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Federal Government expenditures for commercial products will command a sizable portion of the \$66 billion estimated for Federal procurement in fiscal year (FY) 1977. Although the Government is usually able to buy products at a lower unit price if purchased for stock in large volume, the use of commercial distribution channels is frequently more advantageous. The Commission on Government Procurement recommended in 1972 that, in making procurement and stockage decisions, the Defense Logistics Agency (DLA), General Services Administration (GSA), and the Veterans Administration (VA), should consider the full cost of any Government distribution system involved. These three agencies are the Government's primary supply agencies; during FY 1975, they spent about \$8.1 billion on commercial and commercial-type supplies and had an ending inventory valued at about 4.1 billion. Findings/Conclusions: Many items purchased, stocked, and distributed by these supply agencies are seldom, if ever, in demand. During 1975, 37% of the 1.4 million items stocked by DLA were not requested. For another 28% of the items, annual requisitions totaled less than \$17 each. Purchasing, stocking, and disposing of seldom-used items is costly. From FY 1971 to 1975, DLA scrapped \$658 million worth of new but obsolete goods at a loss of from 92% to 95% of the original purchase price. Money may have been saved if the items had been obtained through the commercial distribution system. However, the supply agencies, particularly GSA and DLA, have been reluctant to develop and/or use cost data necessary to evaluate which method of procurement and distribution would be more effective. The VA has developed and is using cost data, but some improvements are needed in its system to make sure all cost

elements are considered. Policy of the Office of Procurement Policy requires agencies to use commercial distribution channels unless it is cost effective to do otherwise. Recommendations: The Administrator of GSA should complete the development of full cost information and use this information to make cost effective procurement decisions. The Secretary of Defense should require the Director of DLA to do the same. The Administrator of Veterans Affairs should act to improve the agency's full cost information and increase its effectiveness in making procurement decisions. (Author/SW)

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# *REPORT TO THE CONGRESS*

*BY THE COMPTROLLER GENERAL  
OF THE UNITED STATES*

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## **Uninformed Procurement Decisions For Commercial Products Are Costly**

The Defense Logistics Agency, General Services Administration, and, to a lesser extent, the Veterans Administration do not consider all costs when deciding how to procure common commercial items. For this reason these agencies have chosen to procure, stock, and distribute goods themselves rather than to buy them commercially. However, often it is more economical to use commercial distribution channels to supply products directly to users.

The Defense Logistics Agency and General Services Administration should develop information on all costs to enable them to make the best procurement decisions. The Veterans Administration should improve its cost information to make more cost-effective procurement decisions.



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

B-17°214

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

This report deals with the need for Federal agencies to consider full costs in making procurement and stockage decisions recommended by the Commission on Government Procurement.

We made our review because Federal agencies have made little progress in implementing the Commission's recommendations.

We made our review 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 Directors, Office of Management and Budget and Office of Federal Procurement Policy; the Administrators of General Services and Veterans Affairs; and the Secretary of Defense.

A handwritten signature in black ink, appearing to read "P. K. Sullivan".

ACTING Comptroller General  
of the United States

D I G E S T

During fiscal year 1975, the Government's three primary supply agencies--the Defense Logistics Agency, General Services Administration, and Veterans Administration--spent about \$8.1 billion on commercial and commercial-type supplies and had an ending inventory valued at about \$4.1 billion. Commercial items include food, hardware, office furniture, and automotive supplies. Commercial-type items are those sold commercially that have been tailored to meet Government specifications, for example, Army pup tents.

Many items purchased, stocked, and distributed by these supply agencies are seldom, if ever, in demand. During 1975, 37 percent of the 1.4 million items stocked by the Defense Logistics Agency were not requested. For another 28 percent of the items, annual requisitions totaled less than \$17 each.

Purchasing, stocking, and disposing of seldom-used items is costly. From fiscal years 1971 to 1975, the Defense Logistics Agency scrapped \$658 million worth of new but obsolete goods at a loss of from 92 to 95 percent of their original purchase price. In many of these cases, it would have saved money if the supply agencies had never stocked the item but had simply arranged for agencies using the items to get them through the commercial distribution system. However, the supply agencies, particularly General Services and Defense Logistics, have been reluctant to develop and/or use cost data necessary to evaluate which method of procurement and distribution would be more effective.

This problem is not new. GAO reports for the past 13 years have shown that the supply agencies have had problems in stocking and managing inventories. GAO as well as the Commission on Government Procurement have

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recommended that interagency supply activities should consider all operating costs when deciding whether to purchase and stock an item in their warehouses.

Defense Logistics has not acted on this recommendation because it believes that using data on all costs would lead to decisions favoring the commercial distribution system. The Agency believes that the commercial distribution system cannot meet many of its military requirements.

GAO questions this position, since Defense Logistics agrees that the Defense Procurement Act and Strategic and Critical Materials Stockpiling Act provide adequate legislative authority for the Department of Defense to obtain needed supplies and equipment in times of emergency. In addition, only a small percentage of the items the Agency stocks are designated as needed to support critical military programs.

Although General Services agrees with the recommendation to compare all costs, it is not using the concept. General Services did test a full cost disclosure system, but officials describe their work on the system as only exploratory. Accordingly, the project has received low priority for staffing and funds, and General Services data base has not been updated since 1973. General Services is again developing a system to disclose all costs which should be finished in 1980.

The Veterans Administration has developed and is using cost data, but some improvements are needed in its system to make sure all cost elements are considered.

In May 1976 the Office of Federal Procurement Policy issued a policy statement requiring Government supply agencies to use commercial distribution channels to supply commercial products to users. When the supply agencies cannot prove that stocking and distributing items themselves is more economical, they must use commercial distribution channels. If the policy is used effectively,

it will reduce the (1) number of slow-moving items in supply inventories and (2) millions lost each year through obsolescence.

This policy should be carried out aggressively, and the supply agencies should begin using cost data to help them identify items that need to be kept in stock. To determine cost effectiveness the supply agencies need to consider total costs of procuring and stocking goods versus the costs of using the commercial distribution system. In GAO's opinion, cost data is available to use in making a feasible cost analysis.

The Defense Logistics Agency, General Services, and Veterans Administration should, with some exceptions, place and/or keep in their warehouses only those commercial items they can justify on the basis of economy to the Government. (See ch. 4.) To do this, the agencies should act promptly to use full cost data.

The Office of Federal Procurement Policy agrees with GAO's recommendation. General Services and Veterans Administration also agree with GAO's recommendation and are beginning to gather essential cost data from their accounting systems. Although during GAO's review Defense Logistics objected to using full cost data, it now agrees with the recommendation.

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ABBREVIATIONS

DLA	Defense Logistics Agency
DOD	Department of Defense
FMS	foreign military sales
FSS	Federal Supply Service
GAO	General Accounting Office
GSA	General Services Administration
OFPP	Office of Federal Procurement Policy
OMB	Office of Management and Budget
VA	Veterans Administration

## CHAPTER 1

### INTRODUCTION

Federal Government expenditures for commercial and commercial-type products will command a sizable portion of the \$66 billion estimated for Federal procurement in fiscal year 1977. In addition to these expenditures, extensive costs are associated with requirement and specification development, purchasing and contracting, warehouse operations, transportation, distribution, administrative handling, and inventory investment.

Many commercial products are used in various agency and interagency supply support programs. The agencies responsible for most of this support are the Defense Logistics Agency (DLA), General Services Administration (GSA), and Veterans Administration (VA). In fiscal year 1975, these agencies spent about \$8.1 billion for commercial and commercial-type products and had about \$4.1 billion in inventory as of June 30, 1975. The Office of Federal Procurement Policy (OFPP) within the Office of Management and Budget (OMB) directs overall Federal procurement policy and prescribes Government-wide procurement policies and regulations.

This report deals with procurement policy decisions affecting interagency supply support, discusses alternatives that may be useful in eliminating some uneconomical consequences of current policies, and focuses on the procurement and inventory management operation of DLA, GSA, and VA.

In 1969 the Commission on Government Procurement was created by Public Law 91-129 to study and recommend procurement methods that would promote economy, efficiency, and effectiveness in executive branch purchase decisions. The Commission sent its final report to the Congress in December 1972. In that report, the Commission said the purpose of the Government's procurement system should be to provide users with required goods and services in the most efficient and economical way. The Commission concluded that the Government's current purchase and supply policies did not necessarily meet this end because they overemphasize purchase prices. As such, administration, warehousing, and other associated overhead costs were often not included when the supply agencies decided how best to provide a commercial product to Government users.

Although the Government is usually able to buy products at a lower unit price if purchased for stock in large

volume, considering the full costs of stockage and distribution frequently discloses that using commercial distribution channels is more advantageous. The Commission recommended that in making procurement and stockage decisions DLA, GSA, and VA should consider the full cost of any Government distribution system involved.

#### SCOPE OF REVIEW

During the review we (1) identified the progress that DLA, GSA, and VA have made in using full cost information in procurement decisions, (2) analyzed the reasons why full cost information has not been developed and used in procurement decisions as recommended by the Procurement Commission, and (3) identified potential benefits that would accrue to these agencies if full cost information were used in the procurement decision process. This work was done at DLA headquarters, Alexandria, Virginia; GSA's Federal Supply Service headquarters, Alexandria, Virginia, and VA headquarters in Washington, D.C. We also visited field locations of these agencies including DLA's Construction Supply Center, Columbus, Ohio; DLA's Electronics Supply Center, Dayton, Ohio; Fort Knox, Kentucky; Wright Patterson Air Force Base, Dayton Ohio; Naval Aerospace and Regional Medical Center, Pensacola, Florida; Naval Weapons Station, Concord, California; and VA's Marketing Center, Hines, Illinois. Our review covered the period January 1975 through December 1976.

