations which should be used to develop updated allocation percentages. Without written instructions and documentation of the basis for determining allocation percentages, and update of the percentages based on actual operations, management cannot be assured that the percentages developed and used are logical, consistent, and accurate. Incorrect allocation percentages were responsible, in part, for the \$195,000 overcharge to bookstores in 1982 discussed in ch. 2.

CONCLUSIONS AND RECOMMENDATIONS

Our review of 100 documents showed that document prices were not properly recovering costs and that price increases were not adequately supported. GPO's pricing of documents should be based on costs of the General Sales Program and price increases should be related to increases in these costs. In addition, cost allocation techniques should be improved to provide accurate data for use in pricing decisions.

While implementation of the GPO Documents Pricing Task Force recommendations should correct many of the past problems in the pricing methodology, management still needs to use present operating and cost accounting systems to improve available cost data. We believe Government documents should be priced to recover costs of the General Sales Program but at the lowest cost possible to the public.

In view of current efforts by GPO to develop a new pricing formula, we recommend that the GPO Comptroller and the Superintendent of Documents develop improved cost data from the present accounting and operating systems so that:

- The printing and binding factor is based on actual costs paid by the Superintendent of Documents. This can be accomplished by use of estimates which are periodically compared to actual costs.
- Reprint costs, to the extent incurred, are identified and recovered in the pricing of documents.
- Handling charge estimates are periodically adjusted to reflect actual costs for each type of document in the pricing formula.
- Unsalable publication costs, to the extent incurred, are identified and recovered in the pricing of documents.

- The Postage factor is based on costs incurred for mailing a document, given its actual size and weight. Consideration should also be given to applying a separate postage charge only to those documents which are mailed.
- Adequately support all future price changes with documented estimates of costs to be incurred.
- Update the cost allocation percentages at least annually.
- Develop detailed guidelines for estimating costs for each organizational unit within the Superintendent of Documents operation based on detailed analyses of work accomplished by using the various operating statistics already available.

In addition, we recommend that the Public Printer should:

- Consider requesting the JCP to introduce legislation clarifying the 50 percent factor.

Finally, because year-to-year fluctuations in sales and costs occur, and Program losses from one year can be offset by profits from another, we recommend that the Public Printer, in consultation with the Appropriation Committee and the Joint Committee on Printing, define an appropriate time period over which revenues and costs are to balance so that documents are priced fairly while the program operates on a self-sustaining basis over the long term.

AGENCY COMMENTS AND OUR EVALUATION

The Public Printer stated that our recommendations were generally consistent with GPO efforts to improve operations. (See appendix VI). He did state that he believed that we did not recognize the improvements made in the pricing of documents since April 19, 1983. However, we believe we have identified and commented on the pricing formula changes which were adopted on that date.

The Public Printer noted that elimination of the 50 percent factor would require the development of another method to recover discounts to bookdealers and quantity purchasers. As indicated above, we recommended that consideration be given to clarifying the 50 percent factor. Recovery of discounts could be considered in the clarification.

The Public Printer pointed out that the Pricing Task Force did not recommend that actual costs be used for all elements of the pricing formula. We agree that projected costs must be used for pricing of documents to be sold in the future. We believe, however, that estimates, when used, should be periodically compared to actual costs incurred to ensure that document prices recover costs.

The Public Printer also pointed out that it would not be possible for GPO to establish an estimated price and then revise the final selling price for a document based on actual printing costs. We did not recommend that initial and final selling prices be used. We have revised the report to clarify that we believe prices should be based on actual costs and that estimates used in pricing should be periodically compared to actual costs. Revisions in estimates or other management action can then be taken when differences in estimates and actual costs are identified.

Finally, the Public Printer stated that it would not be practical to establish a separate selling price for publications in bookstores. We did not intend to recommend such an approach. Therefore, we have clarified our recommendation to indicate that postage could be applied separately to those documents which are mailed. This approach is similar to that used by many commercial mailorder operations.

CHAPTER 5

NEED TO IMPROVE

MANAGEMENT OF DOCUMENTS INVENTORY

While the Superintendent of Documents has improved inventory management, further improvements can be made. Specifically, implementation of the comprehensive automated inventory system has been long delayed and adequate policies and procedures for identifying and evaluating "excess" inventory have not been developed. As a result, incomplete and inaccurate information may be used to make inventory management decisions and excess stock is not being identified promptly.

GENERAL SALES PROGRAM INVENTORY

The major asset of the General Sales Program is its inventory, which, as of September 30, 1982, amounted to \$15.1 million at cost, primarily printing and binding, and \$82.2 million at retail selling price. (See table below.)

Documents for Sale Inventory as of September 30, 1982

<u>Inventory location</u>	<u>Inventory at cost</u>	<u>Inventory at retail</u>	<u>Percent</u>
Laurel warehouse	\$12,168,000	\$66,237,000	81%
Laurel retail distribution center	1,695,000	9,225,000	11
Bookstores	667,000	3,630,000	4
Pueblo distribution center	229,000	1,249,000	2
Consigned agents	<u>345,000</u>	<u>1,882,000</u>	<u>2</u>
Total	<u>\$15,104,000</u>	<u>\$82,223,000</u>	<u>100%</u>

The inventory is currently managed and controlled through a partially automated system. Bulk inventory (Laurel warehouse) is continuously recorded by document title in the automated Publication Receipt Control System (PRCS). Retail inventory at Laurel, the bookstores, Pueblo distribution center, and consigned agents, is counted and reported to the Documents Technical Support Group only at fiscal yearend for entry to the automated Annual Sales Inventory System. The Inventory Management Specialists (IMSS) also post these amounts to the sales history cards. In addition, the bookstores maintain inventory stock cards for each title, and GPO headquarters maintains inventory information reported monthly by the bookstores in the automated Special Accounts Reporting and Billing Control System (SARABCS).

In 1972, the Superintendent of Documents began development of a comprehensive automated inventory system designed to report receipts, shipments, and current balances of the entire General Sales Program inventory. However, in 1974, only the bulk inventory located at the Laurel warehouse was automated because technical implementation questions regarding the retail and bookstore stocks had not been resolved. The decision to proceed with limited automation was made mainly because the bulk inventory constituted the majority of the inventory. Efforts to automate the retail inventory continued through the period.

THE COMPREHENSIVE AUTOMATED INVENTORY MANAGEMENT SYSTEM NEEDS TO BE COMPLETED

We found that the Superintendent of Documents should have better inventory information to make more effective inventory management decisions. The information available on quantities of publications sold and inventory on hand should be more complete and accurate. These problems are caused primarily by the need to maintain manual records to compensate for the incomplete automated inventory system begun in 1974.

