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UNITED STATES  
GENERAL ACCOUNTING OFFICE

# REPORT TO THE CONGRESS

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## Status And Progress Toward Implementing A National Supply System

Department of Defense  
General Services Administration

Under a concept known as the "national supply system," there would be one, and only one, manager for each supply item throughout the Government.

Duplicate management of supply items still exists in the Government in spite of the General Services Administration's and Defense's efforts to eliminate it through negotiations and written agreements.

The Office of Federal Procurement Policy should confer with the House and Senate Committees on Government Operations to establish a formal definition of the concept of a "national supply system." This definition should delineate item management responsibilities and establish short- and long-range objectives as well as assign responsibility for their accomplishment.

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FEB. 18, 1976



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

B-161319

To the President of the Senate and the  
Speaker of the House of Representatives

This is our report on the status and progress toward implementing a national supply system. In 1949 the Congress established the General Services Administration and stated its intention to provide one economical and efficient system for supplying personal property to the Government. The Congress, 6 years later, expressed the opinion that having two agencies competing with each other for the management of the same kind of common-use, commercial-type supply items does not add to the efficiency and economy of Government.

Our review was to determine whether this congressional intent to eliminate dual management of the same supply items was being carried out. Dual management of supply items continues throughout the Government.

We made our examination pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

We are sending copies of this report to the Director, Office of Management and Budget; the Secretaries of Defense, the Treasury, and Commerce; the Attorney General; and the Administrator, General Services Administration.

A handwritten signature in black ink, appearing to read "Thomas D. Stearns".

Comptroller General  
of the United States

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#### ABBREVIATIONS

DOD	Department of Defense
DSA	Defense Supply Agency
FOB	freight on board
FPMRS	Federal Property Management Regulations
FSC	Federal supply class
FSS	Federal supply service
GAO	General Accounting Office
GSA	General Services Administration
MMRC	Materiel Management Review Committee
NSN	national stock number
OFPP	Office of Federal Procurement Policy

COMPTROLLER GENERAL'S  
REPORT TO THE CONGRESS

STATUS AND PROGRESS TOWARD  
IMPLEMENTING A NATIONAL  
SUPPLY SYSTEM  
Department of Defense  
General Services Administration

D I G E S T

The concept of a "national supply system" has been underway in the Federal Government for more than a decade. Under this system, there would be one manager for each supply item throughout the Government thereby eliminating avoidable overlap and duplication in supply functions.

Primary parties to the concept are the Department of Defense and the General Services Administration both of which manage consumable supply items. GAO believes integration of supply management functions is a desirable concept which contributes to increased efficiency and economies.

The national supply system has not been formally defined; therefore, GAO recommends that the Office of Federal Procurement Policy confer with the House and Senate Committees on Government Operations to establish a formal definition of the Congress' concept of a national supply system. This definition should delineate item management responsibilities and establish short- and long-range objectives as well as assign responsibility for their accomplishment.

GAO's review showed that inventory reductions and savings of about \$20.8 million could be realized if supply functions performed by the Department of Defense and the General Services Administration on dual-managed items were consolidated under a single manager. (See p. 8.) Other savings in efficiency and economy not readily measurable would also accrue through eliminating dual management of supply items.

Although discussions and negotiations over the years have resulted in eliminating dual management for some supply items, much remains

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to be accomplished. Overlap in Defense Supply Agency's and the General Services Administration's supply roles, questionable class assignments, lack of implementation of class assignments, and impasses over developing plans to complete the system indicate a need for arbitration of unsettled matters in the interest of Government-wide efficiency and economy.

The Federal catalog system was established to give a common means of identification for all supply items and is a prerequisite to participation in the national supply system. (See pp. 20 and 21.) GAO found that the General Services Administration, as the central cataloging agency for civilian agencies, has not encouraged updating of existing systems to a level which would allow full participation.

Many civilian agencies do not have the capability to identify all supply items used in their systems by national stock number. Moreover, supply management information contained in civilian agency systems was outdated, inaccurate, and did not show meaningful data on agency usage. (See p. 23.)

If potential economies in supply management are to be realized through a national supply system, direction should be provided by some authority not subject to the parochial interests of the agencies involved. The recently established Office of Federal Procurement Policy would appear to be the appropriate authority for furthering such a system.

The Office of Management and Budget agreed in general with the report and noted that while much progress has been made in the past decade, there is much yet to be done. It also believes a more precise definition, perhaps including short- and long-term objectives, may be needed. (See p. 29.)

The Department of Defense stated its concern for eliminating dual management of items in the Federal Government and is anxious to have the national supply system agreement consummated in good faith. Defense did not

completely agree with some report recommendations. (See p. 26.)

The General Services Administration heartily endorsed the concept of an integrated supply system and believes it has made considerable progress in its implementation. They do not, however, concur with all GAO's recommendations. (See p. 27.)

The Department of Commerce concurred with the GAO proposal to eliminate unnecessary duplication and agreed that the General Services Administration should help civil agencies implement a supply cataloging system in line with our recommendations. (See p. 28.)

## CHAPTER 1

### INTRODUCTION

Responsibility for the broad functions of personal property management in the Federal Government is vested primarily in two authorities--the Secretary of Defense for the military organizations and the Administrator of General Services for other Federal agencies. When put into practice, this responsibility frequently produces duplication and overlap in the logistical functions of the various agencies.

The Joint Economic Committee, in its early 1960 hearings on the duplication and overlap of procurement and supply functions, coined the term "national supply system." There is no formal definition of the term. Although it is merely a concept, it is used freely throughout the Government and over the years working definitions have been developed. This concept is construed generally to be a coordinated Department of Defense (DOD) and General Services Administration (GSA) effort to provide an efficient and economical method of supplying personal property to all Government agencies. Basically this means there would be only one manager for each item and that integrated manager would be responsible for all supply functions and would be the source of supply for all Government agencies. The basis for such a system stems from authorities and responsibilities fixed upon the Administrator of General Services by the Federal Property and Administrative Services Act of 1949.

Over the years, DOD and GSA have made some efforts, primarily through a series of negotiations and understandings, to bring about a semblance of the national supply system concept. Some of these understandings have been set forth in formal agreements. The latest is entitled "Agreement Between the Department of Defense and the General Services Administration Governing Supply Management Relationships Under the National Supply System," Feb. 19, 1971. (See app. II.)

Although agreements have been reached on the general objectives of the system, efforts to accomplish them have not always proceeded at an even pace. This report traces the background of the national supply system and sets forth its current status and the progress being made toward full implementation.

#### DEVELOPMENT OF GOVERNMENT SUPPLY SYSTEMS

In 1948, the Hoover Commission made the first indepth study of Government procurement and supply. It found that a



large range of common-use items were susceptible to centralized management by either the civilian or the military agencies and that management of many of these items should be centralized for all agencies. Although the military services expressed reservations at the possibility of being regulated by a civilian agency, GSA was established shortly after the issuance of the Commission report.

### Establishment of GSA

In creating GSA, the Federal Property and Administrative Services Act of 1949 granted broad authority to the Administrator in the field of property management for all of the Federal Government. This authority included procurement and supply of personal property, utilization of available property, disposal of surplus property, and records management.

The act provided that the Secretary of Defense may, from time to time, unless the President shall otherwise direct, exempt DOD from action taken by the Administrator of General Services whenever he determines such exemption to be in the best interest of national security. However, to strengthen GSA's authority, President Truman immediately directed that no exemptions be issued without his approval. This order was revoked by President Eisenhower in 1954.

In one of the several studies on the Government's expanding procurement and supply operations in the early 1950s, the Task Group on Procurement of a second Hoover Commission noted that, until GSA clearly demonstrated an ability to effectively extend its services to the military supply systems, the Secretary of Defense's authority to exempt DOD from participation in GSA services and policies should be continued. The Group also recommended that the Congress establish a separate civilian agency reporting to the Secretary of Defense for managing common supply and service activities. However, congressional members did not favor this and stated that it would not add to the efficiency and economy of Government to have two agencies competing with each other for management of the same common-use, commercial-type supply items.

In the early 1960s the Joint Economic Committee pushed for expansion of DOD's use of GSA as a supply source. As a result, DOD and GSA arranged to review items of general supplies including handtools, household furniture and equipment, office supplies and equipment, hardware and abrasives, and paint and sealers. DOD indicated this participation with GSA was an orderly and aggressive program to expand use of the GSA supply system.

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Establishment of the  
Defense Supply Agency

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The Defense Cataloging and Standardization Act of 1952 led to establishing a Federal catalog system, which required a description and classified numerical identification of most items used by Government agencies. Subsequently, from 1955 to 1959 DOD studied centralized versus decentralized supply management and established its single manager operating agencies under which one organization performed the supply functions for all items of a particular homogenous commodity grouping, such as fuel, clothing, and textiles.

In 1961 a comprehensive DOD study concluded that it would be more economical and efficient if a single agency were given management responsibility for all common supply activities. Although congressional members previously had expressed reservations concerning the creation of a second agency that also would manage common-use items, the Secretary of Defense established the Defense Supply Agency (DSA) in October 1961. DSA assumed responsibility for the functions of all the single manager operating agencies and for other DOD supply management activities including cataloging and standardization. DOD's objective was to eliminate duplication and overlap of supply functions among the military services, and to institute an integrated supply management system for certain commodities and items used in DOD.

With the establishment of DSA, GSA was still in the position of providing support primarily to only civil agencies instead of to all agencies of the Federal Government as seems to be indicated in the Federal Property and Administrative Services Act. After negotiations among the Bureau of the Budget (now Office of Management and Budget), DSA, and GSA in June 1963, DOD agreed to transfer supply management responsibility for 12 classes of paint and handtool items to GSA in an effort to cooperate and carry out, at least to some degree, the intent of this act. This transfer consisted of about 33,700 items with an inventory value of approximately \$65.8 million and increased the number of items GSA managed to about 35,000.

Shortly after this transfer, the Joint Economic Committee held hearings to probe the full spectrum of integrated manager assignments and the increasing duplication and overlap of the DSA and GSA systems. The Committee chairman asked the Bureau of the Budget to present a plan for the orderly development of a Federal supply system as intended by the Federal Property and Administrative Services Act. Budget

officials indicated that to their knowledge, such a plan was never developed or, if it was, it could not be identified and/or located after so many years.

About this time, DOD imposed a moratorium on any further transfer of responsibilities in order that DSA and GSA might consolidate their operational responsibilities and delineate each one's long-range roles for supply management in the Government. Subsequently, in an effort to further the establishment of a Federal supply system, GSA proposed that DOD assume Government-wide supply management of five commodities--subsistence, medical, fuel, electronics, clothing and textiles--and continue its management of all weapons-related items, while GSA would assume management for supply of all other commercial-type items. DSA was not receptive and made a counter proposal that further study of items in the five commodities be made to determine the feasibility of Government-wide support by DSA.

In 1964 DSA made a study of the common DSA and GSA supply management functions and incorporated the findings in the December 1964 "Agreement Between GSA/DOD Governing Supply Management Relationships."

#### DSA/GSA Supply Management Agreements

The 1964 agreement established a basis for joint review of all items in DOD classes designated for integrated management to determine assignment of supply management responsibilities. (See app. I.)

In 1965 a joint DSA/GSA Materiel Management Review Committee (MMRC) reviewed all DOD integrated managed classes. Of the 152 classes reviewed, 99 were assigned to DSA and 53 to GSA. Also during 1965, DOD assigned integrated management responsibility for an additional 46 classes to the Defense Construction Supply Center and designated the Army Tank Automotive Command as single manager for 3 other classes consisting of tires and tubes. The MMRC did not consider these additional classes for reassignment, and it seems they are still subject to review.

The following table shows the DSA/GSA item management responsibility and the value of inventories transferred to GSA over the years:

Assignment of Management Responsibility  
Between DSA and GSA

<u>Year</u>	<u>Number of classes</u>	<u>Number of line items</u>	Value of inventory transferred from DSA to GSA (millions)	Inventory value at 4/30/75 (millions)
1963	12	33,700	\$ 65.8	\$ -
1967 to 68	53	34,600	55.7	-
1969	<u>a/3</u>	<u>1,370</u>	<u>0</u>	-
Assigned to GSA	<u>68</u>	<u>69,670</u>	\$121.5	-
Other items managed by GSA	<u>81</u>	<u>15,785</u>	-	-
Total GSA common supply items	<u>149</u>	<u>85,455</u>	-	<u>352.4</u>
Assigned to DSA	99	897,081	(b)	719.1
Other items managed by DSA	<u>164</u>	<u>236,932</u>	-	<u>199.6</u>
Total DSA supply	<u>c/263</u>	<u>1,134,013</u>	-	<u>918.7</u>
Total GSA and DSA	<u>412</u>	<u>1,219,468</u>	-	<u>\$1,271.1</u>

a/No transfer of assets involved for these classes; item management decentralized.

b/No inventories were transferred from GSA to DSA upon assignment of these classes.

c/Does not include 68 classes in the 5 commodity groupings (subsistence, medical, fuel, electronics, and textiles).

The three classes transferred to GSA in 1969 consisted of agricultural supplies. Upon effecting this transfer, GSA had assumed full management responsibility for a large number of items in the 68 classes. The number of items managed in these classes remains about the same today. DSA or the military services did retain management of certain exception items. DSA and GSA did not accomplish similar transfers of management and physical stocks for the items in the 99 classes that the MMRC assigned to DSA. GSA is still managing and stocking many of these items, which has resulted in a continuing controversy up to the present time. Efforts to resolve this problem and its effect on supply support to the civil agencies are discussed in chapter 3.

In the 1964 agreement, DSA indicated it would consider providing supply support to all Federal agencies for items in the five commodities. MMRC has not reviewed these items; however, they were the subject of a 1967 DSA study which concluded:

- DSA would accept Government-wide supply support for fuel and electronics.
- DSA would provide support of clothing and textiles on a case-by-case basis due to the unique composition of these items.
- Decision was deferred on medical and non-perishable subsistence due to lack of commonality.

After review and assignment of the 152 classes to DSA and GSA, MMRC was dissolved. Subsequently, GSA felt that an up-dated agreement was needed because MMRC had not reviewed additional classes assigned by DOD for integrated management and also because of the continuing question of the dual-managed items. After a series of negotiations in late 1969 and throughout 1970, DSA and GSA entered into a new agreement in February 1971.

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In this "Agreement Between the Department of Defense and the General Services Administration Governing Supply Management Relationships under the National Supply System," DOD and GSA indicated their common objective to eliminate avoidable duplication and overlap between their supply systems and those of other Federal agencies and to provide responsive, effective, and economical integrated material management of commonly used commodities to all Government agencies.