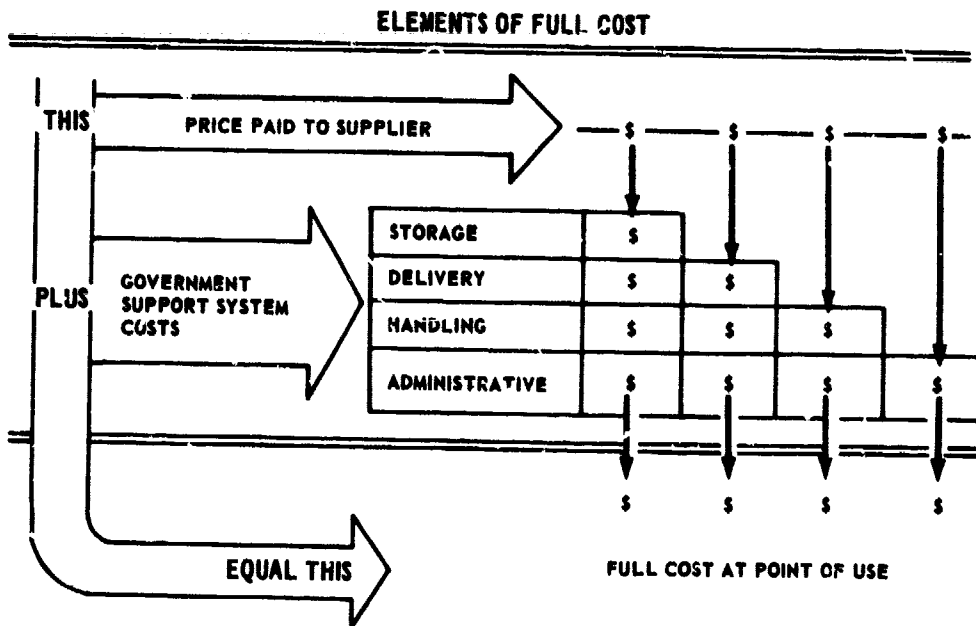
## CHAPTER 2

### FULL COST CONSIDERATIONS

#### IN PROCUREMENT DECISIONS

There are basically three ways DLA, GSA, and VA can satisfy a user's needs: (1) provide all supply services, including centrally managing, buying, stocking, and distributing needed items, (2) manage and buy needed items centrally but let the commercial sector distribute directly to users, and (3) let individual users buy the items directly without help from the interagency supply activity.

The full cost of providing a supply item to a Government user under these three options includes the price paid for the item and its allocated share of support cost of the system used to acquire and deliver it. The elements of full cost discussed in this report are:



SOURCE: DEVELOPED BY THE COMMISSION ON GOVERNMENT PROCUREMENT.

At the interagency supply level, these costs include those relating to requirements determination, order processing, procurement, item cost, transportation, receiving and storage, invoice and payment processing, credit returns, repackaging, distribution, inspection and quality control, and disposal of obsolete and excess stock. Also included are indirect costs associated with personnel support, depreciation, and interest on investment in cash, receivables, inventory, and real and personal property.

VA includes most of the full cost elements in its procurement process and makes procurement decisions that approximate the full cost alternative recommended by the Commission, but DLA and GSA do not. For example, DLA does not consider personnel support costs or the cost of disposing of obsolete stock when deciding how best to satisfy a user's needs for a commercial product.

DLA and GSA have not developed the data and techniques needed to measure the total cost of fulfilling users' needs for supply items. Personnel and other full cost elements are funded by direct appropriation. Thus, from a funding standpoint, there has been no need to develop a system that would consider these appropriated costs when making supply fund decisions. These appropriations are significant--\$822 million for DLA and \$113 million for GSA in fiscal year 1975. Approximately 70 percent of these amounts are incurred in managing the item and 30 percent in warehousing and related costs.

To compare prices between the use of commercial and Government interagency supply activities, the Procurement Commission noted that DLA and GSA must incorporate appropriated costs in their procurement decision processes.

#### FULL COST CONSIDERATIONS COULD LIMIT UNECONOMICAL PROCUREMENT PRACTICES

We believe that if full cost data were used in making procurement decisions, it would reduce the number of inactive and slow-moving items in DLA's and GSA's inventories and reduce losses stemming from inventory obsolescence. Our reports for the past 13 years have shown that DLA and GSA have had problems in stocking and managing inventories. For example, in 1963 we reported 1/ that Department of Defense (DOD) activities, including DLA, did not consider the commercial off-the-shelf nature of an item or the cost of central management and distribution in their procurement and warehousing decisions. The report cited hundreds of thousands of slow-moving items in DOD's inventory that were readily available from commercial sources and pointed out that many of these items could be managed centrally for direct delivery to users. The report concluded that this approach would reduce supply inventories by about \$275 million.

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1/B-146828, "Uneconomical Management of Commercially Available Items," November 29, 1963.

Our followup reviews in 1967 and 1971 showed that DLA's supply system still included sizable inventories of commercially available slow-moving items that were unnecessarily costing taxpayers millions of dollars. The 1971 report, for example, stated that DOD estimated its supply system included about 800,000 inactive items that might warrant elimination.

During this period DLA tried to eliminate slow-moving items under a variety of management programs, such as the Defense Inactive Item Program. Although DLA has improved its inventory management system, many problems have persisted because it has overemphasized its warehousing operations. This has caused many commercially available items to be supplied unnecessarily. For example, during 1975 the dollar volume of requisitions for about 624,500 items, or 75 percent of those demanded, totaled less than \$400 per item. Another 524,000 items of the 1.4 million in stock had not been requisitioned at all.

DLA cost studies show that obsolete items are the leading contributor to annual inventory carrying costs. Obsolete items are those removed from inventory because of technology changes or reduced use. As of March 1976 there were about 92,000 obsolete supply items in DLA's inventory system awaiting disposal.

Purchasing, stocking, and disposing of supply items that are never used is expensive. For example, from fiscal year 1971 to 1975 DLA disposed of \$658 million in obsolete inventory. DLA property disposal officials said that the Government is able to recover only 5 to 8 percent of the original cost of this stock through sales or use by other agencies. GSA has a similar situation with its inventory items. During fiscal years 1971 to 1975, GSA disposed of obsolete stock worth about \$31 million and recovered only \$1 million for it.

Many items DLA and GSA manage and stock are readily available from commercial firms at better full cost prices than those DLA and GSA charge. If DLA and GSA quit stocking these items, they could reduce their investment in inventories by millions of dollars and lessen the chances of accumulating large amounts of obsolete inventory.

#### ROLE OF THE OFFICE OF FEDERAL PROCUREMENT POLICY

In response to the Procurement Commission's first recommendation, Public Law 93-400 created the Office of Federal Procurement Policy (OFPP) within the Office of Management and Budget. It began operations on December 31, 1974.

One of OFPP's responsibilities is to establish positions on many of the Procurement Commission's recommendations and to issue guidelines for implementing these positions. OFPP has issued a policy requiring Government supply agencies to use commercial distribution channels to supply commercial products unless it is cost effective to do otherwise.

OFPP implementing guidelines require the supply agencies to use full cost comparisons to demonstrate that in-house warehousing and distribution is economically justified before items are purchased and stocked. As such, the supply agencies will need to apply reasonable, meaningful, and useful cost data in complying with the economic analysis portions of OFPP's instructions implementing its policy.

OFPP officials said that the policy is designed to limit development and that use of Government-unique items and to emphasize the need for Government supply agencies to rely more on commercial off-the-shelf products.

#### CONCLUSION

We believe that the OFPP policy should be implemented aggressively and the supply agencies should develop reasonable, meaningful, and useful cost data to aid them in identifying those items that should be stocked.

We have reported on unnecessary stockage of items for the past 13 years. In each instance, the agency involved agreed to solve the problem cited. In our opinion, a major reason that these problems still exist is the lack of a good management system to develop and use adequate cost data in the decisionmaking process.

We have also reported on other ways in which cost data would help supply agencies more effectively manage inter-agency supply activities. Topics include fund management, stockage criteria, and advanced inventory management techniques. Summaries of these reports and action promised are included in appendix I.

## CHAPTER 3

### THE RESULTS OF FULL-COST VISIBILITY

The use of cost data to approximate the full cost of procurement and supply decisions is, in our opinion, feasible. At VA and DLA we used existing accounting data to identify such costs as purchase price, transportation, and total overhead for each agency. An overhead rate was computed for comparison and applied to individual items. Although not completely refined, we feel this data provided a reasonably sound basis for making procurement and stockage decisions.

The purpose of our analysis at VA and DLA was to demonstrate that the full-cost concept can be applied in an operational environment without developing a costly, complex cost accumulation system. Details on the methodology used and the results at VA and DLA follow.

#### VETERANS ADMINISTRATION

VA finances all supply operations through a revolving supply fund. The agency charges customers a percentage markup in addition to the item's purchase price. The markup, which is currently between 6 and 15 percent (depending on the items), is used by VA's Marketing Center to balance the VA supply fund. The markup recovers out-of-pocket costs, such as personnel, transportation, and other operating expenses.

The central purchase functions of VA's supply service are done by the VA Marketing Center, Hines, Illinois. The Marketing Center supports 235 VA stations, such as hospitals, clinics, and medical centers throughout the Nation. Items stored in the three VA depots are available to VA stations on request. For certain other items not stored in the depots, the Marketing Center contracts with suppliers so that stations can order items for direct delivery. VA stations can also order items from GSA depots, suppliers under Federal Supply Schedules, other Government sources, and local suppliers.

In fiscal year 1975 VA hospitals purchased about \$590 million worth of goods and nonpersonal services. The Marketing Center contracted for about \$152 million of these goods and services, and the remaining \$438 million was purchased locally by the hospitals without help from Marketing Center personnel.



Some cost elements, such as depreciation and an imputed rate of return on investment, are not included in the VA markup. Partly to consider these costs in purchase decisions, VA has established minimum savings criteria which it uses to decide when an item should be entered in the supply system or stocked in the warehouse.

