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REPORT BY THE

Comptroller General

OF THE UNITED STATES

Poor Management Of GSA's Self-Service Stores Leads To Needless Duplication And Potential For Fraud

The General Services Administration's (GSA's) self-service stores are to

- provide Federal agencies with an efficient and economical retail supply system and
- consolidate unnecessary agency stockrooms.

The Self-Service Store program does neither well.

GSA lacks control over self-service store inventories, operations, and shopping plates. This lack of control provides the potential for further fraud in GSA's program.

Although the program is intended to eliminate agency retail outlets, GAO found that agency retail outlets were large GSA store customers. Several of these agency retail outlets were in the same buildings as GSA stores.

GAO recommends that GSA completely reevaluate its program and work closely with the Office of Management and Budget to eliminate unnecessary agency retail outlets.



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

B-171019

The Honorable John L. Burton
Chairman, Subcommittee on Government
Activities and Transportation
Committee on Government Operations
House of Representatives

The Honorable Lawton Chiles
Chairman, Subcommittee on Federal Spending
Practices and Open Government
Committee on Governmental Affairs
United States Senate

In your September 10, 1979, and October 22, 1979, letters, you asked that we determine if the General Services Administration's Self-Service Store program implements the intent of the Federal Property and Administrative Services Act of 1949, as amended. Our review disclosed that the program does not. In fact, the problems we found were similar to those identified in the First Hoover Commission's report to the Congress in 1949, before the General Services Administration was created. This report contains recommendations to the Administrator of General Services.

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

A handwritten signature in black ink, reading "Luther B. Starks".

Comptroller General
of the United States



REPORT BY THE COMPTROLLER
GENERAL OF THE UNITED STATES

POOR MANAGEMENT OF GSA'S
SELF-SERVICE STORES LEADS
TO NEEDLESS DUPLICATION AND
POTENTIAL FOR FRAUD

D I G E S T

The General Services Administration's (GSA's) Self-Service Store program (SSS) fails to fulfill the intent of the Federal Property and Administrative Services Act, as amended, to

- provide executive agencies with an efficient and economical supply system and
- consolidate unnecessary agency stockrooms.

GAO found that GSA lacks effective

- control over store inventories,
- management oversight of store operations, and
- control over shopping plates issued to Federal activities. (See ch. 3.)

GAO also found that GSA stores

- mispriced supplies causing customer overcharges and inventory variances,
- failed to reorder out-of-stock supplies,
- stocked defective supplies, and
- experienced security problems. (See ch. 4.)

Also, GAO found Federal activities operating their own stores and stockrooms in the same buildings as GSA stores and other Federal activities' stores and stockrooms.

Sales to these Federal activities represent a large portion of several GSA stores' business. In fact, some GSA stores might not exist if it were not for a few Federal activities which stocked their stores from the GSA stores. GAO also found Federal

personnel unnecessarily driving hundreds of miles to shop at GSA stores. Also, these personnel used the stores as wholesale outlets instead of retail outlets. (See ch. 5.)

These conditions not only defeat the retail concept of the GSA stores, but defeat the intent of the Federal Property and Administrative Services Act. GSA's lack of adherence to its policies and procedures contributed to these problems. GAO found that GSA opened stores

--with the intent to serve Federal activities many miles from GSA stores,

--with the intent to serve other agencies' retail outlets, and

--based on overstated projected sales. (See ch. 2.)

Also, stock availability in the stores was adversely affected by GSA's arbitrary elimination of items from the program.

GSA is considering reinstating a service known as special order drop shipments, which GAO believes is an improper function of the stores. Under this service, stores record sales to Federal activities for items not carried in stock. Supplies are shipped directly from depots or contractors to the customer. GAO believes this is an attempt to increase sales. (See ch. 2.)

SSS's problems are so severe that GSA must first improve the operations of its own retail outlets before it identifies and consolidates unnecessary agency stores and stockrooms.

GAO reviewed the operations of five agencies' retail outlets in the Washington, D.C., area and found weaknesses in accountability over inventories and customer purchases. GAO also found that these retail outlets used the GSA stores as a source of supply. (See ch. 6.)

RECOMMENDATIONS

GAO recommends the Administrator of GSA:

- Review each GSA store and its customers and determine if the store can survive as a retail outlet. Discontinue support to other agency retail outlets.
- Determine the retail supply needs of Federal activities within a reasonable vicinity of the GSA stores and meet these needs on a consistent basis.
- Provide management control over program operations.
- Improve the operations of the GSA stores.
- Maintain the exclusion of special order drop shipments from the stores' activities.
- Work closely with the Office of Management and Budget to eliminate agencies' unnecessary stores and stockrooms.

AGENCY COMMENTS

GSA did not provide specific comments on our report at this time because of the extensive material contained in the report and the time limitation for agency comments. However, GSA management noted it will aggressively continue instituting corrective procedures as necessary to implement the report recommendations and improve the operations of their self-service stores. (See app. III.)



C o n t e n t s

		<u>Page</u>
DIGEST		
CHAPTER		
1	THE SELF-SERVICE STORE PROGRAM--A HISTORICAL REVIEW	1
	The First Hoover Commission recommended an Office of General Services	1
	The Federal Property and Administrative Services Act of 1949 created the General Services Administration	2
	GSA established the Federal Supply Service	3
	FSS established an interagency stockroom program	3
	Our prior report	4
	Fraud in SSS	4
	A return to the First Hoover Commission	5
	Objectives, scope, and methodology	5
2	GSA HAS NOT PROVIDED ADEQUATE PROGRAM POLICY OR CONTROL	8
	SSS consists of 71 retail outlets	8
	Stores established without proper justification	8
	Stocking self-service stores--a policy of inconsistency	11
	Questionable service	13
3	MANAGEMENT LACKS EFFECTIVE CONTROL OVER PROGRAM OPERATIONS	15
	Inadequate accountability over store inventory	15
	Management control over store operations is ineffective	17
	GSA management lacks effective control over store usage	18
4	PROBLEMS CONTINUE IN THE SELF-SERVICE STORES	22
	Stock replenishment practices and large volume sales adversely affect supply availability	22
	Stores stock defective supplies	24

		<u>Page</u>
CHAPTER		
4	Improper pricing of merchandise causes inventory variances and customer overcharges Security problems	27 28
5	GSA STORES SHARE A STRANGE RELATIONSHIP WITH THEIR CUSTOMERS Many customers are Federal activi- ties operating their own stores and stockrooms Customers drive long distances to shop at GSA stores	30 30 33
6	OTHER AGENCIES' STORES AND STOCKROOMS Extent of other agency programs Agencies operate retail outlets in the same buildings as GSA stores Agencies operate retail outlets in the same buildings as other agen- cies' retail outlets Review of agency-operated retail outlets	35 35 36 36 37
7	CONCLUSIONS AND RECOMMENDATIONS Recommendations to GSA Agency comments	39 39 40

APPENDIX

I	GSA regional map	41
II	Photographs of agency stores and stock- rooms	42
III	Agency comments	53

ABBREVIATIONS

DOE	Department of Energy
DOI	Department of the Interior
DOL	Department of Labor
EPA	Environmental Protection Agency
FSS	Federal Supply Service

ABBREVIATIONS

GAO General Accounting Office
GSA General Services Administration
IRS Internal Revenue Service
NASA National Aeronautics and Space Administration
NBS National Bureau of Standards
OMB Office of Management and Budget
SSS Self-Service Store program
USGS United States Geological Survey
VA Veterans Administration

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CHAPTER 1

THE SELF-SERVICE STORE

PROGRAM--A HISTORICAL REVIEW

THE FIRST HOOVER COMMISSION RECOMMENDED
AN OFFICE OF GENERAL SERVICES

On February 12, 1949, the Commission on Organization of the Executive Branch of the Government, commonly referred to as the First Hoover Commission, submitted its report to the Congress. The report stated the problems identified with Federal supply activities and recommended establishing an Office of General Services.

The Bureau of Federal Supply, Department of the Treasury, was responsible for policies and methods of procurement and supply used throughout the Government at the time of the Commission's review. The Commission was highly critical of the Bureau of Federal Supply's operations, noting that it

- was pushing sales of high-volume items for the purpose of increasing its program sales rather than satisfying need,
- stocked substandard items,
- did not stock many of the items needed by Federal agencies,
- stocked some items which were priced higher than items available from local commercial vendors, and
- did not provide adequate service.

Federal agencies were reluctant to use the Bureau's services because of these problems. Instead, agencies operated their own supply activities. The Commission also was highly critical of these supply activities, noting that:

- Each department and even bureaus within a department operated stockrooms without reference to similar facilities of other agencies in a particular region.
- Identical items were stocked in quantity by stockrooms of two or more departments or bureaus in the same (1) geographical area, (2) city, and (3) building.

--Inventory control was not practiced, and physical inventories were not taken in some agencies.

The Commission recommended creating an Office of General Services to correct the problems it identified.

THE FEDERAL PROPERTY AND ADMINISTRATIVE SERVICES
ACT OF 1949 CREATED THE GENERAL SERVICES ADMINISTRATION

The Federal Property and Administrative Services Act of 1949 created the General Services Administration (GSA) to give the executive agencies an economical and efficient system for (1) procuring and supplying personal property and nonpersonal services, (2) using available property, (3) disposing of surplus property, and (4) providing records management. The Congress intended that GSA would solve the problems identified by the First Hoover Commission.

The act requires the Administrator of General Services, when advantageous to the Government, to

- prescribe policies and methods of procurement and supply of personal property and nonpersonal services subject to regulations prescribed by the Administrator of the Office of Federal Procurement Policy;
- operate, and after consultation with the executive agencies affected, consolidate, take over, or arrange for the operation by any executive agency of warehouses, supply centers, repair shops, fuel yards, and other similar facilities; and
- procure and supply personal property and nonpersonal services for executive agencies' use in the proper discharge of their responsibilities.

The act also requires the Administrator to receive the approval of the Office of Management and Budget (OMB) whenever his determination would require a transfer of functions from another agency.

The Congress intended that executive agencies obtain common-use items through GSA. However, it was recognized that needs peculiar to an agency would be satisfied by the agency itself. Also, the Congress authorized the Secretary of Defense, unless otherwise directed by the President, to exclude the Department of Defense from the provisions of the act when the Secretary determined that such exclusion would be in the best interest of national security.