Principal provisions of this agreement are:

- Establishment of a broad criteria for commodity assignments, review, and transfer of supply items. The rationale for such criteria (1) assigns to GSA those FSCs or commodities commonly used by Federal agencies which are commercially available on the civil economy and not predominantly of a military nature and (2) assigns to DSA those FSCs or commodities commonly used in military operations or weapon systems support irrespective of their use by civil agencies.
- Recognition that the five commodities (subsistence, medical, fuel, electronics, and clothing and textiles) are appropriate for DSA management and will not be transferred to GSA.
- DSA will publish, distribute, and maintain a catalog of items assigned to DSA under this and prior agreements.
- DSA will provide Federal supply schedule coverage in classes assigned to DSA.
- All unreviewed classes are subject to review for assignment to GSA or DSA, and classes previously agreed upon for management by DSA or GSA may be reviewed again.

In a letter to GSA in October 1971, DOD proposed that the agreement be carried out through a review to determine which organization should manage the currently dual-managed items in the previously assigned classes, and to develop procedures for transferring certain GSA functions to DOD in the event of a national emergency.

DSA and GSA have considered various proposals to resolve these points. At the completion of our field work, negotiations were at an impasse because DOD felt that preponderance of use should be one of the criteria for determining integrated management responsibility, whereas GSA disagreed and indicated that commonality of use and commercial availability should be the principal criteria. Since 70 to 80 percent of GSA sales are to DOD, if preponderance of use was adopted as the criteria, DOD would assume integrated management of most supply items in the Federal Government.

## CHAPTER 2

### DUAL MANAGEMENT OF SUPPLY OF PERSONAL PROPERTY CONTINUES TO EXIST THROUGHOUT THE FEDERAL GOVERNMENT

Twenty-six years ago, when it created GSA, the Congress stated its intent to establish one economical and efficient Government system for the supply of personal property. In 1955 congressional opinion indicated that it does not add to the efficiency and economy of Government to have two agencies competing with each other for managing the same kind of common-use, commercial-type supply items. Despite this, today dual management of supply items continues throughout the Federal Government.

Savings of approximately \$20.8 million could be realized if the supply management functions performed by both GSA and DOD for the same items were consolidated under one manager. This saving represents potential one-time reductions in inventory of about \$13.8 million, and recurring savings in procurement costs of approximately \$1 million, and inventory holding costs of about \$6 million. Other benefits, not readily measurable, could also be achieved through consolidating the supply management functions. Furthermore, additional savings of millions of dollars could probably be realized if the supply management functions for the same items performed by both GSA and other Federal civil agencies were consolidated under one manager.

Our review of the catalog data for the 83,000 items on which GSA was recorded as a manager showed that for 33,500 or 40 percent of these items, one or more other agencies were also identified as managers of these items. An average of three agencies was shown as managing each of these 33,500 items. Because of the impracticability of developing data at the multitude of civil agencies, we restricted our examination of management conflicts to those existing between GSA and DOD. We believe that the extent of these conflicts and their effect on the costs of doing business this way in these two organizations clearly demonstrates the need to achieve the concept of integrated management of the supply functions; that is, "only one manager for any one item."

Of the 33,500 items showing management conflicts, approximately 18 percent or 5,858 items showed dual management between GSA and DOD. Our analysis of a statistically selected sample of these items showed that about 94 percent of them, for which sufficient data to make a determination was available, were truly conflicts of management. The other

6 percent were coded erroneously as being dual managed. Information shown in this report is a projection of statistical data developed on the sample items. The following table shows the overall statistics as well as the total procurement and inventories on the dual-managed items for fiscal year 1973.

	No. of <u>items</u>	Percent of items <u>dual</u> <u>managed</u>	Total <u>procurements</u> (millions)	Ending <u>inventory</u> (millions)
68 classes assigned to GSA	772	93.4	\$ 1.8	\$ 1.1
Other classes	<sup>a</sup> 5,086	94.2	186.4	54.5
Total	<u>5,858</u>		<u>\$188.2</u>	<u>\$55.6</u>

<sup>a</sup>An updated computer printout dated April 14, 1975, showed that the number of conflicts in these classes is now 4,531.

From the above data, it is evident that the dual-managed items have a high usage. The requirements and inventory levels for these items are based on past demands. Therefore, it is reasonable to assume that annual procurements represent approximate annual demand. Using this assumption the inventory of these items turns over about 3.4 times per year.

We analyzed inventory levels, procurements, demand data, and cataloging information to determine the extent to which more than one activity exercised management responsibility. We considered the item actively dual managed if two or more activities initiated some management action such as procurement, issue, or carrying of inventory. If one or more of the managers on an item did not initiate any such actions during our review period, we identified the item as dual managed/other. This category included items that one manager procured and stocked, while another manager designated the item for local procurement.

Duplicate management of some items could not be firmly established because records did not demonstrate conclusively the extent of management action engaged in by the activities.

#### DUAL MANAGEMENT EXISTS OUTSIDE GSA-ASSIGNED CLASSES

Dual management of supply items is greatest in the 332 classes not assigned to GSA for integrated management. These classes include the 99 classes assigned to DSA, the 85 classes making up the 5 commodity groups designated for DSA management, and the 148 classes not yet reviewed by GSA and DOD.



The following table shows the extent of duplication in these classes and related procurements and inventories at the time of our review.

Conflicting managers	Dual-managed items		Other	Procurements		Inventories	
	Total	Active		DOD	GSA	DOD	GSA
				(millions)		(millions)	
DSA/GSA	4,221	3,220	1,001	\$117.4	\$13.0	\$36.3	\$ 5.2
Army/GSA	406	352	54	27.4	15.8	5.3	5.8
Air Force/GSA	108	54	54	-0-	-0-	-0-	-0-
Marine Corps/GSA	27	27	-0-	-0-	.1	-0-	-0-
Navy/GSA	27	27	-0-	-0-	-0-	.1	-0-
	<u>4,789</u>	<u>3680</u>	<u>1,109</u>	<u>\$144.8</u>	<u>\$28.9</u>	<u>\$41.7</u>	<u>\$11.0</u>

Having only one manager for these dual-managed items could result in a cost reduction of about \$20.5 million. This consolidated savings was calculated on the value of the existing dual inventories. Using consolidated benefit factors developed by the Logistics Management Institute, the reductions in inventories through consolidation would be 25 percent of ending inventories or about \$13.6 million. The reduced holding costs would amount to \$5.9 million while the reduction in procurement costs would be about \$950,000.

For about 36 percent of the actively dual-managed items, GSA provides Federal supply schedules from which all Government agencies can make procurements. We estimated that DOD managers annually procured about \$10 million worth of these items, and at June 30, 1973, had inventories of almost \$6 million. In many cases DOD managers bought the items from other than Federal supply schedule sources.

For other than the 99 classes assigned to DSA no agreements have been reached concerning assignment of integrated management responsibility. Current DSA/GSA efforts to resolve the problem of dual management have been directed only toward items in the 99 classes. DOD has indicated that the dual management in these classes should be resolved completely before additional items are considered for review and assignment to an integrated manager.

#### DUAL-MANAGED ITEMS IN THE 68 CLASSES ASSIGNED TO GSA

Although GSA and DOD have agreed to the assignment of management responsibility for 68 supply classes to GSA, some of the items in these classes are being managed by more than one

activity. However, this duplication does not appear to be extensive. Only about 1 percent of the 69,670 items assigned to GSA in the 68 classes showed conflicting management. There was no management duplication by DSA on these classes. In all instances the conflicting managers were the military services as shown in the table below.

<u>Conflicting managers</u>	<u>Dual-managed items</u>		<u>Other</u>
	<u>Total</u>	<u>Active</u>	
Air Force/GSA	560	331	229
Navy/GSA	118	76	42
Marine Corps/GSA	25	17	8
Army/GSA	16	8	8
	<u>719</u>	<u>432</u>	<u>287</u>

The military departments and GSA annually procure about \$1.1 million and \$.67 million, respectively of the above dual-managed items. At June 30, 1973, the military had inventories of these items worth \$882,766 and GSA had an estimated inventory of \$295,000 of the same items. Again, assuming that annual procurement is approximately equal to demand, the military's inventory turn-over is slightly over once a year and GSA's was a little more than two times in a year.

By having a single manager of these items a cost reduction of about \$250,000 could be realized. These consolidated savings were calculated on the value of the existing dual inventories. The Logistics Management Institute consolidated benefit factors previously mentioned (see p. 10) were used in computing the estimated savings of \$167,000 in inventories, \$77,000 in holding costs, and \$4,000 in procurement administration costs.

Military services maintain more inventory than the assigned integrated manager

About 60 percent of the dual-managed items identified in the 68 GSA classes was actively managed by both the military services and GSA. We found that while GSA is procuring substantially more of the items and had experienced more demands, the services are maintaining more stocks on hand. The following table shows procurements and inventories for fiscal year 1973 along with recorded demands on the items.

Conflicting managers	Number of items	Procurements		Inventory		Annual demand	
		DOD	GSA	DOD	GSA	DOD	GSA
Air Force/GSA	331	\$62,227	\$ 31,315	\$417,024	\$ 84,872	\$ 2,023	\$ 2,019
Navy/GSA	76	11,817	62,303	220,533	44,765	810	2,154
Marine Corps/GSA	17	-0-	576,492	6,956	161,177	12,894	560,171
Army/GSA	8	-0-	-0-	5,022	2,452	34	106
Total	<u>432</u>	<u>74,044</u>	<u>\$670,110</u>	<u>\$649,535</u>	<u>\$293,266</u>	<u>\$15,761</u>	<u>\$564,450</u>

It seems the military services with high inventories and relatively low demands are holding them as insurance items; that is, items stocked for essentiality or long leadtime. Such duplication in management, however, seems unnecessary as they are common, commercial-type items which are available through regular requisitioning channels from GSA. For example:

The Ogden Air Logistics Center during the period covered by our review purchased a Rigging Tool (NSN 5210-788-1767) six times and paid an average price of \$252 per unit for the 24 units procured. The fiscal year ending inventory consisted of 12 items valued at \$3,194. On this same date, GSA Region 6, Kansas City, had a stock on hand of 12 units valued at \$60 per item offered for issue through the GSA supply catalog. There were no procurements or demands recorded for the items by GSA during the period of our examination. The Air Force item manager was not aware that the item was listed for issue in the GSA catalog. GSA is the assigned integrated manager on this item and as such should be receiving and filling all requisitions for it. However, the Air Force bought the item and paid four times more than it would have by requisitioning from GSA.

Dual management of items by GSA and the Air Force accounted for a large part of the duplication in the 68 classes. Procurements and inventories on hand at the end of the fiscal year for the 560 items where the Air Force was a conflicting manager were \$62,227 and \$417,024, respectively.

Some items identified as dual managed through GSA's data were errors in catalog information rather than actual dual management. During our review, both the Navy and the

Marine Corps made adjustments to their supply records to reflect GSA as the integrated manager on several items that were erroneously shown as dual managed by GSA cataloging data. The management records on items identified as dual managed in the 68 classes should be adjusted by the services to indicate GSA as the integrated manager.

EFFECTS OF DUPLICATE MANAGEMENT  
ON GOVERNMENT SUPPLY SYSTEMS

In addition to the increased costs of maintaining duplicate inventories for the same item, other weaknesses in supply management occur directly as a result of more than one Government activity managing the same item. The following examples demonstrate these weaknesses.

Replenishment of supply item stocks  
which are concurrently being exceeded  
by another Government manager

Duplicate management results in a lack of full visibility over total available assets and in unnecessary procurement. For example, DSA procured over 1,300 abrasive wheels (NSN 3460-783-7279) for approximately \$2,500 when GSA had an excess of over 7,300 wheels on hand when this purchase was made. Subsequently, GSA declared 6,800 wheels as being excess. Integrated management could have provided total visibility over the stock on hand, and the additional procurement could have been avoided.

Agency competition for production of  
the sole manufacturer of supply items

Both GSA and DSA purchase, stock, and distribute a commercial-type, key changing combination padlock (NSN 5340-285-6523). During the same period each activity procured this item at approximately the same cost from the same manufacturer which is the only qualified producer.

Although DSA is the assigned integrated manager for this item, it has experienced difficulty in obtaining adequate supplies whereas GSA has been able to maintain sufficient inventories to meet its requirements. GSA had 3,382 padlocks on hand while DSA had unfilled requisitions for 12,450 padlocks on direct delivery backorder. Five months later, DSA still had 11,738 padlocks on backorder and had adjusted their production leadtime from 90 days to 210 days. This increase in leadtime will further contribute to the backorder problem.

Over a 2-year period, DSA procured 69,050 and GSA procured 23,364 of these padlocks at a cost of about \$1,278,200. Since 1966 this contractor has been the only one to meet the qualified products listing requirements for this lock. Through Executive Order 11652 GSA was granted the authority to approve changes in specifications for this item and to qualify manufacturers even though DSA has integrated management responsibility for the item.

Replenishing stocks through middleman instead of the manufacturer

GSA procured a valve gate (NSN 4820-554-8716) from the valve manufacturer, while DSA was purchasing the same item from a plumbing supply company, which acquired the item from the same valve manufacturer.

GSA awarded three consecutive 6-month contracts to the valve manufacturer while DSA awarded five contracts to the plumbing supply company over the same 18-month period. A comparison of the quantities and prices for the DSA and GSA contracts in the following schedule shows that DSA prices were substantially higher than those available through the use of GSA's contracts for similar quantities.

Comparison of prices paid by DSA and GSA for the same item during an 18-month period

<u>DSA contractor</u>		<u>GSA contractor</u>	
<u>Unit price</u>	<u>Quantity</u>	<u>Unit price</u>	<u>Quantity</u>
\$16.00	125	\$13.50	672
16.00	250	12.80	309
15.97	500	10.90	368
16.00	380		
15.73	535		
Total	<u>1,790</u>		<u>1,349</u>

Shipping provisions were freight-on-board destination for all of the above contracts, and in each case, the shipping origin point was the valve manufacturer's plant.

The higher DSA prices were not a result of accelerated delivery since delivery requirements were 120 days on 4 of the 5 DSA contracts while GSA delivery requirements were 90 days on all 3 GSA contracts. The fifth DSA contract had a 30-day delivery requirement. If the integrated manager, DSA, had been functioning in the above examples, the dual procurement would not have occurred. Moreover, the integrated manager would have had the benefit of GSA past procurement history and product experience.

Since the manufacturer demonstrated his ability to meet both DSA's and GSA's requirements, DSA could have gone directly to the manufacturer for all requirements. This would have resulted in eliminating the plumbing supply company as a supplier and a \$6,336 savings to the Government.

Replenishing stocks through sole source contractor instead of competitive bid manufacturer

DSA made three purchases of a reciprocating pump (NSN 4320-595-9762) on a sole source basis at an identical unit price of \$14.40. This price did not vary for changes in quantity, delivery time, freight-on-board point, or packaging, packing, and marking.

During the same time period that DSA awarded the three contracts, a GSA contract was in effect for the same item. The GSA contract was bid on by three companies, including the DSA sole source company. GSA awarded the contract for a unit price ranging from \$6.78 to \$6.85, depending on the location of the GSA region.