Efforts to develop the comprehensive automated inventory system continue but have not been completed

While bulk inventory has been maintained by the automated PRCS since 1974, the Superintendent of Documents still has not automated the retail inventory at the Laurel and Pueblo distribution centers, the bookstores, or the consigned agents. Consequently, GPO personnel must request special counts of inventory in other locations or rely solely on bulk inventory in the PRCS when making decisions concerning purchases and destructions.

Although it represents 81 percent of the total inventory, bulk inventory information in the system does not include all stock on hand. During our review, we found 53 publications which had no stock on hand in the bulk inventory at the end of fiscal 1982, but had stock in other locations. For example, the fiscal 1982 yearend total inventory showed 3,577 copies of "Caring About Kids, Learning While Growing" and 1,534 copies of "Flight Test Guide Instrument Pilot Helicopter;" the bulk warehouse, however, had no copies of these publications on hand. As a consequence, counts of stock in other locations are required during the year in order to provide complete information on all stock available for sale by the program.

Superintendent of Documents personnel advised us that delays in automating the retail inventory were due to problems with contractors making changes to computer software. The plan is to automate the inventory at the Laurel retail distribution center by Spring 1984. Consideration is currently being given to automation of the bookstore inventories, but there are no plans to include inventory held at Pueblo or by the consigned agents.

In addition, the PRCS system reports do not reflect cumulative inventory transaction information on transfers, purchases, sales and destructions. As a result, personnel maintain manual records to develop this data.

Manual inventory records are not
always complete and up-to-date

We found that the General Sales Program personnel maintained three sets of inventory records to overcome the limitations of the PRCS system. However, these sets of records are often incomplete and outdated.

First, the IMSS manage and control inventory through 17,000 manually maintained sales history cards. These cards are a primary basis for purchase and destruction decisions. But, as we discussed in chapter 3, these cards may be incomplete and outdated without special physical inventory counts and manual update during the year. Second, based on our testing at the bookstores, the inventory stock control cards maintained for each document title by store personnel are frequently inaccurate and, according to some store managers, of limited use. Finally, the SARABCS system maintains dollar control totals for inventories at the bookstores based on the store managers' daily reports of inventory received, sales, destructions, and price changes. However, substantial adjustments have been made to yearend SARABCS inventory balances to agree with yearend physical inventory balances. The adjustment at September 30, 1982, was \$350,000, or 9.6 percent of bookstore inventory.

The maintenance of 17,000 sales inventory cards, inventory stock control cards at the bookstores, and the preparation and submission of daily summary reports from each store to GPO headquarters requires considerable effort. While we have not conducted a detailed cost analysis, we believe that more complete and accurate information would be available with less effort if the comprehensive automated inventory system were complete.

POLICIES AND PROCEDURES TO CONTROL
EXCESS INVENTORY SHOULD BE REFINED
AND DOCUMENTED

We found that the Superintendent of Documents' policy of classifying inventory as "excess" if it exceeds an estimated 18-month supply has not been effectively implemented. One of the reasons may be that the policy is unrealistic because it is not based on studies of actual sales or studies of warehousing costs. Also, we found that the procedures used to identify "excess" inventory for destruction are not adequate, causing personnel to rely on their judgment and experience when deciding to remove a publication from inventory. Consequently, there is no assurance that true excess

stocks have been properly identified and destroyed, and it is possible that other inventory may have been disposed of too soon.

Proper management of inventory requires that policies and procedures be designed to identify, evaluate, and dispose of inventory stock in excess of needs. Failure to eliminate excess stock will increase warehousing and related costs, while disposing of stock too soon can result in lost sales, with corresponding reductions in sales revenues. The result is higher costs, higher prices, and fewer publications available to the public.

Inventory policy should be reviewed and
and clarified

We found that the Superintendent of Documents current policy of evaluating for disposal all inventory that exceeds an 18-month supply has not been totally implemented. Our review of 100 publications, for example, showed that Program personnel often maintained an average supply of over 3 years. We also reviewed a computer listing of the inventory items as of September 30, 1982, which showed that \$2.6 million (at cost), or 21 percent, of the PRCS inventory was potentially in excess of an 18-month supply. We also found that many of these excess items were considered for disposal in fiscal 1981, but were not destroyed, at that time, because Program personnel believed they could be sold. Our review of 1982 sales for a number of these items indicated that sales had not improved. We believe this reflects a lack of effective implementation of the review policy.

In our opinion, the 18-month inventory review policy has not been fully implemented because it may or may not be realistic in relation to individual publications. Discussions with Program personnel revealed that the policy was not based on studies of actual sales or studies of warehousing costs. Given the types of documents the program sells, it is important that prior sales experience be considered. Many of these documents are salable for many years, while others have a sales life of 1 year or less.

Also, the policy does not consider the advantage of maintaining inventory for longer periods of time. Consequently, while the general policy of minimizing inventory is correct, decisions to destroy individual stock may be economically incorrect. Based on the average number of publications at the Laurel warehouse and the cost of warehouse operations in 1982, storing a copy of a publication for a year costs an average of 6 cents. Since the average profit on each publication sold in 1982 was 19 cents, it may be economical to store publications rather than destroy them if there appears to be a potential market for them.

We noted, for example, that private sector publishers generally maintain stock rather than destroy it because back-to-print costs are higher than warehousing. Warehousing also minimizes

potential lost sales due to out-of-print stock. A more flexible policy, based on actual sales experience and warehousing economics, for major categories of documents, or even individual documents with large quantities, may be a more effective way of optimizing costs without unnecessarily limiting the variety of publications available to the public.

Procedures for identifying excess inventory should be improved

Once a year, IMSs are required to review the sales history card for each publication and determine whether there are any excess publications. An "Analysis of Sales Records" worksheet is prepared for each publication the IMS reviews and contains information such as sales for the last 3 fiscal years, projected sales for next year, current quantity on hand, and estimated excess stock. IMSs are to consider a variety of factors, including the 18-month supply policy and recommend for destruction any quantities which they believe are excess. As discussed above, some stock items were on hand as of September 30, 1982, which, based on solely the 18 month criteria, should have been classified as excess.

Our review indicated that the instructions, procedures, and data IMSs use to determine excess stock need to be significantly improved. While the "Analysis of Sales Records" worksheet contains some general instructions for completing the worksheet, they were not clear or complete. For example, the IMS is instructed to estimate projected sales based on past sales. The worksheet, however, does not clearly state how this projection should be made. Also, the worksheet does not include instructions for calculating the amount of excess stock.