In this decision process VA uses a form called method of supply determination sheet. (See app. II.) Basically, the commercial cost of the item is solicited from vendors who quote a price based on VA's estimated annual demand. This quote is compared to the price VA is currently paying for the item plus a markup of from 6 to 15 percent to recover operating expenses. The difference between the commercial price and VA's cost including the markup must exceed an established percentage which VA calls its minimum savings criteria. If the minimum savings criteria is met, the item will be stocked. The process is also applied to items already stocked when VA wants to see if an items should be kept in the system.

This use of the minimum savings criteria in addition to the basic VA markup closely approximates full cost even though not all cost elements are included. To identify the effect of not including these elements, we calculated costs by major commodity groups and found that they differ from the VA criteria as shown in the following table.

Major commodity <u>group</u>	VA minimum savings criteria combined <u>with markup</u>	Our calculated full cost <u>markup</u>
	(percent)	
Medical supplies	15	17
Administrative		
medical supplies	17 to 22	18
Subsistence:		
Frozen meat	15 to 16	15
Frozen other	24 to 25	39
Nonperishable	16 to 17	23
Drugs and chemicals	16	8

We developed the comparison figures by using data available in the present VA cost-accounting system. Costs of the depot warehouse program were allocated by using

data in a VA Marketing Center time study. Investment costs were based on a rate of 10 percent 1/ as specified by OMB. These investment costs were applied to actual inventory values and proportionate parts of cash, accounts receivable, and personnel and real property. Depreciation charges were based on data from the "Report of the Commission on Government Procurement." We allocated other costs using available information, such as number of purchase orders and depot line items.

EFFECT ON STOCKAGE DECISIONS

The use of the minimum savings criteria in addition to the basic VA markup produces good stockage decisions for most items. For example, most medical supplies are centrally bought, stocked, and distributed at significant savings. Centrally stocking drugs and chemicals is also more economical. Examples are shown in the following table.

<u>Commodity</u>	<u>Commer- cial cost</u>	<u>Depot price with VA markup</u>	<u>Savings or loss (-) over commercial</u>	<u>Depot price with our full cost markup</u>	<u>Savings or loss (-) over commercial</u>
Adjustable woodcrutch (pair)	\$8.70	\$3.37	\$5.33	\$3.69	\$5.01
Wood tongue depressor	2.06	1.07	.99	1.17	.89
Surgical ad- hesive tape	6.78	3.23	3.55	3.53	3.25
Diazepam, tablet	49.50	28.36	21.14	28.62	20.88
Magaldrate oral sus- pension	1.78	.77	1.01	.78	1.00
Furosemide, tablets	41.60	29.51	12.09	29.79	11.81

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1/Although the rate used in this report is from OMB Circular A-94, dated March 27, 1972, a more appropriate rate would have been based on the average yield of U.S. Treasury long-term bonds.

However, there are other commodities where the use of full cost data could lead to a better stockage decision. For example, we reviewed the VA Marketing Center's method of supply studies for frozen food items in the depot warehouse program and compared the savings to the Government using the current markups with our full cost markups. The results are shown in the following table.

<u>Commodity</u>	<u>Commercial cost</u>	<u>Depot price with VA markup</u>	<u>Savings or loss(-) over commercial</u>	<u>Depot price with GAO full cost markup</u>	<u>Savings or loss(-) over commercial</u>
Frozen meat:					
Beefsteak	\$1.66/lb	\$1.57	\$0.09	\$1.71	\$-0.05
Pork chops	2.22/lb	2.20	.02	2.40	-.18
Ribeye-beef	3.64/lb	3.45	.19	3.76	-.12
Frozen other:					
Pineapple pie	9.00/case	8.83	.17	10.64	-1.64
Peach pie	8.00/case	8.00	-	9.64	-1.64

As demonstrated, the Marketing Center's frozen food program has items that would not be stocked if all VA cost elements had been compared with commercial costs. At the time of our review, there were 64 items in the program--21 meat and poultry and 43 other frozen foods, such as pies, juices, and vegetables. VA distributes these products by renting freezer space at eight commercial warehouses to service its hospitals in various geographic locations.

The Marketing Center uses a markup of 6 percent for frozen meat and 15 percent for other frozen food. If all costs associated with the operation of this program were considered, the VA markups would have 15 percent for meat and 39 percent for other frozen foods. However, these markups are subject to changes depending on various economic conditions at any given time. We estimate that the frozen food program lost about \$150,000 in fiscal year 1975. Because the supply fund operates on a break-even basis, the loss on the frozen food program is being subsidized by other supply divisions and other activities of the supply fund.

## CONCLUSION

By using minimum savings criteria, in addition to a basic markup, in many cases VA has found it more economical to use commercial distribution systems than to stock and distribute items to VA hospitals. For example, VA centrally buys, stocks, and distributes only about 10 percent of its total supply items, as opposed to DLA which does the same for about 73 percent of its supply items. Even though VA's method does not include all elements of full costs, it is sufficiently accurate to support reasonable decisions. Minor refinements could enable VA to use the commercial distribution system even more.

## DEFENSE LOGISTICS AGENCY

DLA provides integrated logistics support to the military services and to various civil agencies of the Federal Government. DLA manages consumable common-use, commercial-type supply items--such as bathroom plumbing fixtures, circuit breakers, electrical lamps, chain and wire rope, and X-ray equipment--which constitute 49 percent of the total items in the DOD supply system. Its supply centers stock about 1.4 million different items valued at \$3.6 billion.

DLA's stocked inventories are mostly low-value items that are seldom requisitioned. During fiscal year 1975 about 614,640 items had annual demands amounting to less than \$400. Another 518,350 items had not been requisitioned at all. The data for four supply centers follows.

<u>Supply center</u>	<u>Total stocked</u>	<u>No-demand items</u>		<u>Items with some demands</u>		
		<u>number</u>	<u>per-cent</u>	<u>Total</u>	<u>Low-value items number</u>	<u>per-cent</u>
Construc- tion	229,929	90,649	39.4	139,280	94,560	67.9
Electron- ics	532,677	225,775	42.4	306,902	241,876	78.8
General	125,449	42,246	33.7	83,203	53,575	64.4
Indus- trial	<u>436,438</u>	<u>159,680</u>	36.6	<u>276,758</u>	<u>224,629</u>	81.2
Total (note a)	<u>1,324,493</u>	<u>518,350</u>	29.1	<u>806,143</u>	<u>614,640</u>	76.3

a/Statistics were obtained from DLA's summary fractionation report for 1975.

## DETERMINING THE MOST ECONOMICAL METHOD OF SUPPLY

The most advantageous benefit of full cost data is the savings available to the Government in selecting the supply method with the lowest overall costs. DLA's present purchase criteria, however, favor stocking items in Government warehouses. For example, 73 percent of all items it manages are centrally stocked. Commercial availability or distribution costs are not considered in deciding whether users will order items through DLA for direct delivery from commercial sources or requisition them from interagency warehouses.

To apply full cost to items stocked by DLA, we selected a random sample of 70 items at the Defense Electronics Supply Center in Dayton, Ohio, and 139 items at the Defense Construction Supply Center in Columbus, Ohio. We compared DLA's cost to supply the sampled items (purchase price plus total operating costs) with what suppliers said it would cost to deliver the same item to the military user in the quantity normally ordered.

In making this comparison, we used the number of units DLA issued annually. The direct price to the user was based on the contractor's quote for the quantity range the user normally ordered. DLA's price was established by taking the normal selling price and applying the factor computed for total operating costs.

To estimate total operating costs, we used the estimate computed by the Commission on Government Procurement. In 1972 the Commission estimated that it cost DLA about \$64 to purchase and distribute \$100 worth of stock in depot programs. The Commission arrived at this figure by determining total DLA operating costs for fiscal year 1971 (\$1.1 billion), divided by total DLA sales for the same period (\$1.7 billion). The operating costs can be broken down into categories of

- program costs,
- storage,
- transportation,
- annual unfunded inventory costs, and
- inventory losses and adjustments including economic loss through obsolescence.

As shown above, in fiscal year 1971, the Commission estimated DLA's operating costs to be about \$1.1 billion. This figure consists of \$0.7 billion in actual expenditures and \$0.4 billion in noncash costs, such as unfunded investment costs, economic loss through obsolescence, and inventory adjustments.

In our opinion, the Commission's 1972 estimate on the cost to purchase and distribute \$100 worth of stock in the depot is still valid, as the following table illustrates.

<u>Category</u>	Fiscal year <u>1971</u>	Fiscal year <u>1975</u>
	(billion)	
Actual expenditures	\$0.7	\$0.8
Noncash costs (note a)	<u>0.4</u>	<u>0.5</u>
Total operating costs	<u>1.1</u>	<u>1.3</u>
Total stock sales	\$1.7	\$1.9
Percent of total operating costs to sales	64	68

a/For noncash costs, such as unfunded investment costs, economic loss through obsolescence, and inventory adjustments, we are assuming that the percentage relationship to sales would be approximately the same in 1975 as it was in 1971.

#### Central stockage cost effective

Our analysis showed that DLA could economically justify stocking 58 of the 139 commercially available items at a total annual savings of \$22,333. For example:

- Pipe plug (NSN 4730-00-222-9637) had an annual demand of 1,946 units during the previous 12 months. A supplier said that he could furnish the item to Government users within 30 days after receipt of an order. Delivery price quoted by the supplier was \$5.95. DLA's price, including total operating costs, was \$1.15. By stocking the item, DLA saved the Government \$7,998.
- Piece thread (NSN 4730-00-594-1637) had an annual demand of 1,875 units during the previous 12 months. A supplier said that he could furnish the item to Government users within 30 days after receipt of an order. Delivery price quoted by the supplier was

\$4.51. DLA's price, including total operating costs, was \$1.74. By stocking the item, DLA saved the Government \$3,236.