GSA quantities (504) were much greater than DSA quantities (67). DSA's average delivery time was about 40 days while GSA's was 60 days. Packaging, packing, and marking requirements were more stringent for GSA's contract than for DSA contracts. Two DSA contracts and the GSA contract specified freight-on-board destination. The remaining DSA contract specified freight-on-board origin.

An integrated manager could have consolidated the requirements of both agencies and competitively purchased the item from one source and saved approximately \$500 on the pumps purchased by DSA.

Payment of different prices for the same supply item

Both GSA and DSA manage a desk light (NSN 6230-682-3423) which is assigned to DSA under the agreement. Both GSA and DSA procured this item during our review period and DSA consistently paid a higher unit price. There was no great difference in procurement characteristics which would account for the different purchase prices. The following table shows the procurements by both activities during a 30-day period, GSA paid a lower unit price even though DSA procured the item in greater quantities.

Quantity		Destination		Unit price	
<u>DSA</u>	<u>GSA</u>	<u>DSA</u>	<u>GSA</u>	<u>DSA</u>	<u>GSA</u>
50	138	Norfolk, Va.	Atlanta, Ga.	\$17.85	\$13.99
150	54	Oakland, Ca.	Auburn, Wa.	18.80	14.40
300	-	Tracy, Ca.	-	18.70	-
3,000	141	Richmond, Va.	Atlanta, Ga.	17.25	13.99

If only DSA, the integrated manager, had been functioning as such in this example, the dual procurements should not have occurred. Furthermore, the integrated manager would have had the benefit of GSA past procurement history and product experience. The lower prices that could have been obtained under the integrated manager concept would have saved the Government about \$14,105 in product cost on this item.

Added cost of assembling tool kits instead of buying a complete unit

Dual management results in increased costs through different methods of procurement by the conflicting managers. We found that a tool kit (NSN 5180-695-0139), which is assigned to GSA for integrated management, is also managed by the Army. The GSA Stock Catalog listed the tool kit as a stock item with an \$83.00 unit price. However, the Army does not procure the kit complete from any Government or commercial source, but rather it procures from DSA or GSA the individual tools which make up the kit and assemble the kits as needed. An Army official stated that none of the 75 different tools, worth about \$118, which are needed for the kit are of a unique or special nature. During 2 fiscal years, the Army assembled 1,977 kits valued at about \$233,000 and experienced demands for 1,178 kits. GSA had no activity on the item during the 2-year sample period.

By procuring the kit already assembled from the assigned integrated manager, GSA, the Army would have saved about \$69,500 in the cost of the kit and avoided warehousing the component parts and costs associated with assembling and processing.

## CHAPTER 3

### ROADBLOCKS TO MAKING THE NATIONAL SUPPLY SYSTEM A REALITY

Duplicate management of supply items among Government activities still exists despite the assignment of certain Federal supply classes to an integrated manager under DSA/GSA supply management agreements. The 1971 agreement now in effect provides that Federal supply classes or commodity areas subsequently determined susceptible to integrated management or not previously reviewed will be reviewed against criteria for appropriate management assignment to DSA or GSA. However, formal criteria have not been agreed upon for further assignment of dual-managed items.

Neither DOD nor GSA have taken action toward joint review of those classes of items not previously assigned for integrated management. Neither have they issued a formalized plan for implementing the national supply system concept. The objective of the system as set forth in the 1971 agreement states:

"DOD and GSA are united in a common objective to eliminate avoidable duplication and overlap between their respective supply systems and those of other federal agencies and to provide responsive, effective, and economical integrated materiel management to all Government agencies (civil and military) in commonly used commodities."

DSA and GSA are now jointly reviewing dual-managed items in the 99 DSA primary classes and other items which obviously should be managed by GSA to negotiate some agreement as to the best method of attaining the objective of the national supply system. These negotiations have resulted in DSA offering management of selected supply items to GSA.

We noted that civil agencies, although they constitute a relatively small portion of the overall supply system operations, are not encouraged to participate in the national supply system. In many cases they lack the ability to properly identify items in the system which can be obtained from an integrated management source.

#### DOD POSITION ON SYSTEM DEVELOPMENT

DOD feels that the objective of a national supply system can best be attained through integrated management by DOD. This is because it fails to see benefits or economies accruing



through assignment of additional supply classes to GSA for integrated management when the majority of those items will be used by DOD components. In this respect, the Deputy Assistant Secretary of Defense (Supply, Maintenance and Services), in a November 21, 1973, letter informed the Commissioner, Federal Supply Service (FSS), that,

"\* \* \* it is not reasonable to expect a Department whose components levy, say 80% of the total Federal Government demands for an item, to forsake its own management system and another Government agency build-up a large duplicative management capability."

Consequently, there is little incentive for DOD to move toward the review of additional supply items or classes for assignment to GSA as integrated manager.

DOD believes that its proposals in the October 1971 letter for implementation of the 1971 agreement (see p. 7.) should be the order of priority before additional classes are reviewed. To resolve the question of these dual-managed items, DOD suggested that determination of management of these items should be based upon the specific nature of the items (common, commercial, or otherwise), degree of military essentiality, availability of items to the military in the event of mobilization, and predominance of use by either DOD activities or by civil agencies. DOD still desires to reach agreement on developing procedures for transferring management capabilities, facilities, and resources of FSS to DOD in the event of a future national emergency.

Past experience indicates that DOD is reluctant to consider or to study actions which could result in a significant transfer of additional supply items to GSA for integrated management. In the meantime, DOD has continued to assign supply classes for integrated management without reference to the national supply system concept. For example, DOD assigned 31 classes of common-type supply items to DSA. These classes had not been subjected to joint DSA/GSA review.

#### GSA POSITION ON SYSTEM DEVELOPMENT

The incentive to further develop a national supply system rests more with GSA than with DOD. GSA feels that its responsibility for managing common, commercial-type supply items, as provided under Section 201 of the Federal Property and Administrative Service Act of 1949, extends to all Federal activities including DOD. Consequently, if GSA is to actively participate in the national supply system, it must bring additional items under GSA management.

Generally, GSA maintains that (1) DSA should assume management of the five commodity groups previously agreed to by GSA, (2) the military services should manage all weapons-related Federal supply items, and (3) it should manage all other supply items used by the Federal Government. Moreover, GSA's position on DOD's exemption from the provision of Section 201 (a) of the Federal Property and Administrative Services Act of 1949 is that the exemption is not a continuous one. This section provides that the Secretary of Defense may from time to time exempt DOD from action taken by the Administrator of General Services whenever he determines such exemption to be in the best interests of national security.

Although GSA believes that the supply management agreements between itself and DOD have served as a framework for launching a national supply system, it does not agree with some of the basic supply management provisions of the 1971 agreement. In an August 30, 1973, letter from the Administrator, GSA, to the Assistant Secretary of Defense (Installations and Logistics), GSA noted that with respect to exceptions to primary class assignments, no clear cut criteria had been developed delineating the difference between military oriented and common-use, commercial-type items in Federal supply classes designated by DOD for integrated management by DSA. Irrespective of class assignments, the common commercial nature of these items dictates management by GSA. The Administrator proposed that they immediately undertake a review and restructure the 1971 agreement to accommodate mutual concerns and objectives.

In a subsequent November 7, 1973, letter the Commissioner, FSS, suggested that several provisions of the 1971 agreement be restated. For example, he objected to the provision assigning to DSA the national management responsibility for 224 Federal supply classes, including the 99 primary classes. These assignments in effect limited the number of classes available to GSA as integrated manager to 68 classes. In this letter, the Commissioner restated the need for developing mutually acceptable criteria for assignment of classes, differentiating between common commercial and military essential type items. The Commissioner emphasized in the letter that "predominance of use" is not an acceptable assignment criteria.

#### STATUS OF GSA/DOD NEGOTIATIONS

GSA and DSA are working toward resolving the issues hindering implementation of the 1971 agreement; i.e., the dual-managed items in the DSA primary classes. Efforts are being directed toward assigning integrated management on an

item-by-item basis as opposed to entire class assignments. Those items which meet the criteria for GSA management will constitute the authorized exceptions in the DSA primary classes.

Supply management assignment criteria have not been developed whereby DSA and GSA can jointly determine the appropriate manager for items now managed by both agencies. Although some agreement has been reached, GSA and DSA are committed only to resolving the major issues effecting implementation of the 1971 agreement.

In addition to the dual-managed items in the DSA classes the DSA Defense Centers are reviewing items in their system to identify obvious common, commercial-type (eye-catcher) items which would be appropriate for GSA management. As a result of this review, approximately 180 items, with anticipated annual sales of about \$2.8 million, have been offered to GSA for integrated management.

#### INABILITY OF CIVIL AGENCIES TO PARTICIPATE IN THE NATIONAL SUPPLY SYSTEM

During one fiscal year the civil agencies other than GSA expended about \$6.2 billion for goods and services. Of this amount about \$3.6 billion in equipment and supplies was procured from non-Government (commercial) supply sources.

Although the civil agencies' supply operations, in comparison to the Government as a whole, do not constitute a large part of the total operations, they are important, and should be included in any national supply system if it is to be applicable to all Government supply operations. Although some of the civilian agencies, such as the National Aeronautics and Space Administration, Federal Aviation Administration, and Veterans Administration have cataloging capability, many agencies do not have the capability to identify items which may be stocked or available from an integrated manager.

#### Identifying supply items by civil agency activities

The Federal catalog system was established to provide Government agencies with common identification for all supply items and to facilitate management of all logistical operations. Civil agencies, however, in many instances have not identified and classified their supply items by stock numbers and have not converted to exclusive use of the catalog system as an identification method.

In 1950 the Congress directed that the Secretary of Defense and the Administrator of General Services should, based on their respective responsibilities, expedite the development of a coordinated plan for a Federal catalog system in order that a single supply catalog system, to be used by all military departments and civil agencies, could be put into use as soon as practicable. Accordingly, the Administrator in July 1950 delegated to the Secretary of Defense the authority to develop the uniform Federal catalog system based on concepts developed jointly by GSA and DOD staffs.

GSA, under working agreements with DOD, participates with other civil agencies in the Federal catalog system. These civil agencies are required to use the policies, rules, procedures, and cataloging tools developed by DOD.

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The objectives of the Federal catalog system in the civil agencies are specifically defined in Federal Property Management Regulations which describe the types of items to be cataloged.

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"Items of personal property in the civil agency systems that are subject to repetitive procurement, storage, distribution and issue, and all locally purchased, centrally managed items will be named, identified, classified, and numbered (cataloged) in the Federal Catalog System. Other locally purchased items may be cataloged based upon civil agency requirements."

Included in the objectives are improved interagency use of supplies, equipment, and excess stocks and more exact identification of personal property.

Part 101-30 of the Federal Property Management Regulations points out that the catalog system provides a standard reference language or terminology to be used by all persons engaged in the process of supply and is a prerequisite for integrated item management under the national supply system concept. Effective use of GSA or DSA catalogs as a central source of supply in the Government is, to a large extent, dependent upon their ability to identify items by Federal stock numbers. Common-use items can generally be identified by descriptive material in the GSA Federal stock catalog.

In the early 1960s a major attempt was made to bring the civil agencies under the Federal catalog program. At that time, GSA requested civil agencies to submit data identifying those items which met the criteria for cataloging; i.e., items of personal property that are subject to repetitive

procurement, storage, distribution and issue, and all locally purchased items. After identifying the items agencies were to update the data in the files by adding and deleting items as necessary. The maintenance phase of cataloging for civilian agencies was not fully implemented by GSA and possibly resulted in several activities withdrawing from the system.

The Federal Property and Administrative Services Act allows the Administrator of GSA to exempt civil agencies from participating in the Federal catalog program. Under this provision, three agencies have withdrawn from the program-- Department of Agriculture, Bureau of Reclamation, and Government Printing Office. Although formal exemptions were not requested from GSA, several other agencies no longer actively participate in the system.

The 1971 national supply system agreement (see app. II) provided that DSA publish, distribute, and maintain a catalog for civil agencies' use tailored to their needs and listing items managed for civil agency support. Because the question of dual-managed items and unreviewed classes had not been settled to the satisfaction of both parties to the agreement, GSA was not in favor of publishing such a catalog except for fuel and electronic items. In October 1972, however, DSA published and issued a five-volume catalog based on its Federal catalog system data files at the Defense Logistics Services Center. This catalog contained items in 152 Federal supply classes--the 99 DSA primary classes, including the dual-managed items, and some of the classes in the five commodity groups.

These catalogs were distributed to over 9,000 procurement activities in the civil agencies, the same recipients of the GSA stores stock catalogs. It seems these catalogs had little or no effect in promoting a national supply system approach to sources of supply since DSA sales to civil agencies decreased, after the issuance of the catalogs, from \$34.4 million in fiscal year 1972 to about \$33.5 million in fiscal year 1973. Moreover, 97 percent of these sales was to agencies that had already entered into individual supply agreements with DSA.

One reason for this may be the fact that GSA seems to have discouraged civil agencies' use of DSA as a source of supply by instructing them to use the DSA catalog primarily as an aid in procuring petroleum and electronic items. The instruction further states that civil agencies may, on an optional basis, procure other items from the catalog provided they are not available through the GSA Supply Catalog, Federal Supply Schedules, or other GSA procurement programs.

Consequently, except for fuel and electronics, GSA has not made DSA a mandatory source of supply for the civil agencies despite the designation of DSA as primary manager on items in 99 Federal supply classes under the national supply system agreement. Because the civil agencies are directed to look first to GSA to obtain required items, the dual management of items in the 99 DSA-assigned classes continues. In addition, because the use of DSA is optional for the civil agencies, it is likely that part of their requirements procured on the open market is available from a Defense Supply Center.

A June 20, 1973, GAO report on the Federal catalog program recognized that although Federal Property Management Regulations require each civil agency to participate in preparing and maintaining the catalog, GSA has not fully asserted its authority in the catalog system.

#### Inaccurate catalog data in civil agency systems

We reviewed Federal catalog system supply items for selected civilian agencies to ascertain the reliability of the recorded item management data and determine whether this data reflected the agency's current use of the items. We also reviewed items listed in current stock catalogs to determine whether the management data was included in the Federal catalog system. In general, we found that the information was outdated and inaccurate.

Civil agencies advanced the following reasons for not actively participating in the Federal catalog system:

1. The additional costs which would be incurred to fully implement the system could not be justified by the resulting benefits.
2. Supply responsibilities have, in many cases, been delegated to regional and field offices, and the cost of a complex system as prescribed by the FPMRS would be prohibitive.

In addition, GSA recognizes that the current system is not responsive to the needs of civil agencies and is considering a method to allow the agencies to benefit from the system without installing full cataloging capability.

Our findings in the following civil activities are indicative of the manner in which civilian agencies are included in the catalog system on supply items and are maintaining catalog item management data in their systems.

Department of the Treasury  
Bureau of the Mint

A June 30, 1973, DSA cataloging report showed the Bureau of the Mint (Bureau) as a user on about 4,100 NSNs. We traced a statistically selected number of items to the Bureaus' Philadelphia and Denver supply catalogs and found that only 44 percent of the items was still included.