IMSs we interviewed generally relied on their judgment and experience when deciding to remove a publication from inventory. Consequently, there was no uniformity in the way IMSs made those decisions. For example, in projecting sales for next year, which is necessary to determine the amount of excess stock, several IMSs based the amount on last year's sales, one took an average of monthly sales since the last yearend inventory, and still another estimated an amount less than last year's sales.

Also, as discussed previously in chapter 3, the sales history cards we reviewed were not generally updated based on special inventory counts of current stock on hand. In addition, as part of their review for excess stock, IMSs are not required to use the PRCS monthly report, which reflects excess stock.

As a result, we believe that both the inventory policy and the procedures which have been established to implement the policy require refinement in order to ensure that inventory over and under-stock is minimized.

CONCLUSIONS AND RECOMMENDATIONS

Complete and up-to-date information on quantities of publications sold and balances of stock on hand is not always available because the comprehensive automated inventory system is not fully operational. Extensive manual efforts are required to count inventory during the year and maintain the supplemental manual records. Also, the Superintendent of Documents' policy concerning excess inventory may not be realistic in relation to the sales life of many documents or the cost effectiveness of destroying publications versus maintaining them for possible future sales. In addition, the procedures and data used to identify "excess" stock should be improved. As a result, more cost-effective decisions regarding "excess" stock could be made.

We recommend that the Public Printer direct the Superintendent of Documents to:

- Accelerate the current efforts to implement the automated inventory system for retail stock by October 1984, automate the bookstore inventory records unless GPO's current review provides documented support that it would not be cost effective, and consider including the data reported periodically by consigned agents and the Pueblo distribution center in the automated system.
- Improve reports from the system to reflect beginning and ending balances, transfers, purchases, sales, and destructions of each publication on a cumulative basis by quarter and by year. This would reduce the manual effort needed to maintain inventory records.
- Develop a new excess inventory policy by major type of publications based on relevant factors such as the nature of the documents and the economics of maintaining inventory. The Comptroller should be involved in this process and the factors should be revised periodically.
- Develop precise written procedures, including the review of PRCS monthly reports, for IMSS to follow in reviewing publications for destruction. Training should be provided to the IMSS in conducting the excess reviews.

AGENCY COMMENTS

The Public Printer stated that generally our recommendations were consistent with GPO's ongoing efforts to improve operations. (See appendix VI). He did point out that, for various reasons, unsalable publications cannot be completely avoided. We agree and believe this is the reason it is vital to improve information and procedures to minimize these costs.

The Public Printer pointed out that the 18 month criteria is only one of the factors used in making inventory management decisions. We have reflected this in our report on page 45 and consider the need for flexibility in applying the criteria as one of the reasons that clearly defined criteria, improved procedures and training are important to effectively manage the inventory.

Finally, he noted that inventory management decisions cannot be completely automated. We concur but believe that the automated system and information from it can be a vital tool for the management of the documents inventory.

Appendix I

CHARLES McC. MATHIAS, JR., SENATOR FROM MD.,
CHAIRMAN
JOHN W. WARNER, SENATOR FROM VA.
MARK O. HATFIELD, SENATOR FROM ORIG.
HOWARD W. CANNON, SENATOR FROM ILL.
WENDELL H. FORD, SENATOR FROM KY.

THOMAS J. KLEIS, STAFF DIRECTOR
ANTHONY J. ZAGAMI, GENERAL COUNSEL

Congress of the United States

Joint Committee on Printing

Appendix I

AUGUSTUS F. HAWKINS, REPRESENTATIVE FROM CALIF.,
VICE CHAIRMAN
JOSEPH M. GAYDOS, REPRESENTATIVE FROM PA.
ED JONES, REPRESENTATIVE FROM TENN.
NEWT GINGRICH, REPRESENTATIVE FROM GA.
LYNN MARTIN, REPRESENTATIVE FROM ILL.

9-1511, U.S. CAPITOL
WASHINGTON, D.C. 20510
PHONE: 224-5241

April 16, 1982

The Honorable Charles Bowsher
General Accounting Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Mr. Bowsher:

On February 9, 1982, the Members of the Joint Committee on Printing voted to request that the GAO perform a study of the GPO General Sales Program. As Chairman of the Joint Committee, I would like to formally request that the GAO conduct such a study to provide a comprehensive analysis and evaluation of the policies, accounting procedures and general management decisions affecting the General Sales Program.

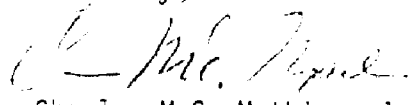
The study should include:

- I. A review of the cost accounting methods affecting the General Sales Program.
 1. The sources and amounts of costs charged to the Superintendent of Documents for publications purchased from the printing and binding operation.
 2. The sources and amounts of indirect costs charged to the Superintendent of Documents.
 3. The sources and amounts of indirect costs included in the Document Overhead Charge to the bookstores.
 4. The sources, amounts, and allocation of direct costs incurred by Superintendent of Documents in the distribution of documents.
 5. The costs of printing, binding, and distribution of publications which are sold through the General Sales Program.
 6. The cost for reprinting when publications originally printed are exhausted.
 7. The formulae used by GPO to allocate revenue and expenses to the various segments of the sales program, including the reimbursable program.

- II. A review of the Superintendent of Document's Inventory System.
 - 1. The cost and sales value of inventory at September 30, 1982.
 - 2. The methods of allocating unsaleable publication expenses to the various components of the General Sales Program.
 - 3. The number and cost of unsold publications destroyed during fiscal 1981 and 1982, by bookstore and for the total sales program.
- III. A review of the Superintendent of Documents policies and practices.
 - 1. The determination of which publications should be selected for sale and the number of copies to order.
 - 2. The formula used by GPO to price documents for sale.
 - 3. The policy and formula used for determining publication price increases.
- IV. A review of the data supplied by the Public Printer to the Joint Committee with regards to the General Sales Program on October 27, 1981, and December 10, 1981.
- V. A review of the current methods and formats used to report cost and sales information to the Joint Committee relative to the General Sales Program also whether such methods and formats were changed since 1978.
- VI. A review of the impact of the General Sales Program on GPO's Revolving Fund.
- VII. Recommendations on management decisions or practices which would improve the operation of the General Sales Program resulting from the above review.