GSA ESTABLISHED THE FEDERAL SUPPLY SERVICE

The Administrator of GSA established the Federal Supply Service (FSS) on December 11, 1949, to succeed the Bureau of Federal Supply which was abolished by the Federal Property and Administrative Services Act of 1949. The Administrator assigned FSS the mission of making common-use items available to executive agencies. One of the supply programs FSS operates to perform this mission is the Self-Service Store program (SSS).

FSS ESTABLISHED AN INTERAGENCY STOCKROOM PROGRAM

During 1957 FSS began studies to determine the feasibility of an interagency stockroom program, later to be called SSS. SSS, as required by the act, was primarily intended to save the Government money by eliminating agency stockroom duplication. Also, SSS was to provide retail supply support to Federal activities within the vicinity of the retail outlet.

The initial studies were conducted in highly concentrated Federal activity areas in Washington, D.C., and Dallas, Texas. The studies revealed that:

- Several stockrooms were operating in the same building.
- Inventories were duplicated and stocks were stale and unusable.
- Formal requisitioning practices between the users of these stockrooms and GSA supply depots created a questionable paperwork volume.
- Operating personnel were often unskilled in effective supply techniques.
- Valuable office space was being used for stockroom purposes.

GSA opened its initial interagency stockrooms in Dallas, Texas, and Washington, D.C., during 1958, and, as a result, it reported that:

- Agency stockrooms were closed.
- Space was converted for other use.
- Usable inventories were transferred to GSA.

--Stockroom personnel were reassigned.

--Drastic reductions were made in supply paperwork.

SSS grew from 3 stores opened in 1958 with reported annual sales of \$35,000 to 76 stores in fiscal year 1978 with reported annual sales of \$67 million. Due to changes in the program, fiscal year 1979 sales dropped to \$42 million and five stores were closed.

OUR PRIOR REPORT

On April 14, 1977, we issued a report entitled "Federal Supply Service Self-Service Stores Can Be Improved" (PSAD-77-60). We reported that:

--FSS lacked adequate control over store inventories, creating a potential for theft.

--Stores were often out of stock, causing agencies to procure commercially at higher prices.

--FSS did not effectively determine agencies' needs that could be satisfied through the stores.

--Federal agencies lacked adequate control over GSA shopping plates and store purchases.

FRAUD IN SSS

During 1977 widespread fraud in SSS surfaced. U.S. attorneys investigated, convictions were obtained, and prison sentences were handed out. Generally, the fraud was committed through

--misuse of GSA shopping plates,

--collusion between other Federal employees and self-service store personnel to record fictitious sales transactions,

--collusion between self-service store personnel and Federal contractors to bill GSA for fictitious transactions, and

--self-service store personnel marking up store item prices above acquisition cost to cover inventory shortages.

Since the SSS fraud was identified, GSA has implemented a number of changes in the program. These changes were continuing through the course of our review.

A RETURN TO THE FIRST HOOVER COMMISSION

More than 30 years have passed since the First Hoover Commission's report and the establishment of GSA by the Federal Property and Administrative Services Act of 1949. GSA's SSS goals clearly lie within the intent of the law--to eliminate unnecessary agency stockrooms and provide efficient and economical service. However, the program goals are not being achieved. The current conditions described in this report are very similar to those identified by the First Hoover Commission.

In this report we discuss problems related to

- GSA's program policy and its implementation (see ch. 2),
- GSA's lack of management control over SSS (see ch. 3),
- GSA's ineffective operation of the SSS (see ch. 4),
- agencies' misuse of SSS (see ch. 5), and
- agencies' operations of their own retail outlets (see ch. 6).

OBJECTIVES, SCOPE, AND METHODOLOGY

The purpose of our review was to assess SSS's effectiveness in fulfilling the intent of the Federal Property and Administrative Services Act, as amended. Specifically, we were guided by the concerns expressed in letters from Congressman John L. Burton, chairman, House Subcommittee on Government Activities and Transportation, Committee on Government Operations, and Senator Lawton Chiles, chairman, Senate Subcommittee on Federal Spending Practices and Open Government, Committee on Governmental Affairs.

Review of self-service stores

The review of GSA's SSS was performed at the FSS central office in Arlington, Virginia, and FSS regional offices in Atlanta, Georgia; Kansas City, Missouri; and Fort Worth, Texas. A minimum of three self-service stores were reviewed in each of these FSS regions. Nine self-service stores were

selected for review based on fiscal year 1979 sales volume and drop in sales from fiscal year 1978 to fiscal year 1979. We selected a variety of store sizes on this basis. We performed our review at self-service stores in Atlanta and Savannah, Georgia; Jacksonville and Miami, Florida; Kansas City and St. Louis, Missouri; Dallas, Fort Worth, and Houston, Texas; and New Orleans, Louisiana.

Our review consisted of an analysis of information relating to self-service store (1) openings, (2) operations, and (3) sales at the FSS central office and the three regions. Our review at the self-service stores consisted of an analysis of purchases, sales, and other operational procedures. We also observed inventories taken in each of the three regions.

Selection of self-service store customers

Self-service store customers were selected from a computer run of GSA shopping plates at the FSS central office. We selected customers based on the amount of purchases from self-service stores. Our selection consisted of a variety of customers ranging from large purchasers to activities not using their shopping plates. Additional customers were selected from personnel shopping in the self-service stores. One hundred and thirty-eight Federal customers were contacted by (1) visits to the agencies, (2) telephone conversations, and (3) store interviews.

All Federal personnel purchase amounts from GSA stores are based on GSA statistics for their shopping plates. These statistics are derived from the individual transactions in the GSA stores by Federal activities. Purchases are electronically accumulated by the cash registers and fed into a central computer.

We contacted personnel of the Departments of Agriculture, the Air Force, the Army, Commerce, Defense, Energy (DOE), Health and Human Services, Housing and Urban Development, the Interior (DOI), Justice, Labor (DOL), the Navy, Transportation, and the Treasury. We also contacted personnel of the Central Intelligence Agency, Equal Employment Opportunity Commission, National Labor Relations Board, GSA, National Aeronautics and Space Administration, (NASA), Office of Personnel Management, Postal Service, Small Business Administration, and the Veterans Administration (VA).

Review of non-GSA store programs

Selection of non-GSA stockroom and store programs for review in the Washington, D.C., area were based on

GSA's knowledge of their existence. Our review was performed at DOE and DOI. Also, we reviewed programs of the Environmental Protection Agency (EPA), the National Bureau of Standards (NBS), and the United States Geological Survey (USGS).

CHAPTER 2

GSA HAS NOT PROVIDED ADEQUATE

PROGRAM POLICY OR CONTROL

GSA has not provided adequate guidance or control over basic program issues. There are serious problems relating to the (1) establishment, (2) stocking, and (3) service of self-service stores.

We believe these problems have led to an environment in which GSA retail outlets service other agencies' retail outlets and customers hundreds of miles from the GSA stores. Also, we believe the poor service provided by GSA stores has led other agencies to operate their own stores and stockrooms. The effects of these problems are discussed in the following chapters.

SSS CONSISTS OF 71 RETAIL OUTLETS

SSS consists of 71 retail outlets in the United States and Puerto Rico. The program is managed by FSS personnel at a central office in Arlington, Virginia, and staff in its FSS regional offices. Additional GSA organizations provide support to the program. The retail outlets are categorized as

- 65 administrative stores located in the continental United States and Hawaii which carry general office use, administrative, and janitorial supplies;
- 3 industrial stores located in the Washington, D.C., area which carry handtools, electrical hardware, plumbing supplies, nuts, bolts, screws, and similar commodities; and
- 3 supply centers located in Alaska, Hawaii, and Puerto Rico which carry a larger variety of supplies than administrative stores.

STORES ESTABLISHED WITHOUT PROPER JUSTIFICATION

We reviewed the justifications supporting the opening of 32 of the 71 existing stores from 1960-77 and found that GSA Administrators approved the opening of stores based on false, inaccurate, and outdated information. Also, justifications prepared for the Administrators did not disclose

that stores were intended to service other agencies' retail outlets.

Among the purposes of the Federal Property and Administrative Services Act, as amended, is for the Administrator of GSA to save the Government money through

- eliminating stockroom and store duplication and
- efficient and economical distribution of low priced, quality items to Federal activities.

Before the opening of a GSA store, the Administrator must determine that it is beneficial to the Government in terms of efficiency, economy, or service.

Although GSA policy for opening a store has changed over the years, the major theme remained the same between 1960-77. The primary considerations for opening a store were

- annual savings to the Government based on agencies' reduction in stockroom space and personnel costs exceeding the operating costs of a GSA store and
- sufficient projected annual sales to customers in the vicinity of the GSA store to attain an acceptable operating cost per \$100 of sales.

The procedural steps for opening a GSA store were as follows.

1. The GSA regional office would conduct a feasibility study to determine annual savings and projected sales volume and submit the study to the FSS central office for review.
2. The FSS central office would review the study and prepare a store justification memo for the Commissioner of FSS and the Administrator based on the information in the study.
3. The Commissioner would approve the justification and submit it to the Administrator.
4. The Administrator would approve the store, and the regional office would be notified to begin plans for opening of the store.

Although the policy and procedural steps for opening the store complied with the intent of the act, the

implementation did not. The justification summaries generally contained false, inaccurate, or outdated information. The following examples highlight what we found.

San Diego, California

In 1977 the FSS central office prepared a justification memo for a proposed store in a new Federal building in San Diego, California. The memo projected annual savings of \$200,600 and sales of \$614,300. The Acting Administrator approved the opening of the store on April 18, 1977. However, the memo did not indicate that the annual savings were based on outdated information or that projected sales included service to the Navy retail outlets.

The projected annual savings were based on a San Francisco regional office feasibility study conducted in 1971 which was considered outdated by the regional personnel. Also, of the projected \$614,300 annual sales, \$414,150 were projected for Navy activities. However, the Navy informed GSA that its needs would be entirely met by its own retail outlets--Servmarts. FSS included the sales projections for the Navy because it expected to make large volume sales to the Navy Servmarts.

Newark, New Jersey

In 1967 the FSS central office reviewed a proposal for a store in a new Federal building in Newark, New Jersey. The office determined that the projected annual sales of \$180,000 would not support the operating costs of the store. A subsequent proposal from the New York regional office was submitted to the FSS central office with projected annual sales of \$252,400 for fiscal year 1969.

Although personnel in the FSS central office believed that the projected annual sales might have been overstated based on past experience with projected sales overstatements, the projected annual sales figure of \$252,400 was included in the justification memo to the Administrator. The store was approved by the Administrator on November 21, 1967, and the store was opened during June 1968.