Our review of the Bureau's supply catalogs showed that about 18 percent of the 11,000 supply items in the Philadelphia office and about 30 percent of the 2,685 supply items in the Denver office were identified by NSN. A review of statistically selected items having NSNs showed that 88 percent and 53 percent of these items used in the Philadelphia and Denver offices, respectively, were not shown in the Federal catalog system.

Office of the Treasurer

Our review of the 184 items listed in the Treasurer's current supply catalog showed 40 percent of the items was not included in the Federal catalog system. An additional 13 percent or 25 items was not identified by NSN.

Bureau of Engraving and Printing

In February of 1973, the Bureau requested exemption from the catalog program under the provisions of the FPMR. At the time of their request, they stated that approximately 16,000 of the 17,000 items in their supply system were identified by NSN and registered in the system. After discussions with the Bureau, GSA determined that the Bureau would be exempt on supply items, such as special inks and paper that are peculiar to their operations. However, for all other supply items repetitively procured and stocked, participation in the program should continue. Bureau representatives told us that they are reviewing a listing of personal property items on which they are recorded as a user to insure that all active items are registered and inactive items are deleted.

Department of Commerce

The bureaus of the Department of Commerce are recorded as users of over 27,000 items in the Federal catalog system. Department officials informed us that in the past they quickly recognized the need for common identification of supply items for effective and efficient supply operations and encouraged each operating unit to convert all supply items to the Federal catalog system.

In a memo to the Bureau heads on June 23, 1971, the Office of Administrative Services stressed the importance of using NSNs in their supply operations and the necessity of providing NSNs on requisitions to the Defense Supply Centers and the military services. Commerce representatives believed that using NSN identification, particularly in the DOD supply system, has resulted in considerable savings to the Department.

Department of Justice  
Federal Prison Industries, Incorporated

The Federal catalog system shows the Federal prison Industries as a user on over 2,900 NSNs. We found, however, that 76 percent of a selected sample of these items was manufactured by the Corporation rather than items used in their operations. Federal prison industries officials stated that the majority of the raw materials used in their production is not identified by NSNs or procured from GSA or DSA. The officials also stated that they were not familiar with the DSA supply catalog for civil agencies.

U.S. Marshals Service

The Marshals Service uses NSNs only to procure supply items through GSA sources of supply. This bureau no longer registers items in the Federal catalog system. Since procurement operations of this office are decentralized we were unable to verify the accuracy of the 723 items on which they are recorded users. We were informed that the Marshals Service occasionally procures from the military services and DSA using NSNs to identify the required items. The DSA catalogs are not used by the Marshals Service in its procurement operations.



## CHAPTER 4

### AGENCY COMMENTS, EVALUATIONS, CONCLUSIONS, AND RECOMMENDATIONS

#### AGENCY COMMENTS AND OUR EVALUATIONS

We submitted our preliminary report to the Office of Management and Budget, DOD, GSA and the Department of Commerce and we received their comments. (See apps. III to VI.) Our evaluations are given below. Where appropriate, agency comments have been reflected in the report.

DOD concurred with our suggestion that the Office of Federal Procurement Policy (OFPP) provide the direction for accomplishing future reviews and evaluations of common supply items for assignment to integrated item managers. It did not believe that OFPP should be given this responsibility for dual-managed items presently being negotiated between DSA and GSA, but did believe that all items currently under negotiation would be assigned before OFPP could become participatory.

GSA stated that it would continue to work with OFPP and would rely on it to settle any major issues that GSA and DOD are unable to resolve.

We believe that these indications of acceptance of OFPP responsibility for providing direction and accomplishing future assignments to integrated managers are commendable. However, we also believe that the extended time required in the past to negotiate and agree on which agency or organization within an agency would be the integrated manager is sufficient evidence of the need for an arbiter in these matters. The Office of Federal Procurement Policy Act, as amended, provides for OFPP to carry out the Congress' policy of avoiding or eliminating unnecessary overlapping or duplication of procurement and related activities. The economical and efficient manner of accomplishing this for widely used items is through an integrated manager. Therefore, we believe that OFPP should actively expedite the current negotiations on assignment of management responsibilities as well as future assignments and transfer of assets.

We suggested that GSA and DOD review the items in the classes assigned to each by the 1971 agreement and divest themselves of managing items in classes assigned to the other organization. Both agencies stated that there were items in the agreed-to assigned classes which, by their nature, should be managed by the other agency.

In effect, both GSA and DOD indicated that in most cases, realistic management assignments could only be accomplished after review of the nature and the use of individual items. GSA also stated that negotiation for the management of a number of items falling into these categories had been concluded or were underway and that the transfer of responsibility and of the assets would take place in 1976. GSA stated further that other items were being reviewed or would be reviewed after current dual-management conditions had been resolved. In addition GSA indicated there were some items in the classes assigned to DSA which GSA might elect to stock, for which DSA would be the single procuring activity.

We have no objection to GSA managing exception items in classes assigned to DOD or to DOD managing items in classes assigned to GSA. Concurrence as to which organization will be the manager for all Federal agencies is the objective to be attained. On the other hand, we do not agree there is a need for separating the functions of procurement and stocking between agencies. The integrated manager should be responsible for the supply activities at the wholesale or depot level from acquisition through distribution to the using or requisitioning agency. Separation of these functions diffuses responsibility and reduces the overall visibility of available stock. It also permits additional inventory and increased carrying costs because of the added time required between the computation of requirements by the stocking activity and the placing of the order by the procuring agency.

Experience has shown that past transfers of item management from GSA to DSA, or vice versa, have turned out to be very time consuming with many related accounting and recording problems. We are aware of the various item transfers being contemplated as a result of the ongoing GSA and DSA negotiations and will keep abreast of future transactions in this area.

We suggested that GSA determine the extent to which individual agency supply systems have identified items by NSNs and can identify supply items available in Federal systems. GSA indicated that it had already implemented this suggestion by adding a new section to the supply activity report. All agencies, other than DOD, having an inventory of more than \$20,000, are required by Federal Property Management Regulations to submit this report to GSA annually. The new section to the report requires the agencies to report the total number of items carried in their inventories (1) that have NSNs, (2) for which NSNs have been requested, and (3) to which NSNs have not been assigned.

The reporting requirement established by GSA does not meet the need for agencies to identify items by NSNs and to use items that are so identified in the system. This is a basic requisite of a national supply system. Furthermore the reporting of such data only annually does not seem to represent any sense of urgency about increasing the Federal agencies' ability to participate in a national supply system. Knowledge of the number of items in an agency's inventory for which no NSNs have been requested or assigned is merely the starting point.

GSA also indicated that action had already been taken in response to our suggestion that it provide overall guidance to civilian agencies to enable them to update their supply cataloging identification capabilities sufficiently to participate in the national supply system. This action established a Federal catalog system task force to intensify systematic integration of civil agency supply operations into a coordinated Government-wide supply system. Its stated objective is to broaden civil agency understanding of and participation in the Federal cataloging program.

We obtained and reviewed a copy of the charter for this task force. We believe that if its stated objectives are attained, most of the problems cited in this report will be resolved and other civil agencies will be able to participate more fully in a national supply system. The principal defect we noted in the charter was an absence of any milestone dates to insure that the objectives will be attained in a reasonable time period. We intend to pursue this matter to determine the progress made and when substantive results may be anticipated.

The Department of Commerce concurred with our proposal to eliminate unnecessary duplicate management of supply items. It also agreed that GSA should assist the civilian agencies to develop and to implement a supply cataloging system. However, the Department also stated that it favored limiting the application of the NSN cataloging system to depot or warehouse supply systems. It indicated that the 13-digit NSN becomes more of a burden than an aid in managing supply items at the user level.

The Department said that it has developed a computerized system for use of its medium and small bureaus which uses only 3 digits and feels that this system might meet the needs of most small and medium size civil agencies.

The Department's suggestion merits consideration. If such a system is cross referenced to NSN for requisitioning from the integrated manager source, it may very well meet

agency needs. If an organization stores and uses a small or limited number of supply system items, there is no rationale for insisting on a system as complex as that needed by DOD which has over 4 million items in its inventory. Here again the objective should be to have a national supply system which most effectively and economically serves the needs of and is used by all Federal agencies. If the supply items are more easily and economically distributed within the agency, bureau, or office through a less complex system, this, in our opinion, should be a determination reserved to each agency.

In its reply to our report, the Office of Management and Budget recommended that we reconsider our use of the term "savings" which are estimated to result from eliminating dual management of various supply items. It noted that while there are definite costs associated with maintaining warehouse inventory levels, whether under single or dual management, it is not correct to consider these costs equivalent to the value of the inventory. Furthermore, it stated that although reduction in inventory does produce an interest saving on the cost of eliminated inventory investment, all of these reduced costs and savings will normally be only a fraction of the total cost of the value of the inventory reduction which they suggest is not a savings.

We recognize that the costs associated with maintaining warehouse inventory levels are not equivalent to the value of the inventories, and that from an economic point of view there is an interest savings on the reduction of inventory investment. We also believe, however, that consolidating facilities does result in a reduction in investment in the inventory needed to service the same requirements and, on a going concern basis, this is a measurable savings. As pointed out on page 10 of this report, the Logistics Management Institute has concluded that a 25 percent reduction in inventory is possible through consolidation of facilities. Furthermore, other authorities recognize that consolidating distribution points can result in reduced inventory investment.<sup>1</sup>

Our reported potential savings of \$20.8 million included inventory reduction of about \$13.8 million, recurring savings in procurement of about \$1 million, and inventory holding costs of about \$6 million. In addition to this, recognizing the Office of Management and Budget's position that there would also be an interest savings on the reduction of inventory investment, we estimate this additional savings to be approximately \$1 million.

<sup>1</sup>James A Constantin, Principles of Logistics Management, p. 403, Appleton-Century-Crofts, N.Y. 1966.

## CONCLUSIONS

The concept of a national supply system has been discussed and studied in the Federal Government over 12 years beginning in the early 1960s. Implementation of the one-item, one-manager operation inherent in the concept with its related savings through the elimination of duplicate management has been pursued to varying degrees during this time. Negotiations toward such a system involving primarily GSA and DOD have progressed through two formal agreements--one in 1964 and a revised agreement in 1971--with the assignment of certain classes to integrated managers and the transfer of inventories and related management responsibilities.

Our review of supply items managed by GSA and DOD activities clearly shows that negotiations and discussions accomplished under the supply management agreements over the years have not succeeded in eliminating the duplicate management of common supply items in the Federal Government.

We estimate that, if duplication is eliminated, about \$20.8 million in measurable savings would result from reductions in inventories and decreased procurement and inventory holding costs alone.

More duplication of item management, and therefore greater potential for savings, exist for those supply items assigned to DSA under the supply management agreements and for those items in classes not reviewed for assignment to an integrated materiel manager. However, management duplication also remains for those items assigned to GSA as integrated manager. Although this dual management may not be as important in terms of potential savings, we believe management of all items in the Federal Government should be provided by an integrated manager.

In the past GSA and DSA negotiations and discussions on dual-managed items have met with limited success. The parochial interests of the agencies have inhibited a smooth progression to integrated management of common supply items.

National supply system has not been defined in law and is a term which can take on varying interpretations depending on the responsibilities and interests of the organization doing the defining.

Not much progress has been made over the years by the responsible agencies toward developing and formalizing a plan for implementing such a system. To be truly national in scope all Federal agencies should be able to participate in and accrue the benefits provided through central provisioning of supply items.

Civilian agencies' participation in the national system is limited by their ability to identify supply items and locate the appropriate central Government source of supply for specific items used in their systems. The Federal catalog system was established to allow agencies to identify needed supply items by NSN. Many agencies, however, claimed that the costs associated with full participation in the system would be prohibitive in relation to the benefits. Other civilian agencies may not be able to develop full cataloging capability but they may be able to modify their system sufficiently to allow themselves to participate on a partial basis with less sophisticated equipment.

We believe the potential economies in Government supply operations can be realized and the national supply system can become a reality. But, in addition to the whole-hearted cooperation of the involved individual agencies, direction and impetus must be provided by an outside party with no parochial interest in the resolution of the problem. OFPP, in the Office of Management and Budget, appears to be the appropriate authority to exercise this responsibility of developing the national supply system. It was created by P.L. 93-400, 93d Congress--88 Stat. 796 to provide overall direction of procurement policies, regulations, procedures, and forms for executive agencies to assist the Congress in promoting its policy of economy, efficiency, and effectiveness in the Federal Government. The law provides, among other things, that it should avoid or eliminate unnecessary overlapping or duplication of procurement and related activities. Section 15 of the act amends Section 201 (a) (1) of the Federal Property and Administrative Services Act of 1949, and makes regulations prescribed by the Administrator, GSA, subject to those prescribed by the Administrator for Federal Procurement Policy.

#### RECOMMENDATIONS

We recommend that the Administrator, OFPP confer and coordinate with the House and Senate Committees on Government Operations to

- establish a formal definition of the Congress' concept of a national supply system which explicitly delineates item management responsibilities, while giving appropriate recognition to the responsibilities of the agencies currently involved in the dual management of supply items and
- establish short- and long-range objectives as well as assign responsibility for their accomplishment in implementing the system.

We also recommend that to eliminate the present duplication of management between GSA and DSA, OFPP establish policy and guidance for

- determining which agency will manage the dual-managed items under negotiation by GSA and DSA and

- accomplishing future reviews and evaluations of common supply items in the Federal Government for assignment to integrated item managers.

We further recommend that in exercising its responsibility for providing policy and regulations to eliminate unnecessary overlapping or duplication of procurement and related activities, OFPP function as the final arbiter and expediter of negotiations and transfers of the assignments of common supply items for integrated management.

## CHAPTER 5

### SCOPE OF REVIEW

At selected supply activities, we reviewed fiscal years 1972 and 1973 procurement, demand, and inventory records on the selected supply items. We also examined the procurement method and supply sources used by the managing activities.

The estimates in this report were developed from the procurement, demand, inventory, and item management data obtained at the various activities visited and projected to a universe of potential dual-managed items using accepted scientific sampling techniques.

We statistically selected a sample of Federal supply items from the GSA data bank to determine if the items were being managed by more than one Government activity. The sample was limited to items which were managed by GSA and a DOD activity.

The following locations were included in our review.

