

**VALIDATION OF OPERATIONAL SAVINGS  
AT THE WESTERN DISTRIBUTION CENTER  
FEDERAL SUPPLY SERVICE  
REPORT NUMBER A060176/F/9/V07001  
DECEMBER 4, 2006**

Field Audit Office, Pacific Rim Region (JA-9)  
450 Golden Gate Avenue, Room 7-5262  
San Francisco, CA 94102-3434

Date: December 4, 2006

Reply to  
Attn of: Audit Manager, San Francisco Field Audit Office (JA-9)

Subject: Validation of Operational Savings at the  
Western Distribution Center, Federal Supply Service  
Report Number A060176/F/9/V07001

To: James A. Williams  
Commissioner, Federal Acquisition Service (Q)

The San Francisco Field Audit Office conducted a review of validating operational costs and subsequently, any savings that may have resulted from relocating the Western Distribution Center (WDC). Further, we determined whether similar modernization would be justified at the Eastern Distribution Center (EDC) based on our validation. The audit was included in the Office of Inspector General's fiscal year 2006 Annual Audit Plan.

## **BACKGROUND**

The Office of Global Supply manages the logistics program by which it receives, stores, and distributes items to federal customers. Its two depots, the EDC in Burlington, New Jersey; and the WDC in French Camp, California anchor distribution operations. During 2003, FSS relocated most of the WDC operations from Rough & Ready Island, Stockton, California to a newer more technologically advanced facility located at nearby Sharpe Depot. The final relocation of personnel and equipment took place in January 2004.

The Federal Supply Service's (FSS) Office of Global Supply prepared the Sharpe Benefits Study (Study) that identified operational savings in five major cost categories: (1) Labor, (2) Transportation, (3) Information Technology Support, (4) Operating Supplies, and (5) Rent. Although the Study addressed other operational activities, the primary focus of the review was in the validation of costs and resultant savings for the five categories. Our review also assessed whether the validated costs and savings at the WDC were appropriate for the EDC since FSS Global Supply is considering similar modernizations for this distribution facility.

## **OBJECTIVES, SCOPE, AND METHODOLOGY**

The objectives of our review were to determine whether operational costs and savings that were identified by the Study were valid; and were these validated savings justified for similar modernizations at the EDC?

To accomplish our objectives, we analyzed operational activities at the WDC comparing amounts for fiscal year (FY) 2002 to FY 2005 using various source documents such as financial reports, invoices, and payroll records. Costs reported for FY 2002 were selected as the base year because they reflected current operational activity for the WDC prior to the relocation<sup>1</sup>. Whereas, FY 2005 was used as the comparison year since it represented one full year of operational activity at the new modernized facility. In order to provide a fair comparison and to reflect FY 2002 costs, FY 2005 amounts were adjusted by eliminating inflationary costs such as pay scale changes and fuel surcharges. As a result, comparing the adjusted amounts to the baseline year figures more accurately represented the effect of the WDC relocation and modernization.

In addition, we held discussions with General Service Administration (GSA) officials at the WDC, various GSA personnel located in San Francisco and Sacramento, California, and FSS management in Arlington, Virginia.

The audit was conducted in accordance with generally accepted government auditing standards.

## **RESULTS OF REVIEW**

After reviewing cost savings for the five major categories included in the Study, we concluded that differences between the Study's amounts and those determined in our review were not considered significant. However, other factors might have an effect before proceeding on similar modernization attempts at the EDC. Therefore, validated savings alone cannot justify modernization. We further observed adverse changes relating to labor that should be of concern to FSS management. Although costs for transportation were decreasing as a result of the modernization, FSS management should be cognizant of these costs given declining sales at the WDC. Results of our review were presented to management officials of the Office of Global Supply on September 20, 2006 and are included in Appendix A.

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<sup>1</sup>A significant organizational change at FSS Global Supply occurred between late summer and autumn of 2001 (i.e., FY 2002) that resulted in the reduction from eight facilities (four depots and four forward supply points) to just two existing distribution centers.