In order for the study to be as useful as possible, we request progress reports every 60 days, with the final report to be completed no later than March 1983. The JCP team will be Roy Breimon, Project Manager, and Bernadine Hoduski, who will be available to assist in determining the detailed scope of this request as the study progresses.

Sincerely,


Charles McC. Mathias, Jr.
Chairman

THE DOCUMENT SELECTION PROCESS

The process for evaluating, selecting, and ordering documents for the General Sales Program varies depending on the type of Government document. The following is a brief explanation of the process for each type of document.

SELECTING NEW PUBLICATIONS

The process of selecting new publications begins when a Federal agency submits a requisition for printing and binding services to GPO's Planning Services. An Inventory Management Specialist (IMS) within the Sales Management Division is then informed of the request via a "Notification of Intent to Publish," GPO Form 3868, from the originating Federal agency or GPO Regional Procurement or Printing Offices. Telephone calls may be received instead of Form 3868.

Next, the IMS must determine whether to recommend purchasing the agency's document for the General Sales Program. The first step is to estimate the publication's sales potential based on at least the following information:

- Title of the publication.
- Specifications and description of the contents.
- Originating agency's planned publicity for the publication.
- Publicity of the subject matter in current news.
- Quantity recommended for sale by the originating agency.
- Whether the publication will be a seasonal item or revised yearly.
- Selling price (actual or estimated).
- Quantity the originating agency will distribute free.
- Sales history of previous editions, or similar publications if the publication is being offered for the first time.
- Anticipated sales life based on timeliness of the subject matter.
- Consumer Information Center participation.
- Planned marketing effort.
- Physical attractiveness.

APPENDIX II

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The above information comes primarily from the Form 3868, discussions with originating agency personnel, and sales history cards maintained by the Documents Control Branch. To estimate the sales potential of a publication, the IMS relies heavily on the sales history cards of previous editions of the publication, or similar publications if it is being offered for the first time. The cards are maintained manually and contain information such as price and number of copies ordered, received, and sold.

After the IMS estimates the publication's sales potential, the amount expected to be sold is compared to the Program's selection requirements:

- The quantity recommended for purchase should not exceed what can reasonably be expected to be sold within 18 months.
- The expected retail revenue should be at least \$1,000.

If the publication meets these requirements, the IMS recommends that the appropriate quantity be purchased for the General Sales Program. This recommendation must then be approved by the Chief, Documents Control Branch; Chief, Sales Management Division; and the Requisition Review Board. The Board, which meets daily, includes the Director of Marketing; Director, Document Sales Service; and Chief, Sales Management Division.

SELECTING DATED PERIODICALS

The process of selecting dated periodicals begins when the Federal agency that publishes the document requests in writing that the Superintendent of Documents offer it for sale. The request also contains information on the document's characteristics such as frequency of issue, approximate number of pages per issue, size of the text, and paper quality.

The request is then processed by an IMS in the Subscription Section, Documents Control Branch. The IMS obtains an estimate of the printing and binding cost from the GPO Pricing Desk.

IMS's must submit the originating agency's request and related pricing data to the Chief, Subscription Section, and Chief, Sales Management Division, for approval. If approval is received, the IMS notifies the originating agency by telephone of the subscription sales price and advises the originating agency that they must provide GPO with copies of the subscription until there are 200 paid subscribers.

Originating agencies are not always in agreement with the subscription price arrived at based on the document specifications and the GPO pricing formula. In such cases, the originating agency may choose to revise their specifications on frequency of issue, post-

age, size, cover, binding, etc., until a price acceptable to the agency is determined.

When the agency accepts the price and agrees to provide up to 200 copies of the subscription, the subscription is accepted and the agency receives GPO Form 3517, Subscription Pricing Information.

When the number of subscriptions equals 200, the originating agency is no longer required to provide GPO with free copies. GPO then assumes full responsibility for the subscription. The IMS then recommends to the Requisition Review Board the quantity of copies that should be requisitioned.

SELECTING BASICS WITH SUPPLEMENTS

As with dated periodicals, the publishing agency requests that the Superintendent of Documents offer these documents for sale. An IMS works closely with the agency to determine the printing and binding specifications for the basic text, as well as the number and size of supplements the agency plans to issue over 2 to 3 years. The IMS then obtains the subscription sales price from the GPO Pricing Desk. Basics with supplements are generally regulatory materials produced by an agency. Therefore, in addition to the factors used to select publications, the IMS also confers with the originating agency to determine if the material is regulatory, the number of customers that need or are required to have the information, and if the subscription service is available from another source, public or private. Afterwards, the IMS determines whether to recommend the purchase of the document for the Sales Program. When this activity is completed, the IMS then follows the procedures for selecting dated periodicals except that originating agencies are not required to provide 200 free copies.

SELECTING DOCUMENTS TO BE REPRINTED

Section 1707 of Title 44 provides that the Superintendent of Documents may order reprints of Government documents required for sale to the public. The Superintendent of Documents generally purchases a document for the General Sales Program at the same time it is requisitioned by the originating Federal agency. The originating agency pays the total start-up costs for the printing and binding operations, while the Superintendent of Documents pays only the cost of printing additional copies, commonly referred to as the "rider rate." The Superintendent of Documents, however must occasionally reprint a document to replenish GPO's depleted stock and therefore must pay for all start-up costs.

The process for determining whether to reprint a document begins when the IMS notes that the document's stock is nearly depleted. The IMS must then decide whether to continue making the document available for sale to the public. This decision is based

on the same factors and criteria used to select new publications for the Sales Program as discussed above.

Once the IMS decides to continue to stock the document, he or she attempts to locate additional copies elsewhere, for example, from the originating agency. The IMS also inquires about the possibility of the originating agency going back to press so that GPO can ride the requisition.

If copies are not available and the originating agency does not plan to go back to press, the IMS obtains from the GPO Pricing Desk an estimate of printing and binding costs, including start-up costs, and the selling price of the document. The IMS must then decide whether to reprint the document. If the IMS recommends that the document be reprinted, this decision must be approved by the Chief, Documents Control Branch; the Chief, Sales Management Division; and the Requisition Review Board.

FORMULA USED TO PRICEGOVERNMENT DOCUMENTS FOR SALE

The pricing formula used from fiscal 1976 through the first seven months of fiscal 1983 includes eight factors. The value assigned to each factor is determined periodically by the Public Documents Pricing Committee and recommended to the GPO Comptroller. The Comptroller then makes recommendations to the Public Printer. The factors are:

- Printing and binding costs.
- Reprint cost.
- Documents handling cost.
- Unsalable document cost.
- By-law factor.
- Postage.
- Add-on factor.
- Rounding factor.