4 Department of the Army: 25

U.S. Army Armament Command, Rock Island,  
Illinois  
U.S. Army Electronics Command, Philadelphia,  
Pennsylvania  
U.S. Army Troop Support Command, St. Louis,  
Missouri  
U.S. Army Tank Automotive Command, Warren,  
Michigan

7 Department of the Navy: 1

Navy Aviation Supply Office, Philadelphia,  
Pennsylvania  
Navy Ships Parts Control Center,  
Mechanicsburg, Pennsylvania  
Naval Training Device Center, Orlando, Florida  
Navy Electronics Supply Office, Great Lakes,  
Illinois

6 Department of the Air Force: 35

Warner Robins Air Logistics Center, Robins  
Air Force Base, Georgia  
Oklahoma City Air Logistics Center, Tinker Air  
Force Base, Oklahoma



San Antonio Air Logistics Center, Kelly Air  
Force Base, Texas  
Sacramento Air Logistics Center, McClellan  
Air Force Base, California  
Ogden Air Logistics Center, Hill Air Force  
Base, Utah

7 Marine Corps:

95

Marine Corps Supply Activity, Philadelphia,  
Pennsylvania

Defense Supply Agency:

Defense Industrial Supply Center, Philadelphia,  
Pennsylvania  
Defense Personnel Supply Center, Philadelphia,  
Pennsylvania  
Defense General Supply Center, Richmond,  
Virginia  
Defense Construction Supply Center,  
Columbus, Ohio  
Defense Electronics Supply Center,  
Dayton, Ohio

General Services Administration:

Federal Supply Service Headquarters,  
Washington, D.C.  
GSA Regional Office, Atlanta, Georgia  
GSA Regional Office, Auburn, Washington  
GSA Regional Office, Boston, Massachusetts  
GSA Regional Office, Chicago, Illinois  
GSA Regional Office, Denver, Colorado  
GSA Regional Office, Fort Worth, Texas  
GSA Regional Office, Kansas City, Missouri  
GSA Regional Office, New York, New York  
GSA Regional Office, San Francisco, California  
GSA Regional Office, Washington, D.C.

Department of the Treasury, Washington, D.C.  
Department of Commerce, Washington, D.C.  
Department of Justice, Washington, D.C.

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**AGREEMENT**

between

**GSA and DOD****GOVERNING SUPPLY MANAGEMENT RELATIONSHIPS**

This agreement is entered into between the Department of Defense and the General Services Administration in furtherance of the principle of providing for the Federal Government an efficient and economical Governmentwide system for the procurement and supply of personal property and nonpersonal service, eliminating unnecessary overlapping and duplication within the Government's supply system, and to establish a sound and continuing basis for assignment of responsibility for management of commodities determined to be susceptible to integrated management within the Department of Defense and those susceptible to integrated management within the Federal Government as a whole.

It is hereby agreed that: --

1. The maintenance of centralized supply management capability by the Defense Supply Agency within the Department of Defense as an integral part of the military supply system and by the Federal Supply Service within the General Services Administration as a source of supply for all executive agencies is essential to the performance of the basic statutory responsibilities and missions of their respective parent agencies; and

2. The supply management capabilities of each of the respective agencies can, through cooperative arrangements, successfully be fitted together to form a coordinated supply system for the Federal Government, with clearly defined responsibilities of each component, and with sufficient control concerning assigned responsibilities retained by each to assure successful performance of basic missions.

3. Definitions: Key terms used herein are defined for the purposes of this agreement as follows:

a. Supply services within the scope of this agreement include:

- (1) preparation and maintenance of specifications.
- (2) preparation of supply catalogs.
- (3) coordination of standardization activities.

- (4) determination of method of supply.
- (5) development of arrangements for supply support.
- (6) computation of inventory replenishment requirements.
- (7) purchasing.
- (8) provisioning for the commodities concerned; if required.
- (9) stock control.
- (10) mobilization planning.
- (11) receipt.
- (12) storage.
- (13) issue.
- (14) contract administration services.

b. Integrated Supply Management: The performance by a separately organized agency of supply services in support of other agencies.

c. Centralized Supply Management: Performance or supervision by a single agency of the complete range of supply services.

d. Centralized Inventory Management: Maintenance and control of commodity inventories for distribution to eligible users.

e. Centralized Purchasing: Establishment by a central supply manager or other agency of centrally controlled procurement activities as sources of supply for commodities which are delivered to user or to another agency's inventory distribution system.

f. Decentralized Commodities: Commodities authorized by the central supply manager for procurement by using agencies, through direct placement of orders on commercial supply sources, including Supply Schedules negotiated by a central supply manager.

g. Support of Decentralized Commodities: Arrangements made by the central supply manager to obtain commodities authorized for local procurement when a using activity is unable to procure for itself.

h. Primary Federal Supply Service Group or Class: A Federal supply group or class which is assigned, on the basis of agreed criteria, as a group or class for management by the Federal Supply Service for both civil agency and Defense users. This does not require that every item within the group or class qualify under the agreed criteria for assignment to the Federal Supply Service, but that the number of items not so qualifying be sufficiently small to permit them to be segregated under the exception procedures provided for in paragraph 10.

i. Primary Defense Supply Agency Group or Class: A Federal supply group or class which is assigned, on the basis of agreed criteria, as a group or class for management by the Defense Supply Agency for Defense users, subject to the exception procedures cited in (h) above. Certain Primary Defense Supply Agency groups or classes may be assigned, by agreement, for both Defense and civil agency users.

j. Split Management Classes: Federal supply classes which do not qualify as primary Federal Supply Service or primary Defense Supply Agency classes.

4. a. The following classes or items within classes are not within the scope of the provisions of paragraph 10 of this agreement, except as provided in subparagraph (b) below:

(1) Classes of items which have not been designated within DOD on the date of this agreement for integrated management within DOD;

(2) Items within classes which have been retained on the date of this agreement for management by each of the Military Services under DOD approved coding criteria; and

(3) Items within classes which have been retained for management by Federal civil agencies.

b. The provisions of this agreement shall apply to any additional groups or classes of items which may hereafter be determined to be susceptible to integrated management with DOD and shall become effective as to such additional groups or classes of items upon their management classification.

5. a. It is the primary mission of:

(1) The integrated military supply management system assigned to the Defense Agency to provide supply support to organized military units; and

(2) The Federal Supply Service to support the common supply requirements of executive agencies.

b. These different purposes provide a sound basis for dif-

ferentiation of the respective supply management assignments of the Federal Supply Service and the Defense Supply Agency;

c. For their intended purposes and for support of their respective users, both DSA and FSS have access to managerial talent and systems; each is responsible for supply management requirements of sufficient magnitude to realize the economies of scale; and

d. Supply requirements common to both military and civilian agencies can, under certain circumstances, be met by assignment of centralized supply management responsibilities or selected supply services for Governmentwide support of certain groups, classes, sub-classes, or individual items to either FSS or DSA.

6. The intent of the statutory supply responsibilities vested in the General Services Administrator and the Secretary of Defense can best be realized by DOD and GSA observance of the following principles:

a. The Defense Supply Agency is responsible for insuring maximum responsiveness and economy in the supply of all Defense-used commodities not retained for management by the Military Services and, in the discharge of this responsibility, will make maximum use of the supply management capabilities of the Federal Supply Service, consistent with the requirements of military readiness.

b. The Federal Supply Service, in discharging its responsibility to provide for the Government an economical and efficient system for the procurement and supply of personal property and nonpersonal services with "due regard to the program activities of the agencies concerned," accepts the necessity for retention of control within the Department of Defense of supply services essential to the conduct of military missions.

c. The Defense Supply Agency will furnish supply management services to all Federal agencies under conditions specified elsewhere herei

d. Where utilization by each agency of the specialized capabilities and facilities of the other will promote increased responsiveness to the need of civil agency and Defense users and economy and efficiency for the Government as a whole, certain supply management services may be retained by

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a military or civilian agency or assigned by the central supply manager to another agency. It is agreed, however, that DSA and FSS shall continue to strive to work out mutually satisfactory arrangements for full coordination in performance of specification, cataloging, and standardization functions. Supply services which may be retained by or assigned to other agencies include:

(1) Preparation and maintenance of specification -- In the case of supplies for civil agency use, this function may be performed by the central supply manager or assigned by such manager by agreement to another agency; for Defense-used commodities, final responsibility is retained by the Military Services.

(2) Cataloging and coordination of standardization actions -- For civil agencies, coordination of these functions is a responsibility of the central supply manager; for Defense Department components, this responsibility is retained by the Department of Defense for all commodities used by it.

(3) Contract Administration Services -- For purposes of this agreement, responsibility for this function, including quality control, will remain with the agency responsible for centralized purchasing.

(4) Purchasing support -- Use by each agency of the purchasing capabilities of the other, particularly where both agencies draw upon the same commercial or industrial sources.

(5) Warehousing support -- Use by each of the warehousing facilities of the other where facilities of both agencies are located or would need to be located in the same geographic areas.

e. The role of the Federal Supply Service as coordinator between the Defense Supply Agency and civil agencies and the role of the Defense Supply Agency as coordinator between the Federal Supply Service and the Military Services is intended to insure consistency of policy and procedures governing centralized supply management, particularly with respect to changing existing arrangements or establishing new arrangements, but these coordinating responsibilities do not preclude direct day-to-day communications between supply sources and users within the purview of established supply support arrangements.

7. The Federal Supply Service shall assume centralized supply management responsibility for all Federal users for those commodity groups or classes which are designated by agreement, in accord with criteria set forth in paragraph 10 below, as primary GSA classes, except for those services listed in paragraph 6 for retention by the Department of Defense.

8. The Defense Supply Agency will perform centralized supply management services for Defense users and for other Federal agencies, as agreed, for those commodity groups or classes which are designated as primary Defense Supply Agency classes. Specifically, the Defense Supply Agency agrees to consider support of all Federal agencies for groups and classes in the following commodity areas: Subsistence, Clothing and Textiles, Medical, Petroleum, and Electronic supplies. Agreement with respect to the classes to be supported and the range of supply services to be furnished is contingent upon (a) determination by DSA that support of civil agencies will not impair DSA's capability to support military units in war or peace and will not significantly increase DSA's operating costs or inventory investment; (b) determination by GSA that the establishment of a separate capability by the Federal Supply Service to support Federal civil agencies would result in significantly higher costs to the government than support by the Defense Supply Agency; and (c) completion by GSA of arrangements for extension of integrated supply management for the commodity areas in question to the Federal civil agencies. Should the General Services Administration determine, with respect to any other classes or items, that Governmentwide economies and improved responsiveness can be gained through support of all Federal agencies by the Defense Supply Agency, it shall make a recommendation to that effect to the Department of Defense.

9. In split management classes, civil agency and Defense users will look to the Federal Supply Service and the Defense Supply Agency, respectively, for coordination of supply management actions affecting items in such classes and for support, where necessary, of decentralized items. Sub-groups or items within such classes which are designated for management by the Federal Supply Service, will be referred for centralized purchasing or centralized inventory management by the Federal Supply Service.

10. The Federal Supply Service and the Defense Supply Agency will undertake a joint review of all groups, classes, or items designated for integrated management within the Department of Defense with a view to agreeing upon assignment of supply management responsibilities as between the Defense Supply Agency and the Federal Supply Service to be

determined under the following general criteria applied first, by groups; second, by class; third, by sub-class or family relationships; and last, by individual item. Both parties to this agreement affirm that the criteria set forth below as governing the assignment of management to DSA constitute a sound basis for the exercise of the statutory authority vested in the Secretary of Defense to exempt the Department of Defense from actions taken by the Administrator of the General Services Administration under Federal Property and Administrative Services Act, as amended; and that the criteria governing assignment to the Federal Supply Service are applicable to all Defense-used items not qualifying for such exception.

a. The use of the criteria set forth below will require adequate controls to assure consistency of application. Provision must also be made for review and negotiation after application of the criteria to assure that a supply management method is adopted which will provide optimum governmentwide economy consistent with military readiness. It is therefore agreed that:

(1) A procedure for application of these criteria will be jointly developed and approved by the Director, Defense Supply Agency and the Commissioner, Federal Supply Service, GSA.

(2) The controls referred to above and the procedures for application of the criteria will be developed and implemented by a committee which will be established in accordance with Annex A to this agreement.

(3) All items which do not meet the requirements of DSA management criteria 2 through 5 below will be reviewed by the committee to determine the appropriate management assignment in the light of the other criteria and the general policy set forth above.

(4) Any item may be referred to the committee for comprehensive analysis when it is considered that application of the criteria in accordance with established procedures does not provide optimum governmentwide economy consistent with the requirements of military readiness.

(5) The committee will give special attention to detailed review of items which are identified as meeting the DSA managed criteria but are also extensively used by Federal civil agencies.



**b. Supply Management Assignment Criteria**

**DSA Managed**

1. Groups, classes or items essential to the conduct of military missions (for committee use only).
2. Items specially designed for military use.
3. Items subject to return for depot level repair.
4. Items essential to operational readiness of weapons systems and military designed equipment.
5. Items which are essential to health, safety and survival of personnel in the performance of military missions.

**GSA Managed**

1. Groups, classes or items used throughout the Federal Government (for committee use only).
2. Items which are commercial in nature and similar to those produced by industry for general consumption by the civilian economy.

c. In the conduct of the joint review, first priority shall be given to the identification of commodity groups or classes which, because they consist predominantly of items satisfying the appropriate criteria set forth above, can be assigned as primary Federal Supply Service or Defense Supply Agency groups or classes. Upon such designation, the group or classes shall not be subject to further review except that either agency may, upon its own initiative, propose specific items for excepted assignment and shall justify its proposal by a clear demonstration that the proposed exception satisfies the criteria agreed upon for the proposed assignment.

d. Where group or class assignments cannot be agreed upon, the joint review will then identify families of items within classes which satisfy the criteria for management assignment to the Federal Supply Service or the Defense Supply Agency. Items within such families which are clearly identifiable with special military users may be proposed and justified as item exceptions under the conditions set forth above for exceptions to group or class assignments. All remaining items will be subject to individual joint review under the agreed criteria.

e. It is recognized that by reason of scope and diversity of usage, certain items will, to some degree, satisfy both sets of criteria set forth above. In such instances, exhaustive item-by-item analysis will be made with a view to assigning central supply management responsibility for such items to the Federal Supply Service wherever consistent with assured support of military forces. Where the Secretary of Defense determines that military considerations require central management within the Department of Defense of items which are also widely used by civil agencies, management by both the Defense Supply Agency and the Federal Supply Service will be accepted under the terms of this agreement. Centralized purchasing of such commodities will be assigned to the Federal Supply Service in those instances where the Federal Supply Service purchases the items centrally for civil agencies.

f. Within the commodity ranges assigned to each agency for centralized supply management, the joint review will explore all opportunities for full utilization by each agency of the specialized functional capabilities and facilities of the other pursuant to subparagraph 6 (d) above.

g. The Defense Supply Agency and the Federal Supply Service will retain final responsibility for insuring the availability of items in split management classes which are decentralized for local procurement by Defense and civil agency users, respectively. Where Federal Supply Schedules exist for Defense-used decentralized items in these classes, the Department of Defense will use such schedules as the primary source of supply. The Federal Supply Service agrees that centralized inventory management will not be provided for these items to Defense users without prior coordination with the Defense Supply Agency. The Department of Defense, in turn, agrees that it will not provide centralized inventory management for decentralized items supported in whole or in part by Federal Supply Schedules without prior coordination with the General Services Administration.

h. It is recognized that, under existing circumstances, items in split management classes otherwise satisfying criteria for assignment to the Federal Supply Service may not qualify for centralized inventory management under policies and criteria established by it. In these instances, the Federal Supply Service will so advise the Defense Supply Agency, identifying those items which it is prepared to support through Federal Supply Schedules. With respect to such of those items which the Defense Supply Agency thereafter determines to require central inventory management to assure support of military forces, the Defense Supply Agency may assume centralized inventory management. With respect to such of those items as the Defense Supply Agency determines do not require centralized

inventory management within the Department of Defense, final responsibility for assuring availability to support military forces remains in the Defense Supply Agency.

