

DOCUMENT RESUME

02957 - [A1993040]

How the Item Reduction Program of the General Services Administration Could Be More Effective. LCD-76-459; B-146778. July 11, 1977. 20 pp. + 3 appendices (8 pp.).

Report to Joel W. Solomon, Administrator, General Services Administration; by Fred J. Shafer, Director, Logistics and Communications Div.

Issue Area: Facilities and Material Management: Consolidating or Sharing Supply and Maintenance Systems (701); Facilities and Material Management: Requirements for Equipment, Spare Parts and Supplies (702).

Contact: Logistics and Communications Div.

Budget Function: National Defense: Defense-related Activities (054); General Government: General Property and Records Management (80#).

Authority: 10 U.S.C. 145.

The General Services Administration (GSA) maintains supply records on over 210,000 items, with about 37,500 of these stocked in depots at an inventory value of \$223 million. The remaining items are available to Federal agencies through GSA's special buying program. Findings/Conclusions: The GSA has participated in an item-reduction program but has not fully assumed responsibility for making it effective. GSA has only recently begun to develop an item-reduction study capability; has continued to buy nonstandard items although the standard items are available; and has not established controls to first issue nonstandard inventory and then fill customer requests with the standard items. Recommendations: The Federal Supply Service should: implement the Defense Department's item-reduction decisions in General Service's 69 Federal supply classes; establish procedures for item managers to use the technical support staff, technical data, and the data processing system to substitute nonstandard items for standard items rather than retain or declare them as excess nonstandard inventory; and implement item-reduction decisions in the Defense Logistics Agency-managed classes by deleting the nonstandard items and referring civil agency requisitions to Defense Logistics, or, alternatively, agree with Defense Logistics on which agency should stock each item so that each has only one manager. (Author/DJM)

02957



UNITED STATES GENERAL ACCOUNTING OFFICE

How The Item Reduction Program Of The General Services Administration Could Be More Effective

In providing Federal agencies with supplies and equipment, the General Services Administration has participated in an item-reduction program but has not fully assumed its responsibilities for making such a program effective.

General Services

- only recently has begun to develop an item reduction study capability;
- has continued to buy nonstandard items although the standard items are available; and
- has not established adequate controls to first issue nonstandard inventory and then fill customer requests with the standard items.



UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

LOGISTICS AND COMMUNICATIONS
DIVISION

B-146778

The Honorable Joel W. Solomon
Administrator of General Services

Dear Mr. Solomon:

This report discusses ways in which GSA's program for identifying and eliminating items that are physically and functionally similar can be improved.

There are recommendations to you on pages 10 and 18. As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the House Committee on Government Operations and the Senate Committee on Governmental Affairs not later than 60 days after the date of the 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.

Copies of this report are being sent today to the House Committee on Government Operations; the House Committee on Appropriations, and its Subcommittee on Treasury, Postal Service and General Government; the Senate Committee on Governmental Affairs; the Subcommittee on Treasury, Postal Service and General Government of the Senate Committee on Appropriations; the Director, Office of Management and Budget; and the Secretary of Defense.

Sincerely yours,

A handwritten signature in cursive script that reads "Fred J. Shafer".

Fred J. Shafer
Director

D I G E S T

The General Services Administration maintains supply records on over 210,000 items. About 37,500 of these are stocked in depots, and their inventory value is \$223 million. The remaining items are available to Federal agencies through General Services' special buying program. (See p. 1.)

General Services is responsible for managing and cataloging most items in 69 Federal supply classes. It is the source of supply for Government agencies, including Department of Defense activities. Under an agreement with General Services, Defense is responsible for management and supply of items in other classes. (See p. 1.)

ITEM-REDUCTION STUDIES

Before February 1976, Defense was responsible for making item-reduction studies of all classes of property including the 69 classes that General Services manages.

For the 37,500 items stocked in GSA's depots, these studies recommended that

--1,439 items be designated nonstandard and removed from the supply system and

--16,910 items be designated standard and authorized for future procurement.
(See p. 2.)

There are 19,100 items that have not yet been studied. Many are in the 69 classes for which item-reduction responsibility was transferred from Defense to General Services in February 1976.

Recently General Services took steps to assume this responsibility. (See p. 3.)

NONSTANDARD ITEMS BEING BOUGHT AND STOCKED

General Services has continued to purchase and stock many of the 1,439 items designated as nonstandard as the result of Defense studies--some for as long as 16 years after Defense recommended their deletion from Federal inventories. (See p. 6.)

These items accounted for \$3.8 million in onhand inventory and \$5.1 million on order as of January 31, 1976. (See p. 7.)

Many nonstandard items that General Services is buying and stocking are assigned to the Defense Logistics Agency for supply management responsibility. General Services and Defense have an agreement whereby civil agency supply requisitions can be filled by Defense Logistics, but General Services continues to stock and issue many of the items. (See p. 9.)

RELATIONSHIP OF STANDARD AND NONSTANDARD ITEMS NOT RECORDED

General Services has not recorded data needed to show the interchangeability of standard and nonstandard items. As a result, General Services has not taken advantage of opportunities to use up nonstandard items by substituting them for standard items. (See pp. 12 and 13.)

Deleting the items which were recommended for removal from the supply system would reduce the Government's investment in supplies, reduce supply management costs, and concentrate use in fewer items permitting purchase in larger quantities, possibly at lower prices.

PROPOSALS

In a draft of this report submitted to General Services for review and comment, GAO proposed that the Administrator of General Services direct the Federal Supply Service to:

- Emphasize reducing the functionally identical items in the General Services supply system. (See p. 4.)
- Code item records so that item managers will stop ordering nonstandard items. (See p. 10.)
- Include cross-reference and interchangeability data in the data processing system used for supply management and order processing. (See p. 18.)
- Retain a cross-reference in the order processing system to make sure that after the nonstandard inventory is exhausted, no further nonstandard items are purchased and orders for nonstandard items are filled with the standard items. (See p. 18.)

General Services agreed that continued emphasis should be placed on item reduction and said that it was taking action to improve the effectiveness of its program. (See p. 4.)

