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Federal Supply Service Self-Service Stores Can Be Improved.
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Report to Robert T. Griffin, Acting Administrator, General Services Administration; by Richard W. Gutmann, Director, Procurement and Systems Acquisition Div.

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1949 (40 U.S.C. 471).

The General Services Administration (GSA) maintains self-service stores, which are retail outlets that sell a wide variety of commonly used office, janitorial, and maintenance items. Federal agencies, Members of Congress, and eligible Government contractors are permitted to shop at the stores. Findings/Conclusions: The self-service stores are not providing Government agencies with efficient service and necessary supplies. At times, essential store items are not available, so that customer agencies purchase the supplies from commercial sources at higher prices. The GSA inventory records do not accurately show the value of the stores' inventories. Shortages can occur without detection by store management. Although the number and sales volume of self-service stores have been increasing, GSA audits of store operations have been decreasing. Self-service stores do not provide many supplies needed by customer agencies, because many store orders to GSA depots are assigned low priority, causing the stores to compete for depot goods with agencies that are also store customers. Customer agencies do not have adequate control over their employees' purchases made at self-service stores. Recommendations: The GSA should improve controls over inventory price changes and physical inventories to provide a basis for prompt detection of inventory losses; increase internal audit coverage of store operations; and increase coordination with customer agencies on the issuance and control of shopping plates. (Author/SC)



*UNITED STATES
GENERAL ACCOUNTING OFFICE*

**Federal Supply Service
Self-Service Stores
Can Be Improved**

General Services Administration

The General Services Administration self-service store program is not providing Federal agencies with efficient service and necessary supplies. Principal causes are insufficient management control and the low priority the General Services Administration assigns the stores when ordering supplies from its own warehouses. Also, customer agencies do not adequately control employee purchases of items that can be diverted for personal use.



UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

PROCUREMENT AND SYSTEMS
ACQUISITION DIVISION

B-181327

The Honorable Robert T. Griffin
Acting Administrator of General
Services

Dear Mr. Griffin:

This report discusses how the General Services Administration managed the self-service store program and how Government customers utilized the stores.

This report contains recommendations to you on page 30. As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the House Committee on Government Operations and the Senate Committee on Governmental Affairs not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

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

Sincerely yours,

A handwritten signature in cursive script that reads "R. W. Gutmann".

R. W. Gutmann
Director

D I G E S T

General Services Administration self-service stores are not providing Government agencies with efficient service and necessary supplies. This is due to insufficient management control and the low priority the General Services Administration assigns to stores' orders for merchandise from Administration supply depots.

The self-service stores are retail outlets which sell a wide variety of commonly used office, janitorial, and maintenance items to Federal agencies, Members of Congress, and eligible Government contractors. The self-service store program is one of the General Services Administration's most visible programs since the stores operate at the retail level and deal directly with customers.

Following is a photograph of a typical self-service store:



HICKAM AIR FORCE BASE, HAWAII

The General Services Administration is not providing store customers with necessary supplies. At times, essential store items are not available and, consequently, customer agencies purchase the supplies from commercial sources at higher prices. (See pp. 8 to 10.)

The General Services Administration inventory records do not accurately show the value of the stores' inventories. GAO believes that because accurate data is not available, shortages can occur more easily without detection by management. (See pp. 10 to 13.)

Although the number and sales volume of self-service stores have been increasing, General Services Administration audits of store operations have been decreasing. (See pp. 13 to 14.)

Self-service stores do not provide many supplies needed by customer agencies because many store orders to General Services Administration depots are assigned low priority. The stores have to compete for depot goods with agencies which are also store customers. Yet, the stores are expected to meet customer needs. (See pp. 15 to 17.)

Customer agencies do not have adequate control over their employees' purchases made at self-service stores. Illegal purchases have occurred. In one instance, a customer agency employee purchased \$18,000 worth of film for personal use. Both the self-service stores and customer agencies have weak controls over the shopping plates used to make purchases. GAO believes the stores and the customer agencies need to strengthen their controls over sales. (See pp. 25 to 27.)

The General Services Administration concurred with most of GAO's recommendations. (See ch. 7.) It did not concur with GAO's recommendation that higher priority should be assigned to the stores' orders for depot items. GAO

believes that the General Services Administration depots should treat orders from self-service stores with the same urgency depots treat orders from other customers. As a minimum, GAO believes the stores should be permitted to use higher priority codes when circumstances warrant such use.

The Administration also concurred in principle with GAO's recommendation that the Administration provide guidance and instructions to customer agencies. It did not agree with GAO's recommendation to customer agencies that they prepare requisitions internally before shopping at the stores. GAO believes that requisitions would provide an efficient means of control by agencies over purchases.

According to the Administration, the following actions will be taken on GAO recommendations:

- Improve controls over inventory price changes and physical inventories to provide a basis for prompt detection of inventory losses.
- Increase internal audit coverage of store operations.
- Increase coordination with customer agencies on the issuance and control of shopping plates.

GAO believes if the Administration takes action as noted above, self-service store operations and customer service will be improved. However, unless store managers are given the flexibility to use higher priority codes when ordering from the depots, the stores cannot be expected to meet customer demands adequately.

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Abbreviations

EOQ	economic order quantity
FEDSTRIP	Federal Standard Requisitioning and Issue Procedures
FSS	Federal Supply Service
GAO	General Accounting Office
GSA	General Services Administration
MILSTRIP	Military Standard Requisitioning and Issue Procedures

CHAPTER 1

INTRODUCTION

The Federal Property and Administrative Services Act of 1949 (40 U.S.C. 471) created the General Services Administration (GSA) to provide the Government with an efficient and economical system for procuring and supplying personal property and nonpersonal services.

The intent of the act is to provide uniform policies and methods of procurement and supply and to eliminate (1) duplicate procurement functions and competition among executive agencies for similar articles in the same market, (2) low quality purchases, and (3) other inefficiencies.

GSA has assigned responsibility to the Federal Supply Service (FSS) for making commonly used items available to Federal agencies at the lowest overall cost to the Government. One major program concerned with achieving this objective is the self-service store program. The Congress appropriated \$3.9 million to this program for fiscal year 1975. FSS, with the assistance of 10 regional offices, administers the program. (See apps. I, II, and III for the organization of GSA.)