11. The General Services Administration will honor the Defense Uniform Materiel Issue Priority System during times of peace, and in the event of national emergency, the full supply management capabilities, facilities, and resources of the Federal Supply Service will be available for the supply support of the Department of Defense, and upon determination by the President that such control is required in the interest of national security, will come under the operational control of the Secretary of Defense. The Department of Defense will take this assurance into account in formulating emergency plans, and to this end, jointly with the General Services Administration, will insure that their respective systems and procedures are so coordinated as to facilitate effective support of military emergencies.

12. Upon approval of this agreement, the Defense Supply Agency and the Federal Supply Service will proceed to formulate findings and determinations with respect to commodity and functional assignments consistent with the provisions of this agreement, including the identification of related funds, personnel, property, and records. Supply management assignments resulting from these actions will be made effective upon completion of all findings, but actual management transfers will be so scheduled as to insure adequate dissemination of information and direction to subordinate and supported elements as necessary to effect orderly transfer and realignment actions.

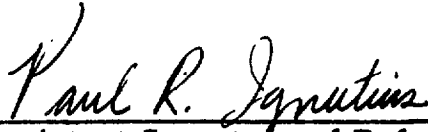
13. The parties to this agreement anticipate that these determinations will stabilize their respective management assignment for a period of at least five years as between themselves, except for the review of additional supply classes determined to be susceptible to integrated management, as provided for in paragraph 4(b) above. Provision will be made for protection of the integrity of agreed management assignments through coordination of procedures with respect to standardization actions and the replacement of items managed by each agency by new items entering the supply system.

14. This agreement, providing a method for determining and implementing assignment of supply management responsibilities between DSA and GSA, is intended to constitute for a minimum period of five (5)

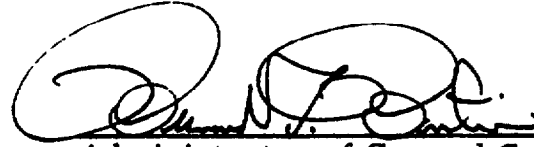
years the vehicle of fixing, as between themselves, the supply management responsibilities of DSA and GSA, it being understood and agreed that this agreement may be revised or modified from time to time, by mutual assent, for purposes of clarification, refinement, and improvement, upon the basis of experience thereunder.

Approved:

Approved:



Assistant Secretary of Defense  
(I&L)



Administrator of General Services

12 DEC 1964

(Date)

NOV 6 1964

(Date)

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February 19, 1971

AGREEMENT BETWEEN THE DEPARTMENT OF DEFENSE  
AND THE GENERAL SERVICES ADMINISTRATION GOVERN-  
ING SUPPLY MANAGEMENT RELATIONSHIPS UNDER THE  
NATIONAL SUPPLY SYSTEM

1. Objective and Authority

This Agreement is entered into between the Department of Defense (DoD) and the General Services Administration (GSA) in furtherance of the National Supply System concept. DoD and GSA are united in a common objective to eliminate avoidable duplication and overlap between their respective supply systems and those of other federal agencies and to provide responsive, effective and economical integrated materiel management to all Government agencies (civil and military) in commonly used commodities. Basic authorities and responsibilities fixed upon the Administrator of General Services by Section 201(a) of the Federal Property and Administrative Services Act of 1949 (40 USC 481) are recognized as the basis of the National Supply System. Under the provisions of Section 205(e) of that Act (40 USC 486), the Administrator of General Services designates and authorizes the DoD to procure and supply personal property and nonpersonal services and perform related functions in support of federal civil agencies within the terms of this Agreement; the Assistant Secretary of Defense (Installations and Logistics) consents to the assignment of the above stated functions.

2. Commodity Assignment Criterion, Review and Transfer Provisions

a. The fundamental rationale/criterion for the division of management effort between GSA and the Defense Supply Agency (DSA), as well as the primary basis for integrated management alignment, is one which (1) Assigns to GSA those Federal Supply Classes (FSCs) or commodities commonly used by Federal agencies which are commercially available on the civilian economy and not predominantly of a military nature; and (2) Assigns to DSA those FSCs or commodities commonly used in military operations or weapon systems support, irrespective of their use by civil agencies.

b. FSCs or commodity areas subsequently determined susceptible to integrated management or not previously reviewed will be reviewed against this criterion for appropriate management assignment to DSA or GSA under the terms of this Agreement. Likewise, these criteria shall be employed when reviewing commodities already under integrated materiel management, for optimum management alignment. To encourage reasonable management stability, however, such reviews, to be conducted jointly by GSA and DSA on an objective basis, shall be limited to intervals

approved by the Assistant Secretary of Defense (Installations and Logistics) and the Administrator, GSA. Such changes will normally be made on the basis of overall economies accruing to the Federal Government, except where the change is required in the interest of National security.

c. Time phased plans shall be jointly developed for the assignments and subsequent logistic transfers. The resources, funds and personnel to be transferred shall be identified and determinations developed to achieve the transfers.

### 3. Exclusions

a. Notwithstanding their basic commercial nature, clothing and textiles; subsistence, medical (Federal Supply Group (FSG) 65), fuel and electronics commodities are considered appropriate for management by DSA.

b. Paint and hand tool commodities, notwithstanding the military nature of some of the items and their use in military operations or weapon systems support, are considered appropriate for management by GSA.

c. Automatic data processing equipment and related supplies are excluded as the procurement of these commodities is vested in GSA by law (40 USC 759).

d. Procurement of DoD requirements for commercial passenger-carrying vehicles, buses, and trucks up to 10,000 pounds Gross Vehicle Weight (GVW), is assigned to GSA.

### 4. Specific Agreement Provisions

a. As a general concept, GSA will be responsible for the management of all items in the FSCs assigned (Tab A) for all federal agencies and DoD (except for those retained by the military services under approved item management coding criteria.) Conversely, DSA will be responsible for the management of all items in FSCs assigned (Tab B) for all DoD activities and the federal agencies (except for those retained for military or civil agency management). Recognizing, however, that it is generally impractical to make exclusive FSC assignments, there will continue to exist the necessity for item management exceptions. These should be held to a minimum, however, and such exceptions, to be agreed to jointly by GSA and DSA, will be officially recorded and an exception listing will be published annually for the information of all customers. In this manner, individual item management duplication will be eliminated in the National Supply System.

b. GSA will provide catalog and management data to DoD cataloging activities for items assigned hereunder for DoD support, and for civil agencies, will continue to publish, distribute and maintain a catalog of items managed by GSA for civil agency support. DSA will publish, distribute and maintain a catalog of items assigned hereunder tailored to civil agencies requirements.

c. Civil agencies will not be required to register as users in the Federal Catalog System to obtain support. Such registration will be accomplished as appropriate by GSA or DSA.

d. DoD and GSA will drop inactive items from support of civil agencies on the basis of recorded demand after notification of intent to civil agencies containing a proposed effective date allowing for reclama.

e. Accessorial or other surcharges will be levied by DSA and GSA in a uniform manner for all customers.

f. GSA and DoD will continue to develop and operate compatible systems and supply and financial procedures, affecting agencies they serve, fitted together as a coordinated supply system by which responsive and economical supply support is provided to military and civilian requisitioners.

g. In recognition of a National Materiel Movement and Issue Priority System and in coordination with GSA and the civil agencies affected, DoD will provide in the Defense Uniform Materiel Movement and Issue Priority System (UMMIPS) for assignment of appropriate priority designations for the programs of the civil agencies. Both GSA and DSA will honor UMMIPS time standards in filling requisitions of all customers. GSA also will participate in the military standard logistics data systems as may be appropriate and as subsequently agreed to by separate arrangements.


h. Federal Supply Service (FSS), GSA shall be responsible for monitoring civil agency supply relationships with DSA. DSA shall be responsible for monitoring Defense Component supply relationships with GSA.

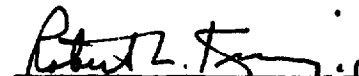
i. GSA and DSA will develop and maintain Federal Supply Schedule type contracts for Groups, Commodities or items assigned under terms of this Agreement.

j. This Agreement shall be published in the DoD Directives System and the GSA Federal Property Management Regulations.

k. In the event of a future National emergency declared by the President or the Congress, the Administrator of General Services will delegate to the DoD the functions of the Federal Supply Service at least to the extent such functions are necessary for the supply support of the DoD. This delegation will be subject to the approval of the President and the Office of Management and Budget, and will be accompanied by a transfer of the management capabilities, facilities and resources of the Federal Supply Service which are necessary for the performance of the functions delegated.

l. This Agreement supersedes the Memorandum of Understanding Between GSA and DoD, June 7, 1963, "Procurement and Management of Hand Tools (FSG 51 and FSC 5210) and Paint (FSG 80)" and the Agreement between GSA and DoD Governing Supply Management Relationships, December 12, 1964, and all other conflicting supply support arrangements, and is effective upon signature by both parties to the Agreement. It may be rescinded, revised or modified by mutual assent.

  
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Assistant Secretary of Defense  
(Installations and Logistics)

  
\_\_\_\_\_  
Administrator, General  
Services Administration



GENERAL SERVICES ADMINISTRATIONFEDERAL SUPPLY CLASSES

<u>FSC CLASS</u>	<u>COMMODITY</u>
3540	Wrapping and Packaging Machinery
3550	Vending and Coin Operated Machines
3590	Miscellaneous Service and Trade Equipment
3750	Gardening Implements and Tools
5110	Hand Tools, Edged, Nonpowered
5120	Hand Tools, Nonedged, Nonpowered
5130	Hand Tools, Power Driven
5133	Drill Bits, Counterbores, and Countersinks: Hand and Machine
5136	Taps, Dies, and Collets; Hand and Machine
5140	Tool and Hardware Boxes
5180	Sets, Kits, and Outfits of Hand Tools
5210	Measuring Tools, Craftsmen's
5345	Disks and Stones, Abrasive
5350	Abrasive Materials
5610	Mineral Construction Materials, Bulk
5620	Building Glass, Tile, Brick, and Block
5630	Pipe and Conduit, Nonmetallic
5640	Wallboard, Building Paper, and Thermal Insulation Materials
5650	Roofing and Siding Materials
5670	Architectural and Related Metal Products
5680	Miscellaneous Construction Materials
7105	Household Furniture
7110	Office Furniture
7125	Cabinets, Lockers, Bins, and Shelving
7195	Miscellaneous Furniture and Fixtures
7220	Floor Coverings
7230	Draperies, Awnings, and Shades
7240	Household and Commercial Utility Containers
7290	Miscellaneous Household and Commercial Furnishings and Appliances
7330	Kitchen Hand Tools and Utensils
7340	Cutlery and Flatware
7350	Tableware
7420	Accounting and Calculating Machines
7430	Typewriters and Office Type Composing Machines
7460	Visible Record Equipment
7490	Miscellaneous Office Machines
7510	Office Supplies
7520	Office Devices and Accessories
7530	Stationery and Record Forms

TAB A

<u>FSC CLASS</u>	<u>COMMODITY</u>
7710	Musical Instruments
7720	Musical Instrument Parts and Accessories
7730	Phonographs, Radios, and Television Sets: Home Type
7740	Phonograph Records
7810	Athletic and Sporting Equipment
7820	Games, Toys, and Wheeled Goods
7830	Recreational and Gymnastic Equipment
7910	Floor Polishers and Vacuum Cleaning Equipment
7920	Brooms, Brushes, Mops, and Sponges
7930	Cleaning and Polishing Compounds and Preparations
8010	Paints, Dopes, Varnishes, and Related Products
8020	Paint and Artists' Brushes
8030	Preservative and Sealing Compounds
8040	Adhesives
8105	Bags and Sacks
8115	Boxes, Cartons, and Crates
8135	Packaging and Packing Bulk Materials
8510	Perfumes, Toilet Preparations, and Powders
8520	Toilet Soap, Shaving Preparations, and Dentifrices
8530	Personal Toiletry Articles
8540	Toiletry Paper Products
8710	Forage and Feed
8720	Fertilizers
8730	Seeds and Nursery Stock
9310	Paper and Paperboard
9905	Signs, Advertising Displays, and Identification Plates
9910	Jewelry
9915	Collectors' Items
9920	Smokers' Articles and Matches

DEFENSE SUPPLY AGENCY  
FEDERAL SUPPLY CLASSES  
COMMODITY

<u>FSC CLASS</u>	<u>TITLE</u>
2230	Right-of-Way Construction and Maintenance Equipment, Railroad
2410	Tractors, Full Track, Low Speed
2420	Tractors, Wheeled
2510	Vehicular Cab, Body, and Frame Structural Components
2520	Vehicular Power Transmission Components
2530	Vehicular Brake, Steering, Axle, Wheel, and Track Components
2540	Vehicular Furniture and Accessories
2590	Miscellaneous Vehicular Components
2805	Gasoline Reciprocating Engines, Except Aircraft; and Components
2815	Diesel Engines and Components
2895	Miscellaneous Engines and Components
2910	Engine Fuel System Components, Nonaircraft
2920	Engine Electrical System Components, Nonaircraft
2930	Engine Cooling System Components, Nonaircraft
2940	Engine Air And Oil Filters, Strainers, and Cleaners, Nonaircraft
2990	Miscellaneous Engine Accessories, Nonaircraft
3020	Gears, Pulleys, Sprockets, and Transmission Chain
3030	Belting, Drive Blets, Fan Belts, and Accessories
3040	Miscellaneous Power Transmission Equipment
3110	Bearings, Antifriction, Unmounted
3120	Bearings, Plain, Unmounted
3130	Bearings, Mounted
3210	Sawmill and Flaning Mill Machinery
3220	Woodworking Machines
3230	Tools and Attachments for Woodworking Machinery
3431	Electric Arc Welding Equipment
3510	Laundry and Dry Cleaning Equipment
3520	Shoe Repairing Equipment
3530	Industrial Sewing Machines and Mobile Textile Repair Shops
3610	Printing, Duplicating, and Bookbinding Equipment
3655	Gas Generating and Dispensing Systems, Fixed or Mobile
3695	Miscellaneous Special Industry Machinery
3710	Soil Preparation Equipment
3720	Harvesting Equipment
3740	Pest, Disease, and Frost Control Equipment
3770	Saddlery, Harness, Whips, and Related Animal Furnishings

