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UNITED STATES GENERAL ACCOUNTING OFFICE
REGIONAL OFFICE
ROOM 201, 415 FIRST AVENUE NORTH
SEATTLE, WASHINGTON 98109

GAO 00370

JUL 20 1979

Captain John H. Boyd, Jr.
Commander
Puget Sound Naval Shipyard
Bremerton, Washington 98314



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AGC 682
DLG 00509

Dear Captain Boyd:

We recently completed a survey of the procurement process at the Naval Supply Center Puget Sound (Supply Center) and the Puget Sound Naval Shipyard (PSNS). This included procedures for determining needs, making the purchase and receiving and controlling material acquired. We interviewed responsible officials and made a limited test of procurement transactions.

Our survey indicated that materials for PSNS shop stores inventories could be obtained in a more efficient manner. Also, PSNS did not receive a refund or credit for containers returned to a vendor.

POTENTIAL SAVINGS THROUGH CONSOLIDATION
OF SHOP STORES PURCHASES

Our survey showed that cost savings might be achieved in the procurement of non-standard stock items by requisitioning larger quantities or consolidating purchase actions. Repetitive purchases are made in relatively small quantities, thereby increasing the workload of the Supply Center and minimizing the opportunity to obtain lower prices through quantity discounts and increased competition.

We estimate that production shops consume about \$8 million worth of non-standard stock material each year. Over 12,000 items are carried in shop stores inventories, and these items are generally reordered 4 to 5 times a year, indicating that the Procurement Department is processing at least 50,000 purchase requisitions a year for these items.

The PSNS automatic data processing system for shop stores inventories, which repeatedly generates small quantity purchase requisitions, might be used to consolidate requisitioning quantities. A PSNS official said that shop store reorder quantities are based on a complex formula which considers lead time, inventory storage cost, risk and many other factors. We found, however, that the economic order quantity used in the formula did not consider lower costs attainable through quantity buying.

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We noted that from January 10, 1978, through January 24, 1979, eight separate purchases of 55 gallon drums of naphtha solvent were made for shop 71 stores inventory. A total of 76 drums were purchased with quantities ranging from 15 drums to 5 drums. We found no indication that any consolidation of these procurements was attempted.

Our survey also showed that shop store commodities were managed on a shop-by-shop basis and that items carried by multiple shops were independently requested and procured. For example, shops 51 and 60 acquired 39 spools of stainless wire (stock number 9525-LL-S03-1403) during a 6-month period from September 25, 1978, through April 3, 1979. The largest order, for 6 spools of wire, was placed independent of the needs of the other shop, for which an order for 5 spools was placed 4 days later.

We believe that the Navy could decrease the cost of acquiring shop store inventory items by identifying high use items and consolidating some purchases of these items. It appears that the optimum consolidation could be accomplished by combining shop store requisition quantities or by issuing competitive, indefinite delivery order type contracts to cover estimated material requirements for a fixed period.

Recommendation

In order to reduce the Supply Center workload and the prices of non-standard stores stock items, we recommend that PSNS and the Supply Center jointly determine the extent to which the procurement of non-standard items should be consolidated.

REFUND OR CREDIT NOT OBTAINED FOR DEPOSIT ITEMS RETURNED

PSNS did not receive a refund or credit from a vendor for containers returned to the vendor. From July 28, 1978, through January 24, 1979, forty-seven 55 gallon drums of naphtha solvent (stock number 6810-LL-S04-0581) were procured for shop 71 and a \$20 deposit was paid on each drum. In January 1979, the PSNS Traffic Branch shipped 12 of these empty drums back to the vendor; but as of June 8, 1979, we were advised that PSNS had not received a refund or credit.

We did not find any overall system for assuring that containers are returned to the vendor and that refunds or credits are obtained. One responsible PSNS official said that he has developed his own system for returning containers. A Traffic Branch official said that once a container is sent back to the vendor and the shipping document is sent to the Accounting Department, it is the Accounting Department's responsibility to secure the refund or credit; however, a responsible Accounting Department official said that in this situation their responsibility is

to pay for the freight charges on the container, not determine whether a deposit refund is due.

Recommendations

We recommend that PSNS secure a refund or credit on the naphtha drums returned to the vendor. In addition, we recommend that PSNS take appropriate action to assure that containers are returned, when feasible, and refunds or credits are obtained from the vendor.

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We appreciate the cooperation and courtesies extended to our staff during this survey.

Your comments, including any corrective actions, will be appreciated.

Sincerely,

Kenneth W. Edmonson *for*
John P. Carroll *Edmonson*
Regional Manager

cc: Asst. Director, PSAD/GP - John A. Rinko