General Services said that supply records will be coded to show items not authorized for procurement (see p. 10), and reported a limited capability for automated cross-reference and interchangeability identification and procedures to control the repurchase of nonstandard material, adding that system redesign efforts are now in process to provide for an increase of this capability. (See p. 18.)

GAO plans to follow up on these matters to determine whether General Services is sustaining its initial efforts.

RECOMMENDATIONS

The Administrator of General Services should direct the Federal Supply Service to:

- Implement the Department of Defense's item-reduction decisions in General Services's 69 Federal supply classes. (See p. 10.)
- Implement the item-reduction decisions in Defense Logistics Agency-managed classes by deleting the nonstandard items and referring civil agency requisitions to Defense Logistics; or, as an alternative, agree with Defense Logistics on which agency should stock each item so that each has only one manager. (See p. 10.)
- Establish procedures for item managers to use the technical support staff, technical data, and the data processing system to substitute nonstandard items for standard items rather than retain or declare them as excess nonstandard inventory. (See p. 18.)

The Acting Administrator of General Services, in commenting on the above recommendations, said General Services had established a small group to review Defense's item-reduction decisions. Decisions they agree with they will implement; those they disagree with they will appeal. They said they were working with the Defense Logistics Agency to determine who should manage both the standard and related nonstandard items. (See p. 11.)

General Services said it does offer substitute items to the ordering activity although its capability to identify substitute items is limited. General Services said it

is taking steps to improve this capability and the changes will be incorporated into supply operation handbooks.(See p. 18.)

General Services will need to carefully monitor its item-reduction accomplishments to be sure it has developed an adequate capability and provided sufficient emphasis to eliminate nonstandard items and achieve the full benefits of the item reduction program. GAO plans to follow up on these matters to determine whether General Services is sustaining these initial efforts. (See pp. 5, 11, and ...)

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ABBREVIATIONS

DGSC	Defense General Supply Center
DLA	Defense Logistics Agency
DLSC	Defense Logistics Services Center
DOD	Department of Defense
GAO	General Accounting Office
GSA	General Services Administration

CHAPTER 1

INTRODUCTION

In January 1976 the General Services Administration (GSA) had supply records on 210,700 items, of which 37,500, with an inventory value of \$223 million, were stocked in its depots. The nonstocked items were available to Federal agencies through (1) GSA's special buying program, in which items are bought on a one-time basis, or (2) the Federal schedule program, in which contracts are negotiated by GSA and agencies can order directly from suppliers under the contracts. GSA is responsible for all management and cataloging functions for most of the items in 69 Federal supply classes and is the source of supply for all Government agencies, including the Department of Defense (DOD). Through an agreement with GSA, DOD is responsible for items in classes that it manages.

The Secretary of Defense and the Administrator of General Services are directed by 10 U.S.C. 145 to reduce the number of items that are generally similar. Reducing the number of items stocked results in lower inventory handling costs and lower procurement costs. To accomplish this, items of supply are subjected to item-reduction studies.

Item descriptive data, item physical and performance characteristics, and the identification of Federal agencies that are item users are recorded in a data file called the Federal catalog. The Defense Logistics Services Center (DLSC) is responsible for recording this information and keeping it up-to-date. DLSC uses the Federal catalog files to send data to users. Item-reduction study staffs use the information to determine which Federal agencies will be involved in item-reduction studies.

These studies are made by identifying items that are similar in physical and performance characteristics. Technical data is accumulated and evaluated, and items are tentatively designated as "standard" and recommended for procurement and stockage, or they are designated as "nonstandard" and recommended for deletion from the supply system. Users are contacted, advised of the recommendations, and asked to comment.

After coordination of study results among all users, item-reduction recommendations become item-reduction decisions binding on all users. The activity conducting the study sends the results to DLSC, which then updates the Federal catalog.

CHAPTER 2

GSA IMPROVES ITS ITEM-REDUCTION PROGRAM

We reported in October 1974 ^{1/} that GSA's item-reduction program was ineffective because GSA was not following through and acting to eliminate unnecessary items from the Government's supply systems. Since then, GSA has begun to improve its program, but there is much that it can do to reduce the quantity of items it stocks.

On January 31, 1976, GSA stocked 37,449 items ^{2/} in its depots, 18,349 of which had been subjected to DOD item-reduction studies.

DOD had recommended that

--1,439 items be designated nonstandard and removed from the supply system and

--16,910 items be designated standard and authorized for future procurement.

Until recently, DOD's field organizations--known as assignee activities--were responsible for all formal item-reduction studies. The assignee activities did not consider civil users in their studies until about June 1975. In February 1976, the Defense Standardization Manual was revised by a joint DOD/GSA steering committee to specifically give GSA item-reduction responsibilities for its 69 classes.

In April 1976 GSA drafted regulations on the item-reduction program for coordination with civil agencies. The regulations defined the item-reduction program and provided guidelines for implementing the program.

Although GSA had management responsibility for 69 Federal supply classes, it had made no item-reduction studies by May 1976. Until the recent assumption of item-reduction study responsibility, GSA relied on DOD to make studies in the GSA classes.

^{1/}"Number of Items in Federal Supply Catalog Can Be Reduced" (B-146778, Oct. 21, 1974).

^{2/}Many of these are in Federal supply classes which are managed by the Defense Logistics Agency. (See p. 9.)

GSA has been coordinating DOD item-reduction studies with civil agencies since January 1975. Through May 15, 1976, GSA had received 63 studies covering 13,593 items, 9,215 of which have been reviewed and submitted to civil agencies.

In May 1976 GSA organized a group whose only responsibility is to monitor and control item-reduction programs within GSA for the 69 classes it manages. This includes the assignment of item-reduction studies to GSA technical support activities or to a DOD assignee. DOD assignees will return the study results to GSA for implementation. GSA said that in the fall of 1976, two GSA technical support activities were granted authority to develop nine item-reduction studies.

ITEMS ALREADY STUDIED MAY
OFFER ADDITIONAL REDUCTIONS

It may be possible to reduce some of the items DOD recommended for retention because they are functionally similar. For example, GSA offers six pairs of scissors for office, household, and shop use. All have been subjected to item-reduction studies by DOD and retained for stock. GSA stocks four sizes of one style which has one pointed and one beveled blade (design 2), and two sizes of another style which has two pointed blades (design 1), as shown in the following table.