SELF-SERVICE STORES PROGRAM

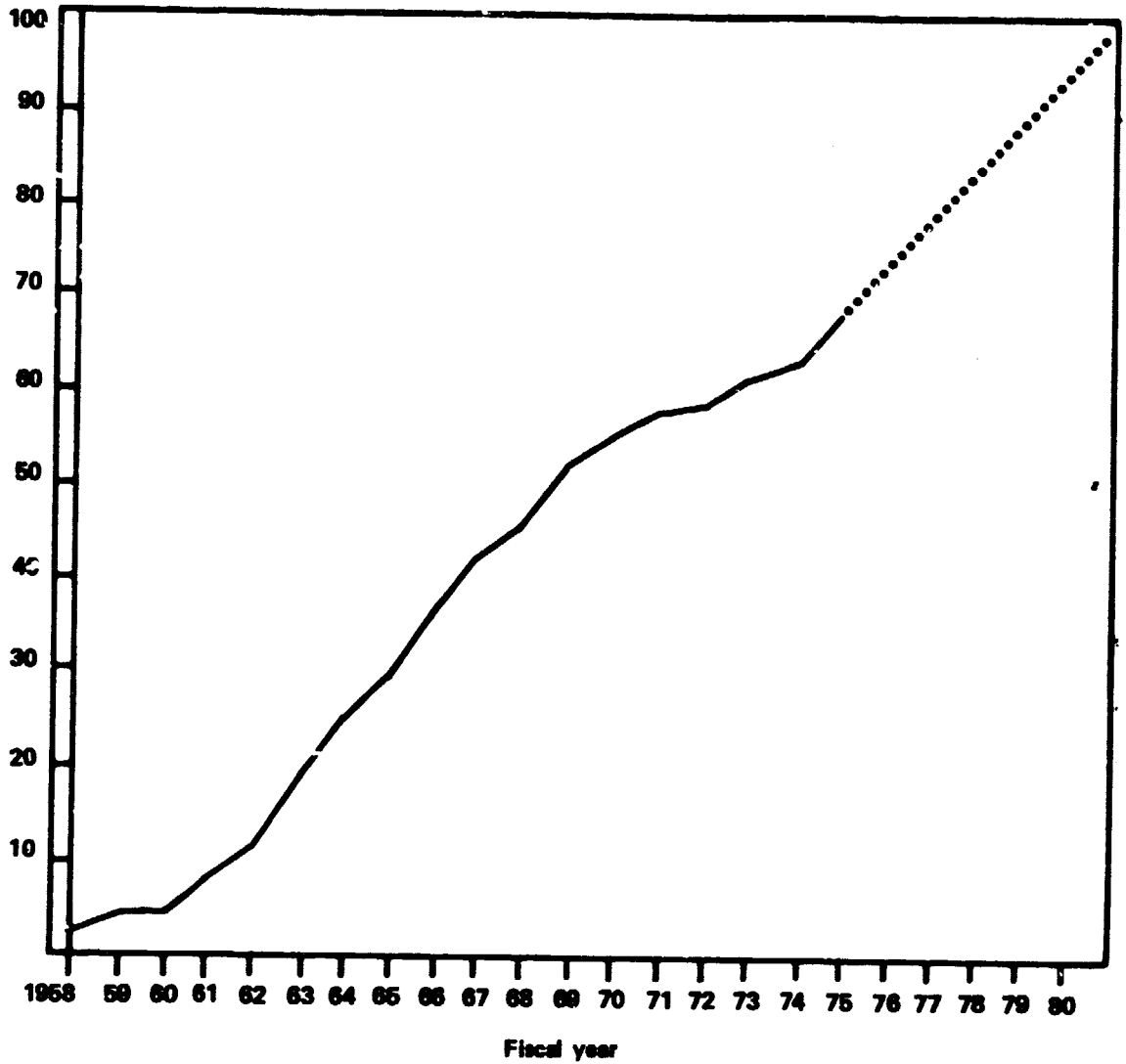
GSA self-service stores are retail outlets which sell many commonly used office, janitorial, and maintenance supplies to Federal agencies, Members of Congress, and authorized contractors. The stores are generally located in buildings occupied by Federal agencies and are readily accessible to Government customers.

Since 1958 the self-service store program has grown from 3 stores with annual sales of \$35,000 to 71 stores with fiscal year 1975 sales of \$57.9 million. GSA expects that by 1980 annual sales will reach \$100 million with 100 stores in operation.

The following charts illustrate the growth of this program in terms of stores and sales.

GROWTH IN NUMBER OF SELF-SERVICE STORES (FY 1958 to FY 1980)