## **Factors Impacting EDC Modernization**

Based on the assessment of the Study, certain cost categories as well as other matters may have an impact on justifying the modernization of the EDC:

**Labor** - Anticipated workforce efficiencies as a result of modernizing the WDC have not materialized since the facility has experienced decreasing sales revenues and increasing labor costs since the relocation. Consequently, facility modernization does not always guarantee reduced labor costs.

**Transportation** – There were significant operational differences between the two depots that effect transportation savings.

**Rent** – Savings in this particular cost category were site-specific to the WDC and therefore, were not applicable for modernizing the EDC.

**Other Matters** –The Study addressed other possible benefits of modernizing the WDC that were not validated in our review. Specifically, the Study described intangible and cost avoidance factors related to work-in-process<sup>2</sup>, shipping, and distribution operations. Although the Study reported the WDC was reaping these intangible benefits as a result of the modernization, the EDC may not realize those benefits due to operational differences.

## **CONCLUSION**

Operational costs and savings for the WDC should not be used exclusively as a basis to justify similar modernizations at the EDC due to operational differences between the two facilities. FSS must consider all measurable costs and intangible factors that may have an impact on modernizing the EDC. In addition, considering that the modernized system at Sharpe was designed to decrease labor requirements, FSS needs to determine ways to reduce the costs of labor particularly with the slowing volume of sales. Furthermore, FSS needs to evaluate means for reducing transportation costs especially in light of declining sales.

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<sup>2</sup>Work-in-process is measured based on the total number of days to complete a customer's order from receipt to delivery.

## **RECOMMENDATIONS**

We recommend that the Commissioner of the Federal Acquisition Service direct the Assistant Commissioner for Global Supply to:

1. Conduct a Business Model evaluation and/or a cost/benefit analysis of the EDC operating requirements that include, but not limited to, assessments of operational trends (sales revenue, labor & transportation costs) and cost efficiencies (labor productivity) rather than relying on the Sharpe Benefit Study as a basis for modernizing the EDC.
2. Address the issue of increasing labor costs relative to declining sales at the WDC. FSS needs to determine ways to decrease the labor costs and/or contain the additional labor requirements on a modernized system designed to reduce labor costs.
3. Continue recent efforts to reduce transportation costs at Sharpe, in light of the declining revenues.

## **MANAGEMENT COMMENTS**

The Commissioner, Federal Acquisition Service concurred with the recommendations and provided additional information that is included in Appendix B.

## **MANAGEMENT CONTROLS**

The examination of management controls was limited to those necessary to achieve the specific objectives and scope of the audit. Based on our limited review, we found no significant management control problems.

We wish to thank you and your staff for the courtesies extended to the auditors during this review. Should you or your staff have any questions concerning this review, please contact Jim Draxler, Auditor-in-Charge or me at (415) 522-2744.



PERLA CORPUS  
Audit Manager (JA-9)  
San Francisco Field Audit Office

**GSA Office of Inspector General**  
**Validation of Operational Savings at**  
**the Western Distribution Center**  
**Federal Supply Service**  
**Assignment Number A060176/F/9/V07001**

**Appendix A**

# Validation of Operational Savings at the Western Distribution Center

## Introduction

This is the fourth review addressing the Western Distribution Center's (WDC) relocation to a renovated and upgraded facility at an existing Defense Logistics Agency (DLA) warehouse at Sharpe Depot, French Camp, CA.

The objectives of the review were to determine whether operational savings at the WDC, were valid; and justified for similar modernizations at the Eastern Distribution Center (EDC).

# Validation of Operational Savings at the Western Distribution Center

## Background

- In 2002, FSS made a decision to relocate and modernize the WDC, based largely on a feasibility study. The report estimated a cost of \$20.6 million with a projected annual savings of approximately \$9.7 million.
- During 2003, the WDC moved from Rough & Ready Island, Stockton, CA, to the newer more technologically advanced facility at the Sharpe Depot, French Camp, CA.
- The final relocation of personnel and equipment to the new facility was accomplished in January 2004.
- FSS is considering similar modernizations for the EDC, currently located in Burlington, New Jersey.