See appendix III for further details on the 58 items.

Commercial distribution system      t effective

For the other 81 items of the 139 sampled, DLA could have saved \$23,745 annually if it had used the commercial distribution system to satisfy user needs. For example:

--Shutoff sock (NSN 4820-00-254-8637). As of May 5, 1975, 628 units with a DLA standard price of \$2.24 each were stocked in the Defense Construction Supply Center's inventory. The item had demands of 431 units during the previous 12 months. Four suppliers said that they could furnish this item to Government users within 30 days after receipt of an order. Delivery price quoted by the suppliers ranged from \$0.75 to \$2.07. If DLA personnel had compared the full cost of delivering 431 of the items to individual users at the vendor's price of \$0.75 with DLA's price of \$2.24, they could have saved the Government \$1,221.45 by asking suppliers to furnish the item directly to users. The lower price accounted for \$642.19 of the savings and the remaining \$579.26 represented the additional overhead it cost DLA to manage and distribute the item from its inventory.

--Wearing ring (NSN 2930-00-469-9841). As of May 5, 1975, the standard unit price charged by DLA was \$6.60. The item had demands of 63 units during the previous 12 months. Four commercial suppliers said that they could furnish this item to Government users within 10 days after receipt of an order at a price that ranged from \$5.25 to \$7.20. Comparison of the full cost of delivering 63 of the items to users at the vendor's price of \$5.25 to DLA's price of \$6.60 showed that the Defense Construction Supply Center could save the Government \$334.53 annually if suppliers furnished the item directly to individual users. A better price to users accounts for \$85.05 of the savings, whereas the remaining \$249.48 represents additional costs of DLA's inventory operations that could be avoided.

See appendix IV for further details on the 81 items.

Regarding use of the commercial distribution system, our report entitled "Greater Use of Commercial Distribution Systems for Minor Low-Use Supply Items Can Reduce Defense Logistics Costs" (LCD-76-422, August 9, 1976) pointed out that if DLA relied more on the commercial distribution system it could reduce operating costs at two of its supply centers by about \$17 million and inventory investment by about \$100 million.

#### COST DATA WILL IMPROVE MANAGEMENT OF FOREIGN MILITARY SALES

In addition to the benefits of considering full costs in making procurement decisions, full cost data would improve the management of our foreign military sales program. Over the past decade, increased public and congressional attention has focused on U.S. foreign military sales (FMS). From a comparatively modest billion dollar program in fiscal year 1967, foreign sales orders grew to over \$10 billion in fiscal year 1975.

Full cost recovery of FMS is authorized by legislation. The Foreign Military Sales Act of 1968, as amended by Public Law 94-329, dated June 30, 1976, requires the U.S. Government to recover " \* \* \* not less than the actual cost thereof \* \* \* or \* \* \* the estimated cost of replacement \* \* \*" for goods and services sold to eligible countries or international organizations.

DLA manages common commercial-type supply items that usually have a recognized market value. Many of these items are purchased by foreign governments, which raises a question of whether DLA's surcharge is sufficient to recover the full estimated costs of (1) administering the FMS program and (2) using DLA's plant and production equipment.

Generally, DOD's policy is to apply a surcharge to the price of contractual services and materials sold to foreign governments to recover administrative costs. The rate of the surcharge depends on the contractual arrangement. In supply support arrangements an administrative charge of 5 percent is supposed to be added, while the administrative charge for material and services is 2 percent.

In 1972 the Commission on Government Procurement stated that the cost of support activities by agencies such as DLA was expensive and that they should consider all the costs associated with their business if sound economical policies and decisions were to be made concerning the



customers using the system. As previously noted, the Commission reported that DLA spent \$64 to purchase and distribute each \$100 worth of stock in depot programs.

Therefore, on the average DLA is spending about \$60 more per \$100 worth of material sold in the FMS program than it is authorized to collect back from FMS customers. Considering the fact that DLA sales in the FMS program for fiscal year 1975 were \$112 million, it is possible that DLA is not recovering about \$67 million worth of overhead directly incurred from this program.

Using full cost data would help DLA actually determine the costs of supporting, at arms-length, business such as the FMS program. This would allow DSA to comply with Public Law 94-329, which requires that it include appropriate charges for administrative services and the use of plant and production equipment in the amount charged for goods and services offered for sale to eligible countries and international organizations.

#### CONCLUSION

We believe that the Government supply agencies can optimize savings by using full cost data in evaluating the cost of procurement and stockage versus the cost of using the commercial distribution system. OFPP policy requires agencies to use commercial distribution channels unless it is cost effective to do otherwise. Only by applying full cost information were we able to identify which commercial products should continue to be stocked and distributed by the interagency supply system and which products should be distributed through the commercial distribution system. If DLA and GSA considered full costs, they could reduce the number of inactive and slow-moving items in their inventories and reduce losses stemming from inventory obsolescence. Finally, the use of full costs would improve management of our foreign military sales programs.

## CHAPTER 4

### REASONS FOR DELAY

Agency officials for DLA and GSA cited several reasons why they have not acted on the Commission's recommendation. These reasons ranged from a discussion of whether a full cost system could be effectively used in a military environment to how the commercial distribution system could satisfy overseas users needs. The principal reasons given by each agency and our evaluation follow.

#### DEFENSE LOGISTICS AGENCY

DLA has resisted developing and using full cost concepts because it believes that would lead to purchase decisions favoring commercial distribution of supply items. DLA believes that increased use of commercial distribution would:

- Limit its ability to meet emergency military requirements.
- Place too much reliance on commercial distribution systems.
- Inhibit collecting demand data for mobilization planning.
- Require information showing what costs would be incurred by customers to purchase supplies directly from commercial sources.
- Affect its ability to satisfy overseas users needs.

#### Emergency military requirements

DLA's own data shows that the use of full costs in procurement decisions would not materially affect meeting emergency requirements. Although its supply system must be oriented to military support for both emergency and peacetime conditions, only 200,000 of a total of 1.4 million items stocked by DLA are designated for mobilization reserves or weapon system support programs. As such, DLA would want to stock many of these items regardless of the outcome of any full cost comparisons with the commercial distribution system. Further, using full cost concepts in the procurement decision process would prevent DLA from rapidly expanding its logistical structure in the event of an emergency.

## Reliance on commercial distribution systems in times of national emergency

In 1950 the Congress passed the Defense Production Act to make sure the military would have adequate supplies during national emergencies. The Secretary of Defense used his authority under this act to insure delivery of petroleum products to the Armed Forces during the recent energy crises.

In addition, the Strategic and Critical Materials Stockpiling Act of 1939 provides for acquiring and retaining certain strategic and critical materials needed to supply industrial and military needs during a national emergency.

DLA officials have agreed that no additional legislative authority is needed to insure commercial product delivery during periods of national emergency or short supply.

## Inhibit collection of demand data for mobilization planning

DLA officials said that they were concerned about losing control over user demand data if items were distributed by commercial sources. First, OFPP policy does not plan to dismantle DLA's procurement process--it merely advocates reducing the number of Government-unique items and slow-moving and inactive items stocked in warehouses. As such, DLA will not lose visibility over demand data. For example, DLA had a program that permitted direct commercial support of overseas users needs for commercially available automotive repair parts. This program permitted DLA to track the demand history for these items because firms supplying parts had signed contracts with the Government allowing DLA to get information on the total number of items ordered. We believe that DLA can satisfy many of its information needs under similar contractual-type relationships.

Second, in the few instances in which users buy an item on the local market without DLA's help, they could report the quantity used to DLA. For example, procurement personnel at Ft. Knox, Kentucky, said that they keep consumption information on all items used and could transmit the data to DLA over the same electronic communication system as used for requisitioning.

## Need for customer procurement cost data

To make effective full cost decisions, DLA officials said that they need information showing how much it would cost customers to purchase supplies directly from

commercial sources. They believe that determining this information would be very difficult.

To determine whether users purchase commercial items locally and if it costs more to do so, we contacted two military activities that use the types of items DLA carries in stock. Although these activities represent a very small sample of interagency supply users nationwide, their comments suggest that local procurement costs are nominal compared with DLA's supply and distribution costs. For example:

--Fort Knox supply officials said that locally purchased material normally accounts for a major portion of the installation's total purchases. For example, \$30.5 million worth of material was bought locally during fiscal year 1975. This amount involved about 47 percent of total purchases. Statistics on delivery times kept by this activity show that Fort Knox was able to get better delivery on the items purchased commercially than those ordered from DLA supply centers. These officials felt that they could purchase up to 60 percent of all purchases in this manner without significant extra costs or procurement workloads because many of the additional items would be purchased from the same vendors they are already dealing with. Therefore, in many cases the additional business would not require negotiation of a new contract or preparation of an additional check and would often be no more than the addition of a line item to an order.

--In fiscal year 1975, the Naval Weapons Station, Concord, California, was one of the largest users of DLA-supplied wood products. Officials of this station said that under the present interagency supply distribution system the activity is forced to keep a \$1 million inventory of wood products to buffer the normal 5 to 6 months' ordering lead time. The officials said that they could purchase most of the same wood products locally without incurring significant costs. They felt that this would reduce ordering lead time by 2 to 3 months and allow the activity to lower inventory levels.

In summary, the two activities already buy much of their supplies directly from commercial vendors and feel that they can purchase many additional items currently provided by DLA directly from these same commercial sources at little or no additional cost.

## Ability to satisfy overseas users needs

DLA believes that many items have to be stocked, or centrally managed, for overseas customers regardless of the cost benefit relationships of using DLA or the commercial distribution system in the continental United States. According to DLA, the decision to stock centrally or not is a complex issue related to the type of alternative support structures available in various overseas locations.