Number of stores

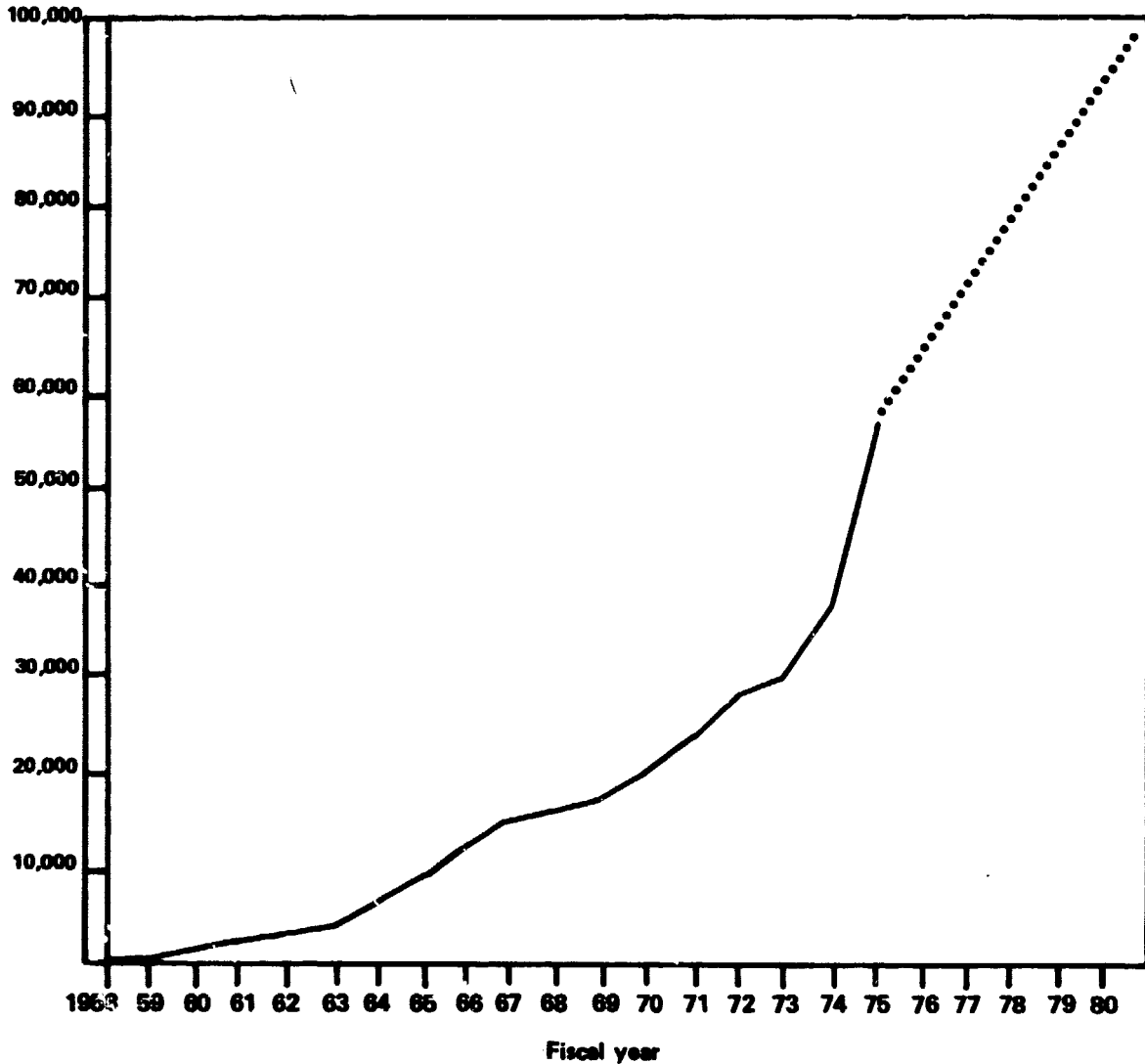


— Actual growth.

•••• Future growth projected by GSA.

GROWTH IN SELF-SERVICE STORE SALES (FY 1958 to FY 1980)

SALES
(000 omitted)

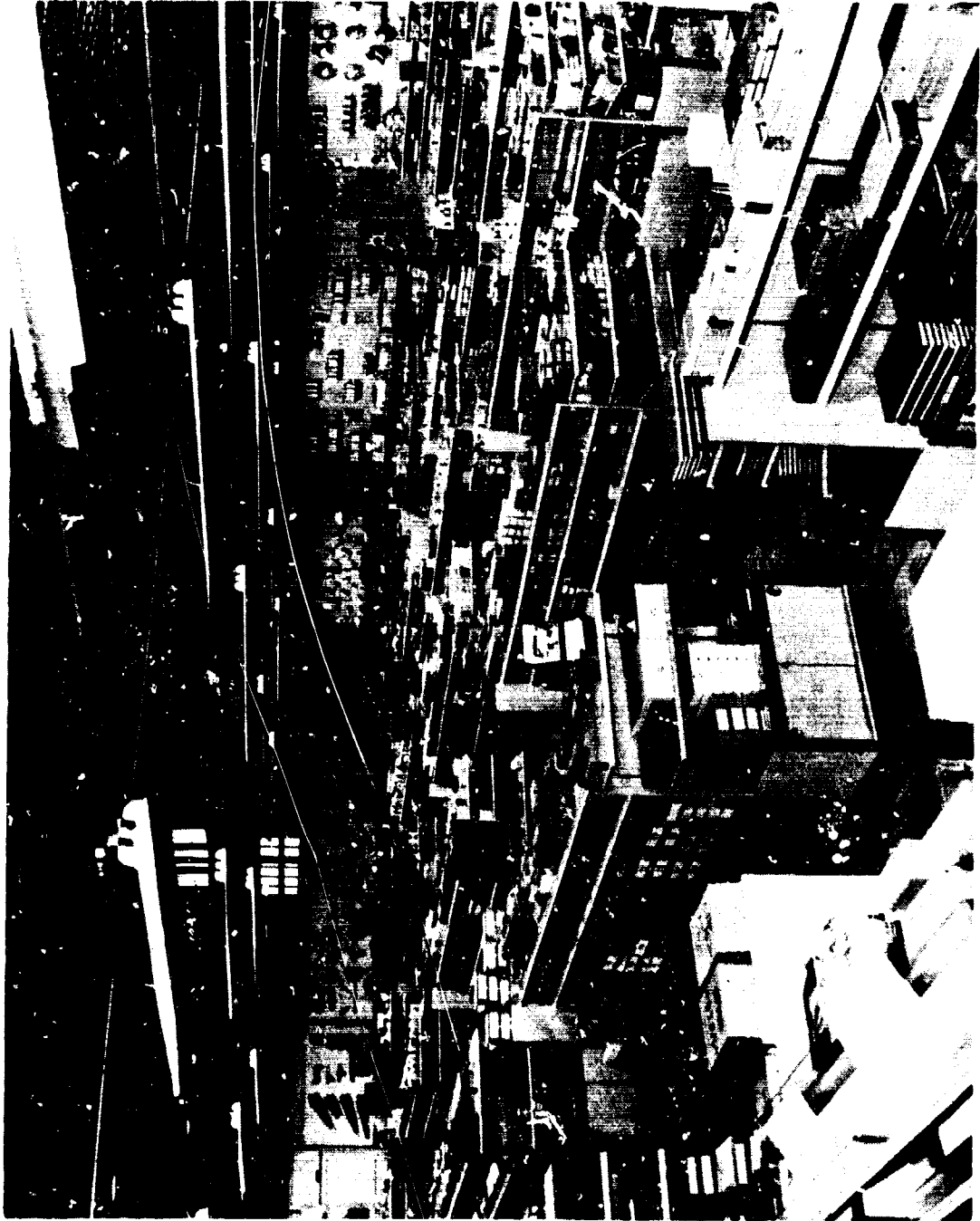


— Actual growth.

•••• Future growth projected by G&A.

Merchandise is displayed on open counters for easy inspection and selection. Shopping carts are provided for shoppers' convenience.

These displays, shopping conveniences, and equipment are depicted in the following photographs of typical GSA self-service stores.



(Courtesy of General Services Administration)

CLEARFIELD, UTAH, SELF-SERVICE STORE.



(Courtesy of General Services Administration)

ST. LOUIS, MISSOURI, SELF-SERVICE STORE.

Customers may make purchases at self-service stores on presentation of a GSA cash or charge shopping plate. At checkout counters, charge purchases are totaled for later billing to the agency's account. Cash payments are accepted from agency employees having plates authorizing cash purchases. Agencies may obtain shopping plates from any GSA regional office. Application forms are available at self-service stores and GSA regional offices.

