

GAO

Report to the Administrator of General Services

May 1987

INTERNAL CONTROLS

Federal Supply Service Depot Transportation Costs Can Be Reduced



132904

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**General Government Division  
B-226235**

May 8, 1987

The Honorable Terence C. Golden  
Administrator of General Services

Dear Mr. Golden:

This report discusses the results of our review of management controls over Federal Supply Service (FSS) supply distribution operations. We made this review to assess how well FSS management control systems assure that motor freight transportation costs are held to a minimum. We did our work at the FSS Central Office, Fort Worth and Kansas City regional offices, the Fort Worth depot, and the Kansas City finance office. Details on our objectives, scope, and methodology are presented in appendix I.

Annually, FSS spends about \$37 million to transport depot-stocked merchandise by motor freight carrier to federal agencies. Additionally, FSS spends about \$7 million annually to transport goods to federal agencies by other means such as small package carriers. We estimate that FSS may be able to save at least \$3.8 million of the \$37 million annually by combining consolidatable shipments. Consolidatable shipments are two or more shipments made by the same FSS depot to the same agency at the same location on the same day, and transported by the same motor freight carrier.

FSS procedures generally require depot personnel to manually consolidate multiple shipments because, on a per pound basis, the larger the shipment the less costly it is. However, multiple shipments are not always being consolidated for several reasons.

- FSS does not monitor depot performance in consolidating shipments but it does monitor and hold depots accountable for meeting timeliness goals for processing and shipping agency orders. Consequently, depots emphasize meeting their timeliness goals.
- FSS policy prohibited consolidating priority with nonpriority orders. Our analysis showed, however, that this prohibition was unnecessary because priority and nonpriority orders shipped on the same day are almost always delivered on the same day.
- FSS' automated system causes depots to have to manually consolidate shipments because it processes orders according to the storage location of the merchandise within the depot, and it produces the shipping documents at the same time it produces the order filling documents.

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Our findings are discussed in more detail in appendix I.

FSS is currently studying the feasibility of automating its depot operations. Automating the depots, as currently envisioned, would address the problems associated with producing shipping documents concurrently with order filling documents, but it would not address the problems relating to different depot storage locations or the prohibition against merging priority with nonpriority orders.

Our draft report proposed that FSS' prohibition against consolidating priority with nonpriority (but not emergency) orders be rescinded when they are to be shipped from the depot to the same customer agency on the same day. The General Services Administration (GSA) agreed with our proposal and, in commenting on our report, stated that the prohibition had been rescinded. FSS depot directors were notified of the rescission on March 11, 1987. Consequently, that proposal has been deleted from this report.

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## Recommendations

To realize the transportation cost savings available through consolidation of multiple shipments, we recommend that the Administrator, General Services Administration, direct the Commissioner, Federal Supply Service, to

- modify the internal control system which holds FSS depots accountable for meeting shipment timeliness goals to include accountability for consolidating multiple, same-day shipments to the same customer agency, and
- include, as part of its depot automation project, the feasibility of modifying automated system processes to minimize the generation of documents that, without manual intervention by depot personnel, authorize multiple shipments.

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## Agency Comments and Our Evaluation

In commenting on this report (see app. II), GSA agreed with our recommendations and described actions it has underway to implement them.

GSA said it is establishing internal controls which hold the FSS depots accountable for the overall order ship time and that these controls will include a requirement for consolidating shipments whenever it is cost beneficial to the government. It also stated that the depot automation project will include the ability to produce shipping documents at the time of shipment. This will reduce the number of shipments requiring

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manual intervention for consolidation because when orders are ready for shipment, they will automatically be consolidated on one shipping document.

GSA's planned actions sufficiently address our recommendations.

We are sending copies of this report to the Director, Office of Management and Budget; Commissioner, Federal Supply Service; and interested committees of Congress. As you know, 31 U.S.C. 720 requires the head of a federal agency to submit a written statement on actions taken on our recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations not more than 60 days after the date of this report, and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We greatly appreciate the courtesy and cooperation extended to us by FSS headquarters, regional, and depot staffs.