Actual sales volume for fiscal year 1969 was less than 50 percent of the projection. Further, the projected volume was not attained until 4 years after the store was opened.

Sacramento, California

The San Francisco regional office completed a feasibility study in 1968 recommending a store in a new Federal

building in Sacramento, California. Federal employment in the building was expected to be 1,004 employees, with an additional 1,600 employees located in 2 buildings 8 miles away in downtown Sacramento. Additional expected customers were located as far away as 160 miles. The feasibility study was submitted to the FSS central office, and the Commissioner rejected the planned opening because the proposed store was not located at the "hub" of Federal agency and employee activity.

In 1973 the regional office again submitted a feasibility study recommending a store in the same building. The region stated that the store would serve approximately 28,000 Federal civilian employees in the Sacramento area. The study was reviewed by the FSS central office which prepared a justification memo for the Commissioner and the Administrator. The memo stated that the proposed store would serve 28,000 Federal employees located within a 1-mile radius of the proposed site.

The Sacramento store was approved by the Acting Administrator on April 10, 1974, and opened during February 1975.

We found, however, the 28,000 employees were not located within 1 mile of the proposed store. Rather, they were located in three counties surrounding the city of Sacramento, one of which extended as far east as the State of Nevada. Also, the 28,000 included personnel located at McClellan Air Force Base which operated its own self-service store.

Store opening procedures were abolished

FSS personnel said that formal internal procedures for justifying the opening of stores were abolished in June 1978. Currently, no formal internal procedures exist. Also, the Administrator delegated the responsibility to determine all the opening of stores to regional administrators through a November 1979 GSA order.

STOCKING SELF-SERVICE STORES-- A POLICY OF INCONSISTENCY

Over the past several years GSA has been inconsistent in determining which items should be stocked in self-service stores. The policy has ranged from allowing self-service store managers to stock anything they thought might sell to the FSS central office's arbitrary determination of what should be stocked in self-service stores.

In our prior report we found that FSS's methods for stocking stores were inadequate. Items carried by the stores were arbitrarily determined by store managers and regional branch chiefs. There was no systematic method for determining what individual stores should stock. As a result, stores stocked items on a test basis with items being eventually excessed or wasted. Any efforts to correct these problems were overtaken by the arbitrary elimination of items authorized for stockage by the FSS central office, as discussed below.

The "Purge"

On June 26, 1978, the Administrator directed the FSS Deputy Commissioner to begin a review of items stocked in self-service stores. The goal was to cut the list of items stocked to an absolute minimum, with a target of 500 stock items to be carried. Further, he directed that if a "no-frills" supply store system could not be developed, GSA should consider abolishing the program. In a subsequent meeting, FSS personnel told the Administrator that a stock level of 500 line items would be equivalent to closing the stores. An agreement was reached between the Commissioner and the Administrator to reduce the universe of items available for stockage in the administrative stores from 16,000 to 3,000 items. The initial reduction was based on the FSS central office personnel's arbitrary determination of what they believed should be available for stockage in the stores. After the initial reduction, several hundred additional items were eliminated from the program. These reductions resulted in an authorized stock list of approximately 2,400 items.

On November 13, 1978, the Commissioner directed regional offices to purge all items in the stores not appearing on the authorized stock list and ship them to designated depots. The following table illustrates the value of inventory shipped and the costs for its transfer from the stores to the depots in four regions.

<u>Region</u>	<u>Inventory</u>	<u>Cost of transfer</u>
Atlanta	\$ 123,735	\$ 11,686
Kansas City	182,799	31,200
Fort Worth	292,988	50,792
Washington, D.C.	<u>1,100,000</u>	<u>95,000</u>
	<u>\$1,699,522</u>	<u>\$188,678</u>

The purge had several immediate effects. For example, agencies increased their supply inventories and ordered small purchases through the depots.

In short, by the purge GSA accomplished the very things its program was designed to prevent.

On August 3, 1979, the authorized stock list was canceled and regional offices were instructed to canvass customer demand. Also, purged items at the depots were shipped back to the self-service stores.

QUESTIONABLE SERVICE

GSA previously provided a service known as special order drop shipments. This service was eliminated because of GSA's difficulty in maintaining control over drop shipments. However, GSA is considering reinstating this service. In our opinion, this service should not be reinstated in SSS.

Special order drop shipments

Drop shipments are special orders for items (1) not normally stocked by the store or (2) stocked in the store but not in the quantity ordered. Drop shipments would be handled in the following manner.

1. The customer places an order with the store personnel.
2. Store personnel notify the regional office and request that procurement action be taken.
3. The regional office procures the items and directs delivery to the customer's address.
4. The customer accepts delivery, provides inspection, and signs the shipping documents for the items.
5. The customer delivers the shipping documents to store personnel.
6. Store personnel enter the value of items on the shipping documents to the store inventory account and immediately register a sale in the amount charged to the inventory account.

Why drop shipments should be excluded
from SSS

We do not believe drop shipments should be included in the program because

- the actual transaction is between the FSS regional office and the customer,
- the items procured never pass through the self-service store,
- the process overstates the store's normal sales, and
- allowable overages or shortages in the store's inventory is increased since the inventory variance level is based on .75 percent of sales.

CHAPTER 3

MANAGEMENT LACKS EFFECTIVE

CONTROL OVER PROGRAM OPERATIONS

GSA management does not have effective control over SSS operations. This is caused by

- an ineffective inventory accountability system,
- a lack of adequate management oversight, and
- loose controls over the issuance of GSA shopping plates.

This lack of control could lead to further fraud and abuse in the program.

INADEQUATE ACCOUNTABILITY OVER STORE INVENTORY

GSA does not have effective control over SSS inventory. It has been attempting to improve accountability for the past several years by developing a computerized inventory system. Currently, two competing point-of-sale inventory control systems are being tested. The present system primarily provides automated billing to customer agencies but does not provide inventory accountability. Although it can track procurements to the stores' inventory, it cannot reconcile the stores' sales to specific line items.

Reconciliation of procurements to store inventory

Store inventory records are maintained by various GSA regional accounting offices. A list of store procurements from depots and vendors is maintained by line item at the accounting office and reconciled upon notification from store personnel that the items have been received. If the proper procedures are followed, GSA management can reconcile the items shipped to the stores with the items received at the stores.

Store sales cannot be properly reconciled

Daily store sales figures are accumulated in the stores by entry into an electronic cash register and stored on magnetic tape. At the end of each day, sales figures are

transmitted to the finance offices, and the store's inventory is adjusted based on the total dollar value of the sales. Currently, the electronic cash registers are not programed to account for sales on a line item basis. Therefore, only total sales figures are reported to the finance offices, and any line item discrepancies are nearly impossible to identify.

Physical inventories are a useless exercise

Annual physical inventories of self-service stores are taken to reconcile the financial accounting records with the physical value of the store's inventory. These physical inventories are virtually useless to program management, and out-of-balance inventories are written off on the financial accounting records because the causes for the discrepancies cannot be isolated. Also, our observation of regional teams taking the physical inventories leads us to conclude that the physical inventories are invalid.

GSA procedures allow a variance between financial accounting records and physical inventories of .75 percent of sales covering the period between inventories. For instance, if a store's sales between physical inventories were \$500,000 with the financial accounting records showing an inventory of \$80,000, the physical inventory would be within tolerance if it was between \$76,250 and \$83,750.

If an inventory exceeds the allowed tolerance, GSA will attempt to determine the reason for the variance. When the reason cannot be determined, the financial accounting records are adjusted to reflect the physical inventory count.

Of the 19 stores in the 3 regions we reviewed, the following 6 stores experienced fiscal year 1979 physical inventory variances which were greater than the acceptable tolerance.

<u>Region</u>	<u>Store</u>	<u>Physical count</u>	<u>Dollar value of accounting record</u>	<u>Variance</u>	<u>Allowable variance</u>
Atlanta	Savannah, Ga.	\$ 52,669	\$ 39,772	\$12,897	\$3,211
"	Miami, Fla.	69,675	62,606	7,069	5,293
"	Memphis, Tenn.	58,452	71,824	a/13,372	5,943
Kansas City	St. Louis, Mo.	147,289	166,802	19,513	6,953
Fort Worth	Dallas, Tex.	130,217	114,144	16,073	8,205
"	Austin, Tex.	54,084	38,902	15,182	6,055

a/GSA personnel found that \$9,051 of the \$13,372 variance actually occurred in 1977 but was overlooked for 2 years.

At the time of our review, the financial accounting records for the Dallas and Austin stores were adjusted to reflect the value of the physical count. GSA was unable to determine the reasons for the total variances.

Physical inventories
lack credibility

In our prior report we found that SSS personnel participated in annual inventories, nullifying the integrity and independence of the exercise. We observed four physical inventories in the three regions during this review and found that store program personnel supervise and participate in the physical counts.

We also noted many other problems with the inventories, such as:

- Stock was improperly prepared for inventory.
- Stock counts were inaccurate.
- Price discrepancies were not reconciled with the store's cost for the item.
- All the items in the store were not counted.

MANAGEMENT CONTROL OVER
STORE OPERATIONS IS INEFFECTIVE

GSA regional management has two formal tools to oversee store operations:

- Surveillance visits performed by regional SSS personnel.
- Regional internal audits.

We found the management surveillance visits produced superficial analyses of store operations and that the internal audits were infrequently performed.

Superficial management surveillance analyses

Surveillance visits of regional stores are conducted by regional management in an attempt to monitor store management activities. They are performed by SSS personnel charged with the oversight of regional store operations and are performed on an unannounced basis. A list of questions requiring analysis are answered by personnel performing the surveillance.

We found that the questions were often answered with "yes" and "no" responses with few serious problems identified. In one region the individual charged with performing the surveillance visits explained that she did not know how to perform the entire analysis. We found a variety of store operational deficiencies which we believe should have been identified during the surveillance visits but were not. These were:

- Out of stock conditions.
- Stockage of defective supplies.
- Incorrect inventory pricing.
- Lack of physical security over inventory.

Infrequent internal audits

In our prior report we pointed out that internal audits of the stores were infrequent due to a lack of audit staff and recommended an increase in audit coverage. GSA concurred with our recommendation and stated that more emphasis would be placed on self-service store operations.