The Procurement Commission also addressed the overseas supply issue. It concluded that:

- Purchase of American-made commercial products by overseas activities provided a potential for savings over shipment of these items from the continental United States.
- Indefinite delivery contracts can be used to simplify procurement of American-made products by overseas activities.
- Overseas delivery should not be required to order material from the continental United States without consideration of alternatives that may be more cost-effective.

OMB solicited comments from the private sector on the Commission's conclusions. In response to the "Notice for Comment" in the "Federal Register," dated February 11, 1974, 3M stated:

"The 3M Company manufactures and distributes worldwide a variety of commercial products which are used by all segments of industry, government, institutions, and the general public. 3M has subsidiaries in 36 countries throughout the world. In countries where there is no subsidiary, distribution is performed through the use of dealers or distributors. Our worldwide organization has been developed to provide users of our products with the most effective production, marketing, and customer service possible. Customer service includes assistance on a local basis in product selection, equipment maintenance and repair, use and warranty action."

If the Government used commercial outlets overseas along with full cost comparisons, the 3M Company felt it could provide DOD and other Government agencies with more

dependable support because then they would be regular customers and part of the overseas market.

During our review DLA had a program underway that permitted direct vendor support to overseas users for commercially available nonstocked automotive repair parts. DLA officials said that this program, using indefinite delivery contracts, has substantially reduced the time required to fill overseas orders.

As of December 1974, DLA stocked only 10,000 items for overseas users who were unable to buy the items locally because either the purchase was prohibited or the items were not available.

In summary, although supporting overseas requirements deserves careful consideration, we do not see it as a major barrier to DLA in decentralized procurement of more commercial items.

#### CONCLUSIONS ON DLA'S REASONS FOR DELAY

DLA has not acted on the Commission's recommendation. We believe DLA's reasons for inaction are questionable because (1) only a small percentage of the items it manages are designated as needed to support critical military programs and mobilizations reserve stocks can be established for such needs, (2) DLA has legislative authority to obtain available commercial products in cases of national emergency, (3) OFPP's policy does not contemplate dismantling DLA's present procurement system so DLA will have the same data on demand it has always had, (4) in instances of local purchase, user activities can provide use data to DLA for military planning purposes, (5) users already buy many of their supplies directly from commercial vendors and feel that they can purchase many of the DLA items from the same sources at very little, if any, additional cost and, (6) many overseas requirements can be satisfied from established overseas commercial distribution systems.

#### GENERAL SERVICES ADMINISTRATION

GSA accepts the Procurement Commission's recommendation on using full cost comparisons, but it has been slow in applying the concept. Since 1973 the Federal Supply Service (FSS) has spent an estimated \$212,818 studying full cost recovery and full cost disclosure systems. Although once a low-priority project, the full cost concept is being pursued actively by FSS at the request of OMB. The target for achieving full cost disclosure is 1980.

Total cost not recovered

The current funding structure of GSA's supply division, FSS, includes appropriations and a general supply fund. The item-pricing objective is to maintain a break-even operation in the supply fund. Selling prices for stock items are computed by adding a markup to the national weighted average unit cost of the item. The markup, as in DLA, recovers only the item's purchase price, inventory adjustments, and transportation in and out. These have been the only costs recovered since fiscal year 1953, and no provision is made for consideration of expenses financed with appropriated funds. The appropriated funds expended since 1971 were:

<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>
----- (000 omitted) -----					
\$86,352	\$90,324	\$94,740	\$132,381	\$166,078	\$159,667

FSS efforts toward full cost implementation

FSS management initially studied full cost recovery for supply operations during 1973. The study group concluded that conversion to a full cost recovery operation was essential and that FSS could remain competitive with the commercial marketplace by doing so. Beside spending approximately \$75,000 on the in-house study, FSS contracted with two consulting firms to study use of the full cost system. Both firms concluded that the concept was sound and that it was needed at FSS. Among other recommendations, these firms said that FSS should use total cost in making procurement decisions.

In 1974 FSS personnel sent a proposed change in legislation to OMB which would allow the GSA supply fund to operate as an industrial fund. An implementation date of July 1, 1975, was established. Primarily because of DOD objections, OMB did not actively support this legislation. GSA agreed that a parallel program would be needed by Defense before GSA's supply division, FSS, could pursue such a system. As a result, the legislation was dropped.

FSS officials believed that certain parts of the proposal, namely a full cost disclosure system, could be developed and used without changing FSS legislation. Full cost disclosure was intended to identify all expenses by type of methods for supply (such as stock, nonstock, schedules) and permit a higher level of management effectiveness in making method-of-supply decisions. The first major effort toward full cost disclosure was to develop a cost-accounting system

to allocate costs to methods of supply support. This effort was deferred because of internal funding constraints in fiscal years 1976 and 1977.

### Special emphasis project to identify total economic costs

In 1968 a Method of Supply Evaluation System (MOSES) model was introduced in FSS. It was an automatic data processing model designed for making method-of-supply decisions on a per-item basis. It has not been updated since 1973. During this time, OMB has provided a total of \$175,000 for automatic data programing, processing, and manpower resources.

The MOSES model was originally designed to identify only the variable costs, demand history, and item characteristics for items in the supply system. Fixed costs were not considered. Several problems made the model ineffective to use. Agency officials indicated that MOSES should be updated and that it has the capability to determine the total cost to supply an item.

Due to the deferral and significant costs (estimated at \$2 million to 5 million) of developing a full-scale cost-accounting system, the full cost concept was revised and led to establishment of a special emphasis project for fiscal year 1977. The project's objective is to "develop and implement methods of determining the total economic costs of FSS services and major alternative means of providing those services." According to FSS officials, full cost disclosure will not be achieved before 1980. Current efforts are underway to update and revamp the MOSES model to facilitate its use in making method-of-supply decisions.

### Method of supply economic model

One phase of the special emphasis project involves development of an economic model for making method-of-supply decisions. According to FSS officials, this model is more sophisticated and encompasses many factors not considered in the MOSES model but is more flexible. A final model has been developed and is being tested. Total economic costs and total costs of the Office of Procurement and Supply Distribution have been included in the model. FSS personnel believe these latter costs to be the most significant in determining total economic costs to supply an item.



## CONCLUSIONS ON GSA'S USE OF FULL COST DISCLOSURE SYSTEM

The Procurement Commission, GAO, and various consultants have pointed out the advantage of identifying total economic costs in making procurement decisions. Although progress has been slow, FSS intends to pursue development and use of full costs.

## RECOMMENDATIONS

In view of the potential savings involved, we recommend that the Administrator of General Services complete the development of full cost information and use this information to make cost-effective procurement decisions. Also, we recommend that the Secretary of Defense require the Director, Defense Logistics Agency, to do the same. We recommend that the Administrator of Veterans Affairs act to improve the agency's full cost information and increase its effectiveness in making procurement decisions.

## CHAPTER 5

### AGENCY COMMENTS

The Office of Federal Procurement Policy, Defense Logistics Agency, General Services, and the Veterans Administration have provided comments on our report. (See apps. V, VI, VII, and VIII.) In summary, OFPP agrees with our recommendations. DLA, GSA, and VA also concur that it is necessary to develop and use full cost data to make cost-effective procurement decisions for common commercial items. We hope that these supply agencies will now act quickly to develop and use a full cost system.

After we received the agencies' comments, we revised the report. Each agency was given an opportunity to comment on the revised version. The comments of OFPP, DLA, GSA, and VA follow.

#### OFPP comments

OFPP agreed with the recommendations in our report. (See app. V.)

#### DLA comments

DLA also agreed with our recommendations. DLA initiated a major study in March 1975, which resulted in the collection of cost data. Recommendations based on this data are currently in the process of review within DOD. (See app. VI.)

#### GSA comments

Although GSA officials generally agreed with our recommendations, they believed that the report did not properly consider GSA's experience with full cost disclosure. We have revised the report accordingly. (See app. VII.)

#### VA comments

VA fully agreed with our recommendations. The most significant area of difference was over our estimate that the VA frozen food program lost \$400,000 in fiscal year 1975. VA estimates that only a \$42,069 loss occurred. Our figure was based on allocations of various costs, whereas VA's figure is based on actual costs obtained through studies.

We examined VA's computation and found that it did not consider certain fixed overhead costs. Using VA's data and adding the fixed overhead costs, we believe a more accurate estimate of VA's loss would be about \$150,000. We have revised the report accordingly. (See app. VIII.)

PRIOR GAO REPORTS THAT HAVE SHOWN A NEED FOR  
DEVELOPING AND USING FULL COST DATA  
IN MANAGING INVENTORIES

<u>Year</u>	<u>Agency</u>	<u>Title</u>	<u>Summary of findings</u>
1968	GSA	"Need to Improve The Cost-Information System to Achieve More Economical Supply Programs" B-114807, June 26, 1968.	Cost data used by GSA to determine the most economical method of supply was inadequate in many instances to permit valid methods of supply.

Action promised

GSA agreed that comparative Government-wide costs should, in large part, govern the decision on the appropriate method of supply and that more refined costing data would improve the basis for this decision. Accordingly, GSA promised to act on our recommendation by giving appropriate priority to completion of the study of supply methods it started in October 1966. GSA was to implement whatever refined cost data system the study established to be economically justified.

<u>Year</u>	<u>Agency</u>	<u>Title</u>	<u>Summary of findings</u>
1968	GSA	"Opportunities for Reducing the Cost of Providing Federal Agencies With Certain Supplies" B-114807, May 24, 1968.	<p>Our review showed that of the 32,000 items available to agencies through the Stores Program, 377 common-use items, including fire extinguishers, light bulbs, spark plugs, step ladders, and office furniture, were also available through Federal Supply Schedule contracts.</p> <p>We felt that it was unnecessary for GSA to act as a secondary distributor for the bulk of agencies' needs for these items because the agencies could acquire them at identical costs and terms as GSA by</p>

<u>Year</u>	<u>Agency</u>	<u>Title</u>	<u>Summary of findings</u>
			ordering directly from Federal Supply Schedule contractors.
			We estimated savings at about \$1 million annually and pointed out that GSA's investment in inventories of the 377 items, which averaged about \$3.2 million during fiscal year 1967, could be reduced substantially.