Sincerely yours,



William J. Anderson  
Assistant Comptroller General

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## Abbreviations

FSS	Federal Supply Service
GSA	General Services Administration



# Federal Supply Service Depot Transportation Costs Can Be Reduced by Combining Consolidatable Shipments

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## Background

The Federal Supply Service (FSS) operates a worldwide procurement support and supply distribution system. It is one of the General Services Administration's (GSA) largest services with a \$2.1 billion budget and 3,500 employees. About \$1 billion in supplies, such as general office supplies and tools, is distributed annually through its supply depots. Almost all of the supplies are distributed through its four major depots which are located in Fort Worth, Texas; Duluth, Georgia; Stockton, California; and Belle Mead, New Jersey.

One goal of FSS' supply distribution operations is to minimize transportation costs by consolidating freight shipments when possible. As a general rule, a single shipment is less expensive to ship than two smaller shipments since freight rates tend to decrease as the weight of the shipments increase. Consequently, FSS' automated system accumulates non-priority orders for up to 7 days so it can consolidate orders from the same agency into one order. The system then generates documentation authorizing the depot to fill the order. At that same time, the system generates separate documentation authorizing shipment of the order. Priority orders are processed on receipt.

Because the time required to fill agency orders varies, different orders from the same agency are often ready for shipment on the same day despite the automated system's merging of orders. Consequently, when depots have filled and prepared agency orders for shipment, FSS procedures require depot personnel to check the shipments before carrier pick-up to ascertain if any shipments can be further consolidated. If two or more shipments are bound for the same customer and location, depot personnel are to manually consolidate the shipment. They can either prepare a new transportation document and cancel the old ones, or choose one of the old transportation documents as the movement document, revise it to reflect, among other things, the new weight, and cancel the remaining old ones. Depot personnel, however, were prohibited by regulation from consolidating priority and nonpriority orders with each other.

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## Objectives, Scope, and Methodology

Our objectives were to (1) identify the primary motor freight transportation goals of FSS' supply system and (2) evaluate how FSS assured the goals were met.

During our work, Congress enacted legislation that, in part, requires the Administrator, General Services Administration, to study the feasibility of automating systems to more effectively manage the transportation of

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**Appendix I  
Federal Supply Service Depot Transportation  
Costs Can Be Reduced by Combining  
Consolidatable Shipments**

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property governmentwide.<sup>1</sup> The study is to be completed by July 1988. Also, FSS initiated a study to improve its supply system through increased depot automation. We, therefore, curtailed our work so we could provide timely information to FSS. Accordingly, our evaluation was limited to assessing how well FSS' control system assured that consolidatable shipments were being merged into larger shipments to minimize transportation costs. We did not evaluate FSS' overall supply distribution and transportation controls.

Our work was done at the FSS Central Office, Fort Worth and Kansas City regional offices, the Fort Worth depot, and the Kansas City finance office. At these locations, we interviewed agency officials involved with depot, transportation, regional, financial management, and inspection activities. We also reviewed records and procedures, and observed operations to gain an understanding of how the supply distribution system operates.

We identified all transportation invoices processed during August 1986. In total there were 2,969 invoices totaling \$5.3 million. We estimate that about \$3.9 million of the \$5.3 million was for outbound transportation costs incurred by FSS depots. The remaining \$1.4 million represented inbound transportation costs incurred by the depots or transportation costs incurred by GSA components other than the depots such as the Customer Supply Centers. From the 2,969 invoices we randomly selected a sample of 45 which contained 727 depot shipments costing \$92,376. Ninety-four percent of the 727 sample shipments were made by FSS' four major depots: Belle Mead, New Jersey; Duluth, Georgia; Fort Worth, Texas; and Stockton, California. We selected our sample from records on file at the Kansas City finance office—GSA's centralized accounts payable office.

We analyzed the 727 randomly selected shipments to determine if the shipments could have been consolidated, and if so, the reasons why they were not. Specifically, we identified instances when FSS depots made more than one shipment to the same customer agency, at the same location, on the same day, by the same motor freight carrier. We then requested transportation specialists in FSS' Travel and Transportation Management Division to recompute what the transportation costs would have been if the multiple shipments had been consolidated into one shipment.

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<sup>1</sup>H.R. 5420, a bill to amend section 3726 of title 31, U.S.C., was signed into law on November 7, 1986

Our work was done from May through December 1986 in accordance with generally accepted government auditing standards.