Since the issuance of our prior report and the initiation of this current review--a 2-year period--audit reports have been issued on only 6 of the 19 stores in the 3 regions. Several stores had not been audited for over 5 years, while one has never been audited even though it was opened in 1972.

During 1977 GSA performed a nationwide review of self-service store operations to detect fraudulent practices. The review was not intended to be a comprehensive audit, and, as such, did not include detailed analyses of all phases of store operations.

Officials in GSA's regional offices of audits explained they are planning annual audits of each store beginning with the current fiscal year.

GSA MANAGEMENT LACKS EFFECTIVE CONTROL OVER STORE USAGE

GSA does not have effective control over the issuance of GSA shopping plates. Regional offices did not provide adequate security over raw materials used in preparing the plates. We believe under these circumstances unauthorized shopping plates could be prepared. Also, we found Federal activities had more shopping plates than they used.

Generally, Federal activities order more shopping plates than necessary, while in some cases GSA issued more shopping plates than the Federal activity requested. Also, GSA's attempt at designing an effective self-service store sales slip to provide internal control over store sales is theoretically effective, but has experienced problems in actual use.

Many shopping plates were not used

GSA had issued 29,012 self-service store shopping plates by the end of fiscal year 1979. Of the 29,012 shopping plates, 9,511 were not used during fiscal year 1979. The 29,012 plates included

--2,408 listed as deleted which included shopping plates with activity address changes or returned by the agencies and

--140 listed as lost.

Shopping plates are issued to congressional, State, and district offices; Federal employees; and certain Federal contractors. Applications for shopping plates are received by GSA regional offices which issue the shopping plates.

Lack of control over blank shopping plates

Two GSA regional offices did not have adequate control over blank shopping plates. Materials used to prepare shopping plates were left unsecured during working hours. Also, the regions did not know how many blank shopping plates nor electronically readable codes, used in the preparation of shopping plates, they had on hand. In our opinion, under these circumstances unauthorized shopping plates could be prepared.

Controls over shopping plate issuance are weak

GSA does not limit agencies to a maximum number of shopping plates. Instead, GSA issues as many shopping plates as requested, and in some cases, more than requested. This situation leads to an overabundance of shopping plates.

We found several Federal activities have more shopping plates than needed. For example:

<u>Activity holding shopping plates</u>	<u>Number of GSA shopping plates</u>	<u>Number of shopping plates not used during FY 1979</u>
15th Air Base Wing, Hickam Air Force Base, Hawaii	529	139
21st Composite Wing, Elmendorf Air Force Base, Alaska	<u>a/475</u>	57
National Association for Retarded Citizens, Arlington, Texas	16	5
Flint Hills National Wildlife Refuge, Hartford, Kansas	6	5
Arkansas Foundation of Medical Care, Fort Smith, Arkansas	5	4

a/Includes 17 shopping plates listed by GSA as being lost.

In many instances Federal personnel said the additional shopping plates are kept for backup purposes.

Some Federal activities stated they received more shopping plates from GSA than requested. For example:

- A Housing and Urban Development activity in Miami, Florida, requested one shopping plate but received two.
- A Kansas City, Missouri, contractor had requested one shopping plate but received two. He returned one, received another, returned it, and asked GSA not to send anymore.
- A GSA activity in St. Louis, Missouri, received more shopping plates than requested and returned four.

We found that GSA regional management did not know the number of shopping plates per Government activity nor their usage. Also, regional management explained that information on shopping plate usage was not being received from the central office.

New sales slip runs
into problems

During August 1978 GSA initiated the use of a new self-service store sales slip. The properly completed new sales slip identifies the

- line item purchased,
- line item unit price and total purchase price,
- Federal activity purchaser and approving official,
and
- store personnel performing the transaction.

We believe the new sales slip could provide Federal activities with a good system for internal control over store purchases. Generally, Federal activity personnel offered the same opinion. However, there are some problems with its use. A common complaint was that items agency personnel listed on the sales slip for purchase were often not stocked. Therefore, another sales slip had to be prepared at the Federal activity. Also, store personnel issued sales slip continuation sheets to customers in the stores. We believe this defeats GSA's attempt to maintain control over serially numbered sales slips issued to Federal activities.

GSA is studying problems related to using the new sales slip. GSA should maintain the sales slip's line item identification of supplies purchased from the stores, regardless of any needed changes relating to its use.

CHAPTER 4

PROBLEMS CONTINUE IN THE

SELF-SERVICE STORES

GSA self-service stores continue to experience shortages of essential supplies, and there is a lack of control over inventories as identified in our prior report. These and other store management problems continue to degrade services to customer agencies, reduce the efficiency of store operations, and provide opportunity for fraud and abuse in the store program.

We found a wide variety of deficiencies as a direct result of store management not adhering to prescribed GSA program procedures. The most serious problems involved

- stock replenishment practices;
- large quantity sales to customers;
- control of outdated, damaged, and perishable stock;
- inventory pricing practices; and
- physical security of store contents.

STOCK REPLENISHMENT PRACTICES AND LARGE VOLUME SALES ADVERSELY AFFECT SUPPLY AVAILABILITY

Stock replenishment practices in stores are generally based on store personnel's subjective observations of inventory turnover and on unsystematic ordering procedures. Bulk sales and other large sales severely deplete store inventory, compounding the problems caused by poor replenishment practices. We believe these practices leave the self-service stores with empty shelves and an inability to satisfy retail customers' needs. We received many complaints from Federal activities that GSA stores were constantly out of stock of needed supplies. Although a number of these complaints were caused by the purge (see p. 12), we believe improper store practices create shortages of needed items.

Replenishment practices

GSA procedures for stock replenishment focus on a systematic process called the economic order quantity with appropriate modification to consider space limitations, excessive value, shelf life, standard quantities, transportation costs,

and seasonal items. Store managers are expected to implement these replenishment procedures based on replenishment and status records for individual line items carried by the store.

Six of the nine stores we reviewed did not follow the prescribed procedures. These store managers do not think that the economic order quantity is an effective and economical method for stock replenishment. Instead, they monitor their stores, and, when stock appears to be low, they order the amount they believe is needed. Reasons given for not using the economic order quantity included

- drastic fluctuations in demand for certain items and
- uncertainty of supply delivery.

Store managers' ordering practices are not effective

Store managements' poor recordkeeping helps to prevent self-service stores from being appropriately stocked. In six of the nine stores we reviewed, we found that out of stock items were not reordered. Also, documents which are used to show the status of ordered items were not maintained. The following examples describe several situations.

St. Louis, Missouri

- Items were ordered using the wrong Federal stock number.
- Open orders were included in stock replenishment records dating back to 1976 with no information provided to show if the orders were received.

Dallas, Texas

- 111 items were out of stock and 40 were not reordered.

Savannah, Georgia

- Replenishment records were in such disarray that we could not determine the number of items out of stock nor which items were ordered.

Bulk sales create inventory fluctuations

GSA procedures provide that when a shopper desires a quantity of an item which exceeds the predetermined normal issuance quantity or a quantity that would seriously impair

the stock position of the item, store personnel shall issue only a reasonable portion of the quantity requested.

We found that this procedure was being disregarded and large volume sales were being made by the self-service stores. The following list of individual line item sales were taken from individual sales slips.

1,728 ball point pens	144,000 paper bags
4,320 pencils	1,000 boxes of paper clips
5,000 file folders	1,152 flashlight batteries
200 cases of bond paper	144 bottles of whiteout
960 cans of abrasive cleaner	110 wallclocks
1,000 appointment books	120 moisteners
1,000 planning books	a/25 attache cases

a/This sale exhausted the entire stock from one self-service store.

It was not uncommon to find individual sales transactions amounting to several thousand dollars. We found individual sales exceeding \$10,000 and in one case \$20,000.

We believe these large transactions cause the drastic fluctuations in demand the store personnel noted as a reason for not using the economic order quantity. Also, we do not believe such large transactions fit the concept of a retail operation.

STORES STOCK DEFECTIVE SUPPLIES

Store management practices for controlling outdated, damaged, and deteriorated stock are inadequate. We found numerous items stocked which were unusable but stocked for sale to customers.

GSA procedures prescribe the actions store managers should follow when merchandise requires removal from the store because of quality complaints, damage, or expired shelf life. Systematic procedures are also prescribed for the control of shelf life items. Under these procedures, stores are permitted to sell expired merchandise if the items are inspected and found to be usable.

Numerous items on the display shelves were found to be either outdated, damaged, or deteriorated in five of the stores visited. We found

--ink pads were leaking or dried in their containers,

--glue was dried in the bottle,

- ink bottles had leaked about a fifth of their contents,
- development dates on photographic film had passed, and
- dry cell flashlight batteries shelf-life date had passed by 1 year.

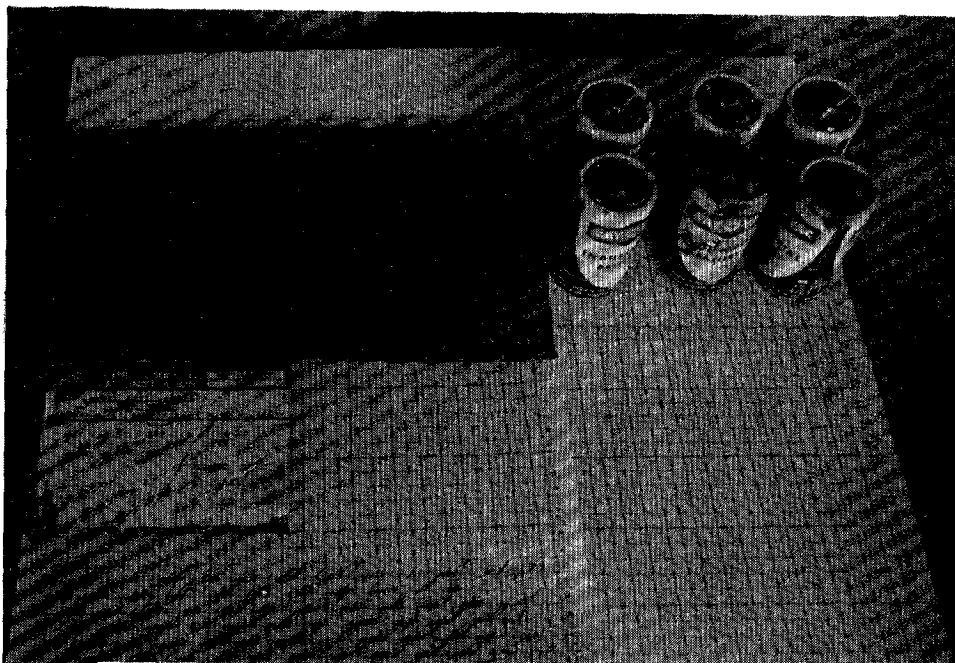
Our observations were further supported by complaints from Federal activities, such as:

- Ink pads were dried out.
- Batteries were dead or exploded during use.
- Whiteout was dried in the bottle.
- Erasers broke off pencils.
- Wrapping twine broke and was too slippery to hold a knot.
- Mechanical pencils lasted for only two or three times of use before breaking.
- Pens leaked.
- Felt tip pens were missing felt tips.
- Glue on the back of envelopes did not stick.