<u>National stock no.</u>	<u>Design</u>	<u>Size</u>	<u>July 1976 inventory</u>	<u>Monthly sales demand</u>	<u>Unit cost</u>	<u>GSA selling price</u>
5110-293-3444	2	6"	1,669	808	\$3.24	\$2.60
5110-293-9199	2	7"	76,507	16,131	1.90	2.20
5110-223-6371	2	8"	8,284	5,443	2.10	2.50
5110-161-6909	2	9"	41,735	8,289	2.34	2.65
5110-161-6912	1	9"	114,565	20,577	2.41	2.80
5110-162-2207	1	12"	8,674	1,904	3.41	3.90

The item manager for these scissors said that all six have been retained because they are standard and agencies have requisitioned all sizes. The chief of the technical support branch for tools in region 6 agreed that the six items have been retained because they are standard and in demand. He said that two sizes of design 2 could be retained instead of four sizes and that designs 1 and 2 could often be substituted for each other.

Reducing the number of items can consolidate demand and reduce prices. For example, the 6-inch scissors have the lowest demand. Demand for them might be still lower were it not for the below-cost selling price.

GSA officials in headquarters and region 6 advised us that GSA's emphasis on service to supply customers is interpreted by many officials and staff members to mean that anything the customer wants should be provided. This philosophy has resulted in many similar items being added to the supply system. Once entered, the demand for the items increases and it is difficult to eliminate them.

CONCLUSIONS

The history of GSA's efforts in the item-reduction program shows that GSA has only recently begun to take positive steps toward implementing the program. To a large extent, GSA's progress reflects its general attitude that it should supply any items that agencies requisition. We agree that GSA should strive to provide the best service it can to its customers; but we also believe that stocking a wide variety of functionally similar items is not always necessary.

An effective item-reduction program can enhance rather than impair service to the agencies. Such a program requires coordination with the agencies to see that the item stocked will meet their needs. By consolidating demand with fewer items, GSA could

- buy in larger quantities to reduce prices and increase its ability to fill requisitions,
- reduce its administrative costs for managing and buying the items, and
- reduce the Government's investment in inventories.

PROPOSAL

In a draft of this report submitted to GSA for review and comment, we proposed that the Administrator of General Services give increased emphasis to reducing functionally identical items in the GSA supply system.

AGENCY COMMENTS AND OUR EVALUATION

GSA agreed that item reduction objectives need to be emphasized, and indicated that its slow progress can be

attributed to a lack of resources to conduct item-reduction studies. GSA said it has therefore had to rely on other agencies to make studies, and has been able to make only limited studies on an item-by-item basis.

GSA said that in May 1976 a small group was set up to review and comment on item-reduction studies prepared by DOD activities and to process item-by-item reduction projects. Further, GSA said that in the fall of 1976, authority was granted to two GSA technical support activities to develop nine item reduction studies.

We believe these actions will now enable GSA to assume increased responsibility for item reduction and to more fully participate in the Federal item reduction program. However, these steps will only provide GSA with a limited item reduction capability. We believe GSA will need to closely monitor their achievements to determine whether the resources they have committed to item reduction are sufficient to make real progress and to accomplish the full potential benefits of item reduction. In view of GSA's agreement with our proposal and the actions described above, we are not making a recommendation on this matter. However, we plan to follow up on this matter in the future.

CHAPTER 3

GSA CONTINUING TO BUY AND STOCK NONSTANDARD ITEMS

On January 31, 1976, the General Services Administration's inventory still included \$4.4 million in the 1,439 items the Department of Defense had designated nonstandard. In addition, it had over \$5 million worth of such items on order. At the same time, standard counterparts were available either through GSA or the Defense Logistics Agency (DLA). GSA had retained some of the nonstandard items for 16 years after DOD recommended their deletion from Federal inventories.

<u>Years items have been nonstandard</u>	<u>Number of items (note a)</u>	<u>Inventory</u>
Under 5 years	372	\$ 478,034
5 to 8 years	236	1,564,940
9 to 12 years	540	1,018,675
13 to 16 years	<u>291</u>	<u>1,371,009</u>
Total	<u>1,439</u>	<u>\$4,432,658</u>

a/Includes 806 items still authorized for procurement, according to GSA records.

In commenting on our October 1974 report, GSA officials said that assignment of a nonstandard designation to an item should always automatically preclude the continued procurement of the item by the item manager. Although these items were coded "not authorized for procurement" in the DLSC catalog file, this coding had not always been entered in GSA's system. GSA's Logistics Data Management Division, which is responsible for assigning acquisition codes, had not assigned a "not authorized for procurement" code to 806 of the nonstandard items. Consequently, item managers continued to order them.

GSA officials said they have not implemented some of the item-reduction decisions made before they participated in the program because

- DOD did not consider the needs of civil users when it designated some items not authorized for procurement and
- GSA stocks nonstandard items in DLA-managed classes to provide supply support to its civil customers.

GSA officials said they plan to review prior item-reduction studies made for items in GSA's 69 managed classes as well as the studies for items they stock in DLA-managed classes. The following table shows information on non-standard items still authorized for procurement according to GSA records.

<u>Class manager</u>	<u>Number of items</u>	<u>GSA inventory</u> <u>January 31, 1976</u>	
		<u>On hand</u>	<u>On order</u>
		(millions)	
GSA	223	\$3.0	\$2.7
DLA	<u>583</u>	<u>.8</u>	<u>2.4</u>
Total	<u>806</u>	<u>\$3.8</u>	<u>\$5.1</u>

ITEMS STOCKED IN GSA CLASSES

We reviewed 62 nonstandard items in GSA-managed classes, each of which had at least \$5,000 in inventory on hand and was still being bought. GSA was stocking 61 of the standard counterparts. The inventory status for these 61 items was as shown below.

<u>Items</u>	<u>GSA inventory</u> <u>January 31, 1976</u>	
	<u>On hand</u>	<u>On order</u>
Nonstandard inventory	\$2,753,647	\$1,694,486
Standard inventory	<u>5,454,471</u>	<u>5,956,357</u>
Total	<u>\$8,208,118</u>	<u>\$7,650,843</u>

The following table shows examples where GSA is purchasing and stocking both the standard and nonstandard items. Some standard items were to replace several items in GSA's inventory.

