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UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

CIVIL DIVISION

SEP 24 1971

Dear Mr. Gardner:

The purpose of this letter is to inform you of the results of our review of the General Services Administration's Working Capital Fund established under authority of the Independent Offices Appropriations Act of 1946 (40 U.S.C. 293). The fund centralizes and facilitates blueprinting, photostating, and duplicating services required by GSA and other Federal agencies. To ensure continuous operation, the act provided that the fund is to be reimbursed on the basis of the estimated or actual costs of the services financed by the fund.

GSA finances the operations of 25 reproduction plants through the fund. The Printing and Publications Division, Office of Administration, GSA Central Office, is responsible for fund administration, including the setting of uniform nationwide prices based on actual costs for the services provided by the plants.

We made a review of the fund's operations at the GSA Central Office and at Region 3 offices. Two problem areas were noted—the high prices being charged for electrostatic copying and the absence of allocation of some indirect expenses.

ELECTROSTATIC COPYING PRICES

Fund revenues for electrostatic copying service rendered by Region 3 plants at established prices substantially exceeded the costs of the service.

Region 3 furnishes the electrostatic copying service to customers through use of 23 machines manufactured by the Xerox Corporation. Thirteen of the machines, although fund equipment, are being operated currently by the customer organizations which are being charged actual costs for machine rentals, maintenance, and supplies. In operating the other 10 machines, the fund is paying the rental, maintenance, and supply costs as well as the cost of personnel who operate the machines. Customers are charged at a rate of 6 cents a copy produced.

For the period July 1, 1970, to March 31, 1971, we compared sales generated and expenses incurred by eight of these 10 machines. One of the two remaining machines was used irregularly and thus was not included, and the other was not placed in operation until April 1971. In making the

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comparison, we adjusted reported sales to eliminate revenues resulting from a 20 percent surcharge levied on GSA customers in Region 3 and we excluded Central Office expenses, which are covered by the surcharge. We estimate that for the 9 months the fund showed a profit on the eight machines as follows:

Sales		\$268,605
Expenses:		
Machine rentals and maintenance	\$ 82,733	
Salaries, wages, and fringe benefits	69,063	
Supplies	13,542	
Payments to Administrative Operations Fund for support services	<u>14,773</u>	
Total expenses		<u>180,111</u>
Profit		<u>\$ 88,494</u>
Profit as a percentage of expenses		49.1%

Region 3's overall fund operations for the period produced a profit of \$23,580 on total sales of \$1.8 million. Thus it is apparent that the profit from operating the electrostatic copying service has offset losses incurred by the other printing and reproduction activities of the fund.

A GSA Audits and Compliance report dated September 25, 1970, disclosed that a similar situation existed in Region 2. The report stated that the Printing and Publications Branch "earns a comparatively substantial profit on the plant's most simple activity - Xerox copying service." On sales of \$8,800, for the month of July 1969, Region 2 made a profit of \$4,700 or 114.6 percent. The report stated further that "The gain on this operation serves to diminish the operating loss, and to a large degree, subsidizes the more complex printing and duplication work performed by the plant."

The Reproduction and Distribution Handbook states that "Nationwide prices are based on actual costs and are subject to revision as costs change." We believe that prices should approximate costs as closely as is administratively feasible. The charge of 6 cents a copy for electrostatic copies may have resulted in copies being made by the plants' offset copying process, when it would have been less costly to the plants, and therefore to the Government, to have made the copies by the electrostatic process.

We discussed the pricing of the electrostatic copying service with Central Office Printing and Publications Division personnel who said they would seek to establish prices consistent with the cost of providing the services. In the interim, they are considering reducing the prices for electrostatic copying and increasing prices for offset services which are operating at a loss.

ALLOCATION OF INDIRECT EXPENSES

Central Office expenses of the Printing and Publications Division for personal services, travel, telephone, and so forth are classed as expenses of Region 3's plant 1 and are recovered by a surcharge assessed only on the GSA organizations within Region 3. This practice is undesirable, in our opinion, because

- it is inequitable to recover the cost of providing these services from only Region 3 customers when the expense was incurred for the benefit of all plants operated by the fund, and
- the operating results of Region 3's plant 1 cannot be compared readily with those of other plants.

We believe that the Central Office expenses, which amounted to about \$275,000 in fiscal year 1971, should be either allocated to all plants or segregated from other expenses in the financial reports. We also believe that the expense should be regarded as a cost of providing the various services and, therefore, be reflected in the related prices.

Printing and Publications Division personnel informed us in August 1971 that they are considering allocation of the Central Office expenses to all plants, along with possible changes in the manner of accounting for certain other costs that are currently recovered by means of the surcharge on Region 3 customers. We believe that, as part of this effort, accounting records and financial reports for the plants in Region 3 should be placed on a basis consistent with those of the other plants in order to facilitate financial analysis and comparisons of the results of operations.

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In view of the consideration being given to improvements as discussed in this letter, we are making no specific recommendations.

We would appreciate being advised when further actions are taken on these matters.

We appreciate the cooperation and assistance extended to our representatives during the review.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "V. L. Hill".

V. L. Hill
Assistant Director

Mr. G. C. Gardner, Jr.
Assistant Administrator for Administration
Office of Administration
Office of the Administrator of
General Services