The following photographs illustrate some of these examples.



LEAKING INK PADS ON DISPLAY IN HOUSTON, TEXAS, STORE.



THESE SIX CORRODED BATTERIES WERE FOUND IN A CASE OF 192 AT THE MIAMI, FLORIDA, STORE. THE VISUALLY CORRODED BATTERIES WERE DISCARDED, AND THE REMAINING 186 WERE STOCKED FOR SALE TO CUSTOMERS. A CUSTOMER COMPLAINED TO US ABOUT DEAD AND EXPLODING BATTERIES PURCHASED FROM THIS STORE.

Several store managers said that they do not follow the control procedures of shelf life items as prescribed in the store handbook. Managers control shelf-life items on a basis of judgment, experience, and visual examination of store stock. They sell the items with expired shelf lives and will give customers credit if the items are returned. Managers believe that the GSA procedures are too cumbersome, rigid, and time consuming relative to the number of shelf life problems.

Although we believe some of these problems were caused by GSA store personnel not following proper procedures for shelf life items in their stores, it should be recognized that the GSA stores depend on receiving supplies through the GSA supply system. In our report, "GSA Needs to Strengthen Its Inspection and Testing to Make Sure the Government Gets the Quality It Pays For" (PSAD-79-102, Sept. 21, 1979) we found that GSA was accepting deficient merchandise from Federal contractors.

IMPROPER PRICING OF MERCHANDISE
CAUSES INVENTORY VARIANCES AND
CUSTOMER OVERCHARGES

GSA procedures for pricing of store stock are not uniformly applied. Lack of adherence to these procedures cause inventory variances and incorrect charges to customers.

GSA has a simple pricing policy which requires that

--GSA depot items shipped to the store are priced according to the GSA supply catalog price at the time of shipment and

--vendor-supplied items are priced at the store's cost.

Store personnel are required to mark the store's acquisition price and date of receipt on items received in the store.

We found that this pricing policy was not being followed in all the stores. Prices and dates of receipt were not being marked on merchandise. Failure to follow guidelines creates inventory variances because items received have different acquisition costs due to varying quantities purchased. The following table shows the varying price list for selected quantities of one vendor's 8-1/2" x 11" copy paper during 1979.

<u>Quantity purchased of 8-1/2" x 11" copy paper</u>	<u>Cost per box for specific quantity</u>
120 to 199 boxes	\$18.55
200 to 399 boxes	18.15
400 to 799 boxes	17.95
800 boxes	17.35

Store managers maintained price lists at their cash registers for selected items and charged customers the prices appearing on the list instead of marking the price on the items as they were received in the store. This caused incorrect charging of customers. In other instances, items were simply mispriced and placed on the shelves.

We compared store acquisitions, sales, and stock on hand for specific items and were able to isolate several instances in which store customers were charged the wrong price, as shown in the following table.

<u>Item</u>	<u>Quantity sold</u>	<u>Store cost</u>	<u>Selling price</u>	<u>Total overcharge</u>
Copy paper	276	\$15.60	\$16.80 17.60 17.70	<u>a</u> /\$331
Copy paper	280	<u>b</u> /17.45	19.70 18.70	551
Toner	10	41.40	59.75	184
Toner	30	26.16	27.16	30
Columnar pads	23	1.95	3.20	29
Dry imager	30	26.80	27.70	27

a/This figure is based on the minimum selling price of \$16.80 per box. We could not determine the specific number of boxes sold at the higher prices.

b/An additional \$0.10 per box charge was added to the basic charge because of shipment to more than one delivery point.

Each of the above examples creates a variance between the stores financial inventory records and physical inventories--in these cases, overages.

SECURITY PROBLEMS

We found security problems in several of the self-service stores. These included (1) unsecured doors on storage rooms, (2) storage of supplies in corridors, and (3) improper access to the stores' facilities. The following are some examples.

Savannah, Georgia

The Savannah store is located adjacent to a GSA depot and physically separates the depot administrative offices from restroom facilities. The store is used as a corridor by employees using the facilities. At times, self-service store personnel were not on the floor of the store when personnel walked through the store.

Kansas City, Missouri

During our work in the Kansas City store, a shipment of copy paper was received which was too large to store in a secured room. The additional paper was stored in an open corridor. We learned later in the month that the store was missing 40 boxes of copy paper. Upon identification of the loss, store personnel began searching the nearby GSA print plant and found about 30 boxes of paper in the plant. GSA store and print plant personnel were unable to agree that the 30 boxes of paper were part of the missing shipment.

In another instance, GSA internal auditors noticed a large skid of supplies stacked against a door in the store's storage area. The skid was used to keep unauthorized personnel from entering the storage area, because the store manager had found personnel from a local utility company taking breaks in the storage area. The utility company employees were able to enter the storage area because they had a universal key to the door lock.

CHAPTER 5

GSA STORES SHARE A STRANGE

RELATIONSHIP WITH THEIR CUSTOMERS

GSA self-service stores were originally conceived as interagency stockrooms serving the retail needs of Federal activities within the vicinity of the retail outlet. Over the years GSA has maintained this description. However, we found that many of the GSA self-service store customers were Federal activities which operated their own self-service stores and stockrooms. Federal activities were making large volume purchases from the GSA stores and then stocking the items in their own stores or stockrooms. Also, these agency activities were reshipping items to their field activities, some of which were in the same city or building as other GSA stores. We also found GSA store customers driving hundreds of miles to shop at the stores.

We believe these conditions (1) add unnecessary additional costs to the items purchased from GSA stores, (2) deplete the GSA store stock which should be available for retail customers, and (3) provide improper justification for GSA stores which cannot survive as a retail outlet without wholesale purchases.

MANY CUSTOMERS ARE FEDERAL ACTIVITIES OPERATING THEIR OWN STORES AND STOCKROOMS

SSS was developed based on the Federal Property and Administrative Services Act's, as amended, intent to eliminate agency store and stockroom duplication. However, we found 77 Federal activities with reported purchases exceeding \$2 million from GSA stores operating their own stores and stockrooms in GSA's Atlanta, Kansas City, Fort Worth, and National Capital regional areas. Federal activities were purchasing supplies from the GSA stores for stockage in their own stores and stockrooms. Several of these activities were making large volume purchases from the GSA stores. The following are examples of several GSA store customers which operate stores and stockrooms and their corresponding 1979 fiscal year purchases.

<u>Federal activity</u>	1979 fiscal year purchases (note a)
Fort Stewart, Georgia	\$ 207,046
DOE Washington, D.C.	204,627
Fort Huachuca, Arizona	141,398
Del Jen, Incorporated (note b)	117,314
Army Corps of Engineers, New Orleans, Louisiana	94,059
Bureau of Indian Affairs, Gallup, New Mexico	81,655

a/Purchase data is based on GSA shopping plate statistics. New shopping plates were issued at varying times during 1978. Since 1979 fiscal year statistics began in October 1978, some purchases may be understated if the activity did not receive the shopping plates before October 1978.

b/A Federal contractor operating Air Force supply operations in Los Angeles, California.

In several cases, sales to single Federal customers which operated their own stores and stockrooms represented a large portion of several GSA stores' sales. In fact, some GSA stores might not be able to exist if it were not for a few large customers. The following table illustrates two GSA stores and their corresponding sales to single Federal activities operating their own stores during the fiscal year 1979.

<u>GSA store</u>	<u>Total FY 1979 sales</u>	<u>Customer</u>	<u>FY 1979 purchases</u>	<u>Customer purchases as a percent of GSA stores' sales</u>
Savannah, Ga.	\$365,340	Ft. Stewart, Ga.	\$207,047	57
Tucson, Ariz.	341,871	Ft. Huachuca, Ariz.	141,398	41

Fort Stewart, Georgia

During fiscal year 1979, the Ft. Stewart self-service center purchased \$207,047 of supplies from the Savannah GSA store. The following are examples of purchases made at the Savannah GSA store.

--Total purchase was \$16,090, including \$2,938 for paper bags; \$2,769 for plastic bags; \$1,893 for

VAN-I-SOL spray; \$1,152 for Lysol spray; and \$7,338 for various other line items.

--Total purchase was \$9,890, including \$2,707 for paper bags; \$2,700 for bond paper; \$1,604 for plastic bags; \$648 for paper towels; and \$2,231 for various other line items.

Ft. Stewart personnel explained the supplies are purchased from the Savannah GSA store using an Army truck for the 90-mile round trip. The supplies are then stocked at the Ft. Stewart self-service center awaiting resale. The prime customers for the bags are the local commissaries. Items are also shipped to reserve units in Florida. Ft. Stewart personnel explained the GSA store is used as a backup supply source because of inconsistent deliveries from the GSA depot.



**THE SAVANNAH, GEORGIA, GSA STORE'S LARGEST CUSTOMER--
THE FORT STEWART SELF-SERVICE SUPPLY CENTER.**

Fort Huachuca, Arizona

During 1977 GSA internal auditors performed a review of the Tucson, Arizona, GSA store and found that 52 percent of the store's sales were to the Ft. Huachuca self-service store 80 miles away.

Ft. Huachuca personnel told the internal auditors that personnel drove to Tucson by truck twice a week to shop at the GSA store. They explained that their purchases from the GSA store were uneconomical but their purchases from the store would soon be eliminated.

During fiscal year 1979, Ft. Huachuca purchased \$141,398 worth of supplies averaging over \$2,100 per purchase. Ft. Huachuca personnel explained the purchases were made for their self-service store.

Supplies are reshipped
after purchase from
the GSA store

We found several instances in which Federal activities operating stores and stockrooms purchased supplies from a GSA store and then shipped them to field activities, some of which were in the same city or building as another GSA store.