# Validation of Operational Savings at the Western Distribution Center

## Audit Objectives, Scope & Methodology

### Audit Objectives:

The objectives of the review were to determine whether operational savings at the WDC, were valid; and justified for similar modernizations at the EDC.

### Scope:

We reviewed operational activity amounts for the WDC, using FY2002 as the base year compared to FY2005 activity at the new facility.

# Validation of Operational Savings at the Western Distribution Center

## Audit Objectives, Scope & Methodology

### Methodology:

The Office of Global Supply prepared a report: Sharpe Benefits Study (the Study), that identified operational savings in various categories including:

- **Labor**
- **Transportation**
- **IT Support**
- **Operating Supplies**
- **Rent**

Note: The Study also addressed activity in other areas, however, the primary focus and dollars reviewed were in the above categories.

# Validation of Operational Savings at the Western Distribution Center

## Audit Objectives, Scope & Methodology

### Methodology:

Our field work included the following:

- Held discussions with GSA officials at:
  - ✓ Western Distribution Center (French Camp, CA),
  - ✓ FSS Headquarters (Crystal City, VA),
  - ✓ GSA Offices (San Francisco and Sacramento, CA)
  
- Reviewed and analyzed FSS Reports, invoices, payroll documentation, correspondence, and related data sources.

### Management Controls:

The examination of management controls was limited to those necessary to achieve the specific objectives and scope of the audit.

## Background: Sharpe Benefits Study

- The basis for our review and validation of operational savings at the WDC was an FSS Global Supply comprehensive report, Sharpe Benefits Study, which addressed:
  - The history of the WDC's Stockton location, as well as the decision to modernize and relocate to the Sharpe facility; and,
  - Measurable savings/costs, by operational activity, including methodology and explanation of adjustments to FY2005 numbers.
- The table on the following page presents FY2005 actual costs for the operational cost categories under review.

# Validation of Operational Savings at the Western Distribution Center Background

## WDC Operational Costs FY2005

Labor	\$14,304,429	42.2%
Transportation	14,403,263	42.4%
IT Support	1,646,788	4.9%
Operating Supplies	2,770,199	8.2%
Rent	784,964	2.3%
<b>Total</b>	<b>\$33,909,643</b>	<b>100%</b>

Source: WDC Financial Reports

# WDC Operational Savings - Methodology

## Baseline year and Comparison year

- FY2002 was selected as the baseline year because it clearly reflected current operational activity with two existing distribution centers (EDC and WDC). Changes in the previous organizational structure of FSS Supply (with four depots and four forward supply points) occurred during the summer of FY2001 and into FY2002. This change had a measurable impact on transportation, labor and other operational costs.
- FY2005 was chosen as the comparison period because it represented one full year of normal operational activity at the Sharpe Depot facility.

# WDC Operational Savings - Methodology

## Baseline year and Comparison year

(continued)

- FY2005 amounts were adjusted by removing inflationary costs such as pay scale changes and fuel surcharges, in order to reflect costs in FY2002. As a result, comparing the adjusted amount to the baseline year more accurately represents the effect of the relocation and modernization.
- Therefore, our validation focused on comparing FY2002 with FY2005 (adjusted) amounts.

## Validation of Operational Savings at the Western Distribution Center

### Results in Brief:

- ✓ As a result of validating the study's costs & savings for the 5 major categories, differences were not considered significant.
- ✓ However, these validated savings alone do not justify modernization.
- ✓ Independent of our audit objectives, we noted operational cost measures indicating labor efficiencies have not been realized.



# Summary Comparison of Cost/Savings

Cost Category	(a)	(b)	(b-a)	(c)	(b-a)-c	Notes
	FY2002	FY2005 (adjusted)	Cost/(Savings)	Cost/(Savings)	Cost/(Savings)	
	<u>Per Study</u>	<u>Per Study</u>	<u>Per Study</u>	<u>Per OIG</u>	<u>Difference</u>	
Labor	\$10,867,662	\$ 11,653,594	\$ 785,932	\$ 238,221	\$ 547,711	1
Transportation	\$18,676,139	\$ 12,793,016	\$ (5,883,123)	\$ (5,275,367)	\$ (607,756)	2
IT Support	\$ 332,886	\$ 1,646,788	\$ 1,313,902	\$ 1,331,429	\$ (17,527)	3
Operating Supplies	\$ 1,938,915	\$ 2,590,410	\$ 651,495	\$ 765,749	\$ (114,254)	4
Rent	\$ 5,508,467	\$ 784,964	\$ (4,723,503)	\$ (3,869,314)	\$ (854,189)	5
<b>Total</b>	<b>\$37,324,069</b>	<b>\$ 29,468,772</b>	<b>\$ (7,855,297)</b>	<b>\$ (6,809,282)</b>		