WHY THE REVIEW WAS MADE

GAO made this review because of the increasing amount of agency procurement from self-service stores and the rapid growth of this program.

The objectives of our review were to

- examine the effectiveness and efficiency of self-service store operations and
- evaluate the controls over purchases made by and from the stores.

SCOPE OF REVIEW

Our review was conducted at Federal Supply Service headquarters in Washington, D.C.; GSA regional offices in Washington, D.C., Chicago, Illinois, Kansas City, Missouri, and Fort Worth, Texas; 17 self-service stores; 92 customer agencies; 12 State and local governments; and 8 commercial firms.

We reviewed pertinent legislation and Executive orders and examined the policies, procedures, documents, reports, and records at headquarters, regional, and store levels. We interviewed headquarters and regional officials, store managers, store customers, representatives of State and county governments, and officials of several private companies.

CHAPTER 2

MANAGEMENT CONTROL OF THE

SELF-SERVICE STORES

The Federal Supply Service needs to strengthen self-service store operational and financial controls for an efficient and economical retail supply system. Better management control is needed over store operations to provide customers with efficient service and necessary supplies.

SHORTAGES OF ESSENTIAL OFFICE SUPPLIES

The General Services Administration has established a list of 114 "must" items that the stores should always stock. These items consist largely of general office supplies. However, we found that the stores were frequently out of these items.

GSA imposed a moratorium on store purchases between March and June 1975 which caused a shortage during that time and for several months afterward. Consequently, the stores reduced their inventory levels without receiving funds to restock store shelves.

The following schedule shows, for each GSA region we reviewed, the amount to which the stores' inventories were reduced.

	<u>Inventory level</u>		<u>Percent decrease</u>
	<u>December 1974</u>	<u>June 1975</u>	
Region 3	\$4,303,480	\$3,127,299	27
Region 5	617,750	333,187	46
Region 6	647,738	450,650	31
Region 7	700,854	438,620	38
Total	<u>\$6,269,822</u>	<u>\$4,349,756</u>	<u>31</u>

The inventory level in June 1975 was about \$2 million below that of December 1974 for the four regions. During this time, back orders at the stores were substantial. For example, in August 1975, three stores in region 6 had 50 percent of the depot items they sold on back order. Some

items had been on back order for 3 to 5 months. In September 1975, region 7 stores had 2,630 back orders. In January 1976, region 3 stores had 6,686 back orders valued at \$1.1 million. In June 1976, region 5 stores had 2,412 back orders. Before the moratorium on purchases, about 10 percent of all depot items carried by the stores were on back order. This represented only about 165 back orders for each GSA region.

Although the moratorium was temporary, it served to highlight the stores' problem in providing supplies.

GSA now requires the stores to maintain a "never out-of-stock" position. This action, in effect, has made every item carried by the stores a necessary item. However, as of February 1977, numerous back orders existed as shown in the following schedule.

<u>GSA region</u>	<u>Number of self-service store back orders</u>
3	358
5	538
6	285
7	<u>247</u>
Total	<u>1,428</u>

Shortages caused customers to make commercial purchases at higher prices

We observed empty shelves and low reserves of stock in the stores we visited. Such shortages caused store customers to make commercial purchases, often at higher prices. Of the 92 customers we interviewed, 60 stated they had purchased from commercial sources because of self-service store shortages.

The following schedule compares store prices with some of the commercial prices paid by customers during the shortage.

<u>Item</u>	<u>Customer purchase price</u>	
	<u>Self-service store</u>	<u>Commercial vendor</u>
Copier toner	\$23.00	\$84.00
Toilet tissue	15.00 a case	25.00 a case
Adding machine tape	14.00 a dozen	35.00 a dozen
Ink tubes	2.40 a tube	2.90 a tube
Cellophane tape	\$ 0.27 to .65	\$ 0.79 to 1.45

Examples of other items normally available in the stores but purchased from commercial sources at higher cost included paper clips, binders, pencils, typewriter correction fluid, and filing jackets.

We did not evaluate the overall effect of agency purchases from commercial sources because of these GSA shortages. However, in our December 31, 1974, report, (PSAD-75-32), we showed that civil agencies had spent \$1.4 billion during fiscal year 1973 for items which GSA should have provided at reduced cost.

Conclusion

We believe that by reducing inventories of essential items, GSA does not fulfill its responsibility to customers. As a result, store customers may be forced to make commercial purchases at higher prices. Although the purchase moratorium may have been unique, it showed the inability of the self-service stores to provide their customers with even the most essential items. GSA should recognize that contingency situations can arise, but, nevertheless, the most basic customer needs should be met.

LACK OF CONTROL OVER STORE INVENTORIES

Because of inefficiencies in inventory procedures and reporting inventory price changes, GSA does not have good control over inventories in the self-service stores. The lack of control can prevent prompt detection of thefts from the stores.

Ineffective reporting of inventory price changes

The nature of self-service store inventories is such that maintaining suitable records of individual units sold

and purchased is very impractical. Accordingly, GSA maintains control over store inventories on the basis of the total dollar value of store inventories.

Store inventory records are maintained by regional finance centers which receive daily reports from store managers showing the dollar value of sales made during the day. Because prices of items change, store managers are required to notify the finance centers of price changes made and quantities of stock involved so that the finance centers can adjust their inventory records.

Often, store managers will change prices of shelf items but fail to notify the finance centers to adjust their records for the difference in price. In periods of rising prices, this causes the stores to report a higher sales volume than has taken place since the finance centers maintain a balance based on the unchanged dollar amount.

When a physical inventory is taken at the store which reflects adjusted prices that have not been reported to the finance center, the inventory will show a greater amount of inventory for that store than the finance center has on record. This difference in dollar amount indicates an erroneous inventory overage.

Following are examples of overages which occurred at nine stores during fiscal years 1974 and 1975.

<u>Store</u>	<u>Inventory according to</u>		
	<u>Current price</u>	<u>Finance Center Records</u>	<u>Overage</u>
Kansas City	\$254,129	\$220,666	\$33,463
Detroit	121,872	88,453	33,418
Jeffersonville, Indiana	97,205	67,646	29,559
Fort Snelling, Minnesota	109,337	85,936	23,401
Chicago (Dearborn St.)	100,144	85,787	14,357
Chicago (Clark St.)	130,324	118,939	11,385
Cincinnati	55,556	46,260	9,296
Cleveland	62,023	58,753	3,269
St. Louis	88,291	86,027	2,264

GSA officials said that a new computerized cash register system using magnetic tape records that are updated with each sale may solve the overage problem.

