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REPORT BY THE

Comptroller General

OF THE UNITED STATES

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GSA Can Reduce Procurements By Millions If More Material Returns Are Accepted From Federal Agencies

The General Services Administration buys, stores, and distributes a multitude of items, ranging from paper clips to helicopters, to supply Federal agencies with necessities for daily operations. However, agencies sometimes find that they no longer need some of the material they have received. GSA's credit return program is supposed to provide these agencies a means of returning this material to the GSA supply system, thereby reducing Government costs and the need for GSA to purchase identical material commercially.

GSA could increase by millions of dollars the amount of material returned to its supply system through the credit return program. For the Government to obtain the greatest benefits, GSA's management must adopt a more realistic return policy which recognizes the benefit of accepting and retaining for future use material the Government already has bought.

UNITED STATES GENERAL ACCOUNTING OFFICE

003169

report

LCD-78-242
JANUARY 5, 1979

UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

LOGISTICS AND COMMUNICATIONS DIVISION

B-96983

The Honorable Joel W. Solomon
Administrator of General Services

Dear Mr. Solomon:

Your agency is not achieving the full benefits intended from the credit return program. Millions of dollars of material return offers are being rejected each year because of an unnecessarily restrictive acceptance criterion.

This report contains recommendations to you on pages 12 and 13. 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 no 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.

We are sending copies of this report to the Director, Office of Management and Budget; the Secretary of the Army; the House Committee on Government Operations; the Senate Committee on Governmental Affairs; and the House and Senate Committees on Appropriations.

Sincerely yours,

R. W. Gutmann
Director

GENERAL ACCOUNTING OFFICE
REPORT TO THE ADMINISTRATOR
OF GENERAL SERVICES

GSA CAN REDUCE PROCUREMENTS BY MILLIONS IF MORE MATERIAL RETURNS ARE ACCEPTED FROM FEDERAL AGENCIES

D I G E S T

The General Services Administration (GSA) is not achieving the benefits intended from its credit return program because it rejects returns of excess material worth millions and then purchases identical material commercially. Material is accepted for return only if it is needed to meet current requirements; this policy fails to recognize the economic benefit of retaining for future use material the Government has already bought.

An additional $8.2 million of material offered for return during calendar year 1978 could have been accepted under a more realistic policy. (See pp. 4 to 6.)

The agency rejected about $561,000 of material return offers and within 4 months purchased identical material commercially. Some of the rejected material was sent to property disposal. (See pp. 6 and 7.)

The restrictive acceptance policy also contributed to the Army's establishing its own excess redistribution program for items managed by GSA. This program has resulted in duplication of effort in stocking and issuing material. (See pp. 7 and 8.)

The restrictive return criterion is inconsistent with GSA's policy for retaining material in its own depots. Recognizing the benefits derived from the economic retention concept, GSA retains material representing 3 to 6 years' anticipated demand. While management's credit return policy may allow GSA to buy and sell material as opposed to redistributing excess material, it is detrimental to overall Government efficiency and economy. (See pp. 8 to 10.)

GSA is consolidating all credit return receiving and processing operations in its Kansas City activity. This will increase the volume of material processed there. Staffing and computer system problems at Kansas City have caused delays in processing credit return receipts. Consequently, issuance of material is delayed with the result that GSA may procure additional material prematurely. (See pp. 11 and 12.)

The Administrator of General Services should:

--Direct that the credit return program be managed so as to achieve maximum efficiency and economy for the entire Government.

--Change the quantity acceptance criterion so that credit return acceptance decisions are based on the economic retention concept currently applied to material already on hand in GSA depots.

--Resolve the staffing and computer-programing problems which have delayed processing of returns at the Kansas City credit return activity.

GSA officials agreed with GAO's findings and recommendations and indicated that the recommendations would be implemented.