An Internal Revenue Service (IRS) activity in Dallas, Texas, operates a stockroom one block from a GSA store. IRS personnel purchase supplies from the GSA store and stock the items in their stockroom. Supplies are shipped from the IRS stockroom to 21 field activities in Texas and New Mexico. Personnel explained that at times, supplies are purchased from the Dallas GSA store and then shipped to the IRS district office in Albuquerque, New Mexico. We found that the IRS district office in Albuquerque is located in the same building as a GSA store. Also, the IRS Albuquerque district office has eight GSA shopping plates of its own, with \$9,488 in purchases during fiscal year 1979.

DOL's regional administrative office in Atlanta, Georgia, operates a stockroom and ships supplies to various field activities throughout the Southeastern United States. Purchases of \$40,974 were made from the GSA store during fiscal year 1979.

During an interview with a DOL activity in Miami, Florida, DOL personnel said that the field activity had been directed by the DOL Atlanta office not to purchase anything from the GSA store in Miami if it was available from the DOL

Atlanta stockroom. We found that the DOL field activity had not used its GSA shopping plate during fiscal year 1979.

CUSTOMERS DRIVE LONG
DISTANCES TO SHOP AT GSA STORES

We found numerous instances in which GSA store customers travel many miles to obtain supplies. For example:

- An Army activity in Birmingham, Alabama, travels either 320 miles round trip to Atlanta or 500 miles round trip to Memphis to shop at a GSA store. The activity preferred the Memphis store because they considered it better stocked. The activity purchases approximately \$2,000 of supplies per trip and usually sends two or three people who stay overnight on per diem before returning to Birmingham.
- The Office of Surface Mining personnel in Knoxville, Tennessee, travel 400 miles round trip to Atlanta four times a year and purchase about \$4,500 of supplies each time.
- Armed Forces Entrance and Examining Station personnel in Des Moines, Iowa, travel 220 miles, one way, to shop at the Kansas City GSA store. The personnel then continue an additional 25 miles to the Army's Fort Leavenworth store to purchase the items not available at the GSA store before returning to Des Moines.

We do not believe traveling long distances to GSA stores is necessary or acceptable. In each of the above metropolitan areas, Federal activities operate stores or stockrooms. Proper cross-servicing of Federal activities could eliminate these travel costs. Also, wholesale purchases from the GSA stores could be avoided.

CHAPTER 6

OTHER AGENCIES' STORES

AND STOCKROOMS

"Each department, and even bureaus within a department, organize, establish, and operate storehouses, sometimes on a national basis, without reference to similar installations of other agencies in a particular region * * *. The same items are carried in stock in quantities by storehouses of two or more departments or bureaus in the same geographical area, the same city, and even in the same building. The waste through such duplication is not only indefensible; it is inexcusable."

--The First Hoover Commission Report, 1949.

Federal agencies are operating their own self-service stores and stockrooms in every metropolitan area we visited. These agency stores and stockrooms were located

--in the same building as GSA stores,

--in the same building as another agency's store or stockroom, and

--many miles from the nearest GSA store.

We were unable to determine the extent of the agency stores and stockrooms in operation. However, we did identify 77 agency-operated stores and stockrooms during our interviews with GSA store customers in the Atlanta, Kansas City, Forth Worth, and National Capital GSA regional areas. The agency stores and stockrooms varied in size from approximately 100 square feet to several thousand square feet. Also, some activities were staffed on a part-time basis while others had a full staff of permanent personnel.

We reviewed the operations of five Federal activities' stores and stockrooms in the Washington, D.C., area and found several weaknesses.

EXTENT OF OTHER AGENCY PROGRAMS

Generally, agencies we contacted did not maintain centralized records on their stores and stockrooms. Incomplete information obtained from the Department of Defense, VA, and

NASA shows more than 650 retail outlets operated by these agencies with over \$200 million in annual sales. This compares with GSA's 71 retail outlets with \$42 million in sales.

AGENCIES OPERATE RETAIL OUTLETS
IN THE SAME BUILDINGS AS GSA STORES

We found agencies operating retail outlets in the same buildings as GSA stores in Austin and Houston, Texas; Kansas City and St. Louis, Missouri; and Jacksonville, Florida. For example:

--IRS operates a stockroom occupying approximately 500 square feet of space in the same building as the GSA store in Austin, Texas. IRS personnel explained the activity purchased approximately \$135,000 worth of supplies during fiscal year 1979. Approximately \$60,000 of this was purchased from the GSA store. The stockroom distributes supplies to 21 field activities in Texas.

--The Army Corps of Engineers operates a stockroom occupying approximately 750 square feet in the same building as the GSA store in Jacksonville, Florida. Approximately \$31,000 was purchased from the GSA store for stockage in their stockroom and shipment to field activities in Tampa, Orlando, Pensacola, and Fort Meyers, Florida.

AGENCIES OPERATE RETAIL OUTLETS
IN THE SAME BUILDINGS AS OTHER
AGENCIES' RETAIL OUTLETS

We found agencies operating retail outlets in the same Federal buildings, centers, and facilities as other agencies' retail outlets.

In the Federal building housing the GSA Kansas City regional office and depot, GSA and the Marine Corps Finance Center operate retail outlets approximately 200 yards apart. The GSA retail outlet is not one of its self-service stores and is operated to supply only GSA activities. Within five blocks of the building is a third retail outlet operated by IRS. The following table highlights pertinent information relating to these retail outlets.

<u>Highlights</u>	<u>GSA</u>	<u>Marine Corps Finance Center</u>	<u>IRS</u>
Square feet	1,500	5,000	700
Employees	1 full time 1 part time a/1 CETA worker	3 full time 2 part time	1 full time 1 messenger
Number of items stocked	277 office supply items plus forms	655 office supply items plus forms	(b)
Agency served	GSA	Marine Corps Finance Center	IRS
Supply source	GSA depot	GSA depot GSA self-service store Commercial purchases	GSA depot GSA self-service store Commercial purchases

a/CETA stands for Comprehensive Employment Training Act.

b/IRS did not have a stock list of items carried.

REVIEW OF AGENCY-OPERATED
RETAIL OUTLETS

We reviewed retail outlet operations of DOE, DOI, USGS, NBS, and EPA in the Washington, D.C., area.

NBS and DOE operate five and six retail outlets, respectively while DOI, EPA, and USGS each operate one retail outlet. The number of administrative items stocked at these retail outlets ranged from approximately 200 at DOE to 2,100 at USGS. Each of the agencies staff their retail outlets with either full-time Federal employees or contractors. The procedures and operations of these retail outlets varied among the agencies.

Sources of supplies

The agency retail outlets obtain supplies from

- GSA depots,
- commercial sources, and
- GSA self-service stores.

Also, the USGS outlet obtained supplies from the DOI retail outlet.

Each of the retail outlets, with the exception of DOI uses GSA self-service stores as a source of supply to some extent. During fiscal year 1979 the DOE retail outlets were large users of the GSA stores, purchasing \$204,627 from Washington, D.C., area stores including stores in Baltimore, Hyattsville, and Rockville, Maryland. In a number of cases, these GSA store purchases exceeded \$10,000 in a single transaction, with one purchase exceeding \$20,000.

Customer use of the retail outlets

The DOE and EPA retail outlets are designed to serve the needs of their own agency personnel; however, DOI, NBS, and USGS also serve other agency customers. Each of the retail outlets, with the exception of DOE, complete transactions with the use of agency shopping plates and sales slips. Only the EPA sales slip, designed after the new GSA sales slip, provides complete line item descriptions of items purchased from the retail outlet. DOE does not use a shopping plate nor a sales slip, since supplies are obtained from its retail outlets on a free issue basis.

Inventory variances

Recent physical inventories taken by agency personnel at the EPA and USGS retail outlets identified significant inventory variations between inventory records and physical counts. DOE did not maintain a system of inventory control over its retail outlets inventory.

We performed spot checks of inventory balances at DOI, EPA, NBS, and USGS and found significant variances between inventory records and our physical counts at the DOI, NBS, and USGS retail outlets.

CHAPTER 7

CONCLUSIONS AND RECOMMENDATIONS

GSA's SSS fails to fulfill the intent of the Federal Property and Administrative Services Act, as amended. The act created GSA to solve the problems identified by the First Hoover Commission in its 1949 report to the Congress. We found that problems identified by the Commission exist today.

SSS does not competently support agencies' retail supply needs nor eliminate unnecessary agency stores and stockrooms. SSS's problems exist because of GSA's lack of adherence to the act and its own policies and procedures.

We believe the SSS problems are so severe that, at present, GSA can not fulfill the intent of the act. In our opinion, GSA must first improve the operations of its own retail outlets before it identifies and consolidates unnecessary agency stores and stockrooms.

RECOMMENDATIONS TO GSA

We are recommending that the Administrator of GSA completely reevaluate SSS. The Administrator should take the following actions.