**Notes:** \* Analysis of the IT Support and Rent amounts did not consider inflationary adjustments.

1. The difference of \$547,711 was attributed to the following: understated amounts of \$366,659 (overtime costs); \$187,445 (new contract labor agreements); \$53,071 (unsupported costs); and an overstated amount of \$59,464 (annual pay scale and locality pay increases).
2. The difference of \$607,756 was attributed to the following overstated amounts for FY2005: \$103,484 (freight inflation adjustment) and \$504,272 (fuel surcharge adjustment).
3. The difference of \$17,527 was attributed to: \$20,458 (understating FY2002 support staff pay) and \$37,985 (overstating FY2005 support staff pay).
4. The difference of \$114,254 was attributed to overstatement of FY2005 inflationary adjustment.
5. The difference of \$854,189 was attributed to the Study incorrectly using FY2001 rent amount in the FY2002-2005 rent savings calculation.

# Sharpe Benefits Study – Labor

	(a) FY2002 <u>Per Study</u>	(b) FY2005 (adjusted) <u>Per Study</u>	(b-a) Cost/(Savings) <u>Per Study</u>	(c) Cost/(Savings) <u>Per OIG</u>	(b-a)-c Cost/(Savings) <u>Difference</u>
Labor	\$10,867,662	\$11,653,594	\$ 785,932	\$238,221	\$547,711

- Labor costs, which included GSA employee salaries & overtime, and contract labor, were based on actual and adjusted costs. FY2002 total labor costs were compared to FY2005 (adjusted) labor costs to determine variance.
- In order to adjust FY2005 labor costs, economic factors that included cost-of-living and locality pay increases for GSA employees, and wage rate growth in labor contracts, were excluded.
- The differences described in Note 1, page 12 were not considered significant.

## WDC Operational Savings– Labor Analysis

Labor Productivity Measures	FY2002	FY2005 (adjusted)
Lines per Man-Year/1000	7.061	4.624
Labor cost per line	\$5.55	\$8.85
Total Labor Cost/Revenue	4.3%	5.5%

**Labor Productivity**  
In addition to labor costs, productivity measures were also addressed in the Study.

Comparing Labor Productivity Measures:  
FY2002 (Stockton) to FY2005 (Sharpe)

- ✓ **Lines processed per man-year dropped by 35%.**
- ✓ **Labor costs per line increased over 59%, after adjustments.**
- ✓ **Revenues dropped by 22%.**
- ✓ **Labor cost per revenue, adjusted for inflation, increased by 28%.**

**Conclusion - Anticipated workforce efficiencies have not materialized; productivity has fallen while costs have increased.**

## Sharpe Benefits Study – Transportation Costs

	(a) FY2002 <u>Per Study</u>	(b) FY2005 (adjusted) <u>Per Study</u>	(b-a) <u>Cost/(Savings) Per Study</u>	(c) <u>Cost/(Savings) Per OIG</u>	(b-a)-c <u>Cost/(Savings) Difference</u>
Transportation	\$18,676,139	\$12,793,016	(\$5,883,123)	(\$5,275,367)	(\$607,756)

- Transportation savings were measured using **cost per ton** for each year identified, multiplied by the **actual tons for FY2005**, to calculate a **total transportation cost**.
- FY2002 transportation costs were adjusted for quantity to compare to FY2005 levels.
- In order to adjust FY2005 transportation costs, fuel surcharges and freight rate increases were excluded.
- Differences as noted on Note 2, Page 12, were not considered significant.