Contents

ABBREVIATIONS

DOD	Department of Defense
GAO	General Accounting Office
GSA	General Services Administration

CHAPTER 1

INTRODUCTION

To supply Federal agencies with necessities for daily operations, the General Services Administration (GSA) buys, stores, and distributes a multitude of items, ranging from paper clips to helicopters. However, agencies sometimes find that they no longer need material they have received from GSA. GSA's credit return program is supposed to provide these agencies a means of returning this material to the GSA supply system. The program is intended to reduce Government cost by reducing the need for GSA to purchase identical material commercially.

GSA'S SUPPLY SUPPORT RESPONSIBILITY

The Federal Property and Administrative Services Act of 1949 established GSA to develop an economical and efficient supply system for the Federal Government. GSA's Federal Supply Service was made responsible for supplying common commercial-type items to Federal agencies. GSA's worldwide supply support provided to civilian and military activities totals about $3 billion annually. The Defense Logistics Agency and the military services of the Department of Defense (DOD) also operate major supply support systems.

Government-wide supply support is managed under an integrated management concept, whereby items are grouped into commodity-oriented Federal Supply Classes having similar physical or performance characteristics. GSA has integrated management responsibility for about 22,000 items in 69 Federal Supply Classes. The remaining classes have been assigned to the Defense Logistics Agency or are weapons-oriented classes managed by the services. The purpose of integrated management is to avoid duplication of effort in the wholesale management of material.

The wholesale material manager within DOD usually performs the functions of cataloging, requirements computations, procurement, distribution management, and disposal direction. The Federal Supply Service carries out these functions for GSA-managed items. In general, wholesale managers determine the quantity of an item required to be procured and stored for a set period. Once these requirements have been determined and supplies have been procured, the material is stored until it is issued to customers.

As is the case with all wholesale inventory managers, quantities of material GSA manages become excess to current and anticipated needs. These excesses can be generated at the wholesale stockage level or at the installation or organization level. In either instance the wholesale manager must determine the most appropriate disposition of the excess. For material at the wholesale level, the managing activity can make this determination from its own inventory records. Excess material in the possession of customer activities must be reported to the wholesale manager for determination of whether it should be disposed of or returned.

MATERIAL RETURN PROGRAMS

Basically similar material return programs are operated by all Government wholesale supply systems. Activities holding excess material report it to the wholesale manager. The manager compares system wholesale assets with current and anticipated needs and authorizes either return or disposal.

To encourage return of excesses, credit is granted for material returned to the wholesale level. Returned material is available for redistribution, and additional commercial procurements can be avoided or reduced.

GSA'S CREDIT RETURN PROGRAM

GSA established its credit return program in 1969. GSA has limited the type, quantity, and quality of material authorized for return since the program began. Customer offers to return material are submitted to the GSA central office. Each offer is processed by a mechanized program that determines which items meet acceptance criteria. The customer is advised whether GSA has accepted or rejected the offer and the reason(s) why (quantity exceeds GSA requirements, not a GSA-stocked item, incorrect format, etc.). For acceptances, customers are told to return the material to one of the three credit return activities--Bayonne, New Jersey; Kansas City, Missouri; and Stockton, California.

The mechanized program bases its decision on the condition and quantity of material as reported by the customer and determines whether it is economical to ship the material to GSA. Upon receipt by the return activity, the material is inspected to determine if it was authorized for return and if the quantity and physical condition agree with what the customer originally reported. On the basis of inspection and classification, the material is accepted for return to depot inventories or rejected and reported for disposal. Depending on the condition of the accepted material, the customer is credited for either 80 or 30 percent of GSA's current selling price for the items. No credit is given for rejected material.

This report discusses what needs to be done to make GSA's credit return program more effective and to increase the amount of material returned for redistribution.

CHAPTER 2

GSA SHOULD ACCEPT MORE MATERIAL

AND IMPROVE PROGRAM MANAGEMENT

Because GSA is not achieving the full benefits intended from the credit return program, its management must change its narrow viewpoint and adopt a more realistic acceptance policy. Millions of dollars of material return offers are being rejected each year because of this policy. Material returned to the supply system benefits overall Government economy by reducing or avoiding new procurements. GSA could have increased the amount of material accepted for return in calendar year 1978 by $8.2 million.