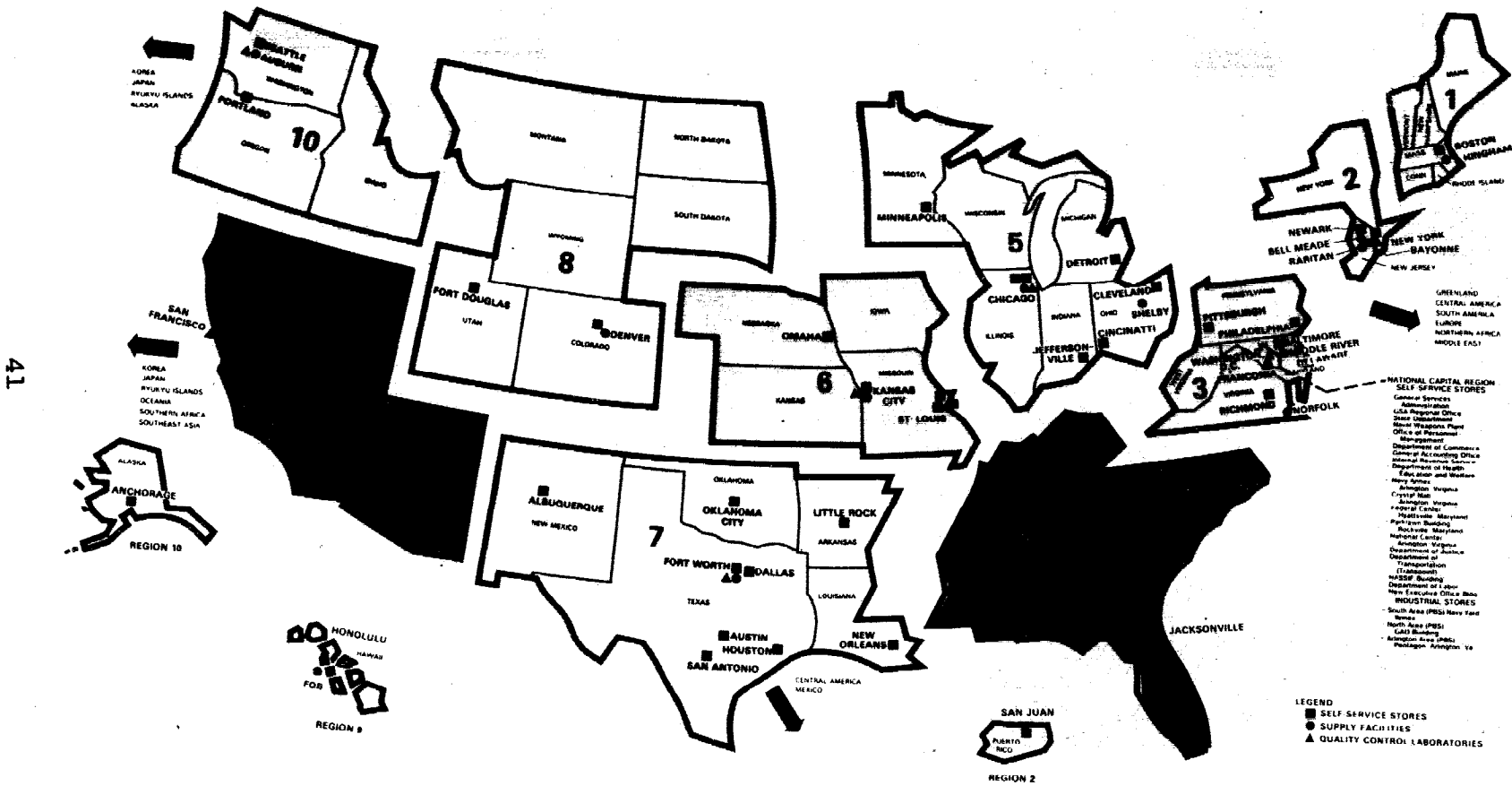
- Review each GSA store and its customers and determine if the store can survive as a retail outlet. Support to other agencies' retail outlets should be discontinued.
- Determine the retail supply needs of Federal activities within a reasonable vicinity of the GSA stores and meet these Federal activities' supply needs on a consistent basis.
- Provide management control over program operations including:
 1. A commercial inventory and accounting system which provides (1) inventory control and (2) sales volume information on specific items so that management can determine the optimum product mix to be carried by the individual stores.
 2. Regular unannounced audits.
 3. Management surveillance reports which identify the problems of specific stores.

4. The identification of shopping plates maintained by Federal activities in the GSA regions and the recall of unused shopping plates. Control over the making and issuance of shopping plates should be accomplished.
- Improve the operations of the GSA stores by assuring that (1) out of stock items are promptly reordered by store personnel, (2) defective supplies are not sold in GSA stores, (3) store items are priced according to procedures to prevent erroneous customer charges and inventory variances, and (4) security is maintained over store merchandise.
 - Maintain the exclusion of special order drop shipments from the stores' activities.
 - Work closely with OMB to eliminate agencies' unnecessary stores and stockrooms. Criteria for a cost-benefit analysis should be developed and applied consistently to eliminate unnecessary agency stores and stockrooms.

AGENCY COMMENTS

GSA did not provide specific comments on our report at this time because of the extensive material contained in the report and the time limitation for agency comments. However, GSA management noted it will aggressively continue instituting corrective procedures as necessary to implement the report recommendations and improve the operations of their self-service stores. (See app. III.)

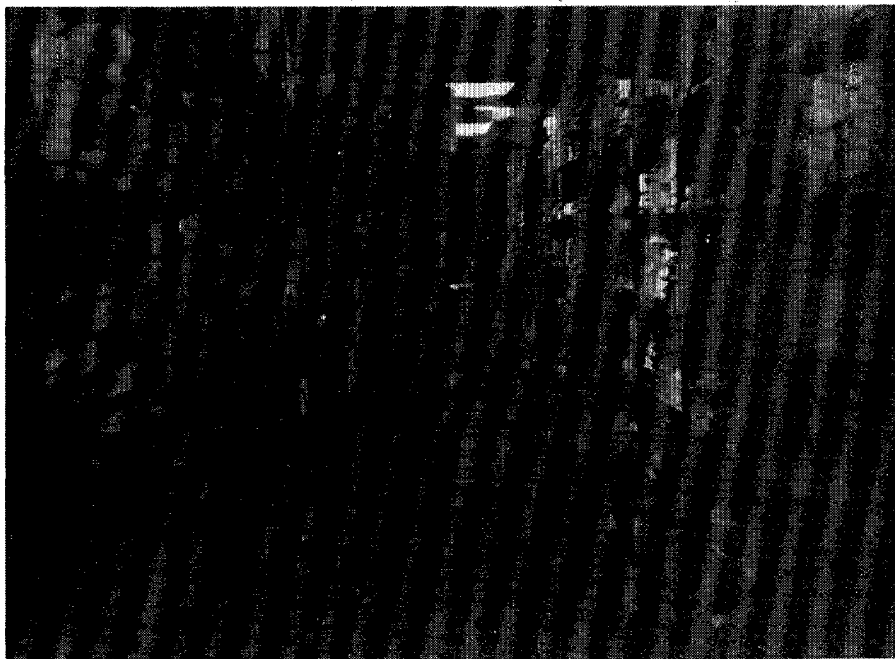
GSA REGIONAL MAP



ATLANTA, GEORGIA



THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT'S STOCKROOM IN THE RICHARD B. RUSSELL FEDERAL BUILDING IN ATLANTA, GEORGIA.

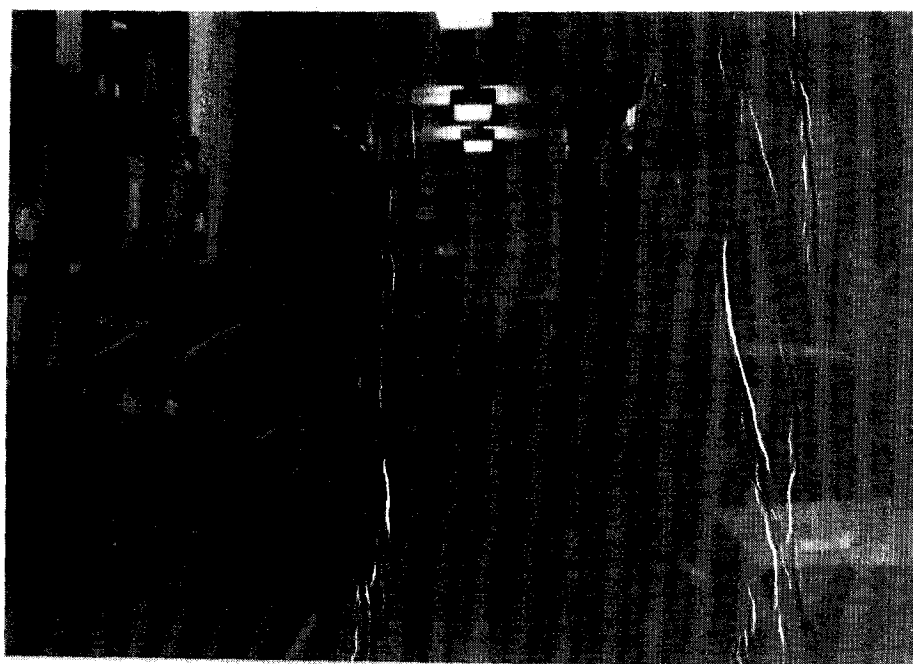


IRS' STOCKROOM AT 275 PEACHTREE ST., N.E. THE STOCKROOM SHIPS SUPPLIES TO FIELD OFFICES IN GEORGIA.

ATLANTA, GEORGIA

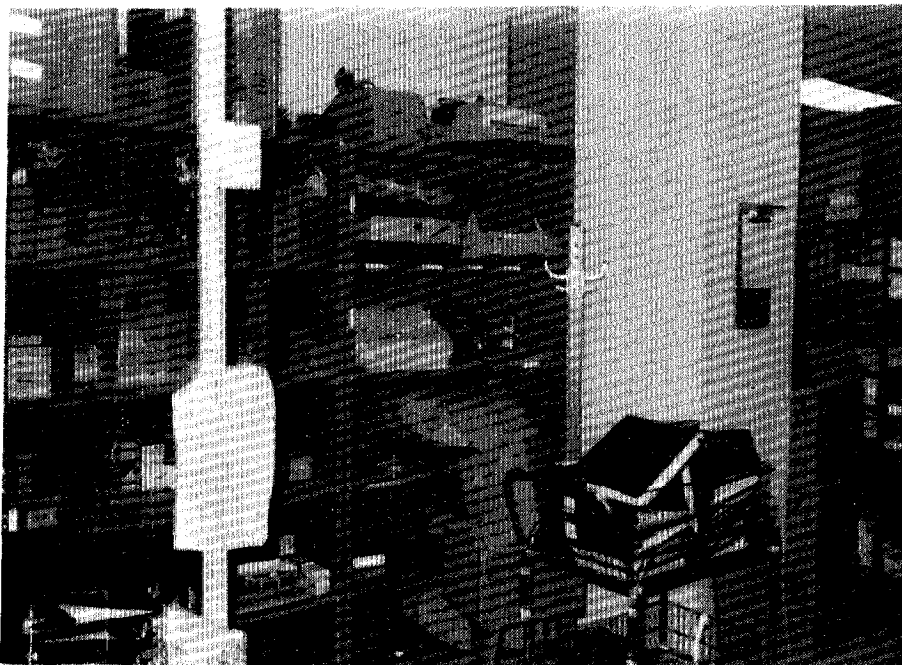


FORT MC PHERSON SELF-SERVICE SUPPLY CENTER IN THE ATLANTA, GEORGIA, AREA.



DOL'S STOCKROOM AT 1371 PEACHTREE ST. ,N.E. SHIPS SUPPLIES TO FIELD ACTIVITIES THROUGHOUT THE SOUTHEASTERN UNITED STATES.