Inventory
January 31, 1976

National stock no.	Description	Standard items		Nonstandard items	
		On hand	On order	On hand	On order
3750-951-1585	Hedge trimming snears, 8" cutting edge	\$ 509	\$ 3,600		
3750-640-9242	Hedge trimming shears, 9-1/2" cutting edge			\$10,432	\$ 8,323
5110-240-5943	Electrician's pocket knife, 1 blade, 1 screwdriver	203,946	199,050		
5110-721-6810	Premium pocket knife, 3 blade			10,796	107,434
5345-161-9695	Sharpening stone, 6x2x1"	453	4,093		
5345-260-0758	Sharpening stone, 8x2x1"			8,885	5,655
7110-273-8795	Steel swivel chair, no arm- rests, gray upholstery	35,283	115,961		
7110-264-5340	Aluminum swivel chair, no arm- rests, black upholstery			6,134	4,323
7240-240-6958	Safety can, 5 gal., yellow	16,448	25,996		
7240-177-5001	Safety can, 5 gal., red & yellow			15,673	37,618
7530-241-0660	Bond paper, 8x10-1/2"	1,157,371	2,290,456		
7530-290-0617	Bond paper, 8-1/2 x 11"			791,890	2,403
7530-291-0098	Manila folder, square cut 1/	740,116	315,956		
7530-281-5941	Manila folder, 1/5 cut 1/			12,722	25,445
7530-141-2484	Manila folder, straight cut 1/			-	17,137
7530-281-5905	Kraft folder, 1/5 cut 1/			-	2,156
7530-281-5945	Manila folder, 1/2 cut 1/			15,880	12,849
7530-282-2507	Manila folder, 1/3 cut 1/			218,641	5,698
7530-286-6978	Kraft folder, 1/5 cut 1/		12	12,906	-

1/Cut refers to the size of the filing tab on the folders; 1/5 cut would have a smaller tab than the 1/3 or 1/2 cut.

ITEMS STOCKED IN DLA CLASSES

In February 1971 GSA agreed with DOD that henceforth civil agencies would rely exclusively on DLA for supply of items in DLA-managed classes; but GSA has not adhered to the agreement except for petroleum products, electronic items, and 136 other items. Our report issued in February 1976 discusses the dual management of items by DLA and GSA. 1/

GSA has civil agency requisitions for DLA-managed items filled by GSA regional offices. Consequently, both agencies were supplying DLA-managed items. GSA stocks of such items on January 31, 1976, were valued at \$17.7 million. GSA had on hand or on order 583 nonstandard items valued at \$3.2 million and 64 related standard items valued at \$465,000. At the same time the Defense General Supply Center 2/ had on hand and on order \$5.3 million worth of standard items. These items were replacements for 75 of the nonstandard items for which GSA had \$930,000 in inventory on hand and on order. For example, GSA stocks a nonstandard wheelbarrow and the DLA activity stocks the standard wheelbarrow. GSA had \$15,000 worth of the nonstandard wheelbarrows on hand and on order and DLA had \$91,000 worth of the standard wheelbarrows on hand and on order. (See additional examples in app. I).

Examples of the standard and nonstandard items both stocked by GSA follow.

<u>National stock no.</u>	<u>Description</u>	<u>Inventory</u>	
		<u>On hand</u>	<u>On order</u>
Standard 4020-291-5901	375 yards, 16 ply, cotton twine	\$16,258	\$36,558
Nonstandard 4020-233-5994	938 yards, 16 ply, cotton twine	7,557	2,732
Standard 8415-051-1173	Carpenter's apron without bib	9,206	1,508
Nonstandard 8415-255-8577	Carpenter's apron with bib	10,201	15,382

1/"Status and Progress Toward Implementing a National Supply System" (LCD-75-232, Feb. 18, 1976).

2/Other DLA supply centers also stock items which GSA supplies civil agencies, but we did not compare their inventories with GSA's.

CONCLUSIONS

GSA has not eliminated from its depot program items which DOD designated nonstandard by its item-reduction studies. Furthermore, GSA is continuing to stock and supply many items in DLA-managed classes, and thus both GSA and DLA are managing the same items. GSA could reduce inventory investment and procurement and management costs by eliminating the nonstandard items from its supply system because either GSA or DLA generally has the standard items available. Until this is achieved the benefits of item-reduction studies and the central concept of a national supply system--one manager for one item--will not be achieved.

PROPOSAL

In a draft of this report, submitted to GSA for review and comment, GAO proposed that the Administrator of General Services direct the Federal Supply Service to code item records so that item managers will stop ordering nonstandard items.

AGENCY COMMENTS AND OUR EVALUATION

GSA said that its supply records will be adjusted to indicate items not authorized for future procurement. In view of GSA's agreement and planned action, we are making no recommendation on this matter but we plan to follow up on this in the future.

RECOMMENDATIONS

We recommend that the Administrator of General Services direct the Federal Supply Service to

--implement DOD's item-reduction decisions in GSA's 69 classes, and

--implement the item-reduction decisions in DLA-managed classes by deleting the nonstandard items and referring civil agency requisitions to DLA or, as an alternative, agree with DLA on which agency should stock each item so that each has only one manager.

AGENCY COMMENTS AND OUR EVALUATION

GSA concurred with the above recommendations, and said that

--item-reduction decisions made by DOD prior to January 1975 are being reviewed for implementation or appeal; and

--nonstandard items are being assigned to the manager of the standard item (either GSA or DLA) and requisitions for all items in each "family group" will flow to the manager of the standard item.

We believe corrective actions planned by GSA, if properly implemented, should correct the problem of continued procurement and stockage of nonstandard items by GSA and the dual management of items. However, the effectiveness of these actions will depend on how quickly GSA can determine the acceptability of prior standardization decisions and how quickly GSA can agree with DLA about who should manage family groups of items. Any inordinate delay will continue the situation where GSA is buying nonstandard items, when the standard item is available and possibly being managed by both GSA and DLA.