The system began phasing into operation in 1976 and is not fully operational.

Cumbersome physical inventory procedures reduce store sales

Self-service store annual physical inventory procedures are very detailed and require stores to be closed for 3 business days. In fiscal year 1975, sales for 3 operating days in the self-service store program were about \$700,000. Thus, it is possible that self-service stores may be causing a disservice to customers and losing substantial sales. In fact, GSA officials said store inventory procedures are cumbersome and could be simplified.

We compared the physical inventory procedures with those used by a large commercial retail store chain of 5,000 stores which are similar to the GSA stores. An official of the private store chain told us that his inventories are taken by independent three-person teams who are not involved with daily store operations. These teams operate full-time and perform complete inventories of two stores a day. Store personnel do not participate in the inventory. Unannounced inventories are taken monthly, and the stores are not closed for the inventory. Thus, sales are not affected.

At GSA stores, employees, internal auditors, and regional finance office representatives perform and observe the inventory. GSA store personnel know in advance when the physical inventory will be performed and inventories are made annually.

Conclusion

Inventory overages which result from ineffective reporting of price changes provide an opportunity for pilferage which may never be discovered. Because of these overages, actual physical shortages in stock are difficult to detect.

The new computerized cash register system GSA is installing may solve the overage problem. However, evaluation of the new cash register system cannot be made until it is fully installed and operational.

Present GSA inventory procedures are cumbersome, and self-service store employees are untimely in taking the inventories. GSA needs to revise its inventory procedures and should use independent personnel to take unannounced

inventories. Because of the expertise they would acquire, the teams could reduce the time and cost of inventory taking.

AUDITS INFREQUENTLY PERFORMED

Although the number and sales volume of self-service stores have been increasing, the number of audits performed each year has been decreasing. During fiscal year 1972, 15 audits were made, while only 5 audits were made during fiscal year 1974. No audits were performed during fiscal year 1975. Fifty-four self-service stores have not been audited in 3 or more years.

No regulations or instructions exist stipulating when the stores should be audited. According to the Director, GSA Internal Audits, there is no routine or schedule for auditing the stores. He noted that a store will be audited annually only if there are problems at that store. Otherwise, it may not be audited for as long as 4 years. GSA Internal Audits attempts to audit five or six stores a year.

We did note that when GSA does perform an audit of a self-service store, the findings can be quite significant. In 1974, the GSA field audit group made a comprehensive review of the Kansas City, Missouri, store. This audit covered such areas as sales, inventory, cash control, and store access. The auditors found physical inventories were not being taken annually as required; the imprest fund was poorly controlled; customers' credit cards were being kept by the store; records of the retail store manager and of the regional finance division were different; there were significant inventory overages, probably due to price increases; and higher levels of management were not sufficiently informed to judge the effectiveness of store operations.

The GSA audit attributed most of these deficiencies to the fact that the store manager was also the regional chief of the self-service stores branch. In effect, he was his own supervisor. The GSA auditors recommended that a new store manager be appointed and that FSS officials higher than branch chief conduct walk-through inspections of retail stores. This dual role was eliminated for the Kansas City, Missouri, store when a new store manager was hired.

GSA internal audits at other stores have disclosed inventory shortages ranging from \$2,643 to \$76,472, falsification of purchase documents by store personnel, poor cash controls, and low stock turnover.

The Director, GSA Internal Audits, said his staff is already overworked and this combined with the increasing number of self-service stores makes annual audits impossible to perform.

Conclusion

The audit coverage of GSA stores is inadequate to provide management with necessary information to judge the effectiveness of store operations. We believe that GSA should obtain the necessary staff to provide adequate internal audit coverage of self-service store operations.

CHAPTER 3

PROCUREMENTS BY SELF-SERVICE STORES

Merchandise for sale in the self-service stores is obtained largely from General Services Administration depots. However, the self-service stores are constrained from providing supplies to customers because GSA accords the stores low priority on their orders for merchandise from the depots. Nevertheless, store managers are expected to meet customer demands and increase sales.

SELF-SERVICE STORES ASSIGNED LOWEST PRIORITY WHEN ORDERING ITEMS FROM GSA DEPOTS

GSA self-service stores and other civil agencies may obtain items from GSA depots only through the Federal Standard Requisitioning and Issue Procedures (FEDSTRIP) system. Under this system, when a requisition is submitted to a depot, one of four priority codes must be entered on the document. These codes indicate the importance assigned to the requisition and the estimated length of time in which delivery can be expected.

The four FEDSTRIP codes, their conditions for use, and associated delivery time frames follow.

<u>Priority code</u> <u>(note a)</u>	<u>Condition for use</u>	<u>Estimated</u> <u>delivery from</u> <u>depot</u> <u>(days)</u>
3	Will be used for disaster supplies or equipment required immediately for prolonging life in case of disaster, critical injury, fatal disease, or calamity.	7
6	The item required is one without which the activity concerned is unable to perform assigned operational mission or tasks, or such condition is imminent.	11

<u>Priority code</u>	<u>Condition for use</u>	Estimated delivery from depot (days)
8	The item required is one for immediate use, the lack of which is impairing the operational capability of the activity, and tasks can be accomplished but with decreased effectiveness and efficiency. The activity can operate effectively only temporarily, or material is urgently required to prevent serious personal hazard.	11
15	Routine stock replenishment and the filling of predetermined initial allowance not supported by a higher priority.	29

a/The FEDSTRIP system is a derivative of the Military Standard Requisitioning and Issue Procedures (MILSTRIP) system which uses 15 priority codes for ranking demand for supplies. The FEDSTRIP system is authorized to use only four of MILSTRIP's 15 priority codes.

GSA requires self-service stores to use priority code 15, the lowest possible priority for requisitioning supplies from GSA depots. When priority 15 is used (1) the depots do not process orders consistently, (2) deliveries from the depots are slower, (3) stores order in excess of requirements to compensate for long leadtimes, (this causes overstocking of some items), (4) store customers are last in line for urgently needed supplies, (5) stores purchase directly from commercial sources because delivery dates are unknown, and (6) the stores use the more expensive Federal supply schedules to obtain items which may be already available in the depots.

In February 1975, during the GSA purchase moratorium, store managers were temporarily authorized to use priority 8. Priority 15 was again required in May 1975 with priority 8 authorization given only for items which were back ordered.

In June 1975, self-service stores in GSA regions 7 and 10 were exempted from the priority 15 requirement and were allowed to use priority 8 indefinitely. Priority 8 enhanced the stores' inventory position and increased support to customer agencies.