DALLAS, TEXAS



THE SOCIAL SECURITY ADMINISTRATION'S STOCKROOM IS LOCATED ONE BLOCK FROM THE GSA STORE. APPROXIMATELY 86 PERCENT OF ITS SUPPLIES ARE PURCHASED FROM THE GSA STORE.

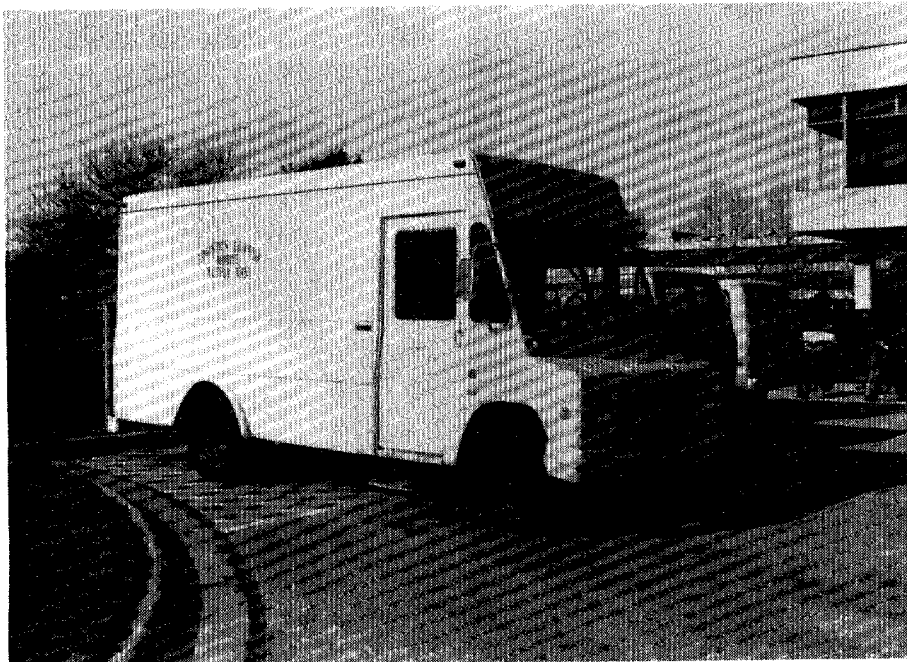


DOE'S STOCKROOM AT 2626 WEST MOCKINGBIRD LANE.

HOUSTON, TEXAS



THE VA REGIONAL OFFICE'S FORMER STOCKROOM. THIS SPACE IS BEING CONVERTED INTO A COMPUTER ROOM. HOWEVER, PLANS ARE BEING MADE TO REOPEN THE STOCKROOM IN ANOTHER SPACE.



JOHNSON SPACE CENTER'S MOBILE SUPPLY VAN DELIVERS SUPPLIES TO ITS CUSTOMERS FROM A 7,000 SQUARE FOOT WAREHOUSE.

HOUSTON, TEXAS

THE VA HOSPITAL'S STOCKROOM.



THE CUSTOMS SERVICE'S STOCKROOM
LOCATED FOUR BLOCKS FROM THE
GSA STORE. NINETY PERCENT OF ITS
OWN SUPPLIES ARE GSA STORE-TYPE
ITEMS.

JACKSONVILLE, FLORIDA



ONE OF FOUR NAVY SERVMARTS IN THE JACKSONVILLE, FLORIDA, AREA DESIGNED TO MEET THE RETAIL NEEDS OF NAVY ACTIVITIES. ALTHOUGH THE SERVMARTS SOLD \$2.9 MILLION IN FY 1979, NAVAL ACTIVITIES ACCOUNTED FOR OVER 47 PERCENT OF THE GSA STORES' \$472,880 SALES DURING FY 1979.



THE ARMY CORPS OF ENGINEERS' STOCKROOM LOCATED IN THE SAME BUILDING AS THE GSA STORE.

MIAMI, FLORIDA



HOMESTEAD AIR FORCE BASE'S SELF-SERVICE STORE.

NEW ORLEANS, LOUISIANA



THE GEOLOGICAL SURVEY'S STOCKROOM AT METAIRIE, LOUISIANA.



A DOE CONTRACTOR'S STOCKROOM AT 850 SOUTH CLEARVIEW PARKWAY, NEW ORLEANS, LOUISIANA, WHICH SERVICES DOE EMPLOYEES.

NEW ORLEANS, LOUISIANA

THE DEPARTMENT OF AGRICULTURE
SOUTHERN REGIONAL RESEARCH
CENTER'S STOCKROOM AT 1100
ROBERT E. LEE BOULEVARD,
NEW ORLEANS, LOUISIANA.



THE ARMY CORPS OF ENGINEERS' STOCKROOM PURCHASED
APPROXIMATELY \$94,000 WORTH OF SUPPLIES FROM THE
GSA STORE DURING FY 1979.

NEW ORLEANS, LOUISIANA

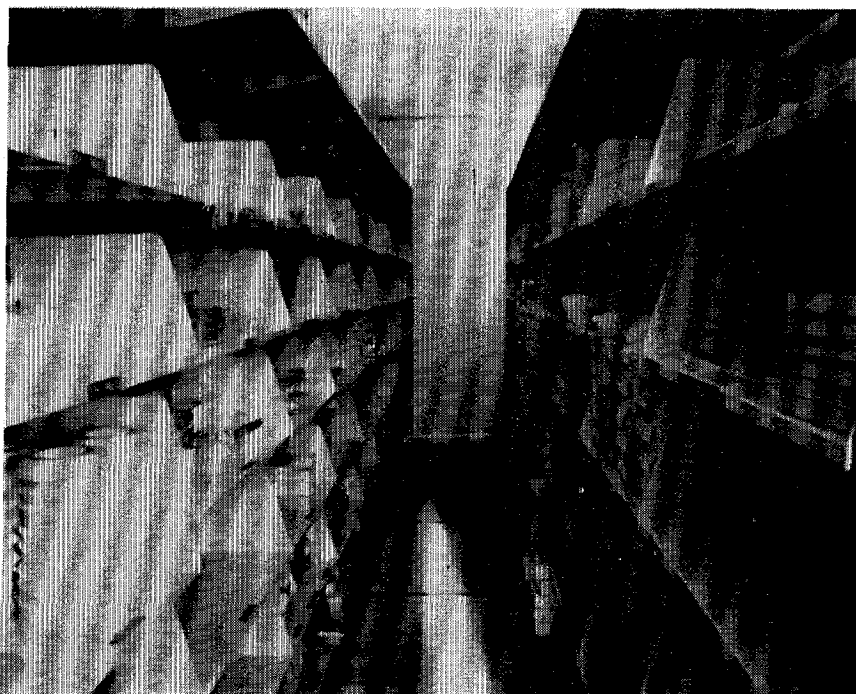


THE BUREAU OF THE CENSUS' STOCKROOM AT NASA'S MICHOULD ASSEMBLY FACILITY.

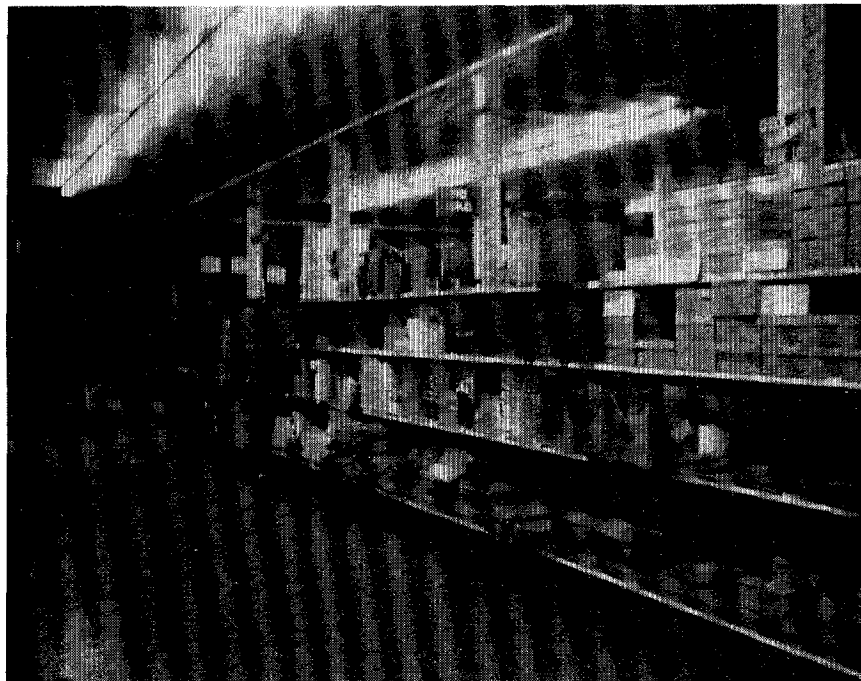


THE DEPARTMENT OF AGRICULTURE'S NATIONAL FINANCE CENTER STOCKROOM AT NASA'S MICHOULD ASSEMBLY FACILITY.

SAVANNAH, GEORGIA



THE ARMY CORPS OF ENGINEERS' STOCKROOM IN DOWNTOWN SAVANNAH, GEORGIA.



THE FORT STEWART SELF-SERVICE CENTER'S OFFICE SUPPLY SECTION.



General
Services
Administration

Washington, DC 20405

JUL 3 1980

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 June 12, 1980, transmitting copies of your draft report to the Congress entitled, "GSA's Self-Service Store Program Fails to Implement the Federal Property Act."

We appreciate the opportunity to comment on this comprehensive report. It contains extensive material which requires Central Office and regional review in order to present an accurate and complete response with definite plans for corrective actions. At this time we feel it would be beneficial to withhold specific comments and plans until this review and the following studies are accomplished.

We have had a consultant with us since June 2, 1980, who is conducting an in-depth review of the policies governing the operations of self-service stores. This review includes, but is not limited to, an appraisal of the line items carried, operating procedures, accounting, inventory management, program concepts, and general management controls. A report of these findings should be completed by mid-September which will be invaluable to an accurate, detailed response and for planning courses of corrective action.

We also plan to canvass Federal activities for their views regarding the consolidation of duplicative stores and stockrooms before we proceed with any plans in that direction.

While awaiting publication of the final report, we will aggressively continue instituting corrective procedures as necessary to implement the report recommendations and improve the operations of our self-service stores.

Sincerely,

A handwritten signature in black ink, appearing to read 'R. G. Freeman III', written over a horizontal line.

R. G. Freeman III
Administrator

(950547)

JUL 11 1980
P 3: 25





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