**Significant Savings  
 Available by  
 Combining  
 Consolidatable  
 Shipments**

Our analysis of 727 shipments costing \$92,376 shows that FSS could have saved \$14,254 if consolidatable shipments had been combined into larger shipments. On an annual basis, we believe the savings attainable from freight consolidation may be \$3.8 million or more.

Of the 727 motor freight shipments in our sample, 274 were multiple shipments which could have been consolidated into 109 shipments. The transportation cost savings that would have been realized by consolidating the 274 shipments amounted to 37 percent of the costs that were incurred as shown in table I.1.

**Table I.1: Savings That Could Have Been Realized by Consolidating Multiple Shipments in GAO Sample**

	Number	Cost
Consolidatable shipments	274	\$38,604
Consolidated shipments	109	24,350
Reduction	165	\$14,254
Reduction as percentage of consolidatable shipments	60	37

The following examples of multiple shipments in our sample illustrate the savings that are potentially available through consolidation.

- On July 2, 1986, the Duluth depot had the same motor freight carrier pick up two shipments of 320 and 84 pounds, respectively, for delivery to Ellsworth Air Force Base, South Dakota. The carrier billed FSS \$59.78 for each shipment for a total cost of \$119.56. If the merchandise had been sent as one consolidated shipment, it would have cost \$77.57. The \$41.99 lower cost represents a 35 percent savings of the cost that was incurred.
- On July 15, 1986, the Fort Worth depot had the same motor freight carrier pick up two shipments of 2,800 pounds and 363 pounds, respectively, for delivery to the Transportation Officer at Fort Ord, California. The carrier billed FSS \$279 and \$81, respectively, for a total cost of \$360. If the merchandise had been sent as one consolidated shipment, it would have cost \$287. The \$73 lower cost represents a 20 percent savings of the cost that was incurred.

As shown by table I.2, savings of 31 percent or more of the multiple shipment charge could potentially have been realized on 48 of the 109

**Appendix I  
Federal Supply Service Depot Transportation  
Costs Can Be Reduced by Combining  
Consolidatable Shipments**

consolidated shipments. Savings of 16 percent or more were potentially available on 83 of the 109 shipments.

**Table I.2: Rate of Savings Per Consolidated Shipment**

Savings as percentage of multiple shipment costs	Consolidated shipments	
	Number	Percent
1 to 15	26	23.9
16 to 30	35	32.1
31 to 45	21	19.3
46 to 60	20	18.3
61 to 75	7	6.4
<b>Totals</b>	<b>109</b>	<b>100.0</b>

As shown in table I.3, all four FSS major depots made multiple shipments. Multiple shipments varied from a low of 26 percent for the Stockton depot to a high of 50 percent for the Fort Worth depot. In other words, 50 percent of the sampled shipments made from the Fort Worth depot involved instances in which two or more shipments were made to the same agency or military post, at the same location, on the same day, by the same motor freight carrier.

**Table I.3: Number and Percent of 727 Shipments Sampled, by Depot of Origin, That Could Have Been Consolidated**

Depot	Consolidatable		Not Consolidatable		Total	
	Number	Percent	Number	Percent	Number	Percent
Belle Mead	65	44	84	56	149	100
Duluth	40	33	80	67	120	100
Stockton	54	26	153	74	207	100
Ft. Worth	105	50	105	50	210	100
Other	10	24	31	76	41	100
<b>All depots</b>	<b>274</b>	<b>38</b>	<b>453</b>	<b>62</b>	<b>727</b>	<b>100</b>

As shown in tables I.3 and I.1, respectively, an average of 38 percent of the sampled depot shipments could have been consolidated at a cost savings of \$14,254. Projecting these amounts to the universe from which the sample was selected shows that, of the \$3.9 million in depot transportation charges processed by the Kansas City finance office during August 1986, about \$400,000 to \$1.2 million could have been saved.<sup>2</sup> This amounts to a savings rate of 10.4 to 30.8 percent. Moreover, relating the lower range of this cost savings—10.4 percent—to FSS' \$37

<sup>2</sup>The projection—a 20.6 percent cost saving—is made at the 90 percent confidence level with a sampling error of plus or minus 10.2 percent.

million annual motor freight expense for transporting depot-stocked merchandise to federal agencies indicates that more than \$3.8 million may be saved if FSS effectively deals with the factors contributing to multiple shipments. Although this annualized savings estimate is not made on the basis of a statistical projection—our sample did not cover a full year of payments—we believe the estimate is reasonable because FSS’ procedures on shipment consolidations have not materially changed in recent years.