In addition, staffing and computer system problems at the Kansas City credit return activity have caused delays in processing credit return receipts. As a result, issuance of material has been delayed.

QUANTITY ACCEPTANCE CRITERION IS TOO RESTRICTIVE

Before January 1975, GSA accepted material if the quantity on hand after the acceptance would not exceed the current authorized operating requirement plus 2 years' expected demand. Therefore, GSA allowed return of up to 2 years' supply of overstock in anticipation that future customer needs could be met from this material instead of from new purchases. In January 1975 GSA began using a more restrictive criterion. Currently customers may return material only when it is needed to meet GSA's current operating requirements. This current policy does not adequately recognize the economic benefit of accepting and retaining for future use material the Government has already bought.

In contrast, wholesale inventory managers in DOD grant credit for returned material representing up to about 2 years' anticipated future demands.

More material could be accepted

Millions of dollars of material return offers are being rejected because GSA changed the quantity acceptance criterion. More material could have been returned for redistribution under the pre-January 1975 policy. Calendar year 1978 acceptances could have been an estimated $12.8 million under the prior criterion as opposed to the projected $4.6 million under the current criterion.

The following schedule shows actual acceptances and rejections of material return offers for 1974 under the old policy and for 1975 and 1978 under the current policy. Data for 1978 was projected based on the volume of credit return transactions between GSA and its customers that were processed through the Defense Automatic Addressing System from January through May 1978. These 1978 projections could not be based on GSA data because its records were incomplete.

Credit Return
Acceptances and Rejections

	1974 value (note a)	Percent	1975 value (note a)	Percent	1978 value (note b)	Percent
	(millions)		(millions)		(millions)	
Total offers	$89.0		$119.6		$74.3	
Less rejections other than for no requirement (note c)	50.8		51.9		33.2	
Adjusted offers	38.2	100.0	67.7	100.0	41.1	100.0
Acceptances	11.9	31.2	10.6	15.7	4.6	11.2
Rejections	26.3	68.8	57.1	84.3	36.5	88.8

a/Data extracted from GSA reports.
b/Data projected by GAO from Defense Automatic Addressing System records for January through May 1978.
c/Includes such things as offers for non-GSA-managed items, garbled offers, duplicate offers, etc.

By applying the percentages for acceptances (31.2) and rejections (68.8) for 1974 to the value of adjusted offers shown above for 1975 and 1978, we estimated how much material would have been accepted during these years had GSA not made the change.

	1974 percent	Estimated acceptances and rejections: 1975 value	1978 value
		(millions)	
Offers		$67.7	$41.1
Acceptances	31.2	21.1	12.8
Rejections	68.8	46.6	28.3

Comparing the actual and estimated dollar values for acceptances and rejections shows that GSA's change in quantity acceptance criterion obviously resulted in a significant drop in calendar year 1975 acceptances and that the effect continued into calendar year 1978. Had GSA retained the calendar year 1974 criterion, $21.1 million, or an additional $10.5 million, in material return offers could have been accepted in calendar year 1975 and $12.8 million, or an additional $8.2 million, could have been accepted in calendar year 1978.

Unnecessary procurements and disposals

Material returned to the wholesale inventory manager benefits the Government because it can fill requirements that would otherwise be filled from commercial sources. Because of GSA's severely restrictive acceptance criterion, it has rejected material offered for return as excess to its requirements and yet has purchased like material shortly after the rejection.

In December 1975 the Surveys and Investigations Staff of the House Appropriations Committee issued a report on DOD and GSA property disposal policies and procedures. In commenting on GSA's inability to match supply requirements with excess assets already transferred to property disposal, they cited the following example.

> "* * * as of September 26, 1975, there were over 25,000 excess entrenching tools on hand in various PDOs [property disposal offices] that were in excellent serviceable condition. GSA, as the Government-wide single manager for this item, had caused the turn-in of these tools as excess to its supply requirements. A spot check of 8 GSA regions determined that during the period from July 1, 1975, to September 30, 1975, GSA item managers had issued over 950,000 entrenching tools. At the same time GSA continued to receive into its supply system entrenching tools from a procurement contract for 500,000 such tools." (Underscoring supplied.)