CHAPTER 4

DATA NEEDED TO IMPLEMENT

ITEM-REDUCTION DECISIONS NOT RECORDED

Although the General Services Administration received item standardization data which resulted from the Department of Defense's item-reduction studies, the data has not been included in the automated system used to manage the items. Standardization data shows which items are standard and which are the related nonstandard items. By definition, standard items can always be substituted for nonstandard items, but the reverse is not always true. Furthermore, the extent of interchangeability is not always determined. Because the item managers did not have data on the interchangeability of items, they were not using stocks of nonstandard items to fill requisitions for standard items or vice versa. Our tests showed:

- On January 31, 1976, GSA had \$221,000 worth of nonstandard items which could have been substituted for standard items over a period of about 5 months.
- GSA region 6 had declared as excess at least \$16,000 worth of such nonstandard items over a 4-year period.
- On January 31, 1976, GSA region 6 had backordered requisitions for \$24,000 worth of standard items which could have been filled with available nonstandard items.
- During the first 6 months of 1976, GSA region 6 bought for direct delivery to agencies \$14,000 worth of nonstandard items even though stocks of standard items were available.

GSA has a central automated system which routes agency requisitions to depots where the items are stocked or, if not stocked, to regional offices responsible for buying the items. This system, if properly coded, can

- direct substitution of nonstandard for standard items until nonstandard stocks are exhausted and
- direct substitution of standard for nonstandard items if no nonstandard stocks are available.

But the system is not functioning in this manner because

--item-reduction studies do not generally show which nonstandard items can be substituted for standard items,

--no one has responsibility for recording interchangeability data in this system, and

--interchangeability data on inactive items, even if recorded, is not retained in the system.

NONSTANDARD ITEMS CAN BE SUBSTITUTED FOR STANDARD ITEMS

Nonstandard items are often functionally the same as standard items. However, item-reduction studies usually do not show when the items are fully interchangeable. Because of this, GSA does not usually substitute nonstandard items when standard items are requisitioned.

GSA contends that neither its staff nor the requisitioner can readily determine if a nonstandard substitute is acceptable from a technical viewpoint in all applications. But technical descriptions and the advice of GSA's technical support staff can be used to determine interchangeability. Therefore, many nonstandard items that might never be consumed through normal sales might be issued as substitute items.

According to GSA officials, nonstandard items were generally not being issued as substitutes because (1) headquarters had not directed substitutions, (2) the automated system did not contain the needed data, and (3) GSA works under the philosophy that the agencies should be supplied with items they request since only the agencies know their needs.

Some substitution has occurred

By January 31, 1976, the item managers had coded the automated system to allow issue of nonstandard stock to fill requisitions for standard items for only 12 of 359 nonstandard items which GSA had stopped buying. GSA national tool center officials had substituted some tools to exhaust large quantities. They made a few other substitutions when the standard items were out of stock, but lack of data and program direction has precluded effective substitution of nonstandard stock.

Further opportunities for substitution

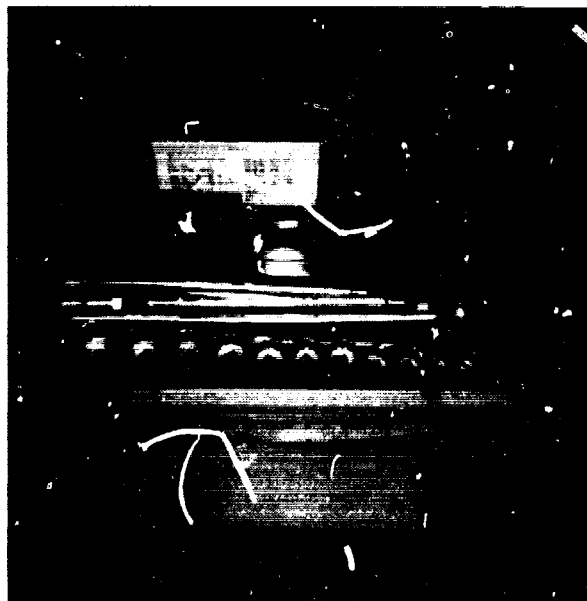
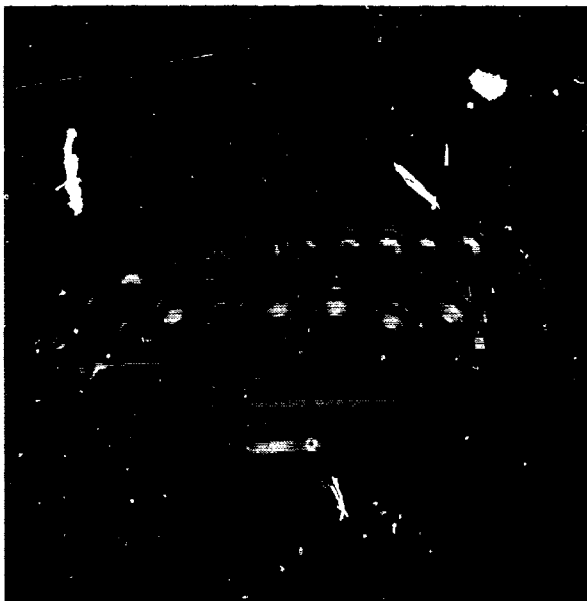
We reviewed 21 nonstandard items which GSA had stopped buying. GSA had \$514,000 worth of these items on hand and on order and at least \$5,000 worth of each item on hand. Five items had no potential for substitution because there was no demand for the standard items. Using technical descriptions and the advice of GSA's technical support staff, we found that an inventory of \$225,000 could have been reduced to \$4,000 in five months by substituting 14 inactive items for standard items. For example, GSA could have substituted \$6,680 worth of nonstandard 54-inch spring lever mop handles for standard 60-inch spring lever mop handles. (See app. II.)

Two other items may be substituted but would need customer approval, according to GSA's technical staff. GSA had \$10,248 worth of 7/8-inch nonreversible pneumatic drills which may substitute for the standard 7/8-inch reversible pneumatic drill.

During our review the Kansas City region used standardization data on six nonstandard items, which we identified in GSA's records, to substitute about \$68,000 worth of nonstandard items for standard items. For example, from April 7, 1976, to June 5, 1976, based on data we provided, CSA substituted \$13,000 worth of nonstandard wrench sets for standard wrench sets. These sets are illustrated and described on the following page.