Action promised

GSA said that relative economies of different methods of supply would be studied in the cost-benefit project currently underway to determine the optimum criteria for methods of supply. GSA intended to apply any developed system selectively and on a priority basis to commodity areas where improved economic decisions offered the greatest possibility for savings.

<u>Year</u>	<u>Agency</u>	<u>Title</u>	<u>Summary of findings</u>
1972	DOD	"Action Needed to Recover Full Costs to the Government on Producing Weapons for Sale to Foreign Governments" B-174901, Sept. 7, 1972.	<p>We reviewed the charges for work performed for foreign governments by two of DOD's many industrial activities.</p> <p>DOD regulations required these industrial activities to charge non-Federal Government customers, including foreign governments, for the use of plant and equipment and other so-called unfunded costs applicable to the work performed. Neither activity had complied with these regulations and DOD had not recovered about \$396,000 of unfunded costs on</p>

<u>Year</u>	<u>Agency</u>	<u>Title</u>	<u>Summary of findings</u>
			contracts for foreign governments completed during fiscal years 1969 and 1970.
			We also reported that foreign governments were not being charged for the cost of Government-owned equipment used by contractors to produce weapons for sale to such governments.

Action promised

DOD (1) moved to correct the deficiencies documented in this report on DOD industrial activities, (2) agreed with our recommendation that a fair share of the cost of Government-owned plants and equipment should be recovered when defense equipment is produced in Government-owned, contractor-operated plants, and (3) agreed in principle that the Government should recover a fair share of the cost of Government-owned equipment used rent free in contractor-owned plants to produce equipment for sale to foreign governments and (4) said that it would study ways to best implement our recommendation.

<u>Year</u>	<u>Agency</u>	<u>Title</u>	<u>Summary of findings</u>
1974	DOD	"Proper Use of the Economic Order Quantity [EOQ] Principle Can Lead to Work Savings" B-133396, June 27, 1974.	We reported that the Government was not saving as much as it could in operating costs and reduced inventory investment because these organizations were not applying the EOQ principle properly or fully.  The report further stated some of the misapplication of EOQ involved using an inadequate number of factors to accurately reflect current costs.

Action promised

All agencies generally agreed that they could improve their application of the EOQ principle of inventory management and would study ways to use its application within their agency.

<u>Year</u>	<u>Agency</u>	<u>Title</u>	<u>Summary of findings</u>
1974	DSA	"Better Use of Man-power Possible by Reducing Source Inspections of Simple Low-Cost Commercial-type Items" B-166920, Oct. 3, 1974.	Our review of contracts and observations of source and destination inspections showed that many inspections of simple low-cost commercial-type items at the contractor's facility could have been made more economically at the Government's warehouse or final destination. We found that such items, as casters for push carts, candles, bearings for diesel engines, etc., generally could be inspected at the final destination with the same degree of quality assurance attained by source inspections.

Action promised

DSA officials agreed that they should use judgment when selecting the point of inspection for simple low-cost commercial-type items and that there was a need for greater coordination and understanding between buying and contract administration activities on the use of these source inspections.

<u>Year</u>	<u>Agency</u>	<u>Title</u>	<u>Summary of findings</u>
1975	VA	Letter report to the Administrator of Veterans Affairs.	VA hospitals had purchased identical and functionally similar items from commercial sources without determining the most effective and economical method of supply.

<u>Year</u>	<u>Agency</u>	<u>Title</u>	<u>Summary of findings</u>
			The VA Marketing Center had not developed adequate criteria for determining the most cost-effective method of supply for centrally managed items.

Action promised

The director of VA's Supply Service acknowledged the high inventory levels and commented that the supply service continually strives to reduce inventories. The director pointed out that in the quarter ended June 30, 1975, inventories were reduced by \$16 million, and that the supply service plans to continue analyzing ways to reduce inventories without reducing service to users.

<u>Year</u>	<u>Agency</u>	<u>Title</u>	<u>Summary of findings</u>
1976	DLA	"Greater Use of Commercial Distribution Systems for Minor, Low-Use Supply Items Can Reduce Defense Logistics Costs" LCD-76-422, August 9, 1976	Overemphasis on central stockage was a major factor in limiting the use of commercial distribution systems and may have caused many commercially available items to enter and remain in the central supply system unnecessarily.

Action promised

DOD told us that it intended to make greater use of commercial distribution systems. It also said that several issues, such as overseas support and the need for a viable support structure in wartime, tend to make decisions to stock or not stock somewhat more complex.



SAMPLE FORMAT OF VA SUPPLY DETERMINATION SHEET

VAMC METHOD OF SUPPLY DETERMINATION SHEET: DATE OF STUDY \_\_\_\_\_

NOMENCLATURE: \_\_\_\_\_

STOCK NUMBER: \_\_\_\_\_

SPECIFICATION IDENTIFICATION: \_\_\_\_\_

1. UNIT COST TO INDIVIDUAL STATIONS:

a. COMMERCIAL COST.....\$ \_\_\_\_\_

b. FSS SCHEDULE COST.....\$ \_\_\_\_\_

c. OTHER COST FACTORS.....\$ \_\_\_\_\_

2. ESTIMATED ANNUAL FIELD STATION REQUIREMENTS: \_\_\_\_\_

3. UNIT COST OF ITEM THRU DEPOT STORES.....\$ \_\_\_\_\_

4. UNIT COST OF ITEM THRU D/C SCHEDULE.....\$ \_\_\_\_\_

5. UNIT COST OF ITEM THRU DIRECT DELIVERY.....\$ \_\_\_\_\_

6. UNIT COST OF ITEM THRU CONSOLIDATED QUARTERLY PURCHASES.....\$ \_\_\_\_\_

7. SAVINGS TO THE GOVERNMENT.....\$ \_\_\_\_\_

RECOMMENDED SOURCE OF SUPPLY \_\_\_\_\_

8. REASON OTHER THAN SAVING TO ESTABLISH/OR RETAIN ITEM UNDER CENTRALIZED MANAGEMENT:

\_\_\_\_\_  
\_\_\_\_\_

9 REASON OTHER THAN COST SAVING TO ESTABLISH/OR RETAIN AS D/C CONSOLIDATED QUARTERLY SALES OR SOURCE "9" ITEM:

\_\_\_\_\_  
\_\_\_\_\_

DATE OF

RECERTIFICATION: \_\_\_\_\_

INITIAL: \_\_\_\_\_

LIST OF DLA ITEMS DETERMINED BY GAO TO BE MORE ECONOMICAL  
IF STOCKED AND DISTRIBUTED THROUGH DLA'S DEPOT

Item number	NSN	Description	Commercial unit price	DLA unit price including full cost	Computed annual savings
1	2520-00-432-9637	Plate, clutch	\$ 35.28	\$ 18.49	\$ 74.05
2	-758-0637	Shaft, axle, auto	17.00	9.76	2.77
3	-944-8637	Parts kit, clutch	257.04	132.00	137.52
4	2530-00-014-6841	Hose assembly	21.92	5.30	147.84
5	2805-00-377-5637	Piston, internal comb.	31.12	16.80	25.44
6	2815-00-148-5759	Cover, balance	29.22	16.30	25.12
7	-919-4841	Seal kit	8.23	5.04	8.37
8	-964-4759	Camshift, engine	382.53	156.00	265.86
9	2910-00-042-4759	Ring, cam	70.15	23.60	291.51
10	-047-3759	Pump, fuel	29.56	6.00	119.76
11	-873-1841	Hose, fuel	12.22	5.80	11.76
12	2930-00-362-0759	Pump, water	628.11	303.00	143.31
13	-932-9637	Pulley, fan	23.10	8.75	27.30
14	3805-00-686-6637	Bushing	230.00	50.00	900.00
15	3930-00-933-5759	Hose assembly	35.30	14.00	12.90
16	4310-00-354-7841	Intercooler, comp.	55.20	22.33	58.42
17	4720-00-984-1637	Hose assembly	33.81	21.10	.45
18	4730-00-263-3759	Tee, pipe	31.58	16.80	47.00
19	-814-8841	Trap, air	34.00	19.90	2.32
20	4820-00-203-0637	Valve, gate	25.84	14.40	33.72
21	2520-00-080-6759	Plate, spring	2.24	1.05	3.92
22	-734-8759	Ball, pivot	1.27	.47	41.38
23	2530-00-192-8637	Parts kit, hydraulic	14.68	4.55	23.16
24	-378-7759	Fitting	.91	.40	17.55
25	-718-3637	Packing, axle	6.98	2.70	15.96
26	-826-9841	Hose assembly	7.41	4.50	.21
27	-860-9841	Parts kit, hydraulic	1.95	.48	450.34
28	2805-00-078-2631	Mount, engine	1.90	1.15	1.68
29	-339-5637	Gasket set, valve	5.71	3.02	28.97
30	-640-8637	Ring, piston	1.81	.39	731.76
31	2815-00-070-8841	Lever, insector	2.05	1.21	29.87
32	-682-7637	Valve, poppet	2.55	1.41	3.23
33	2910-00-374-3841	Bowl, sediment, fuel	.46	.18	6.64
34	-885-5637	Block, fuel filter	6.67	2.59	10.10
35	2930-00-845-3841	Pulley, fan	7.67	3.30	23.90
36	2990-00-845-6759	Link	.55	.32	2.32
37	3020-00-517-0637	Gear, helical	10.08	4.86	94.46
38	3040-00-944-1759	Gear, shaft	4.42	2.05	20.52
39	4320-00-999-3637	Splined, shaft space	8.83	3.00	16.12
40	4720-00-494-0759	Hose, preformed	2.67	1.11	8.05
41	4730-00-265-9759	Tee, pipe	1.87	.74	103.59
42	-266-2637	Tee, pipe	.92	.49	2.58
43	-269-2841	Elbow, pipe	1.47	.28	70.52
44	-277-9759	Connector	7.95	1.76	1,124.35
45	-811-1841	Flange, pipe	13.26	2.00	281.68
46	-828-4841	Union, tube	2.04	.98	16.05
47	-896-7759	Adapter	4.15	2.29	3.88
48	-908-1637	Elbow, tube	5.92	2.49	11.61
49	2530-00-080-2841	Brake, lining kit	9.50	4.23	338.77
50	-403-0841	Reservoir, hydraulic	55.64	33.10	50.92
51	2805-00-042-4637	Insert, valve seat	9.30	5.59	45.92
52	2815-00-499-4759	Pin, piston	154.00	55.00	660.00
53	3030-00-859-4829	Belts V, set	213.00	85.00	1,852.80
54	4320-00-812-7841	Impeller, pump	85.40	47.00	112.20
55	4730-00-008-4829	Elbow, tube	30.94	11.80	1,989.90
56	-222-9637	Plug, pipe	5.95	1.15	7,998.06
57	-594-1637	Thread piece	4.51	1.74	3,236.25
58	4820-00-274-3637	Cock, plug	8.40	3.40	568.82