GSA informed the staff that it was developing a system that would identify assets which should be withdrawn from property disposal.

This system will not solve the basic problem addressed in this report. GSA will continue to direct material to disposal as opposed to returning it to the supply system unless it establishes more realistic quantity acceptance limits.

In examining GSA procurements for only a 2-week period and credit return offers that GSA rejected as not meeting its quantity acceptance criterion, we found that for the 50 stock numbers examined, GSA had rejected about $561,000 of material and within 4 months had purchased identical material from commercial sources.

According to Defense Property Disposal Service records, some of the material that GSA rejected was sent to property disposal. For example:

--On January 16, 1978, an Air Force activity offered to return 19 space heaters (Stock Number 4520-00-555-8696) which were in "A" condition (serviceable, ready for issue). GSA rejected the offer on January 19, 1978, because there was no current requirement for the item. On February 6, 1978, GSA bought 791 of these space heaters valued at $14,407. The Air Force shipped the space heaters to a property disposal office on March 31, 1978.

--On December 2, 1977, a Navy activity offered to return 12 magnetic compasses (Stock Number 6675-00-171-5122) valued at $1,452 which were in "A" condition. On December 7, 1977, GSA rejected the offer because there was no current requirement for the item. On January 16, 1978, GSA bought 29 of these compasses valued at $3,450. The Navy shipped the compasses to disposal on January 13, 1978.

GSA's current credit return policy might allow GSA to buy and sell more material; however, it has severely restricted the volume of material returned. Had GSA used its pre-January 1975 criterion, much of the $561,000 in rejected material could have been returned to the supply system. However, none of the material was returned and, in fact, some of it was transferred to property disposal offices where it may be donated to non-Federal activities or sold for a fraction of its original cost. Based on the approximately 5.4 percent return on sales reported by DOD for fiscal year 1976, the Government would lose about $531,000 if all the rejected material were eventually sold.

Criterion results in duplicate management

The Army instituted several programs outside the normal material return process. The Army shipped into its depots Army-owned but GSA-managed material that GSA had directed to be sent to disposal under its material return criterion. The Army then filled requisitions intended for the integrated manager, GSA, out of these stocks.

Because of the reduction in the supply mission of Army activities in Okinawa, the Army accumulated a lot of excess material. Attempts to return it to the wholesale managers resulted in 80 percent of it being rejected and transferred to disposal. Army officials inspected the material and determined that most of it was useable. To avoid disposal the Army developed procedures to redistribute this material within its own channels. These procedures have been followed in the Army's attempts to redistribute excesses that resulted from its Modernization of Logistics program in Europe and that have built up at Army installations in the United States. Again the Army found that most of the material offered for return was being directed to disposal.

GSA's restrictive material return policy was a contributing factor in the Army's decision to establish its own redistribution system for GSA-managed material. The Army's desire to retain useable material is understandable; however, this program has resulted in duplicate management in the stocking and issuing of GSA material and unnecessary additional costs to change established automated systems.

PROGRAM MANAGEMENT NEEDS TO BE IMPROVED

Management of the credit return program needs improvement. The Government is not receiving the greatest benefit from it because managers are more concerned with controlling costs than maximizing the redistribution and use of Government property. Managers tend to view the program only as to how it affects GSA financially and not whether it benefits the Government overall. This parochial management attitude has resulted in significantly reduced material returns, inconsistent management policies, and haphazard program evaluation and monitoring.

Since the program began, management's efforts have been directed toward achieving what it considers a break-even point. According to management's computation of gain and loss, the program is uneconomical. The following table shows how program benefits are computed by GSA.