Nonstandard

Standard



5120-081-2308

5120-204-1999

3/4 square drive, 28-piece
1 hinged handle, 17-3/4"
long
1 reversible ratchet, 17"
long
1 universal joint
1 sliding T handle
3 extension bars
21 regular length, double-
hexagonal sockets,
15/16" to 2-3/8"

3/4 square drive, 21-piece
1 hinged handle, 20-3/8"
long
1 reversible ratchet, 18"
long
1 universal joint
1 sliding T handle
3 extension bars
14 regular length, double-
hexagonal sockets, 7/8"
to 2"

ITEMS ARE BEING DECLARED AS EXCESS
RATHER THAN ISSUED AS SUBSTITUTES

Because item managers do not have standardization data and a procedure to determine interchangeability, they are declaring as excess long supply and terminal nonstandard items which could be issued for standard items.

For example, item managers declared as excess the following nonstandard items which they had stopped buying or were in long supply with no known substitutes:

- Six 500-foot reels of bright steel sash chain. The standard item, the same chain with a copper coating, is in demand.
- 141 quart containers of metal polish. The standard item, the same product in pint containers, is in demand.

We reviewed excess actions made from 1972 through February 1976, in region 6, Kansas City, for the 1,439 nonstandard items which were still in the depot system on January 31, 1976. (See p. 6.) Inventory of 67 nonstandard items costing \$65,681 was declared as excess. The technical support group at the region 6 national tool center analyzed 28 of the tool items, and we reviewed the other 39 items from available catalog and technical descriptions to determine interchangeability with the following results:

- 30 items valued at \$15,569 could have been substituted for related standard items. GSA declared as excess 12 of these items, costing \$5,083 in February 1976, which it had stopped buying or which were in long supply with no known substitutes. GSA had related standard items on hand for these items, but the automated inventory record did not show interchangeability.
- 15 items valued at \$10,263 could not have been substituted because the items were not similar enough to the standard items.
- For 11 items valued at \$20,849, we could not make a determination from data available at region 6.
- 1 item valued at \$12,673 could not have been substituted as a set but its individual components could have been used.
- 10 items valued at \$6,327 could not have been substituted because there was no demand for them or the standard items.

Our tests undoubtedly covered only a portion of the excess. GSA's inventory control manual directs that inventory of an item be declared as excess within 30 days after GSA stops buying it. GSA deletes the item record from its

automated inventory control system when stock is exhausted on an inactive item. Since we used the 1,439 items still in the depot system as our universe, we would not have found excess actions on nonstandard items previously deleted from the system.

NONSTANDARD ITEMS BOUGHT BECAUSE RELATED STANDARD ITEMS NOT IDENTIFIED

Because GSA does not retain a cross-reference in its order processing system to show which deleted items are replaced by standard items, requisitions for nonstandard items can be backordered or bought for direct delivery at the same time standard items are available for issue. In region 6, we found

--\$24,000 in backorders for nonstandard items on January 31, 1976, when standard items were available for issue and

--\$14,000 worth of nonstandard tool and adhesive items bought for direct delivery when standard items were available for issue during the first 6 months of 1976.

Using cross-reference data we extracted from GSA's master file, region 6 filled 500 backorders for tool items during April 1976.

CONCLUSIONS

GSA has not established effective controls to make sure that nonstandard items are exhausted from the supply system and replaced with the standard items. As a result, GSA is not making the most efficient use of inventory and personnel.

Many nonstandard items can be substituted for standard items rather than retained in stock as excess. GSA can use information from the technical support staff and the capabilities of the automated system to determine interchangeability, but has not done so to any extent. GSA has neither included sufficient standardization data in the automated inventory control and order processing systems nor adopted a policy to substitute these items for standard items where practicable.

After nonstandard inventory is exhausted, requisitions for such items are not always filled with available standard items because GSA does not retain a record of item-reduction decisions in the order processing system. The requisitions

can be backordered or rejected, or nonstandard items can be bought for direct delivery although standard stock is available.

PROPOSALS

In a draft of this report, sent to GSA for review and comment, we proposed that the Administrator of GSA direct the Federal Supply Service:

- to include cross-reference and interchangeability data in the automatic data processing system used for supply management and for order processing; and
- to retain a cross-reference in the order processing system to make sure that, after nonstandard inventory is exhausted, no further nonstandard items are purchased and orders for nonstandard items are filled with standard items.

AGENCY COMMENTS AND OUR EVALUATION

GSA said its automated supply management and order processing systems now respond to procurement code and substitution data changes and thus provide a cross-reference. GSA said its present capability to cross-reference standard and nonstandard items is limited, but when stock of the nonstandard item has been eliminated, the nonstandard item record indicates that future procurement of that item is not authorized. GSA has plans to expand its cross-reference capability. In view of GSA's agreement with our proposal, and GSA's planned action, we are not making a recommendation on this matter. However, GAO will follow up on this in the future.

RECOMMENDATION

We recommend that the Administrator of General Services direct that the Federal Supply Service establish procedures for item managers to use the technical support staff, technical data, and the automatic data processing system to substitute nonstandard items for standard items rather than retain or declare as excess nonstandard inventory.

AGENCY COMMENTS AND OUR EVALUATION

GSA said the National Assets File has a capability to cross-reference to one substitute stock number, and offers

the issuance of the substitute item. Although the system can cross-reference only a single substitute item, GSA said redesign efforts are now underway to provide additional capacity.

We believe that expansion of the system's capabilities to reference more than one substitute stock number can result in a more efficient and economical Federal supply system, provided discipline is maintained to make sure that the system is comprehensive and responsive to necessary change.

CHAPTER 5

SCOPE OF REVIEW

We reviewed the General Services Administration's item-reduction program to follow up on our prior report and evaluate its policies and procedures for implementing item-reduction studies made by the Department of Defense.

The number and value of nonstandard items in GSA's depot system was determined as of January 31, 1976. We evaluated, on a test basis, why these items had not been removed from the supply system and had discussions with officials at various levels to evaluate GSA's procedures for replacing nonstandard items with standard ones. We also studied the automated order processing system.