# WDC Operational Savings – Transportation

## Transportation Cost Analysis

### Shipping Cost per Ton:

FY2002

\$608.22

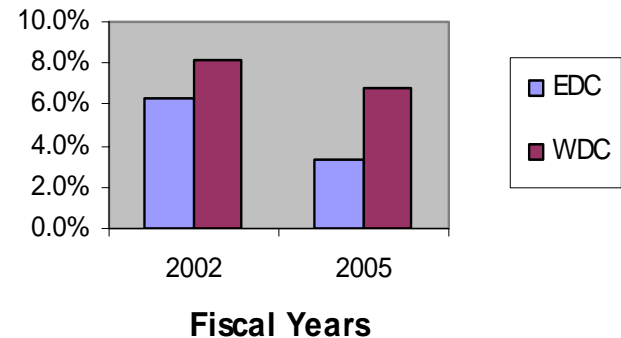
FY2005

(adjusted)

\$416.63

The WDC reduced the shipping cost per ton from FY2002 to FY2005. The data also indicates a drop in the transportation costs as a percentage of revenue, a key measurement ratio for the WDC. Meanwhile, this ratio has seen a much steeper drop, and to a lower level, at the EDC.

**Transportation Cost as a Percent of Revenue** (annual data)



	2002	2005	% decrease
EDC	6.3%	3.4%	<b>46%</b>
WDC	8.1%	6.8%	<b>16%</b>

# WDC Operational Savings – Transportation

## Transportation Cost Analysis

Comparing Transportation Cost:  
FY2002 (Stockton) to FY2005 (Sharpe)

- ✓ Shipping cost per ton has decreased; and
- ✓ Total transportation cost to revenue ratio has decreased;

The 31% drop in shipping cost per ton and the decrease in transportation cost per revenues from 8.1% to 6.4% may be, in part, a result of warehouse management system efficiencies. However, FSS Management observed that the 8.1% amount from FY2002 is somewhat high as a result of the FSS Supply organization consolidation; as a result, the modernized system is not the sole factor for the ratio improvement.

## Operational Differences between EDC and WDC

We noted 3 factors related to transportation savings that should be considered in justifying the modernization of the EDC:

1. Transportation Costs - At the EDC, transportation costs, historically, have represented a smaller proportion of operating costs and revenues, compared to the WDC.
2. Export Operations – At the WDC, export operations, which were more labor intensive, did not make full use of the automation and accounted for only 8% of lines shipped. Whereas, EDC exports totaled 32% of lines shipped. (FY2005)
3. Automated Facility - Prior to modernization, the WDC distribution system was generally non-automated. In contrast, current EDC operations were semi-automated, which included conveyors and a partial warehouse management system.

**Conclusion: Based on operational differences, savings from fully automating the EDC may not reflect those realized by modernizing and relocating the WDC.**

## Sharpe Benefits Study – IT Support Costs

	(a)	(b)	(b-a)	(c)	(b-a)-c
	FY2002 Per Study	FY2005 Per Study	Cost/(Savings) Per Study	Cost/(Savings) Per OIG	Cost/(Savings) Difference
IT Support	\$332,886	\$1,646,788	\$1,313,902	\$1,331,429	(\$17,527)

- IT Support costs included labor for IT personnel (Region 9 and Central Office IT staff) and equipment-related purchases for WDC.
- The increase in IT Support costs was largely attributed to Central Office IT support. Specifically, these costs consisted of contract labor for programming, development, and maintenance of the new warehouse management system.
- The differences as described in note 3, page 12 were not considered significant.



## Sharpe Benefits Study – Operating Supplies Costs

	(a) FY2002 <u>Per Study</u>	(b) FY2005 (adjusted) <u>Per Study</u>	(b-a) Cost/(Savings) <u>Per Study</u>	(c) Cost/(Savings) <u>Per OIG</u>	(b-a)-c Cost/(Savings) <u>Difference</u>
<b>Operating Supplies</b>	\$1,938,915	\$2,590,410	\$651,495	\$765,749	(\$114,254)

- Operating supplies consisted of telephone services, office supplies and equipment rental, and general operating supplies.
- Global Supply used an estimated inflation rate to adjust the FY2005 amounts; whereas, we used the Consumer Price Index as a more reliable factor. The differences were not considered significant.
- The net increase, adjusted for inflation, is largely due to additional purchases related to the warehouse operations, including printer cartridges, shipping labels, and packaging materials.