Although the self-service stores program is an integral part of GSA, the stores must use the priority system designed for consumers and thus are forced to compete for depot goods with agencies who are store customers. The FSS Assistant Commissioner, Office of Supply Distribution, said it is difficult to justify the assignment of any priority code to the self-service stores because they are not consumers for which the FEDSTRIP system was designed.

According to a December 1974 management consultant report on FSS operations, self-service store orders should be accorded an automatic priority I on most fast-moving items and a high priority II for all other items. The report noted that adoption of this recommendation would compel GSA to treat its own orders with the same urgency that it accords orders for some of its customers. It would also reduce the number of "stockouts" in the stores caused by depot delays and, therefore, reduce the need for managers to order merchandise from more costly Federal supply schedules or commercial sources.

Conclusion

We concur with the premise that GSA depots should treat orders from self-service stores with the same urgency they use for orders from other customers. Just as the GSA depots are suppliers of goods so are the GSA self-service stores. Consequently, the stores should have goods available for numerous customers at all times.

Since depot goods may only be obtained under the FEDSTRIP system, we believe the self-service stores should have greater flexibility in their requisitioning process and should be permitted to use higher priority codes when circumstances warrant.

ECONOMIC ORDER QUANTITY PROCEDURES NOT FOLLOWED BY STORE MANAGERS

The economic order quantity (EOQ) principle of stock replenishment determines a reorder quantity which will result in the lowest total cost for ordering and maintaining inventory to meet expected demand. The EOQ principle balances the costs of ordering and holding stock to obtain minimum costs. Once EOQ is identified, the purchase of any other quantity will increase costs. Thus, using the EOQ principle can achieve savings.

Federal Property Management Regulation 101-27.1, issued by GSA, requires all civil agencies to replenish inventories of stock items in accordance with the EOQ principle. The regulation also permits agencies to use modified EOQ procedures when space, personnel, or budgeting limitations preclude application of the basic EOQ techniques.

GSA has modified the EOQ technique in the self-service store handbook to permit managers to quickly and easily determine the EOQ. We noted, however, that a December 1971 GSA memorandum stated that the handbook EOQ procedures were optional for store managers. Since GSA issues the Federal Property Management Regulations, the optional use of modified EOQ procedures appears to violate GSA's own regulations.

Discussions with 17 store managers revealed that 5 managers used the EOQ principle when ordering, 3 managers used it occasionally, and 9 managers did not use it. One manager was unaware of the EOQ principle. Since no records of self-service store sales by individual item are maintained, most managers determine when to reorder and what quantities are needed on the basis of judgment, experience, and a visual examination of store stock. The store managers said that the demand for most items stocked in the stores does not justify using EOQ techniques.

Conclusion

We believe that EOQ, as modified by GSA, is an adequate method for store managers to replenish stock. GSA should stress the importance of EOQ and rescind its instructions which make EOQ procedures optional.

In a prior report (B-133396, June 27, 1974), in which we reviewed GSA's use of EOQ, we concluded that if organizations do not use or properly apply EOQ, the Government will not realize the savings in operating costs and reduced inventory investments that the concept is designed to achieve.

SELF-SERVICE STORE MANAGERS HAVE WIDE LATITUDE OVER MANY TYPES OF ITEMS STOCKED

The original concept of the self-service stores was to provide a centralized self-service stockroom with emphasis on administrative supplies and general use office items. Now, the intent of the self-service stores program is to provide a "one stop" shopping service with emphasis on full-supply support to agencies.

To meet the full-supply concept, the types of items stocked in the stores have increased. In addition to stocking administrative and general use items, the stores stock such items as desk accessories, electric pencil sharpeners, water pitchers, alarm clocks, automobile accessories, styro-foam coffee cups, facial tissues, plastic spoons and forks, world atlases, air fresheners, doormats, and whitewall tires.

Most store managers have wide latitude in selecting the items they stock. Some GSA regions require customer demand or regional approval before an item is stocked. Many managers, however, do not obtain prior approval. No formal criteria exist, such as a particular number of customer demands causing an item to be stocked, and no justification is needed to stock an item. One store manager said he tried items with "eye appeal"--hand cleaners packaged in bright tan and yellow containers and clocks with colored faces--because he thought they would sell.

GSA pressure on self-service store managers to stock items

In addition to the wide latitude managers have over items stocked, there has been regional pressure at times for the stores to increase the number of items. For example, self-service store managers in one region were directed to stock approximately 2,000 items. The managers were told that if an item was legal, there was no reason why it should not be stocked. (See app. IV.) The headquarters chief, self-service stores branch, told us that each store should carry, on the average, about 2,000 items. Thus, he noted, while each store should have 114 "must" items on hand, each manager has discretion in stocking an additional 1,886 items. For example, the Omaha, Nebraska, store stocked about 1,700 items, and the Kansas City, Missouri, store stocked about 2,900 items during fiscal year 1975.

Personnel in one of the stores showed us a commendation they had received for reaching 2,000 items stocked. A GSA regional official told us there was no regulation for the stores to carry 2,000 items, but he believed a store should be able to fill most agencies' needs if it stocked 2,000 items. One store manager told us there was pressure from higher levels to increase sales.

A regional chief, self-service stores branch, said there was no pressure on store managers to increase sales and said that GSA believes in "satisfying demand, not creating it."

According to a December 1974 management consultant report on FSS operations, the self-service stores introduce new items mainly on a hit-or-miss basis. The report attributed this to a lack of advance knowledge of customer preference. The report noted that no marketing research had been conducted to discover (1) what items potential customers were purchasing elsewhere which could be stocked by a self-service store and (2) how customers decided what to purchase.

Conclusion

Items carried by self-service stores are arbitrarily determined by store managers and regional self-service store branch chiefs. There is no systematic method for determining what individual stores should carry. As a result, stores handle items on a test basis and often acquire items that may never sell and may eventually be excessed or wasted. GSA needs to analyze customer agencies within the vicinity of a self-service store to determine their needs. This would enable store managers to provide customers with needed supplies and better service.