TAB B

<u>FSC CLASS</u>	<u>COMMODITY</u>
3805	Earth Moving and Excavating Equipment
3810	Cranes and Crane-Shovels
3815	Crane and Crane-Shovel Attachments
3820	Mining, Rock Drilling, Earth Boring, and Related Equipment
3825	Road Clearing and Cleaning Equipment
3830	Truck and Tractor Attachments
3835	Petroleum Production and Distribution Equipment
3895	Miscellaneous Construction Equipment
3910	Conveyors
3920	Materials Handling Equipment, Nonself-propelled
3930	Warehouse Trucks and Tractors, Self-propelled
3940	Blocks, Tackle, Rigging, and Slings
3950	Winches, Hoists, Cranes, and Derricks
3990	Miscellaneous Materials Handling Equipment
4010	Chain and Wire Rope
4020	Fiber Rope, Cordage, and Twine
4030	Fittings for Rope, Cable, and Chain
4110	Refrigeration Equipment
4120	Air Conditioning Equipment
4130	Refrigeration and Air Conditioning Components
4140	Fans, Air Circulators, and Blower Equipment
4210	Fire Fighting Equipment
4220	Marine Lifesaving and Diving Equipment
4310	Compressors and Vacuum Pumps
4320	Power and Hand Pumps
4330	Centrifugals, Separators, and Pressure and Vacuum Filters
4440	Driers, Dehydrators, and Anhydrators
4460	Air Purification Equipment
4510	Plumbing Fixtures and Accessories
4520	Space Heating Equipment and Domestic Water Heaters
4530	Fuel Burning Equipment Units
4540	Miscellaneous Plumbing, Heating, and Sanitation Equipment
4610	Water Purification Equipment
4620	Water Distillation Equipment, Marine and Industrial
4630	Sewage Treatment Equipment
4710	Pipe and Tube
4720	Hose and Tubing, Flexible
4730	Fittings and Specialties: Hose, Pipe, and Tube
4810	Valves, Powered
4820	Valves, Nonpowered
4930	Lubrication and Fuel Dispensing Equipment

FSC CLASSCOMMODITY

5305	Screws
5306	Bolts
5307	Studs
5310	Nuts and Washers
5315	Nails, Keys, and Pins
5320	Rivets
5325	Fastening Devices
5330	Packing and Gasket Materials
5335	Metal Screening
5340	Miscellaneous Hardware
5355	Knobs and Pointers
5360	Coil, Flat, and Wire Springs
5365	Rings, Shims, and Spacers
5410	Prefabricated and Portable Buildings
5420	Bridges, Fixed and Floating
5430	Storage Tanks
5440	Scaffolding Equipment and Concrete Forms
5450	Miscellaneous Prefabricated Structures
5510	Lumber and Related Basic Wood Materials
5520	Millwork
5530	Plywood and Veneer
5660	Fencing, Fences, and Gates
5905	Resistors
5910	Capacitors
5915	Filters and Networks
5920	Fuses and Lightning Arresters
5925	Circuit Breakers
5930	Switches
5935	Connectors, Electrical
5940	Lugs, Terminals, and Terminal Strips
5945	Relays, Contactors, and Solenoids
5950	Coils and Transformers
5955	Piezoelectric Crystals
5960	Electron Tubes and Associated Hardware
5961	Semiconductor Devices and Associated Hardware
5962	Microelectronic Circuit Devices
5965	Headsets, Handsets, Microphones and Speakers
5970	Electrical Insulators and Insulating Materials
5975	Electrical Hardware and Supplies
5977	Electrical Contact Brushes and Electrodes
5985	Antennas, Waveguides, and Related Equipment
5990	Synchros and Resolvers
5995	Cable, Cord, and Wire Assemblies: Communication Equipment
5999	Miscellaneous Electrical and Electronic Components

<u>FSC CLASS</u>	<u>COMMODITY</u>
6105	Motors, Electrical
6110	Electrical Control Equipment
6115	Generators and Generator Sets, Electrical
6120	Transformers: Distribution and Power Station
6145	Wire and Cable, Electrical
6150	Miscellaneous Electric Power and Distribution Equipment
6210	Indoor and Outdoor Electric Lighting Fixtures
6220	Electric Vehicular Lights and Fixtures
6230	Electric Portable and Hand Lighting Equipment
6240	Electric Lamps
6250	Ballasts, Lampholders, and Starters
6260	Nonelectrical Lighting Fixtures
6350	Miscellaneous Alarm and Signal Systems
6505	Drugs, Biologicals, and Official Reagents
6508	Medicated Cosmetics and Toiletries
6510	Surgical Dressing Materials
6515	Medical and Surgical Instruments, Equipment, and Supplies
6520	Dental Instruments, Equipment, and Supplies
6525	X-Ray Equipment and Supplies: Medical, Dental, Veterinary
6530	Hospital Furniture, Equipment, Utensils, and Supplies
6532	Hospital and Surgical Clothing and Related Special Purpose Items
6540	Opticians' Instruments, Equipment, and Supplies
6545	Medical Sets, Kits, and Outfits
6630	Chemical Analysis Instruments
6635	Physical Properties Testing Equipment
6640	Laboratory Equipment and Supplies
6655	Geophysical and Astronomical Instruments
6670	Scales and Balances
6675	Drafting, Surveying, and Mapping Instruments
6680	Liquid and Gas Flow, Liquid Level, and Mechanical Motion Measuring Instruments
6750	Photographic Supplies
6810	Chemicals
6820	Dyes
6830	Gases: Compressed and Liquified
6840	Pest Control Agents and Disinfectants
6850	Miscellaneous Chemical Specialties
7210	Household Furnishings
7310	Food Cooking, Baking, and Serving Equipment
7320	Kitchen Equipment and Appliances
7360	Sets, Kits, and Outfits: Food Preparation and Serving
7610	Books and Pamphlets
7660	Sheet and Book Music
7690	Miscellaneous Printed Matter

FSC CLASSESCOMMODITY

8110	Drums and Cans
8120	Commercial and Industrial Gas Cylinders
8125	Bottles and Jars
8305	Textile Fabrics
8310	Yarn and Thread
8315	Notions and Apparel Findings
8320	Padding and St uffing Materials
8325	Fur Materials
8330	Leather
8335	Shoe Findings and Soling Materials
8340	Tents and Tarpaulins
8345	Flags and Pennants
8405	Outerwear, Men's
8410	Outerwear, Women's
8415	Clothing, Special Purpose
8420	Underwear and Nightwear, Men's
8425	Underwear and Nightwear, Women's
8430	Footwear, Men's
8435	Footwear, Women's
8440	Hosiery, Handwear, and Clothing Accessories, Men's
8445	Hosiery, Handwear, and Clothing Accessories, Women's
8450	Children's and Infants' Apparel and Accessories
8455	Badges and Insignia
8460	Luggage
8465	Individual Equipment
8470	Armor, Personal
8905	Meat, Poultry, and Fish
8910	Dairy Foods and Eggs
8915	Fruits and Vegetables
8920	Bakery and Cereal Products
8925	Sugar, Confectionery, and Nuts
8930	Jams, Jellies, and Preserves
8935	Soups and Bouillons
8940	Special Dietary Foods and Food Speciality Preparations
8945	Food Oils and Fats
8950	Condiments and Related Products
8955	Coffee, Tea, and Cocoa
8960	Beverages, Nonalcoholic
8970	Composite Food Packages
8975	Tobacco Products
9110	Fuels, Solid
9150	Oils and Greases: Cutting, Lubricating, and Hydraulic

FSC CLASSESCOMMODITY

9160	Miscellaneous Waxes, Oils, and Fats
9320	Rubber Fabricated Materials
9330	Plastics Fabricated Materials
9340	Glass Fabricated Materials
9350	Refractories and Fire Surfacing Materials
9390	Miscellaneous Fabricated Nonmetallic Materials
9505	Wire, Nonelectrical, Iron and Steel
9510	Bars and Rods, Iron and Steel
9515	Plate, Sheet, and Strip: Iron and Steel
9520	Structural Shapes, Iron and Steel
9525	Wire, Nonelectrical, Nonferrous Base Metal
9530	Bars and Rods, Nonferrous Base Metal
9535	Plate, Sheet, Strip, and Foil: Nonferrous Base Metal
9540	Structural Shapes, Nonferrous Base Metal
9545	Plate, Sheet, Strip, Foil, and Wire: Precious Metal
9925	Ecclesiastical Equipment, Furnishings, and Supplies
9930	Memorials; Cemeterial and Mortuary Equipment and Supplies
9999	Miscellaneous Items





EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET  
WASHINGTON, D.C. 20503

SEP 10 1975

Mr. F. J. Shafer  
Director, Logistics and  
Communications Division  
United States General Accounting  
Office  
Washington, D.C. 20548

Dear Mr. Shafer:

This is in response to your request for our comment on the draft report titled "Status and Progress towards Implementation of a National Supply System" which you propose to send to the Congress.

While much progress has been made in the past decade toward an integrated supply system, there is much yet to be done. Your draft report identified areas where improvements can be achieved and should be helpful in bringing agency attention to focus on these opportunities. In this connection the draft report correctly points out that the term "National Supply System" has no formal definition but is used freely to describe the general objective for coordinated efforts of DOD and GSA to provide an economical and efficient supply system for military and civil agency needs. We believe a more precise definition, perhaps including short and long term objectives, may be needed and we intend to explore such possibilities.

We fully agree with the statements in the draft report that refer to the Office of Federal Procurement Policy in the Office of Management and Budget as the appropriate office to provide coordination and guidance in efforts to reduce overlapping and duplication in the DSA and GSA supply roles. Since this responsibility already is clearly assigned to the OFPP by Public Law 93-400, the Office of Federal Procurement Policy Act, you may wish to modify the first recommendation of your draft report to reflect that statutory assignment.

We recommend also that further consideration be given to the claims for "savings" which are estimated to result

from the elimination of dual management of various supply items. While there are definite costs associated with the maintenance of warehouse inventory levels, whether under single or dual management, it is not correct to consider these costs as equivalent to the value of the inventory. A reduction in inventory does produce an interest saving on the cost of inventory investment and there may be other savings from space released and from reduced handling expenses. All of these, however, will normally be only a fraction of the total cost of the value of the inventory reduction. We believe this matter to be especially important since the savings potential is generally a major consideration in the determination of measures that can be justified on a cost basis to achieve the reductions proposed.

We will be happy to discuss these comments with you or your staff if you desire. Mr. James D. Currie, Assistant Administrator for Logistics, has the assigned responsibility for this subject area in the OFPP. Mr. Currie can be reached on telephone 395-3725.

Sincerely,



Hugh E. Witt  
Administrator for  
Federal Procurement Policy



**ASSISTANT SECRETARY OF DEFENSE**  
WASHINGTON, D.C. 20301

SS

INSTALLATIONS AND LOGISTICS

29 SEP 1975

Mr. Fred J. Shafer  
Director, Logistics &  
Communications Division  
General Accounting Office  
Washington, D. C. 20548

Dear Mr. Shafer:

This is in response to your letter of July 24, 1975 to the Secretary of Defense forwarding copies of your Draft Report entitled, "Status and Progress Towards Implementation of a National Supply System, " code 943103 (OSD Case #4128).


We have reviewed the Draft Report and find it to be well documented and historically accurate. Our comments, keyed to specific recommendations and additional generalized comments, observations and conclusions, are furnished in the enclosure.

The elimination of dual management of items in the Federal Government is of major concern to the Department of Defense (DoD). The "Agreement Between the Department of Defense (DoD) and the General Services Administration (GSA) Governing Supply Management Relationships Under the National Supply System," dated February 19, 1971 (Appendix II to your Draft Report), was signed in good faith and we in DoD are anxious to have the agreement consummated and fully implemented. As indicated in your Draft Report, progress in the past was less than desirable; however, we believe recent negotiations have resulted in much better progress. We welcome your attention to this matter and hope the new emphasis will have a beneficial effect. While we do not concur completely in the Draft Report recommendations, we are certainly in agreement with the overall objective of eliminating unnecessary duplication of item management in the Federal Government.

We appreciate the opportunity to comment on this Report in draft form.

Sincerely,

Enclosure  
As stated

  
**JOHN J. BENNETT**  
Acting Assistant Secretary of Defense  
(Installations and Logistics)

DEPARTMENT OF DEFENSE COMMENTS  
ON  
GAO DRAFT REPORT  
DATED JULY 24, 1975

STATUS AND PROGRESS TOWARDS  
IMPLEMENTATION OF A NATIONAL SUPPLY SYSTEM  
(OSD CASE #4128)

Comments on Specific GAO Recommendations:

Recommendation:

1. The General Accounting Office (GAO) recommends that to eliminate the present duplication of management of items between the General Services Administration (GSA) and the Defense Supply Agency (DSA), the Office of Management and Budget (OMB) give consideration to assigning to the recently created Office of Federal Procurement Policy (OFPP) the responsibility for:

--determining which agency will manage the dual managed items presently being negotiated by GSA and DSA, and

--providing direction for accomplishing future reviews and evaluations of common supply items in the Federal Government for assignment to integrated item managers.

DoD Comments

We concur in the recommendation to assign OFPP the responsibility for providing direction for accomplishing future reviews and evaluations of common supply items in the Federal Government for assignment to integrated item managers, provided that qualified representation from the Department of Defense (DoD) is recognized in decision-making proceedings, that final recommendations are subject to the review and concurrence of the Secretary of Defense, and that final documentation is in the form of an agreement signed by appropriate officials of the DoD, GSA and OMB.

We do not believe that OFPP should be given the responsibility for determining which agency will manage the dual managed items presently being negotiated by GSA and DSA. These negotiations are making progress, and by the time an OFPP working group could be formed and become operational, all items currently under review should be assigned. We would agree to having the OFPP group act in an arbitration role to resolve any unsettled disagreements, but to assign this responsibility to OFPP for items now under negotiation would cause further delays in resolution and serve to negate the progress made to date. This recommendation appears

to be in conflict with the second recommendation concerning GSA divestiture of management in the 99 primary classes assigned to DSA, in that the items presently under negotiation are items in these 99 classes.

Recommendation:

2. GAO recommends that the Administrator of General Services:

--review supply items in the GSA logistical system which are in the 99 primary classes assigned to DSA and identify those items where GSA is acting as a single inventory manager.

--implement the cataloging adjustments and related actions to divest GSA of management on these items in compliance with the National Supply System agreement or as directed by the OFPP.

DoD Comments:

While the recommendation is directed to the Administrator of General Services, we would like to recommend that the management assignment conflicts concerning items in the 99 classes which have been resolved in favor of GSA management be considered as valid exception items under the terms of the February 19, 1971 Agreement (Appendix II to the Draft Report) and that GSA retain management of those items in accordance with the agreement. For those conflicts which have been resolved in favor of DSA management and any further dual management situations which may occur in the future, we agree that DSA and/or the Military Service manager, in case of retention of item management by the Services, be assigned the sole integrated materiel management responsibility in accordance with DoD 4140.26-M (Defense Integrated Materiel Management Manual for Consumable Items) Volume I, Commodity Oriented Items, which was developed jointly by the DoD and GSA.

