



UNITED STATES GENERAL ACCOUNTING OFFICE
 REGIONAL OFFICE
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JUL 20 1979



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Captain William E. Lindsay SC, USN
 Commanding Officer
 Naval Supply Center Puget Sound
 Bremerton, Washington 98314

DLG 02551

*Dear Captain Lindsay:

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.

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.

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 

John P. Carroll
Regional Manager

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