Credit Return Program
Profit/Loss

	FY 1975	FY 1976	Total FY 75 and 76
	(millions)		
Value of material placed in inventory	$ 4.3	$ 3.3	$ 7.6
Less credit granted	3.3	2.5	5.8
Value of material to GSA	$ 1.0	$ 0.8	$ 1.8
GSA operating expense	1.8	1.3	3.1
Profit (loss)	$(0.8)	$(0.5)	$(1.3)

From GSA's viewpoint, program costs exceed benefits. However, from the standpoint of total Government economy, the value of material placed in inventory ($7.6 million) clearly is greater than GSA's operating expense ($3.1 million). Therefore, the Government profits from this program. GSA treats the credit given as a cost, but when viewed Government-wide the only real cost in the above analysis is GSA's operating expense, as both the funds granted as credit and the material returned are still available for use by the Government. Without the credit return program, the Government would have lost in that the material would have been sent to disposal and GSA would have had to purchase $7.6 million in like material commercially.

While the desire of some GSA officials to restrict the program might allow GSA to buy and sell material as opposed to redistributing excesses, it is detrimental to the Government as a whole.

Inconsistent policies

GSA uses the economic retention limit concept in managing long supply inventories actually on hand in its depots. It does not apply it in accepting other agency excesses being offered for return. Long supply inventory is that portion of the inventory--on hand and due-in--which exceeds current system requirements. A certain amount of long supply is inevitable. Once it accumulates the inventory manager must determine what to retain and what to transfer to disposal.

GSA has established economic retention limits for each Federal Supply Class it manages. Such a limit is the maximum quantity or months of anticipated demand for an item which can be economically retained for future use. The current range of retention limits for GSA-managed Supply

Classes is from 35 months to 73 months. GSA determines what portion of its long supply inventories to keep based on these limits. Long supply quantities beyond the limit are reported as excess.

GSA's policy regarding the acceptance of credit return material is inconsistent with its depot inventory management policies and acts to the detriment of overall Government economy. Additionally this policy is inconsistent with the intent of GSA regulations. These regulations direct all agencies to make maximum use of long supply and excess inventories in lieu of new procurements.

<u>Haphazard program evaluation and monitoring</u>

GSA's evaluation and monitoring of the program has been haphazard. Credit return program changes are not always supported or justified by prior evaluations. Additionally the Government-wide impact of these changes has not been measured. For example:

--As already discussed, in January 1975 GSA changed its quantity acceptance criterion by eliminating the 2-year overstock. No prior evaluation was made to justify this change. In addition, GSA did not determine the impact of the change.

--In August 1975 GSA adopted new minimum dollar values for individual credit return offers it would accept. Again no prior evaluation was made, and GSA did not measure the impact of this change on the credit return program.

We also found weaknesses in GSA's monitoring of program operations. Although operational data is gathered at GSA headquarters or submitted to headquarters from the credit return activity, it is not used as a basis for management decisions concerning the program. For example:

--GSA receives a monthly Credit Return Summary that lists return offers by customer, number of line items, and dollar value of acceptances and rejections. GSA instructions state that the summary is to be monitored to identify systemwide problems in the program. GSA officials could offer no evidence that the summary is used by management to detect problems or as a basis for decisions.

--Before June 1974 credit return activities had to submit discrepancy reports to headquarters, describing receipts on which the type, condition, or quantity of material differed from what GSA authorized for return. Headquarters officials were supposed to summarize this data to identify those military activities that demonstrated a history of discrepant shipments. The reports contain valuable data on quantity and quality of credit returns and could be used to identify problem areas; however, although the return activities still have to prepare the reports, GSA no longer requires their submission.

EXCESSIVE DELAYS IN RECEIPT PROCESSING

GSA is consolidating all credit return receiving and processing operations in the Kansas City credit return activity. This activity has been extremely slow in processing credit return receipts; consequently, the availability of returned material is not promptly reflected on inventory records. As a result, customers must wait excessively long periods before receiving credit for the material. More importantly, issuance of this material to satisfy customer requisitions is delayed, and GSA may procure additional material prematurely.

The table below shows the average time taken by Kansas City for the various credit return processing stages.