### **Factors Contributing to Multiple Shipments Problem**

Analysis of the multiple shipments in our sample provides some insight as to why they were not consolidated. FSS’ regulations provided for some consolidation but, in many instances, the consolidation did not occur. In those instances where depot personnel should have consolidated multiple shipments but did not, the following conditions were present:

- FSS’ automated supply distribution system had authorized the multiple shipments because it processes orders separately according to the storage location of the merchandise within the depot.
- FSS depots received paperwork authorizing separate shipments to an agency on different days, but because orders are filled at varying speeds, the orders were ready for shipment on the same day.

Other consolidatable shipments were not combined because (1) FSS policy prohibited the combining of priority with nonpriority orders or (2) they were addressed to different components of the same agency at the same location. Also, we could not determine why a few of the consolidatable shipments were not combined.

The frequency with which these factors occurred in our sample are shown in table I.4 and are discussed further in the following sections.

**Table I.4: Factors Contributing to Multiple Shipments**

	<b>Multiple shipments</b>	
	<b>Number</b>	<b>Percent</b>
Location within depot	85	31
Varying processing time	71	26
Priority/nonpriority	73	27
Different offices/units, same agency	31	11
Unknown <sup>a</sup>	14	5
<b>Total</b>	<b>274</b>	<b>100</b>

<sup>a</sup>Information was not sufficient to determine why these consolidatable shipments were not combined

Separate Shipments  
 Authorized Because of  
 Storage Location Within the  
 Depot

As shown previously, 85 of the 274 multiple shipments—31 percent of the total multiple shipments we identified—represented agency orders that were processed as separate orders because the merchandise was stored in different locations within the depot. For example, the Fort Worth depot consists of two main facilities—the Fort Worth West Depot and the Fort Worth East Depot. The Fort Worth West Depot is divided into four sections: (1) fans and heaters; (2) bulky, and hard to handle items; (3) paints, sealants, and adhesives; and (4) everything else. To satisfy two nonpriority requisitions received from a naval air station, the FSS automated system generated documentation authorizing the depot to select and ship bulky items held in stock and separate documentation for selecting and shipping sealants and adhesives. The depot completed both orders on June 20, 1986, as separate shipments, according to the computer generated documentation. At that time, the same motor freight carrier picked up both orders from the Fort Worth West Depot.

Table I.5 shows the number of storage locations within FSS' main depots that result in orders being processed in this manner.

Table I.5: Number of Storage Locations  
 Within FSS' Main Depots Resulting in  
 Orders Being Processed Separately

Depot	Number of storage locations within depot
Belle Mead	5
Duluth	6
Fort Worth	9
Stockton	7
<b>Total</b>	<b>27</b>

FSS' automated system is, in effect, processing agency orders as if it had 27 separate depots instead of the 4 shown in table I.5. Furthermore, an agency order for individual items or small quantities of merchandise and for merchandise ordered by bulk lot or in large quantities will be separated and processed as separate orders even though they are prepared on the same day.

Separate Shipments  
 Authorized Because of Time  
 Differences in Filling Orders

Seventy-one of the multiple shipments—26 percent of the total multiple shipments identified—represented orders which were received at the depot at different times but, because the filling of orders proceeded at varying speeds, were completed for shipment on the same day.

For example, on July 16, 1986, FSS' automated system generated documentation authorizing the filling and shipping of a nonpriority order to a Veterans Administration office in Arkansas, and on July 22, 1986, it generated documentation authorizing the filling and shipping of another nonpriority order to the same office. The two orders were picked up by the same motor freight carrier, as separate shipments, on July 22, 1986.