The dual management of similar items by DOD and GSA was tested by comparing GSA and the Defense General Supply Center's inventory on January 31, 1976.

We made our review at the following locations:

General Services Administration:

Headquarters, Federal Supply Service
Washington, D.C.

Federal Supply Service, Region 6 Office
Kansas City, Missouri

We provided a draft of this report to GSA and obtained GSA's written comments. These have been included in appropriate sections of the report and are contained in appendix III.

EXAMPLES OF STANDARD ITEMS IN DGSC AND
NONSTANDARD ITEMS IN GSA SYSTEM

<u>National stock no.</u>	<u>Description</u>	Inventory January 31, 1976			
		<u>Standard Items</u>		<u>Nonstandard Items</u>	
		<u>On hand</u>	<u>On order</u>	<u>On hand</u>	<u>On order</u>
3920-244-9284	General utility wheelbarrow with rubber pneumatic tire, Type I	\$ 37,731	\$ 53,519		
3920-640-9189	General utility wheelbarrow with rubber pneumatic tire, Type I			\$ 7,907	\$ 6,756
5970-419-4291	Electrical insulation tape to withstand 6,000 volts; black plastic adhesive, 3/4" x 36 yards	116,821	410,790		
5970-816-6056	Electrical insulation tape for low temperature application; black plastic, pressure-sensitive, 3/4" x 36 yards			3,407	16,761
6230-270-5418	Flashlight with plastic body and includes 2 removable filters, one spotlight and one diffusing lens, fixed light beam, motion and focus lens; two dry cell batteries not included	-	397,142		
6230-242-005	General service flashlight with flasher button and spot lens type I; size D batteries not included			9,162	18,733
6260-372-0625	Marker flare with 36-hour burning capacity for general purpose use; type II	1,088	12,039		
6260-643-3481	Marker flare with 36-hour oil burning time; heavy steel construction with weighted round bottom and loop for carrying in one hand; type II			1,538	1,574

APPENDIX I

APPENDIX I

National stock no.	Description	Inventory January 31, 1976			
		Standard Items		Nonstandard Items	
		On hand	On order	On hand	On order
6260-270-4060	Gasoline lantern mantle	\$ 4,286	\$ 18,604		
6260-926-1	Gasoline lantern mantle			\$ 414	\$ 1,719
6810-201-0906	Denatured alcohol of 94.9% volume in 1-pint bottle	3,570	2,414		
6810-205-0790	Denatured ethyl alcohol for gen- eral use in 4-oz. bottle			530	7,066
6840-753-4963	Insect and leech repellent fo. clothing and personal appli- cation in 2-oz. container	43,750	1,299		
6840-558-0918	Insect repellent for clothing and personal appli- cation in 2-oz. container			498	9,750
7310-889-3793	Electric hot plate with two burners; 208 volts; type I	3,504	7,811		
7310-247-1274	Electric hot plate with two burners; 208 volts; type I			1,298	6,653
6230-926-4331	Flashlight in plastic body with 4 filters and 2 lenses; fixed light beam, motion and focus, watertight; includes plas- tic signaling wand; type 4	47,681	\$76,817		
6230-965-1371	Yellow traffic signaling flash- light in metal case with un- breakable plas- tic wand and ring hanger; type I			3,602	1,786
4240-269-7912	Plastic indus- trial goggles with clear glass lens; type I	65,127	17,359		
4240-269-7911	Chippers and grinders goggles with clear glass lens; type I			978	111
Total		<u>\$323,558</u>	<u>\$997,794</u>	<u>\$29,334</u>	<u>\$70,909</u>

NONSTANDARD ITEMS WHICH WILL
SUBSTITUTE FOR STANDARD ITEMS

<u>National stock no.</u>	<u>Description</u>	<u>Inventory January 31, 1976</u>			
		<u>Standard Items</u>		<u>Nonstandard Items</u>	
		<u>On hand</u>	<u>On order</u>	<u>On hand</u>	<u>On order</u>
5120-204-1999	Wrench set, 3/4" drive, 21 piece, 7/8" to 1" sockets	\$ 21,037			
5120-081-2308	Wrench set, 3/4" drive, 28 piece, 15/16" to 2-3/8" sockets			\$33,369	
5120-081-2305	Wrench set, 1/4" drive, 13 piece	70,025			
5120-293-3537	Wrench set, 1/4" drive, 15 piece			35,099	
5120-104-2505	Hand tube flaring tool, double flare features, sizes 1/8" to 1/2"	24,237			
5120-541-6662	Hand tube flaring tool, double flare features, sizes 1/8" to 3/4"			5,263	
5120-081-2307	Wrench set, 1/2" drive, 20 piece, 7/16" to 1-1/4" sockets	168,492			
5120-289-0019	Wrench set, 1/2" drive, 20 piece 1/4" to 1" sockets			61,597	
5130-857-8528	Portable electric disk sander, size 9"	68,959			
5130-226-5388	Portable electric disk sander, size 9", double insulated			5,931	
7110-143-0835	Typewriter desk, left pedestal compartment, gray linoleum top	48,820			
7110-270-9838	Typewriter desk, left pedestal compartment, white plastic top			8,580	
7125-680-2764	Clothing locker, 18x24x78", gray, single tier steel for padlocks	23			
7125-282-5076	Clothing locker, 18x24x78", gray, single steel with lock and key			7,876	

National stock no.	Description	Inventory January 31, 1976			
		Standard Items		Nonstandard Items	
		On hand	On order	On hand	On order
7510-530-8881	Binder, 3-ring, black, canvass, hinges, 2" capacity	\$ -			
7510-188-6955	Binder, 3-ring, green, canvass, hinges, 2" capacity			\$ 10,523	
7510-579-2751	Binder, 3-ring, stiff black coated cloth- bound, 2" capacity	-			
7510-579-2750	Binder, 3-ring, stiff black levant cover, 1" capacity			5,070	
7530-285-5030	Teletypewriter paper, 3-copy, canary color, 8-7/16" wide, 5" diameter	34,014			
7530-558-1570	Teletypewriter paper, 3-copy, 1 canary and 2 white color, 8-1/2" wide, 5" diameter			6,484	
7920-205-1656	Cotton polishing cloth, sc ^t finish	16,787			
7920-205-3170	Cotton dusting cloth, oil treated			7,828	
7920-205-1170	Spring lever mop handle, 60"	15,822			
7920-246-0930	Spring lever mop handle, 54"			6,680	
8105-726-5592	Plastic bag, waste receptacle, 12x8x22"	592			
8105-655-8284	Plastic bag, waste receptacle, 10x8x22"			23,927	
7930-851-6719	Laundry starch, powdered or granular, 265 lb. drum	70,803			
7930-597-6108	Laundry starch, powdered or granular, 50 lb. drum			7,332	
Total		<u>\$545,611</u>		<u>\$225,559</u>	