LIST OF DLA ITEMS DETERMINED BY GAO TO BE MORE ECONOMICAL  
TO USE COMMERCIAL DISTRIBUTION SYSTEMS

<u>Item number</u>	<u>NSN</u>	<u>Description</u>	<u>Commercial unit price</u>	<u>DLA unit price</u>	<u>Computed annual savings</u>
1	2520-00-125-2841	Shifter fork	\$ 9.96	\$ 11.60	\$ 68.80
2	2530-00-848-1759	Brake shoe	31.50	38.50	120.40
3	2805-00-253-5759	Rod, piston	8.78	7.14	5.29
4	2815-00-147-1841	Parts kit, engine	47.60	36.81	11.30
5	-400-6841	Pulley, idler	22.72	14.80	5.76
6	2910-00-848-7759	Tank, fuel	22.80	16.50	18.00
7	2920-00-806-0637	Coupling	6.22	10.00	48.90
8	2990-00-318-6637	Housing, governor	22.55	15.30	11.58
9	3020-00-005-7637	Gear, spur	11.75	13.54	9.91
10	-891-3759	Gear	11.94	17.90	133.60
11	3030-00-431-6637	Belts V, set	8.87	6.60	25.35
12	3805-00-131-1841	Pump, hydraulic	324.81	362.00	254.39
13	3930-00-179-6759	Packing kit, tilt	4.20	5.30	55.64
14	3950-00-086-2637	Grand cartridge, kit	16.05	11.70	13.35
15	4330-00-001-7841	Filter element, fluid	18.00	16.65	77.76
16	4530-00-103-8537	Valve, regulating	13.11	11.90	65.23
17	4820-00-287-5637	Cock, plug	7.36	8.84	298.50
18	-702-6841	Valve, safety	29.45	29.20	69.08
19	2520-00-622-3841	Pin, gearshift	.13	.23	5.00
20	-932-0759	Spring, transmission	.51	.45	.21
21	2520-00-741-0841	Cup, hydraulic brake	.80	1.00	1.60
22	-845-2841	Plug, brake	.46	.30	.56
23	-971-4759	Pawl	5.66	3.86	42.83
24	2540-00-018-2759	Bracket	2.30	1.60	30.42
25	2805-00-132-4759	Spring	.11	.16	10.80
26	-785-6637	Sleeve, valve spring	.16	.11	2.42
27	2815-00-035-8637	Valve, poppet	3.42	3.37	19.72
28	2910-00-871-2759	Valve, filter	.38	.26	1.91
29	-932-4841	Spring, throttle	.66	.42	.37
30	2920-00-126-3637	Spark plug	1.12	.83	99.01
31	-846-4637	Terminal	.10	.10	230.52
32	-847-9637	Fan generator	1.08	.90	2.16
33	2930-00-351-7759	Connector, water	2.42	2.39	4.21
34	2990-00-456-5841	Bracket, tail pipe	.51	1.90	164.45
35	3020-00-196-1759	Link, offset	6.37	4.05	.11
36	-475-0637	Gear, spur	3.11	3.52	70.62
37	3805-00-798-4637	Ring backup	.22	.37	8.56
38	4510-00-889-9759	Rod, lift	.44	.39	19.87
39	4720-00-203-7637	Hose preformed	2.03	1.30	10.90
40	-477-1759	Hose assembly	5.07	4.86	37.88
41	4730-00-233-0759	Cup, oil lube	2.29	2.05	23.79
42	-234-7637	Adapter	.94	.60	3.62
43	-266-1841	Adapter	.61	.85	198.06
44	-277-2759	Bushing, pipe	.76	.93	29.85
45	-369-4637	Adapter	.75	.73	94.89
46	-478-2637	Reducer, pipe	1.10	.90	1.70
47	-722-2759	Adapter	.35	.50	.45
48	-842-7841	Plug, pipe	.30	.36	132.48
49	-901-0637	Adapter	1.05	.78	16.24
50	4820-00-731-1637	Seat, valve	2.90	3.00	3.80
51	4930-00-445-0759	Adapter and screen	.43	.83	138.29
52	2520-00-852-4841	Disk, clutch	25.13	53.00	537.03
53	-948-8829	Tube assembly	47.25	30.40	19.46
54	2530-00-712-9637	Hydrovac ass'y, brake	41.16	32.60	44.00
55	2540-00-425-5841	Seat assembly	174.06	129.00	161.70
56	2805-00-622-8637	Piston, internal comb.	9.50	3.20	248.62
57	-905-9829	Ring set, piston	4.61	6.75	2,525.32
58	-962-8637	Pump, oil engine	5.87	8.40	696.44
59	-962-8841	Parts kit, engine	18.68	16.30	1,309.80
60	2815-00-364-3829	Shaft, lube oil	4.92	5.06	289.02
61	-779-2829	Piston, internal comb.	13.98	13.39	297.76
62	2930-00-469-9841	Ring, wearing	5.25	6.60	334.53
63	2940-00-884-5759	Filter, intake	4.69	5.12	364.21
64	2990-00-318-9637	Governor, diesel	197.38	140.00	319.44
65	3020-00-294-9637	Gear, bevel	21.21	15.00	75.33
66	-540-8637	Gear, spur	77.78	51.00	103.14
67	3030-00-111-6637	Belt, powerband	354.89	253.00	798.56
68	3805-00-621-5637	Collar, shifter	84.35	60.00	361.15
69	3910-00-441-0637	Roller assembly	17.66	23.20	1,284.36
70	3950-00-371-9637	Trolley, I-beam	84.70	59.00	174.60
71	4210-00-640-1841	Bracket, fire exting.	18.50	12.00	54.60
72	4310-00-967-4829	Cylinder/plunge	20.11	20.00	1,878.62
73	4330-00-036-3829	Element, filter	5.30	3.56	134.24
74	4710-00-822-5891	Pipe, metallic	4.37	5.34	2,516.92
75	4720-00-248-0841	Tubing, rubber	.50	.32	29.83
76	4730-00-278-8829	Pipe	.04	.09	1,039.90
77	-722-2637	Adapter	2.77	4.89	424.54
78	4810-00-934-8637	Seat, valve	18.30	18.50	2,395.60
79	4820-00-254-8637	Cock, shutoff	.75	2.24	1,221.45
80	-422-3841	Valve, expansion	49.15	52.00	783.15
81	4930-00-007-4759	Reel, static	80.00	63.00	228.80



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

OFFICE OF FEDERAL  
PROCUREMENT POLICY

AUG 24 1977

Mr. Richard W. Gutmann  
Director of Procurement and  
Systems Acquisition Division  
General Accounting Office  
Washington, D. C. 20548

Dear Mr. Gutmann:

*R. Gutmann*  
This is in response to your draft of a proposed report  
"Uninformed Procurement Decisions for Commercial Products  
are Costly".

We fully support the thrust of the report that the Defense Logistics Agency, Veterans Administration, and General Services Administration justify their procurement of commercial items for storage and distribution when that decision is based on cost effectiveness. This is in keeping with our policy covering the procurement and supply of commercial products. In this regard, minor modifications to pages iii and 9 are attached to promote such consistency.

Thank you for the opportunity to review the report in draft form. If we can be of further assistance, please let me know.

Sincerely,

*Lester A. Fettig*  
Lester A. Fettig  
Administrator

Enclosure

Modifications to  
Draft of Proposed Report  
Uninformed Procurement Decisions for  
Commercial Products are Costly

- ° Page iii, re par., "In May 1976," \*\*\* "to do otherwise"
- ° Page 9, last sentence, 2d par., "OFPP has issued" \*\*\*\* "to do otherwise".

MODIFY TO:

In May 1976, the OFPP issued a policy on the purchase of market acceptable commercial products which requires the Government's supply agencies to use commercial distribution channels to supply such products to users. The policy contemplates the application of cost effective considerations when supporting stockage and distribution by the Government's depot system.

- ° Page iii, 1st sentence of last paragraph,

MODIFY TO:

This policy is in the early stages of implementation and places increased pressure on the supply agencies to justify their procurement of commercial items for storage and distribution when that decision is based on cost effectiveness.

GAO note: Page references in this appendix refer to our draft report and do not necessarily agree with page numbers in the final report.