The following is a brief explanation of each of these factors.

PRINTING AND BINDING COSTS

This cost represents estimated expenses GPO charges for printing and binding a document for the Sales Program. These costs vary depending upon factors such as the quality of the paper, number of pages, type of binding, colors of ink used, and number of documents printed.

REPRINT COST

This factor is included in the pricing of each document to recover the additional costs the Sales Program incurs when some documents are reprinted. The additional costs are basically the charges for getting the text material and presses ready to reprint a document. This factor has been 3 percent since 1976.

DOCUMENT HANDLING COST

This charge is to recover the costs incurred by the Sales Program for such day-to-day operations as handling inventory, orders, and receipts. In some cases, these handling costs are

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referred to as "overhead" costs. The Public Documents Pricing Committee determines the handling cost for the various types of documents sold in the General Sales Program. Each of the document types, based on the estimated time spent by Program personnel in handling that type of document, is allocated a portion of budgeted overhead for the General Sales Program. The following table illustrates how the fiscal 1982 overhead budget of \$26.1 million for the General Sales Program was allocated.

<u>Document type</u>	<u>Estimated percent of personnel time</u>	<u>Budgeted over- head allocation (millions)</u>
Publications	65%	\$17.0
Dated periodicals	13	3.4
Basics with supplements	22	5.7
	100%	\$26.1

The estimated overhead cost per single copy is determined by dividing the allocated overhead cost by the estimated number of copies to be sold during the fiscal year. For example, using the information from the above table and based on estimated sales of 8.2 million copies of publications, 11.5 million dated periodicals, and 2.2 million basics with supplements, unit overhead costs would be \$2.07, \$.29, and \$2.61, respectively. See table below.

<u>Document type</u>	<u>Overhead allocation (millions)</u>	<u>Estimated copies to be sold (millions)</u>	<u>Overhead cost per unit</u>
Publications	\$17.0	8.2	\$2.07
Dated periodicals	3.4	11.5	.29
Basics with supplements	5.7	2.2	2.61

To reduce the actual handling charge for publications and still recover budgeted overhead cost, the Public Documents Pricing Committee set the per unit handling charge for publications at \$1.75, dated periodicals at \$.55, and basics with supplements at \$2.75.

Applying the above method to actual copies sold and overhead costs for fiscal 1982, we calculated estimated overhead cost per single copy to be \$2.30 for publications, \$.20 for dated periodicals, and \$1.41 for basics with supplements. (See table below.)

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<u>Document type</u>	<u>Estimated percent of personnel time</u>	<u>Actual overhead allocated (thousands)</u>	<u>Actual document volumes (thousands)</u>	<u>Overhead cost per document</u>
Publications	65%	\$15,590	6,777	\$2.30
Dated periodicals	13	3,118	15,393	.20
Basics w/supplements	22	5,277	3,739	1.41
Total	<u>100%</u>	<u>\$23,985</u>	<u>25,909</u>	<u>a/\$.93</u>

a/ Average for all documents

UNALABLE DOCUMENT COST

This factor is used to recover the cost of documents that are unsalable or become obsolete and must be destroyed. The factor is currently 10 percent based on the actual unsalable expense for the prior two fiscal years, as well as forecasts of changes in the program.

BY-LAW FACTOR

This factor is required by 44 U.S.C. 1708 to be applied to costs as determined by the Public Printer. It is currently set at 50 percent.

POSTAGE

This factor is based on the size and weight of the document plus 10 percent. The factor assumes that all documents are mailed at the lowest possible postage rate.

ADD-ON FACTOR

GPO policy is not to raise the minimum price of a 4-page document above \$1.75. The price of small documents, therefore, has been adjusted downward to reflect this policy. To recover revenues lost by this subsidy, an add-on factor is applied to documents over 32 pages.

The add-on factor is based primarily on the estimated amount of money the General Sales Program needs to recover losses associated with its minimum price policy. This amount is calculated,

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and add-on factors are derived for various document sizes based on their portion of estimated copies to be sold. The current add-on factors are as follows:

<u>Size of document</u>	<u>Add-on factor</u>
33 through 100 pages	\$.25
101 through 152 pages	.35
153 through 200 pages	.45
201 through 300 pages	.55
Over 300 pages	.65

ROUNDING FACTOR

The unrounded selling price is the actual calculated price of the document using the pricing formula. GPO then rounds this price as follows:

- Prices up to \$4.99 are rounded up to the next \$.25.
- Prices between \$5.01 and \$9.99 are rounded up to the next half dollar.
- Prices between \$10.01 and \$49.99 are rounded up to the next dollar.
- Prices above \$50.01 are rounded up to the next \$5.00.

FORMULA VARIATIONS

There are some minor differences between the way the formula is used to price single copy documents, dated periodicals, and basics with supplements. The formula used to price subscriptions is basically the same as the one used to price single documents except it includes a subscription fee to cover additional handling costs and excludes the add-on factor.

The following chart shows how the formula is used to price publications, periodicals, and basics with supplements.

EXAMPLES OF GENERAL SALES PROGRAM

PRICING FORMULA APPLICATIONS

<u>Factor</u>	<u>Publication (note a)</u>	<u>Dated Periodical (note b)</u>	<u>Basic with supplements (note c)</u>
P&B costs	\$.41	\$.17	\$ 4.81
Reprint factor	x 103%	x 103%	x 103%
	.42	.18	4.95
Documents handling cost	+ 1.75	+ .55	d/+22.00
	2.17	.73	26.95
Unsalable document cost	x 110%	x 110%	x 110%
	2.39	.80	29.65
By-law factor	x 150%	x 150%	x 150%
	3.59	1.20	44.48
Postage	+ .69	+ .37	x 2.12
	4.28	1.57	46.60
Add-on factor	+ .25	N/A	N/A
	4.53	1.57	46.60
Number of issues/yr.	N/A	x 12	N/A
		18.84	46.60
Subscription fee	N/A	+ 2.00	+ 2.00
Unrounded price	4.53	20.84	48.60
Rounding factor	+ .22	+ .16	+ .40
Selling price	\$4.75	\$21.00	\$49.00

- a/ NBS Building Science Series 67--Abnormal Loading on Buildings and Progressive Collapse--Annotated Bibliography.
b/ Construction Reports--Housing Starts.
c/ Selected Worldwide Marine Weather Broadcast.
d/ This handling charge reflects the fact that seven supplements were to be issued.