CHAPTER 4
CUSTOMER PROCUREMENTS
FROM SELF-SERVICE STORES

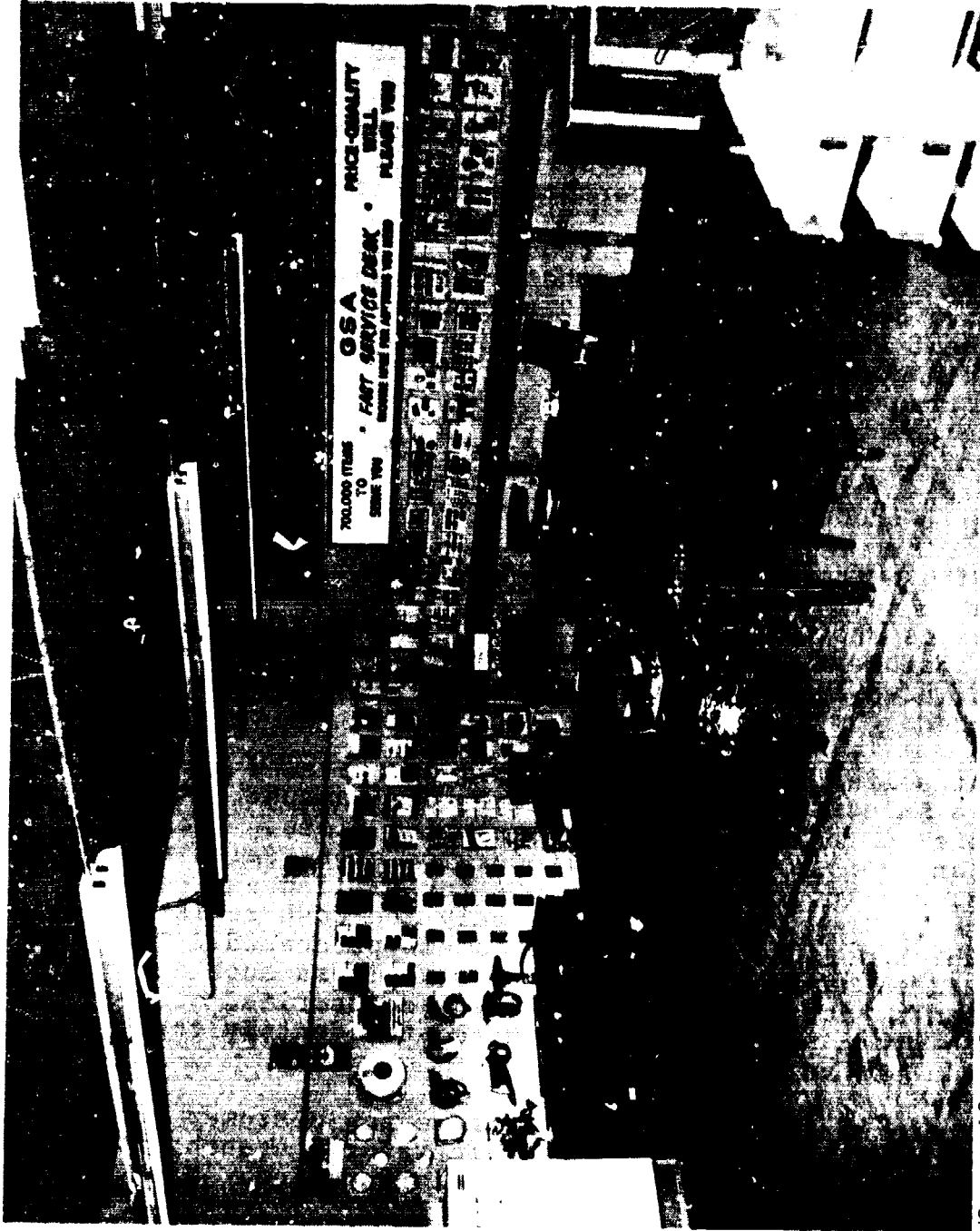
Agencies lack good controls over purchases made by their employees at GSA self-service stores. Many agencies place no restrictions on purchases from the stores.

Executive agencies are required to procure and use property in accordance with the Federal Property and Administrative Services Act of 1949 and the Federal Property Management Regulations. These regulations direct agencies to obtain goods and services from GSA, when available, rather than from other sources. The regulations also authorize agencies to purchase directly from commercial sources (1) in emergency situations, (2) when an item is perishable, or (3) when GSA determines that such procurement will produce the greatest economy to Government.

With a shopping plate, a customer may purchase any item at a self-service store. The photographs on the following pages show some of the items available to self-service store customers. We noted instances in which some customers did not have a valid need or justification for the items purchased.

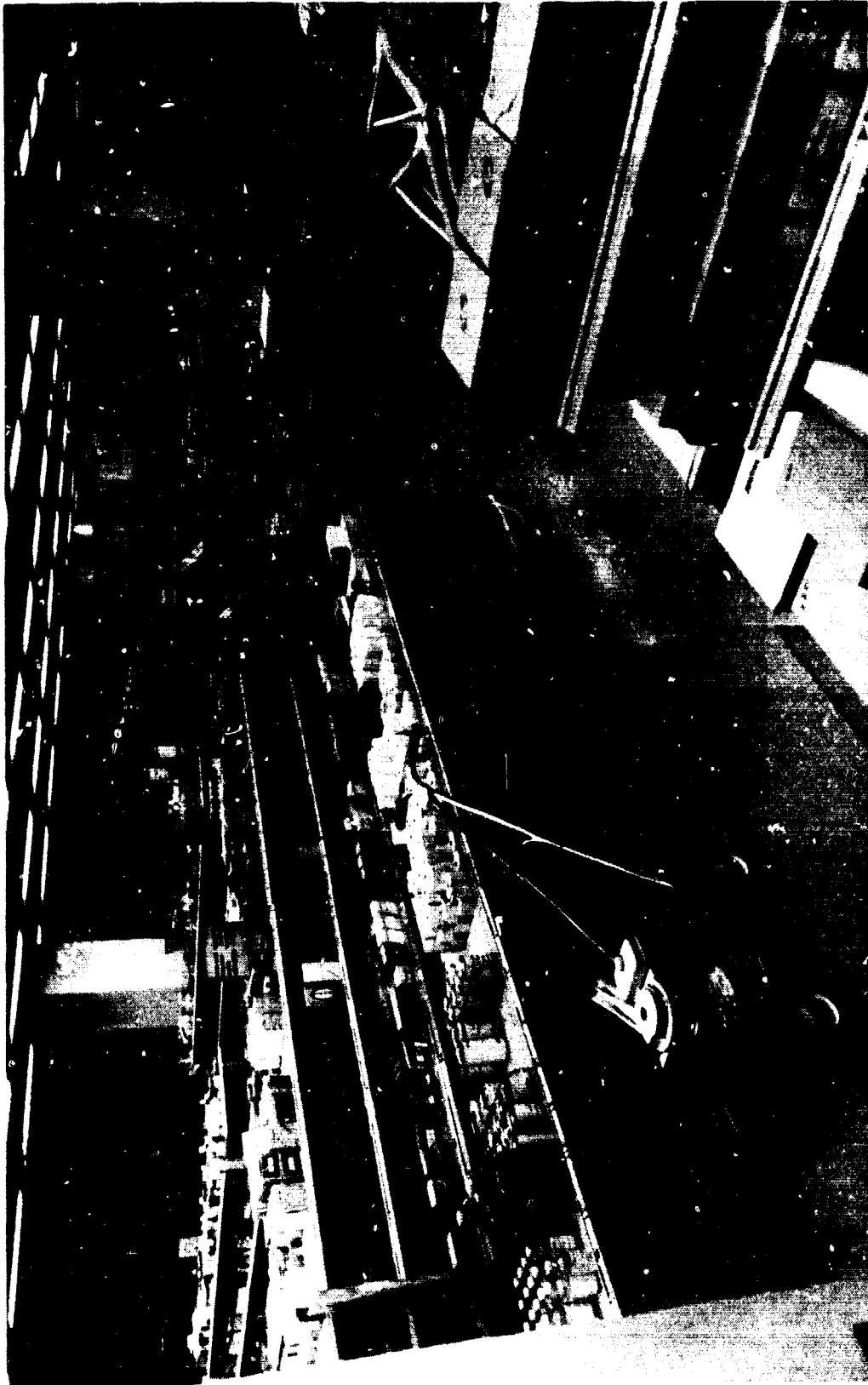
At self-service store checkout counters, a shopper signs a sales slip which shows the total amount of the purchase and an imprint of the shopping plate. (See app. V for an example of a GSA self-service store sales slip.) The sales slip is retained by GSA for billing and record purposes. The shopper receives only the cash register tape which does not identify the items purchased. To discourage unauthorized use of special items such as film, hand tools, attache cases, and auto accessories, self-service store personnel are required to identify these items on the sales slip.