## Sharpe Benefits Study – Rent

	(a) FY2002 Per Study	(b) FY2005 Per Study	(b-a) Cost/(Savings) Per Study	(c) Cost/(Savings) Per OIG	(b-a)-c Cost/(Savings) Difference
Rent	\$5,508,467	\$784,964	(\$4,723,503)	(\$3,869,314)	(\$854,189)

- At the Stockton Depot, FSS paid an annual rent of \$5.5 million in FY 2002. For the new facility at Sharpe, FSS is only required to pay DLA for user fees on utilities and maintenance costs.
  
- Conclusion: The rent savings, although valid, are specific to Sharpe and are, therefore, not applicable for modernizing the EDC.

## Sharpe Benefits Study - Other Matters

The Study also included areas we did not address:

- ✓ **Discussion of cost avoidance by moving to the more modern facility;**
- ✓ **Identification of intangible savings, including facility-related benefits and warehouse management system improvements at Sharpe;**
- ✓ **Opportunities for improvements, including shortcomings in the new system/facility requiring attention in the future;**
- ✓ **Burlington suggestions or “lessons learned”, to enhance the efforts to modernize and automate the EDC, based on experiences during the WDC modernization.**

We did not analyze or validate these areas because they were not measurable or quantifiable. However, we acknowledge the benefits of their discussion for possible improvements at the WDC and future modernization plans for the EDC.

# Sharpe Benefits Study - Other Matters

Specifically, the Study covered additional issues that were not validated in our review, but may be useful in any current or future efforts at the EDC.

**Work In Process (WIP):** Typical end of the day WIP at Stockton was estimated to be 2 to 4 days. Efforts were recently made, and priorities and goals were emphasized, to reduce the WIP at the new facility. A recent measure at Sharpe indicated the WIP had been drastically reduced from 4 days to 2 hours. However, the increased labor effort to maintain the minimal WIP may not be worth the minimal additional benefits to customer service (Global Supply officials indicated that 4 hours is generally an ideal WIP balance to keep an even flow of workload). Efforts are being made to determine the ideal balance between WIP and customer service.

**Transportation:** According to the Study, process changes in distribution measured during February-March 2006 have resulted in reduced shipping cost per ton by 19%.

**Intangible benefits:** Process efficiencies derived from the warehouse management system (WMS) that included cartonization, similar-order processing, and data-tracking information have improved operations at the WDC according to the Study.

**Other Measures:** According to the Study, discrepancies reported to the National Customer Service Center have dropped substantially (75%) between FY2002 and FY2005, indicating improvements in quality service. Similarly, the Study reported that the number and dollar-value of inventory adjustments resulting from inventory counts had been reduced significantly since the modernization.

# WDC Operational Savings – Conclusion

## Audit Objective:

1. Were the WDC operational savings, as identified by FSS Global Supply's study, valid?

## Conclusion:

- Our validation of the study's costs & savings of the 5 major categories resulted in minor differences;
- Of significance, we identified operational cost measures indicating labor efficiencies have not been realized. Specifically, WDC has experienced decreasing sales revenues and increasing labor costs since the relocation.

# WDC Operational Savings – Conclusion

## Audit Objective:

2. Were validated savings justified for similar modernizations at the EDC?

## Conclusion:

Validated savings alone do not justify modernization. Furthermore, savings categories that include rent and transportation at the WDC may not apply to the EDC.

- ✓ Rent savings were specific only to the WDC and, therefore, were not applicable to the EDC.
- ✓ Transportation savings at the EDC may not be realized due to operational differences (cost, export operations, and current level of automation).

# WDC Operational Savings - Recommendations

We recommend that the Commissioner of the Federal Acquisition Service direct the Assistant Commissioner for Global Supply to:

1. Conduct a Business Model evaluation and/or a cost/benefit analysis of the EDC operating requirements that include, but not limited to, assessments of operational trends (sales revenue, labor & transportation costs) and cost efficiencies (labor productivity) rather than relying on the Sharpe Benefit Study as a basis for modernizing the EDC.