GAO OBSERVATIONS DURING VISITS TO 11 GPO BOOKSTORES

Bookstore: Atlanta, Georgia
Location: Federal Building
Date Visited: November 1982
Size: 1939 sq. ft.
Comments: The store location appeared to be good. It's entrance was on the street level. Storefront windows allowed bookstore displays to be highly visible to passers-by. The bookstore was neat and in good order, and display racks were well stocked and organized.

Bookstore: Birmingham, Alabama
Location: Commercial Building in Shopping Center
Date Visited: November 1982
Size: 2089 sq. ft.
Comments: The store is difficult to find because it is located down a sparsely travelled side alley of a residential shopping center. Letters spelling out "GPO Bookstore" on the side of the building, could be seen from the entrance to the alley. During inclement weather, the letters are often not plainly visible. The bookstore was spacious and neat. Shelves were well stocked and neatly arranged.

Bookstore: Denver, Colorado
Location: Federal Building
Date Visited: October 1982
Size: 1545 sq. ft.
Comments: The bookstore is on the "outskirts" of the downtown area. It was located down a poorly marked corridor in a Federal building. Bookstore shelves, however, were well stocked and properly labeled, and publications were neatly arranged.

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Bookstore: Detroit, Michigan

Location: Federal Building

Date Visited: October 1982

Size: 2220 sq. ft.

Comments: The bookstore was hardly noticeable from the street. To let customers know where the store was located, the manager placed a sign in the lobby of the building. No free parking was available. The store was neatly arranged, but shelves were relatively empty because of a recent purging of unsalable publications.

Bookstore: Jacksonville, Florida

Location: Federal Building

Date Visited: November 1982

Size: 2100 sq. ft. (almost half was storage space)

Comments: The store was listed in the office directory inside the building's lobby and was easily accessible. The store was well stocked, clean, and in good order. Because of its small size, however, the store appeared cramped.

Bookstore: Los Angeles, California

Location: Commercial Building in Shopping Mall

Date Visited: September 1982

Size: 2498 sq. ft.

Comments: The store was very attractive and modern, both inside and out. Its location in a popular shopping mall contributed to its high visibility and easy accessibility. The display area was spacious but there was little storage space. When stock was received, cartons were stacked along the display aisles until bookstore personnel could unpack the publications and place them on the shelves. This made it difficult for customers to get to the publications.

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Bookstore: Philadelphia, Pennsylvania
Location: Federal Building
Date Visited: October 1982
Size: 2200 sq. ft.
Comments: The bookstore is not very visible by passers-by; however, a 2' X 3' sign located in the lobby pointed to the store. It was located down a corridor. The bookstore was neat in appearance, stock was in order, and aisles were clear. Store shelves were relatively empty at time of our visit.

Bookstore: Pueblo, Colorado
Location: Commercial Building
Date Visited: October 1982
Size: 1487 sq. ft.
Comments: The bookstore was located in an attractive building with windows facing the main street. It was easily accessible and visible from the outside. Convenient storefront parking was also available. The store shelves were well stocked with a wide variety of neatly arranged publications.

Bookstore: Seattle, Washington
Location: Federal Building
Date Visited: September 1982
Size: 2345 sq. ft.
Comments: The bookstore was located off the entrance to the lobby and was visible and accessible from the lobby only. No signs informing customers of the bookstore's location existed outside the store. The stores' shelves were clean, neat, well stocked, and properly labeled.

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Bookstore: Kansas City, Missouri
Location: Federal Building
Date Visited: October 1982
Size: 1498 sq. ft.
Comments: The store was located on the first floor in the back of the building and was not well marked. The display area was extremely small. Publications were tightly stacked in limited shelf-space. Publications of various topics had to be combined, making it difficult to label each section by topic.

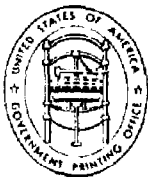
Bookstore: Pittsburgh, Pennsylvania
Location: Federal Building
Date Visited: October 1982
Size: 2500 sq. ft.
Comments: The store was not very visible nor conveniently accessible. Free parking was not available, and public transportation was limited. There was no sign on the exterior of the building. Customers must walk down a side corridor before seeing a GPO bookstore sign above the entrance to the store. The display area, however, was spacious, clean, and attractively organized. The shelves were well stocked and neatly arranged.

U.S. Government Printing Office
Schedule of Revenue & Expense by Bookstore
Cumulative thru September 1982
Unaudited

Bookstore	Revenue	Cost of Pub. Sold	Unsaleable Publications	Postage Expense	Pers. Comp. & Benefits	Other Expense 1/	GPO Overhead	Document Overhead	Net Income/ (Loss)
Main	\$ 976,994	\$ 271,216	\$ 64,416	\$ 543	\$ 193,388	\$ 44,841	\$112,350	\$ 141,180	\$149,060
Commerce	154,855	42,917	10,193	---	38,536	222	6,150	28,066	28,771
RHS	79,831	21,949	5,213	---	34,497	309	6,151	25,137	(13,425)
USIA	397,798	110,524	26,251	1,208	54,711	1,571	7,955	39,902	155,676
Pentagon	270,789	75,250	17,873	---	55,542	5,982	9,228	40,512	66,402
State	209,490	58,201	13,824	---	38,115	298	7,955	27,821	63,276
Atlanta	232,683	64,668	15,360	10,976	70,711	21,115	12,303	51,616	(14,056)
Birmingham	152,977	42,524	10,100	4,375	57,102	23,462	9,227	41,610	(35,423)
Boston	328,816	91,319	21,690	15,059	81,954	31,854	15,868	59,792	11,280
Chicago	254,983	70,743	16,802	11,406	73,238	30,703	15,378	53,447	(16,734)
Cleveland	119,794	33,314	7,913	6,565	46,346	27,799	9,227	33,801	(45,171)
Columbus	115,478	32,138	7,633	3,928	41,634	30,681	7,146	30,384	(38,066)
Dallas	410,863	114,051	27,089	14,729	92,993	33,061	15,378	67,645	45,717
Denver	190,106	52,910	12,567	8,609	67,950	22,264	12,303	49,542	(36,039)
Detroit	132,868	36,841	8,750	6,973	46,209	46,763	7,914	33,679	(54,261)
Houston	454,914	126,397	30,021	20,682	82,481	86,745	17,141	60,158	31,289
Jacksonville	221,864	61,729	14,661	9,853	50,793	29,081	7,146	37,095	11,506
Kansas City	159,088	44,288	10,519	7,377	52,654	17,052	9,227	38,438	(20,467)
Los Angeles	517,379	143,642	34,117	21,798	61,882	55,125	12,303	45,149	143,363
Milwaukee	235,405	65,452	15,546	10,673	51,350	27,757	9,228	37,461	17,938
New York	246,605	68,588	16,291	8,196	53,282	44,917	7,146	38,926	9,259
Philadelphia	229,103	63,688	15,127	11,369	74,995	31,694	12,303	54,667	(34,740)
Pittsburgh	125,221	34,882	8,285	5,097	55,499	32,766	9,227	40,512	(61,047)
Pueblo	135,165	37,625	8,937	4,253	42,703	19,171	7,914	31,116	(16,554)
San Francisco	325,607	90,536	21,503	14,345	62,609	35,145	10,223	45,637	45,609
Seattle	375,134	104,253	24,762	17,712	91,429	59,673	13,298	66,747	(2,740)
TOTAL	\$7,053,810	\$1,959,645	\$465,443	\$215,726	\$1,672,603	\$760,051	\$369,689	\$1,226,240	\$390,413