Again, it would appear, that if this recommendation were adopted, the first part of Recommendation 1 would not be necessary.

Recommendation:

3. GAO also recommends that the GSA, as cataloging agent for civilian agencies:

--determine the extent to which individual agency supply systems have identified items by National Stock Number and can identify supply items available in Federal systems, and

--provide overall guidance to such agencies to enable them to update their supply cataloging identification capabilities sufficiently to participate in the National Supply System.

DoD Comments:

None.

Recommendation:

4. GAO recommends that the Secretary of Defense instruct the Military Services--Army, Navy, Air Force and Marine Corps--as well as the DSA to:

--review the supply items in their logistics systems which are in those 68 primary classes assigned to GSA as integrated manager and identify the items for which the Service is listed as a single inventory manager.

--implement the necessary cataloging adjustments to reflect the proper item management responsibility and take the actions necessary to divest the Military Services and DSA of management of these items in compliance with the National Supply System agreement or as directed by the OFPP.

DoD Comments:

We agree that a review of these items is in order. There are valid reasons for the assignment of some items in the 68 GSA primary classes to DoD activities, however, and these reasons must continue to be recognized in assignment of item management functions. First, items assigned to DSA were so assigned under the exception clause in the 1971 Agreement; 600 such item assignments were mutually agreed upon by GSA and DSA. Secondly, and most important, are the items retained for Service management under the conditions of DoD 4140.26-M. These conditions provide that all Commodity Oriented Federal Supply Classes (FSCs) (the 68 GSA FSCs, 331 DSA FSCs and three Tank-Automotive Command (TACOM) FSCs), with certain exceptions, will be subjected to Item Management Coding criteria specified in the Manual. Chapter 2 of DoD 4140.26-M explains these criteria. While we have performed audits, on a sample basis, of the Services' application of these criteria twice within the past three and one-half years and found satisfactory results, further review may be desirable; we would be amenable to a joint OFPP/GSA/DoD review for adherence to the criteria. We believe strongly that items meeting the established retention criteria should continue to be managed by the Military Services, and that in such cases the Weapons Integrated Materiel Manager should be the single manager for the Federal Government.

Other Comments on the Draft Report:

The Air Force provided the following based upon a specific Draft Report reference:

"The report contains a specific reference (page 18) to an item of supply which was dual managed by General Services Administration (GSA) and the Air Force. It implies that

Air Force funds could have been saved if GSA alone managed the item since the GSA published unit cost was significantly lower than that obtained through Air Force procurement efforts. The item has been in the supply system for many years and many records are no longer available. However, through available records and conjecture it appears that the item, which is used on the F-4 aircraft, was originally dual managed by the Navy and the Air Force. During the course of screening items for assignment to GSA, the Navy relinquished management of the item to GSA. The price was probably the estimated price assigned at the time of initial provisioning. No procurement was made by GSA while managing the item. During the screening process the Air Force retained management of the item because of its weapon system application. The item is peculiar to the F-4. The Air Force unit cost is actual, based on procurement. As a direct result of the DoD single item management program, GSA relinquished management of the item to the Air Force on February 1, 1975. GSA assets have been transferred to the Air Force."

GAO note: Page number references in this appendix may not correspond to the pages of this report.

UNITED STATES OF AMERICA  
GENERAL SERVICES ADMINISTRATION  
WASHINGTON, DC 20405



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

Dear Mr. Staats:

Thank you for your letter of July 24, 1975, transmitting your draft report on "Status and Progress Towards Implementation of a National Supply System."

We heartily endorse the concept of an integrated supply system and have made considerable progress towards its implementation. We do not, however, fully concur in all of the recommendations contained in the report. Our comments on each of the recommendations are contained in the enclosure.

Sincerely,

A handwritten signature in black ink, which appears to be "Dwight D. Eisenhower". The signature is written in a cursive style and is positioned above the word "Enclosure".

Enclosure

*Keep Freedom in Your Future With U.S. Savings Bonds*



COPY

Comments on GAO draft report to the Congress on Status and Progress Towards Implementation of a National Supply System

Page 3, paragraph 2 of the report

We recommend that this paragraph be reworded substantially as follows:

Section 201(a) of the Act authorized the Secretary of Defense to exempt from time to time, "and unless the President shall otherwise direct," the Department of Defense "from actions taken or which may be taken by the Administrator under clauses (1), (2), (3), and (4) above whenever he determines such exemption to be in the best interest of national security." Included in the aforementioned clauses are the functions of the Administrator to "prescribe policies and methods of procurement and supply of personal property and non-personal services" and to "procure and supply personal property and non-personal services for the use of executive agencies . . ." However, in order to strengthen GSA's authority, President Truman immediately directed that no exemptions be issued without his prior approval. President Truman's order was revoked by President Eisenhower's directive of June 8, 1954. Accordingly, since 1954 the Secretary's exemption privilege has been available for exercise by him. On October 13, 1954, Secretary of Defense C.E. Wilson made such an exemption for DOD in matters of transportation and traffic management. There is no record of any other Secretarial determination to exempt DOD from any other provision of section 201(a) of the Act.

Recommendation. GAO recommends that to eliminate the present duplication of management between GSA and DSA, the Office of Management and Budget give consideration to assigning to the recently created Office of Federal Procurement Policy the responsibility for:

- determining which agency will manage the dual managed items presently being negotiated by GSA and DSA; and
- providing direction for accomplishing future reviews and evaluations of common supply items in the Federal Government for assignment to integrated item managers.

Comment. As indicated in this report, the second Hoover Commission noted that until GSA clearly demonstrates an ability to effectively extend its services to the military supply

systems, the authority of the Secretary of Defense to exempt DOD from participation in GSA services and policies should be continued. We believe that we have proven our ability to effectively support DOD over the past 12 years. Recently, we resolved one of the major problems which retarded the negotiations and assignment of management responsibility for the dual managed items to either agency. It is our belief that negotiations are now proceeding at a satisfactory pace toward resolving existing dual managed conditions between GSA and DSA.

We intend to persist in the improvements which will settle expeditiously any remaining differences in supply policy and assignment of management responsibilities between GSA and DSA. To this end, we will continue our work with the Office of Federal Procurement Policy (Office of Management and Budget) under the aegis of Public Law 93-400 (the OFPP Act). We will rely upon that Office for the settlement of any significant issues which GSA and DOD are unable to resolve. Accordingly, you may wish to amend these recommendations in recognition of actions underway and to reflect the statute.

Recommendation. GAO recommends that the Administrator of General Services:

- review supply items in the GSA logistical system which are in the 99 primary classes assigned to DSA and identify those items where GSA is acting as a single inventory manager; and
- implement the cataloging adjustments and related actions to divest GSA of management on these items in compliance with the National Supply System agreement or as directed by the Office of Federal Procurement Policy.

Comment. GSA does not subscribe to the recommendation of divesting itself of support responsibility for items in the 99 DSA Primary Classes. Positive actions are being taken to minimize duplication of management not only in the 99 DSA Primary Classes but also in associated areas. Actions taken to date include:

1. Logistics transfers of 648 items from DSA to GSA in January and February 1975, including both dual managed items and nonmilitary oriented items.
2. Logistics transfer of Federal Supply Class 7540, Standard Forms, from DSA to GSA for national management on February 1975. This increased the number of GSA managed classes to 69.

3. DSA's offer of March 3, 1975, and GSA's acceptance of national management responsibility for 134 household appliance items (washers, dryers, refrigerators, freezers, drinking dispensers, gas and electric ranges, gas and electric hot water heaters and garbage disposals). Logistics transfer is scheduled for April 1, 1976.

4. GSA's offer of November 18, 1974, and DSA's acceptance of management responsibility for over 300 hand tool items specially designed for military use. Logistics transfer is scheduled for February 1, 1976.

5. Numerous DSA offers to GSA for management of almost 1,300 items in DSA classes which are common-commercial in nature and not military oriented. GSA is currently reviewing these items for acceptance.

In regards to further minimizing existing dual management conditions prevailing in the 99 DSA Primary Classes, the following actions are being considered and evaluated:

1. There are 1,946 items which are dual managed/stocked by DSA and GSA in the 99 DSA Primary Classes. To date, DSA has offered 1,135 items to GSA for national management. DSA has determined that 598 items are military oriented which will be retained by DSA; however, to accommodate GSA, if GSA elects to stock any of these items for support of civil agencies, it has been agreed that DSA will be the single procuring activity. These items assignments are subject to mutual modifications between DSA and GSA to accommodate retention of family groups for customer convenience and procurement purposes. Logistics transfers for this group are scheduled to take place during Fiscal Year 1976.

2. A mechanized maintenance procedure is being developed by DSA and GSA to prevent new duplications in management as new items enter the supply system.

3. There are also 1,557 items, primarily dual managed but not dual stocked, which are being reviewed at the negotiating level. It is expected that assignment determination will be resolved shortly to the mutual satisfaction of both agencies.

4. In addition to the existing dual managed conditions in the 99 DSA Primary Classes, there are 938 items managed by both DSA and GSA. These are subject to review immediately after the dual management conditions have been resolved in the 99 DSA classes.

As indicated from the actions already taken or under consideration, the recommendation for GSA to divest itself of items

in the 99 DSA Primary Classes is not, we believe, the ultimate solution at this time. Exception items in the DSA classes and the GSA classes should be recognized as a normal supply management technique. There are currently 132 exception items managed by DSA in the GSA classes which are decidedly military oriented, and 648 exception items managed by GSA in the DSA classes which are basically commercial in nature.

Recommendation. GAO also recommends that the General Services Administration as cataloging agent for civilian agencies:

- determine the extent to which individual agency supply systems have identified items by National Stock number and can identify supply items available in Federal systems; and
- provide overall guidance to such agencies to enable them to update their supply cataloging identification capabilities sufficiently to participate in the National Supply System.

Comment. To determine the extent to which individual agency supply systems have identified items by National Stock Number, GSA has revised the Supply Activity Report to monitor agency use of the Federal Catalog System. Each agency is required to submit this report annually to GSA. When it was last revised, a new element was added to the form. This new portion of the form asks agencies to identify the number of items in their inventory having National Stock Numbers (NSN's) and the number of items for which NSN assignment has been requested. Promulgated in Amendment E-148 to the Federal Property Management Regulations dated August 13, 1974, the revised Supply Activity Report, GSA Form 1473, will be used for the first time during this annual reporting period. Not only will the presence of this inquiry focus agency attention on the use of the Federal Catalog System, it will also provide data which will facilitate monitoring of agency participation.

The Commissioner, Federal Supply Service, GSA, acknowledged the need for a renewed emphasis and use of the Federal Catalog System earlier this year when he approved the implementation of several recommendations concerning the item control process of FSS. One recommendation called upon FSS's Office of Interagency Support to "intensify systematic integration of civil agency supply operations into a coordinated Government-wide supply system." A Federal Catalog System Task Force was established for this purpose. Its

objective is to broaden civil agency understanding of, and participation in, the Federal Cataloging Program.

Recommendation. GAO recommends that the Secretary of Defense instruct the Military services; Army, Navy, Air Force, and Marine Corps as well as the Defense Supply Agency to:

- review the supply items in their logistics systems which are in those 68 primary classes assigned to GSA as integrated manager and identify the items on which the service is listed as a single inventory manager; and
- implement the necessary cataloging adjustments to reflect GSA's management responsibility and take the actions necessary to divest the military services of management of these items in compliance with the National Supply System Agreement or as directed by the Office of Federal Procurement Policy.

Comment. We are presently working with DOD to establish methodology for identifying item management duplication between the military services and the General Services Administration. When these items are identified, this will form a basis for negotiations between the General Services Administration and the military services to eliminate dual management. The study originally scheduled to be directed to dual managed/stock situations in the Weapons Integrated Item Managed Classes will be expanded to include dual managed/stock conditions existing in the 69 GSA Classes.

GAO note: Page number references in this appendix may not correspond to the pages of this report.



**UNITED STATES DEPARTMENT OF COMMERCE**  
**The Assistant Secretary for Administration**  
Washington, D C. 20230

September 15, 1975

Mr. Victor L. Lowe  
Director, General Government Division  
U. S. General Accounting Office  
Washington, D. C. 20548

Dear Mr. Lowe:

This is in reply to your letter of July 25, 1975, requesting comments on the draft report entitled "Status And Progress Towards Implementation Of A National Supply System."

We have reviewed the enclosed comments of the Director, Office of Administrative Services and Procurement and believe they are responsive to the matters discussed in the report.

Sincerely,

A handwritten signature in black ink, appearing to read "Guy W. Chamberlin, Jr.", written over a horizontal line.

Guy W. Chamberlin, Jr.  
Acting Assistant Secretary  
for Administration

Enclosure



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UNITED STATES DEPARTMENT OF COMMERCE  
The Assistant Secretary for Administration  
Washington, D. C. 20548

September 9, 1975

Mr. Victor L. Lowe, Director  
United States General Accounting Office  
Washington, D. C. 20548

Dear Mr. Lowe:

This is in response to your letter of July 25, 1975 transmitting to Secretary Morton a draft of your proposed report to the Congress on the Status and Progress Towards Implementation of a National Supply System.

We concur with your proposal to eliminate any unnecessary duplication in the management of supply items. We agree with your recommendation that the General Services Administration should help civilian agencies to develop and implement a supply cataloging system in line with the concepts covered below.

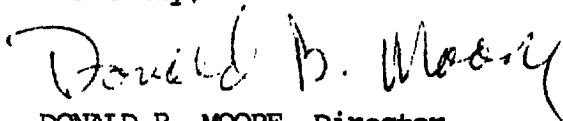
We favor limiting the application of the NSN cataloging system to depot or warehouse supply systems. Items of supply should be requisitioned by NSN and managed in depot stocks until they are issued to users. At the user property account level the 13 digit NSN becomes more of a burden than a help in managing property. We have developed a computerized property management system for use by our medium and small bureaus which employs only 3 digits. This system has been praised by independent accounting firms who have audited the Commerce Working Capital Fund and is being considered for adoption by the Federal Energy Administration and the Administration for International Development. Compulsory use of a 13 digit NSN system would seriously threaten the viability of an efficient and practical system. We believe our situation is similar to that of most medium size and small civil agencies.

Since 1971 the Office of Administrative Services and Procurement has concentrated upon implementation of the Federal Cataloging System in the Department's depot supply operations. A recent assessment of the

cataloging endeavors of our Primary Operating Units, maintaining warehouses, depots, and storerooms, denotes a total of 40,244 items of operating stock with 32,645 items having assigned National Stock Numbers. This is 81 percent participation. We will continue this program until we reach 100 percent.

The Department of Commerce appreciates the opportunity to submit its views.

Sincerely,



DONALD B. MOORE, Director  
Office of Administrative Services  
and Procurement

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Lt. General Wallace H. Robinson, Jr.	Aug. 1971	Dec. 1975
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