In addition, considering that the modernized system at Sharpe was designed to decrease labor requirements, FSS needs to determine ways to reduce the costs of labor particularly with the slowing volume of sales. Furthermore, FSS needs to evaluate means for controlling transportation costs especially in light of declining sales.

2. Address the issue of increasing labor costs relative to declining sales at the WDC. FSS needs to determine ways to decrease the labor costs and/or contain the additional labor requirements on a modernized system designed to reduce labor costs.
3. Continue recent efforts to control transportation costs at Sharpe, in light of the declining revenues.



NOV 20 2006

MEMORANDUM FOR ANDREW PATCHAN  
ACTING ASSISTANT INSPECTOR GENERAL  
FOR AUDITING (JA)

FROM: JAMES A. WILLIAMS  
COMMISSIONER  
FEDERAL ACQUISITION SERVICE (Q)

SUBJECT: GSA Draft Report, "Validation of Operational Savings at the  
Western Distribution Center, Federal Supply Service"  
(A060176), dated October 6, 2006

The subject report is the fourth audit associated with the relocation of the Western Distribution Center (WDC) from Stockton, California, to French Camp, California (Sharpe Depot). The audit reviewed and generally validated GSA's internal program office study of efficiency outcomes from this relocation. This study was conceived as an outcome of the annual audit planning process performed in consultation with the Office of the Inspector General. In addition to the cost/efficiency impact factors discussed in the audit, many other planning issues were identified which will help us improve operations. We are appreciative of the review and the insights from the auditors throughout the entire audit process.

The audit identified that planned labor efficiencies were not achieved at the WDC and cautioned that achieved savings (transportation, rent, other) could not be exclusively used as a basis for a decision to similarly modernize the Eastern Distribution Center. We concur with these findings, and also concur with the three report recommendations as reflected in the attached statement.

For information purposes, we reaffirm, as discussed in the responses to previous audits, that the decision to relocate was a good decision that repositioned our operations to a more secure, modern operating environment, and helped us avoid costs and other disadvantages of the old site that were likely to worsen. For example:

- Our space reduction of almost 600,000 square feet to a lower rental posture will continue to generate savings for the life of the facility.

U.S. General Services Administration  
2200 Crystal Drive  
Arlington, VA 20406-0003  
www.gsa.gov



- Transportation success documented in our internal program office study will continue to improve as we focus on operational processes impacting this cost area.

Although labor productivity has improved from the intense transition period to the new facility, it has not achieved the gains originally forecasted for this project. The WDC management team will focus on improving labor productivity during fiscal year 2007.

Attachment

cc: Perla Corpus (JA-9)  
James B. Draxler (JA-9)  
Kenneth Crompton (JA-A)

Federal Acquisition Service Comments on the  
GSA Draft Report, "Validation of Operational Savings at the  
Western Distribution Center, Federal Supply Service" (A060176)

Recommendation 1:

Conduct a Business Model evaluation and/or a cost/benefit analysis of the EDC operating requirements that include, but not limited to, assessments of operational trends (sales revenue, labor & transportation costs) and cost efficiencies (labor productivity) rather than relying on the Sharpe Benefit Study as a basis for modernizing the EDC.

Comment:

Concur. FAS will base planning decisions for the EDC upon site-specific factors.

Recommendation 2:

Address the issue of increasing labor costs relative to declining sales at the WDC. FSS needs to determine ways to decrease the labor costs and/or contain the additional labor requirements on a modernized system designed to reduce labor costs.

Comment:

Concur. We began work on this recommendation prior to the completion of the subject audit and will provide more details in the upcoming action plan.

Recommendation 3:

Continue recent efforts to reduce transportation costs at Sharpe, in light of the declining revenues.

Comment:

Concur. We began working on this recommendation prior to the completion of the subject audit and will provide more details in the upcoming action plan.

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AT THE WESTERN DISTRIBUTION CENTER  
FEDERAL SUPPLY SERVICE  
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