1/ "Other Expense" includes: Transportation; Rents, Communications and Utilities; Other Services; Supplies and Materials; and Depreciation.

This statement is for internal use only. It is prepared without audit and is intended to provide GPO Management with estimated results of operations.



United States
Government
Printing Office

Washington, D.C. 20401

OFFICE OF THE PUBLIC PRINTER

October 3, 1983

Mr. Wilbur Campbell
Acting Director
Accounting & Financial Management
Division
U.S. General Accounting Office
441 G Street N.W.
Washington, DC 20548

Dear Mr. Campbell:

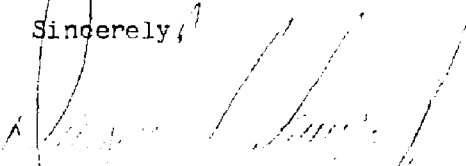
We have reviewed the revised draft report titled "The Government Printing Office Can More Effectively Manage Its General Sales Program By Making Better Use Of Information," submitted to us on September 9, 1983. After my appointment as Public Printer, I quickly recognized that various actions were required to improve the operational effectiveness of the General Sales Program. I am pleased to note that this report recognizes and supports many of the improvements that have been made to the General Sales Program in the past two years.

One of my recommendations pertained to the closing of the the out-of-town bookstores. My recommendation was based on Fiscal Year 1979, 1980, and 1981 data. However, the finding in this report that the overall bookstore program is financially viable, is based on Fiscal Year 1982 data which were not available until after my recommendation was made. Nevertheless, the schedule included in Appendix V of this report, shows that 12 of the 20 out-of-town bookstores incurred losses in Fiscal Year 1982. We still believe that a more efficient operation of this program could be achieved by selective closings.

Furthermore, we recognize that continuing improvements must be made to the entire General Sales Program. One of our chief goals is to ensure the continuing viability of this program. We believe that the GAO's recommendations are consistent with many of our ongoing efforts.

The enclosed comments have been prepared in response to the findings and recommendations contained in specific chapters of the revised draft report.

Sincerely,


DANFORD L. SAWYER, JR.
Public Printer

Enclosure

CHAPTER 2 ^{1/}
SELECTION OF PUBLICATIONS PROCESS IMPROVING
BUT BETTER DATA AND PROCEDURES NEEDED

Publication selection process data and procedures are analyzed in this chapter. The GAO report documents recent improvements in the selection process and identifies areas, particularly those pertaining to the collection and development of data utilized to predict demand, in which continuing improvements are needed.

The GPO agrees that successful publication selection decisions are dependent upon timely, accurate, and complete information about publications and their potential demand. The GPO will continue efforts to improve this information. However, the extent to which the GPO can improve information used in the selection process is subject to legal, practical, and economic constraints.

The GPO must rely on the voluntary cooperation of publishing agencies to provide information used in the publication selection process. The GPO cannot require publishing agencies to provide timely, accurate, and complete information about publications and potential demand. Pursuant to U.S.C., Title 44, 1705 and 1708, GPO cannot delay the printing of agency publications pending the receipt and analysis of such information. The GPO has stressed to publishing agencies the importance of providing such information and has disseminated instructions for completing GPO Form 3868 (Notification of Intent to Publish) in the "Agency Procedural Handbook for Commercial Procurement of Printing Services" and in Circular Letter 195 which were disseminated to printing and binding officials of the Federal government. The GPO is attempting to further improve cooperation with publishing agencies through more frequent and detailed communications.

The suggestion that the GPO should consider not purchasing documents when it does not receive information from publishing agencies would not always be in the best interest of the Sales Program or the public. In fact, the adoption of this suggestion could threaten the continued existence of the General Sales Program.^{2/}

Potential applications of market research in the Sales Program are limited. It is not cost effective to perform market research for publications that are expected to be sold in small quantities or that are expected to generate as little as \$1,000 in total revenue. In addition, because of the short time frames in which selection decisions must be made, the GPO cannot postpone requisition decisions pending the outcome of surveys for specific publications. However, the Director of Marketing is developing the capability to perform some sophisticated market research and he will explore the feasibility of including broad general interest surveys as a marketing tool.

^{1/} This is now chapter 3.

^{2/} This comment, which was for consideration only, has been deleted.

CHAPTER 3 ^{3/}
IMPROVED COST DATA SHOULD BE USED TO ESTABLISH
DOCUMENTS SALES PRICES

Chapter 3 describes, at great length, the components and perceived weaknesses of the General Sales Program pricing formula. It finds that the relationship between prices, established by the formula, and costs could be improved.

The Public Printer recognized that problems existed with the pricing formula and appointed a task force to study the matter. The task force recommended, and the Public Printer approved, the development of a new pricing formula, to be implemented on October 1, 1983. However, because the GPO did not wish to postpone needed improvements, major revisions were made to the existing formula on April 19, 1983. The findings presented in this chapter are based on the pricing formula as it existed prior to April 19, 1983, and, therefore, do not recognize the beneficial changes that have been made since that time.

This chapter finds that some components of the pricing formula may more than recover costs, while others may not recover all costs. To support this finding the chapter indicates that GPO is not, as might be assumed from a "literal interpretation" of 44 U.S.C., 1708, realizing a 50 percent profit margin and implies that the General Sales Program has sustained losses throughout the period from 1954 to 1977.