UNITED STATES OF AMERICA
GENERAL SERVICES ADMINISTRATION
WASHINGTON, DC 20405



March 21, 1977

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

77 MAR 22 P 2: 14

Dear Mr. Staats:

Thank you for your letter of January 6, 1977, transmitting your draft report entitled "Item Reduction Program Could Be More Effective" (947219).

We agree that continued emphasis should be placed on the item reduction program and are taking action to improve its effectiveness.

We are pleased to provide, as an enclosure to this letter, our comments on each recommendation.

Sincerely,

A handwritten signature in cursive script that reads "Robert T. Griffin".

Robert T. Griffin
Acting Administrator

Enclosure

GSA COMMENTS ON GAO DRAFT REPORT
TO CONGRESS ENTITLED

"ITEM REDUCTION PROGRAM COULD BE MORE EFFECTIVE"

GAO Recommendation: The Administrator of General Services give increased emphasis to reducing the variety of functionally identical items in the General Services supply system.

GSA Comment: Since the initial meeting of the Joint DoD/GSA Item Reduction Steering Committee in March 1975, GSA has emphasized the importance of Government-wide item reduction efforts. The Steering Group's initial step was to clearly define and delineate responsibility for a Government-wide technical review item reduction program by expanding the concepts of the DoD Standardization Program to encompass all Federal agencies. The group issued, in February 1976, new guidelines for the Federal Item Reduction Program. At this point, the educational phase began. Both within GSA and among civilian agencies, procedures were needed to assure that proper coordination practices were observed and that an understanding of the item reduction study principles was attained. Policies and procedures, tested on an informal trial basis, have been documented in an amendment to the Federal Property Management Regulation FPMR 101-30 on the Federal Catalog System. This document and an associated FPMR Handbook describing in more detail, coordination and implementation responsibilities are now being cleared for issuance.

While policy and procedures development has advanced, resource restrictions have limited GSA's capability to undertake the development of item reduction studies. Without resources to fulfill its responsibilities for development of item reduction studies within its 69 nationally assigned Federal Supply Classification classes, GSA has had to either assign development of item reduction studies to other agencies or confine its analysis to small groups of items (what is referred to as "item-by-item reduction").

However, in recognition that technical analysis item reduction efforts could not be effectively pursued without dedicated resources, in May 1976, a small group of personnel was drawn from existing GSA cataloging resources. This group has been committed to reviewing and commenting on item reduction studies prepared by Department of Defense activities and to the processing of item-by-item reduction projects. In addition, authority was granted to two GSA technical support activities in the Fall of 1976 to develop nine item reduction studies.

We cannot then endorse the conclusion that either our procedural or operational endeavors in pursuit of item reduction objectives is justly characterized by the phrase "lack of aggressiveness," as expressed in the draft report. We do concur with the spirit of the recommendation and feel that our performance in the future, as in the last two years, shall continue to emphasize item reduction objectives.

2

GAO Recommendation: The Administrator of General Services direct the Federal Supply Service to:

- Implement DoD's item reduction decisions in General Services' 69 classes,
- Implement the item reduction decisions in DSA* managed classes by deleting the nonstandard items and referring civil agency requisitions to DSA or as an alternative, reach agreement with DSA on which agency should stock each item so that each item has only one manager; and
- Code item records so that item managers will stop ordering nonstandard items.

GSA Comment: Concur. A study currently underway within GSA focuses on item standardization (reduction) coding decisions made by the DoD prior to the 1975 policy and procedural changes affecting civil agency integration into the Government-wide item reduction program. The objective of this study is to segregate item reduction decisions which can be implemented from those considered questionable. When this study is completed, (scheduled completion date is May 1977), past item reduction decisions will be either implemented or subject to appeal procedures to correct decisions with which GSA and civilian agencies do not concur.

A step in this implementation procedure will provide for reassignment of management responsibilities for "nonstandard" items to the manager of the standard item. The "family group" concept of assigning the family, comprised of standard and nonstandard items to one manager allows for the exercise of more diligent stock attrition practices. Those logistics reassignments of items from GSA to the Defense Logistics Agency (DLA) or from DLA to GSA which are underway and those in the future, will be predicated on our objective to keep logical generic groups of items intact. This obviously includes the standardization relationships. Upon the effective date of transfer, requisitions will flow to the family group manager.

Also, as a step in the implementation process, supply records will be adjusted to reflect an acquisition advice code signifying that the item is not authorized for future procurement.

GAO Recommendation: The Administrator of the General Services Administration direct that the Federal Supply Service:

- Include cross-reference and interchangeability data in the ADP system used for supply management and for order processing;
- Establish procedures for item managers to use the technical support staff, technical data and the automatic data processing systems to substitute nonstandard items for standard items rather than retain or excess nonstandard inventory;

*DSA is now DLA.

3

- Retain a cross-reference in the order processing system to assure that, after nonstandard inventory is exhausted, no further nonstandard material is purchased and orders for nonstandard items are filled with standard items.

GSA Comment: GSA's automated supply management and order processing systems now respond to acquisition advice code and substitution data changes to provide such a cross-reference. GSA's National Assets File has cross-reference capability for one substitute stock number. This mechanized system refers requisitions to the substitute items' record. If stock is available for a substitute item, it is offered to the ordering activity. When stock of the nonstandard item has been eliminated, the standard item will be issued; the nonstandard item record indicates that future procurement of that item is not authorized.

This system does allow for substitution of one item for another. Systems redesign efforts now in process shall provide for additional capability. Changes made to automated systems and operating procedure are being incorporated into GSA's supply operations handbooks and other documented procedures.