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**Separate Shipments  
Authorized Because FSS  
Policy Prohibited  
Consolidating Priority With  
Nonpriority Orders**

Of the 274 multiple shipments in our sample, 73 (27 percent) were priority and nonpriority orders that were ready for shipment to the same agency on the same day. Although priority orders are processed separately and filled more quickly than nonpriority orders, our analysis shows that the shipment transit time was generally the same for both. Consequently, the consolidation of multiple priority and nonpriority orders once they are prepared for shipment should not have been prohibited.

The priority designation influences the time that the depot has to fill the order. FSS' automated system automatically processes priority orders and they are sent daily to the appropriate depot. The depots are to fill and ship priority orders within 48 hours of receipt. Nonpriority orders are allowed to accumulate for up to 7 days so that the automated system can consolidate nonpriority orders from the same agency. The system then generates the required documentation that instructs the depot to fill the order. Depots have about 6 days to fill the order to meet FSS' established 13-day timeliness goal for nonpriority orders.

The priority and nonpriority designations, however, do not influence shipment transit time. Motor freight carriers, generally are to deliver both priority and nonpriority shipments within 7 days.<sup>3</sup> Only for emergency orders are the depots instructed to make special transportation arrangements. Such orders make up about 3 percent of the depots' overall workload, while priority and nonpriority orders comprise about 17 and 80 percent, respectively.

Our analyses of the multiple priority and nonpriority shipments in our sample which could have been consolidated reveal that shipment transit time was generally the same for both. For example, on June 17, 1986, FSS' automated system authorized a depot to fill a nonpriority order for

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<sup>3</sup>Established in conjunction with standards specified by the Uniform Material Movement and Issue Priority System Directive (Department of Defense Directive 4410 6)

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Dover Air Force Base in Delaware. On June 23, 1986, the system authorized the same depot to fill a priority order from the same Air Force Base. The orders were prepared as separate shipments in accordance with the system's authorizing documentation and both orders were completed for shipment on June 26, 1986. The same motor freight carrier picked up both orders and delivered the two orders at the same time.

Our sample included 40 priority and 33 nonpriority shipments that were capable of being consolidated into 33 shipments. As shown by table I.6, only one of the priority shipments was delivered before the nonpriority orders.

**Table I.6: Difference in Time of Delivery for Consolidatable Priority and Nonpriority Shipments**

<b>When delivered</b>	<b>Consolidatable shipments</b>	
	<b>Number</b>	<b>Percent</b>
Priority/nonpriority delivered on same day	27	82
Priority delivered before nonpriority	1	3
Nonpriority delivered before priority	2	6
Other (mixture of above)	3	9
<b>Totals</b>	<b>33</b>	<b>100</b>

The priority shipment delivered before the nonpriority one was delivered 3 days earlier than the nonpriority shipment with which it was consolidatable.

The shipments in the "other" category in table I.6 represent shipments which fell into at least two of the table's categories. For example, on June 23, 1986, a carrier picked up one nonpriority and two priority shipments from the Stockton depot for delivery to the same agency. The nonpriority and one of the priority shipments were delivered on June 28, 1986, but the other priority shipment was not delivered until July 2, 1986—4 days later.

FSS central office officials agreed that the priority and nonpriority designations did not shorten the shipment transit time of priority orders. Accordingly, they saw no compelling reason to preclude consolidating priority with nonpriority orders once they were prepared for shipment.

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**Separate Shipments  
Authorized Because of  
Different Agency  
Addressees at the Same  
Location**

Thirty-one of the multiple shipments—11 percent of the total multiple shipments identified—represent shipments to different offices or units of the same agency at the same location. When such conditions are noted, FSS guidelines provide that FSS personnel should (1) contact the agency regarding the establishment of a consolidated receiving point for all of the agency's shipments at that location and (2) as appropriate, update the automated system's information so that the system can accumulate and consolidate the orders received from the agency's offices/units into an agency order.

An example of multiple shipments to one location because of different addressees follows. On July 11, 1986, a motor freight carrier picked up two shipments from the Duluth depot for delivery to Dobbins Air Force Base, Georgia. The two shipments were not combined into a single consolidated shipment because one was addressed to the 94th Tactical Airlift Wing and the other one was addressed to the Air National Guard, Assistant, United States Property and Fiscal Officer for Property.