The legislative intent of the 50 percent factor included in 44 U.S.C., 1708 is to enable the General Sales Program to recover for discounts. The elimination of this factor would necessitate the development of another method, if GPO is to continue extending discounts to bookdealers and quantity purchasers. ^{4/}

Losses in the General Sales Program were not incurred in every year from 1954 to 1977. Rather, losses were not incurred until the early 1970's, after the passage of the Postal Reorganization Act. ^{5/}

The cost components used to develop the General Sales Program pricing formula are based on anticipated expenses. Actual costs are, by definition, historical and cannot reflect anticipated changes in operating methods or economic conditions. Since prices must be established prior to the sale of publications, they must be based on estimates and projections. The Public Printer's Publication Pricing Task Force did not recommend that the pricing formula be based on actual costs, as is indicated in this report. ^{6/} It did recommend however, that commercial printing rates, or best estimates, be used in establishing the sales price of publications printed by contractors and that the in-house printing rates be used for publications printed in-house.

The GPO cannot establish an estimated price and then establish a final selling price upon receipt of printing expenses as is recommended in this chapter. To do so would have a major negative impact on the General Sales Program and would be unacceptable to many publishing agencies. The GPO would not be able to give firm price quotations, promote publications in advance of receipt, or accept back orders for new publications. The establishment of preliminary and final sales prices would increase internal processing costs. In addition, publishing agencies would be unable to include firm price quotations in their promotions.

^{3/} This is now chapter 4.

^{4/} We are now recommending clarification of the 50 percent factor.

^{5/} This statement has been modified to clarify the losses occurred from 1972 to 1977.

^{6/} This statement has been revised.

The concept of establishing a separate publication selling price for bookstores was tested in the past and was found to create major problems. The argument that over-the-counter bookstore sales should not include postage fails to recognize that distribution costs are incurred for shipping publications to the bookstores. In addition, the Public Printer's Publication Pricing Task Force considered, but did not recommend, separate selling prices.

CHAPTER 4 7/
NEED TO IMPROVE
MANAGEMENT OF DOCUMENTS INVENTORY

Chapter 4 analyzes the processes and mechanics that GPO employs to manage the General Sales Program inventories. It finds that, without continuing improvements in the quality and timeliness of inventory data, inappropriate inventory management decisions may be made, particularly in excess inventory determinations.

Improvement in the identification of excess publication inventories is one of the many benefits that GPO will realize from the implementation of the comprehensive automated inventory system. When coupled with improved inventory management procedures that the Superintendent of Documents is developing, the incidence of excess publications in the General Sales Program inventory will be minimized further. However, the occurrence of excess publication inventories cannot be eliminated. Publishing agencies will continue to revise publications and declare others obsolete. And in spite of continued improvements in the selection process, Inventory Management Specialists will occasionally overestimate or underestimate publication demand.

The 18 month publication life cycle is a general guideline used by Inventory Management Specialists when making inventory management decisions. The 18 month life cycle is only one of many factors considered when making such decisions, and it can vary in length according to other factors. Marketing strategies to be used by publishing agencies and the GPO, profiles of potential customers, life cycles of similar publications, estimated costs of reprinting, physical characteristics of a publication, and other considerations are weighed in estimating the life cycle of a publication and, thus, the quantity to be requisitioned or retained.

Inventory management decisions cannot be completely automated neither can inventory management procedures account for all variables influencing the life cycle of a publication. Comprehensive automated systems and procedures can only provide the information and tools with which inventory management decisions are made. Ultimately, each inventory management action is based on the professional judgement of an Inventory Management Specialist.

7/ This is now chapter 5.

CHAPTER 5 8/
BOOKSTORE OPERATION IS FINANCIALLY VIABLE
BUT MORE MANAGEMENT ATTENTION IS NEEDED

Chapter 5 finds that the overall GPO bookstore program was financially viable during Fiscal Year 1982. In addition, the chapter concludes that GPO bookstores could be improved if they were relocated, had better operating procedures, had more highly trained and appropriately graded managers, and were subjected to more frequent field visits.

The Public Printer's recommendation to close the out-of-town bookstores was made in October 1981 and was based on Fiscal Year 1979, 1980, and 1981 data. The findings in this chapter are based on Fiscal Year 1982 data, which were not available to the Public Printer until almost one year after he made his recommendations. However, the table on page 36 shows that for Fiscal Year 1982, even though the overall bookstore program had a net income of \$390,413, the out-of-town bookstores operated at a net loss of \$59,347. This report states that the out-of-town bookstores contribute \$1.3 million of income to offset fixed costs (overhead costs). We do not consider overhead costs as fixed costs. These are variable costs which would be reduced if these out-of-town stores were closed.

Many of the findings in this chapter that do not relate to the Fiscal year 1982 financial data are based on the opinions of the bookstore managers. While these opinions may be informative, the bookstore managers have limited knowledge about the overall bookstore program and the General Sales Program. Consequently, their opinions should be weighed accordingly by GAO.

The GPO estimates that approximately 75 percent of out-of-town bookstore sales would be retained in the General Sales Program if the bookstores were to be closed. When the recommendation to close the out-of-town bookstores was made, the mail order operation had the capacity to process the additional orders. Continuing improvements in this operation should increase efficiency allowing the processing of additional orders in the future.

The report states that the Joint Committee on Printing received 400 letters in support of keeping the bookstores open. When compared to the number of businesses, libraries, households, etc. in the United States, 400 letters is insignificant. The letters become even less significant when it is recognized that letters were actively solicited by bookstore proponents.

The GPO agrees that "Marketing is an important tool for making customers aware of an organization and the products it has to offer" and has undertaken an extensive centralized marketing effort on behalf of the General Sales Program. However, rather than undertake a marketing effort on a city-by-city basis, the GPO has developed a nationwide marketing campaign that addresses the entire General Sales Program and includes the bookstores as a component. For example, bookstore addresses are included in "U.S. Government Books" and "New Books". In addition, five second tag lines, identifying the bookstore locations, are provided with public service announcement tapes in those areas where bookstores are located.

8/ This is now chapter 2.

For Fiscal Year 1983, the GPO has budgeted approximately three percent of its anticipated sales revenue for the nationwide marketing effort. If, instead of a nationwide campaign, the GPO bookstores were permitted to spend three percent of their anticipated revenue on advertising, the amount of advertising that could be purchased would be insignificant. For example, if the Chicago bookstore were to spend three percent of its sales revenue (approximately \$7,500) on spot television advertising, it could purchase nine 30 second spots on WMAQ, the NBC affiliate in Chicago. Moreover, if bookstores were to purchase advertising, radio and television stations would not air the free public service announcements that are a major component of the marketing program.

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