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

SR  
**INSTALLATIONS AND LOGISTICS**

3 MAR 77

Mr. R. W. Gutmann  
 Director, Procurement and Systems  
 Acquisition Division  
 General Accounting Office  
 Washington, D.C. 20548

Dear Mr. Gutmann:

This is in reply to your letter of December 17, 1976 to the Secretary of Defense forwarding copies of your Draft Report (Audit Code #950323) entitled, "Is the Government Using Cost Data to Make Sound Procurement Decisions on Commercial Items?" (OSD Case #4497).

The Draft Report recommendation "that DSA and GSA devote the necessary resources to develop full cost information to enable them to make cost effective procurement decisions" is concurred in.

Within the Department of Defense (DoD), we began a significant effort in this respect in March 1975 through initiation of a Defense Logistics Analysis Office (DLAO) study of Materiel Support to Civil Engineer Operations. A considerable amount of cost data was collected as a result of the study, and recommendations based upon these cost data are in the process of review within the DoD. We are continuing to consider cost data in our implementation of Office of Federal Procurement Policy (OFPP) policy on procurement and supply of commercial products.

While the number of commercial items in the DoD system should be reduced as a result of the above actions, total cost to the DoD as well as military essential requirements for mobilization planning, military readiness and product quality assurance will be considered in the decision making process.

The opportunity to comment on the subject report in draft form is appreciated.

Sincerely,

**DALE R. BABIONE**  
 Acting Assistant Secretary of Defense  
 (Installations and Logistics)



UNITED STATES OF AMERICA  
GENERAL SERVICES ADMINISTRATION  
WASHINGTON, DC 20405



February 23, 1977

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

Dear Mr. Staats:

Thank you for your letter of December 17, 1976, transmitting a copy of the draft report to the Congress entitled "Is the Government using cost data to make sound procurement decisions on commercial items?" We appreciate the opportunity to comment.

While we generally concur with the recommendation contained in the report and have in fact initiated action to comply, we believe this report fails to recognize or give proper consideration to our experience with full cost disclosure. We believe this may be due to a misunderstanding as there are two concepts to which GAO speaks: (1) the full-cost recovery financing concept recommended by the Commission on Government Procurement, also known as industrial funding, and (2) the full-cost disclosure concept which we are actively pursuing.

The full-cost recovery financing has not been pursued by GSA because of the reluctance of the Department of Defense to agree with the concept. The Federal Supply Service, however, is actively pursuing full-cost disclosure criteria and has made extensive efforts to develop cost criteria to help make decisions.

In this regard, FSS developed and utilized the Method of Supply Evaluation System (MOSES). This mechanized system was intended to present commodity managers with information that includes total economic costs for use in making method of supply decisions for FSS-managed items. Most of the items that we currently have in our supply system have been subjected to this cost analysis. Whereas it is not presently in use because cost elements have not been updated, MOSES, nonetheless, is a developed system that has been applied in an attempt to measure the total costs of different methods of support in satisfying users' supply needs. Modification and development of cost data in this area is continuing, however.

A special emphasis project has been established for Fiscal Year 1977 to develop and implement methods of determining the total economic costs of FSS services and major alternative means of providing these services. The basic purpose of this project is to provide sound program justification in terms of savings to the Government and return on investment.

We believe our actions to be in full compliance with the audit recommendation. The enclosure to this letter contains additional comments on the findings and recommendations contained in the report.

Sincerely,



Robert T. Griffin  
Acting Administrator

Enclosure



**GSA comments on GAO draft report  
to the Congress entitled  
"Is the Government Using Cost Data to Make  
Sound Procurement Decisions on Commercial Items?"**

**Recommendation**

GAO recommends on page 11 that OFPP change the May 1976 policy concerning commercial products and require DSA, GSA, and VA to use the commercial distribution system, but only when it is cost effective to do so. We strongly agree with this recommendation.

GAO states on page 18 that GSA's stockage criteria shows that decisions to stock and retain stock items in inventory are based almost entirely on the user's forecasts or actual experienced demand.

GSPR 5A-1.71 provides basic criteria and constraints for making proper MOS decisions, and includes many factors beyond demand to be considered in Method of Supply Decisions. These factors include physical adaptability for storage and issue, rate of deterioration or obsolescence, commercial availability, emergency end use application, mandatory source, and ability to forecast requirements. We have reduced the number of NSNs stocked from approximately 50,000 in FY 70 to 30,000 in FY 76. We satisfy 204,000 items through our non-stock program and an additional approximate 4 million items in our Federal Supply Schedule program, both of which utilize the commercial distribution system. In FY 76, our stores sales were \$754.8 million, as compared to \$1.9 billion in the non-stock and Federal Supply Schedule programs. We believe the statistics reflect a concern beyond demand in making Method of Supply decisions.



**VETERANS ADMINISTRATION**  
OFFICE OF THE ADMINISTRATOR OF VETERANS AFFAIRS  
WASHINGTON, D.C. 20420



FEBRUARY 2 - 1977

Mr. Gregory J. Ahart  
Director, Human Resources Division  
U. S. General Accounting Office  
441 G Street, N. W.  
Washington, D. C. 20548

Dear Mr. Ahart:

We are forwarding our comments on the General Accounting Office (GAO) draft report, "Is the Government Using Cost Data to Make Sound Procurement Decisions on Commercial Items?" dated December 17, 1976. We appreciate the extension of your response date granted by Mr. Flynn of the Procurement and Systems Acquisition Division. It enabled us to more thoroughly review the report and its relationship to our procurement activities.

The report states the Veterans Administration (VA) includes most of the full cost elements in the procurement process and makes procurement decisions which approximate the full cost alternatives recommended by the Commission on Government Procurement. We agree with the GAO's conclusions that some improvement is needed in refining the cost information system we use and in applying the correct costs to determine the most effective method of supply to be used for individual items. We also concur with the GAO recommendation that commercial distribution systems be used when it is cost-effective to do so. However, we feel there are some statements in the report which require correction or clarification.

[See GAO note, p. 42.]

Mr. Gregory J. Ahart  
Director, Human Resources Division

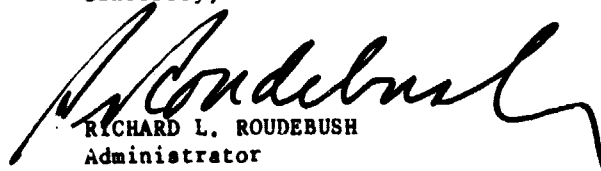
Although we are unable to reconcile the GAO calculated full cost markups in Chapter 4, we agree with the concept of including all cost factors, both direct and indirect, in the comparison of department savings with commercial distribution methods. These projected markups may be overstated to the extent that they reflect a misconception that VA does not include transportation in the markup price.  
[See GAO note 1, p. .]

The VA frozen food program did not cost an excess of \$400,000 in FY 75. Our calculations conclude a \$42,069 loss for the fiscal year on net operating and related expenses, and a subsequent loss of \$15,850 for FY 76. The entire frozen food program has been under extensive review the past year. We anticipate our findings will further improve the program and may result in substantial changes in the present system.

The VA depot system affords savings to the users which, although not quantified or used in determining the method of supply, are concrete and real. This results from using a simple requisitioning procedure to acquire a multitude of common-use items. These are consolidated into one shipment and one billing is made. There are more than 200 using activities in the VA; each of them derives man-hour savings in purchasing, warehousing, and paying functions from using the depot system. Such savings do not accrue when a commercial distribution system is used. These cost differences should be quantified and added to the commercial prices when determining method of procurement and distribution.

We are in full accord with the GAO recommendations and will strive to refine our method of determining the most cost-effective procurement methods, insuring that such factors as rate of return on investment and depreciation are fully considered.

Sincerely,



RICHARD L. ROUDEBUSH  
Administrator

GAO note: The deleted comments related to matters discussed in the draft report but omitted in this final report.

PRINCIPAL OFFICIALS RESPONSIBLE  
FOR MATTERS DISCUSSED IN THIS REPORT

Tenure of office  
From                      To

DEPARTMENT OF DEFENSE

SECRETARY OF DEFENSE:

Harold R. Brown	Jan. 1977	Present
Donald R. Rumsfeld	Nov. 1975	Jan. 1975
James R. Schlesinger	June 1973	Nov. 1975

DEFENSE LOGISTICS AGENCY

Lt. General W.W. Vaughan	Jan. 1976	Present
Lt. General Wallace H. Robinson Jr.	July 1971	Dec. 1975

GENERAL SERVICES ADMINISTRATION

ADMINISTRATOR OF GENERAL SERVICES:

Joel W. Solomon	May 1977	Present
Robert T. Griffin (acting)	Feb. 1977	May 1977
Jack M. Eckerd	Nov. 1975	Feb. 1977
Dwight A. Ink (acting)	Oct. 1975	Nov. 1975
Arthur F. Sampson	June 1973	Oct. 1975

FEDERAL SUPPLY SERVICE

COMMISSIONER, FEDERAL SUPPLY  
SERVICE:

Wallace H. Robinson, Jr.	Feb. 1976	Present
Jay H. Bolton (acting)	Nov. 1975	Feb. 1976
Michael J. Timbers	June 1973	Nov. 1975

VETERANS ADMINISTRATION

ADMINISTRATOR OF VETERANS AFFAIRS:

Max Cleland	Mar. 1977	Present
R. L. Roudebush	Oct. 1974	Mar. 1977

SUPPLY SERVICE

DIRECTOR, SUPPLY SERVICE:

C. C. Cook	Sept. 1975	Present
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MARKETING CENTER

DIRECTOR, MARKETING CENTER:

R. G. Rose	Apr. 1966	Present
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Tenure of office  
From                      To

OFFICE OF FEDERAL PROCUREMENT POLICY

ADMINISTRATOR OF FEDERAL PROCUREMENT

POLICY:

Lester A. Fettig	May 1977	Present
James A. Currie (acting)	Feb. 1977	May 1977
Hugh E. Witt	Dec. 1974	Feb. 1977