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**Control System Needed  
to Monitor Depot  
Effectiveness in  
Consolidating  
Shipments**

FSS does not monitor depot performance in consolidating multiple shipments but it does monitor and hold depots accountable for meeting timeliness goals for processing and shipping agency orders. FSS needs to monitor depot effectiveness in consolidating shipments to agencies so that it can also hold depots accountable for combining shipments and minimizing transportation costs.

Depots are expected to ship 94 percent of customer orders within established timeframes—48 hours for priority requisitions and 13 days for nonpriority ones. FSS has established an internal control system which monitors, through monthly reports, depot performance in meeting this goal. Because of this attention, Fort Worth depot managers said that their priorities are to (1) process shipments through the depot to meet FSS timeliness standards and (2) perform housekeeping functions that will enable the depot to process shipments timely. Consolidating shipments was viewed as taking available staff time away from these priorities.

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**FSS Study Is an  
Opportunity to  
Minimize Multiple  
Shipments Problem**

FSS is studying the feasibility of automating depot operations. One feature being considered would allow depot personnel to separately generate order filling and transportation documents. That is, transportation documents would be generated by the depot only when the merchandise is ready for pick-up as opposed to the system automatically generating the transportation documents at the same time the order is sent to the depot for filling. This feature of the system addresses the problems discussed in the report relating to time differences in filling orders. An FSS official, in December 1986, estimated that such a system would be operational in early 1989. However, as currently envisioned, it will not address the problems relating to different depot storage locations. To the extent the automation project can minimize the effect of producing transportation documents on a one-for-one basis with order filling documents, the need for manually consolidating orders will be reduced.

# Comments From the General Services Administration



Administrator  
General Services Administration  
Washington, DC 20405

April 1, 1987

Dear Mr. Bowsher:

The General Services Administration (GSA) has reviewed the General Accounting Office (GAO) draft report on Internal Controls: Federal Supply Service Depot Transportation Costs Can Be Reduced, and generally concurs with the report recommendations. Specific comments on the recommendations are provided in the enclosed statement.

Thank you for the opportunity to comment on this draft report.

Sincerely,

A handwritten signature in cursive script that reads "TC Golden".

Terence C. Golden

The Honorable  
Charles Bowsher  
Comptroller General  
of the United States  
General Accounting Office  
Washington, DC 20548

Enclosure

**Appendix II  
Comments From the General  
Services Administration**

**GSA Comments on the  
Draft Report, "Internal Controls:  
Federal Supply Service Depot Transportation  
Costs Can Be Reduced" (GAO/GGD-87),  
dated March 3, 1987**

Recommendation 1

Modify the internal control system which holds FSS depots accountable for meeting shipment timeliness goals to include accountability for consolidating multiple, same-day shipments to the same customer agency.

Comment

GSA agrees and is already establishing internal controls which hold the Wholesale Distribution Center (WDC) accountable for the overall Order Ship Time; these controls will include a requirement for consolidated shipments whenever it is cost-beneficial to the Government.

For your information, the Federal Supply Service currently has mechanized programs that consolidate orders for shipments. One of these programs is the Shipment Consolidation and Planned Order Selection (SCAPOS) which allows routine orders to stay in the computer for a certain number of days not to exceed 1 week to provide for optimum shipment consolidation. Another program is the Consolidated Receiving Point (CRP) program in which two or more consignees receive their orders at a single destination on one Government Bill of Lading (GBL). The CRP program requires constant updating as new activities are established and other agencies move or are closed.

Recommendation 2

Rescind the prohibition against consolidating priority with nonpriority (but not emergency) orders when they are to be shipped from the depot to a customer agency on the same day.

Comment

GSA agrees and has already implemented this recommendation. The WDCs have been notified to allow all shipments regardless of priority going to one consignee on the same day be consolidated on the same GBL.

See page 3.

See page 2.

Recommendation 3

Include, as part of its depot automation project, the feasibility of modifying automated system processes to minimize the generation of documents that, without manual intervention by depot personnel, authorize multiple shipments.

Comments

GSA agrees and has already included as one aspect of the depot automation project the ability to produce the shipping documents at the time of shipment. This feature will minimize multiple GBLs for the same consignee on the same day. A cost analysis will be performed to minimize total cost (warehousing versus transportation) for items requiring special storage which are difficult to consolidate with routine items.

See page 3

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