	Average number of elapsed calendar days	
Processing stage	Material not needing restoration	Material needing restoration
Receipt to beginning of processing	59	60
Inspection to entry on depot location records	10	11
Returning paperwork for final processing	10	9
Final processing to entry in computer	31	33

In addition, as of May 1978 there were about 900 credit returns for which material had been added to depot stocks but the paperwork had not been processed to record the material on inventory records.

We examined the stock status records for a selected number of items included in this backlog and found that 16 percent of the items had unfilled customer requisitions as of May 1978. This means that customer requisitions were being held pending replenishment of depot stocks from commercial sources even though returned material was already in the depot awaiting issue. For example, on March 30, 1978, the return activity received 234 wrench boxes (Stock Number 5120-00-184-8602). As of May 19, 1978, the wrench boxes were in depot stocks but their receipt had not yet been posted to the inventory records. As a result, 88 wrench boxes had not been issued to fill 7 pending customer requisitions.

According to return activity officials, the delays were caused by computer system problems that occurred over the last year and a half and workforce problems, including an unfilled position in the credit return office and detailing-out of credit return personnel to perform other functions.

CONCLUSIONS

GSA could increase the amount of material returned to its supply system through the credit return program by millions of dollars. For the Government to obtain the greatest benefits from the program, GSA's management must change its narrow viewpoint and adopt a more realistic return criterion which recognizes the economic benefit of accepting and retaining for future use material the Government has already bought. Restrictions on the program have resulted in unnecessary procurements and disposals, which are contrary to the intent of the program. In addition, GSA's restrictive return policy has caused duplicate item management by GSA and the Army.

Consolidation of credit return operations in the Kansas City activity will increase the volume of material processed there. The increase could compound current staffing and computer-programing problems. These problems must be resolved so that the increased amount of material can be processed promptly.

RECOMMENDATIONS

To obtain greater benefits for the Government from material returns, we recommend that the Administrator of General Services:

- --Direct that the credit return program be managed so as to achieve maximum efficiency and economy for the entire Government.

- --Change the quantity acceptance criterion so that credit return acceptance decisions are based on the economic retention concept currently applied to material already on hand in GSA's depots.

- --Resolve the staffing and computer-programing problems which have delayed processing of returns at the Kansas City credit return activity.

AGENCY COMMENTS

Officials of GSA's Federal Supply Service reviewed our findings, conclusions, and recommendations. They concurred in all the recommendations and discussed actions to be taken to implement them.

GSA officials agreed that the current quantity acceptance criterion should be liberalized. They will study the program to determine the appropriate amount of material to be accepted considering (1) factors used in establishing current economic retention limits, (2) transportation costs, and (3) credit return processing costs. Although these quantity acceptance levels will be somewhat less than the economic retention limits used to manage depot inventories, they will be greater than current credit return program acceptance levels, thereby allowing GSA to accept more material for return.

These officials also agreed that credit return processing problems at the Kansas City facility needed to be corrected and discussed actions taken or to be taken to resolve them. The position vacancy and computer system problems that have caused processing delays and backlogs have been or will be resolved. When the consolidation, effective October 1, 1978, is fully implemented, it will add 22 additional positions to the facility. According to GSA, the planned staffing levels will be adequate to handle any increase in workload brought about by the consolidation and any change in quantity acceptance criterion.

CHAPTER 3

SCOPE OF REVIEW

We reviewed GSA's policies, procedures, and practices for managing the credit return program. We also interviewed GSA headquarters and regional officials who direct and carry out program operations. In addition, we reviewed and evaluated management reports and credit return transactions. Statistical comparisons and analyses were based on data provided by GSA, the Defense Automatic Addressing System Office, and the Defense Property Disposal Service.

Our review was conducted from December 1977 to July 1978. Detailed audit work was performed at:

--The Federal Supply Service, Washington, D.C.

--GSA Region 6 Credit Return Activity, Kansas City, Missouri.

At the conclusion of our work, we briefed headquarters and regional officials on our findings and conclusions.

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