Store managers do not disapprove any customer purchase. The headquarters chief, self-service stores branch, has stated that managers should not perform this function. Managers



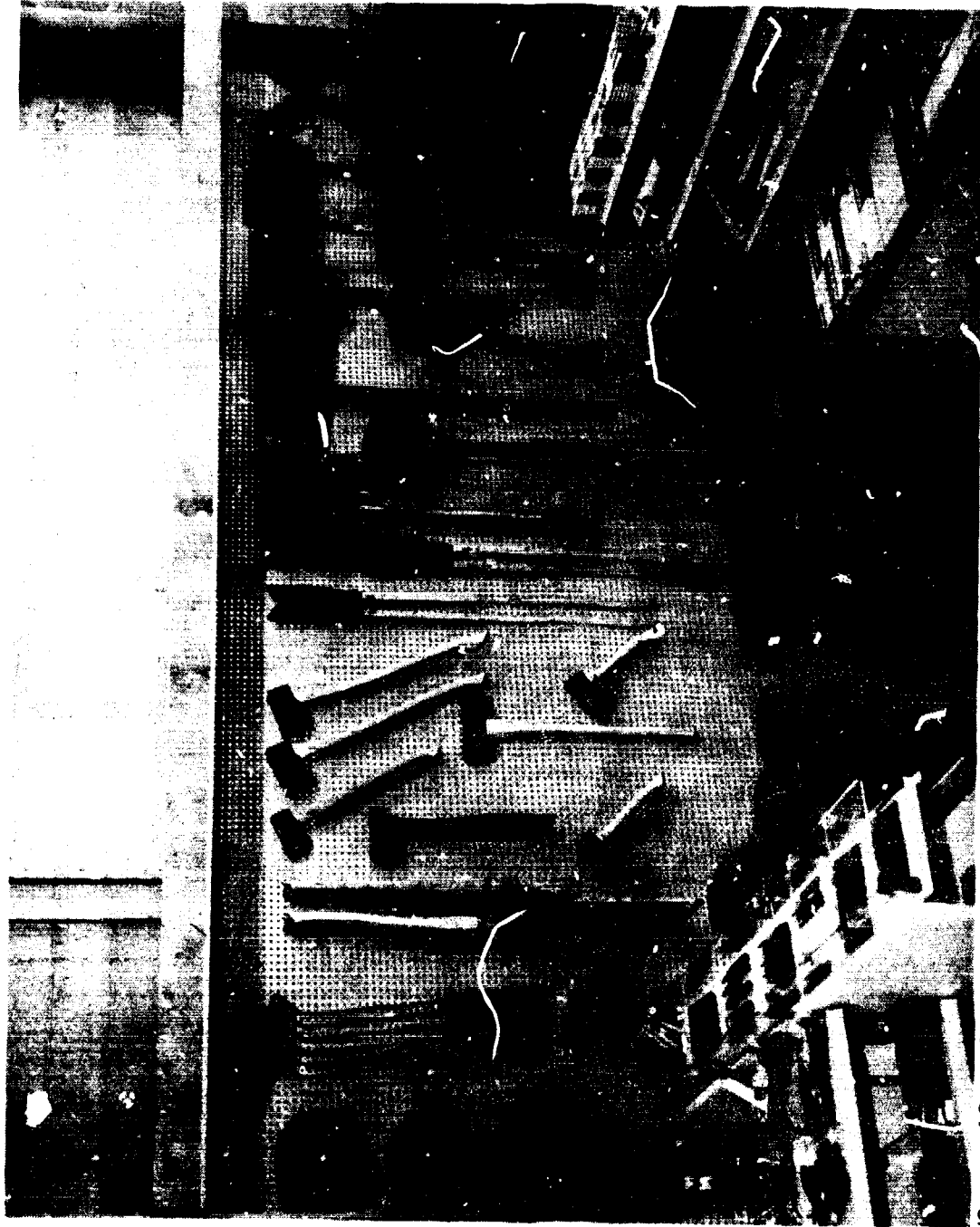
(Courtesy of General Services Administration)

**NOTE THE WINDOW AIR CONDITIONER, ELECTRIC HAND TOOLS,
AND HOME APPLIANCES ON DISPLAY.**



(Courtesy of General Services Administration)

**POWER LAWNMOWER FOR SALE AT THE LITTLE ROCK, ARKANSAS,
SELF-SERVICE STORE.**



(Courtesy of General Services Administration)

THIS SELF-SERVICE STORE CARRIES A VARIETY OF GARDEN AND HAND TOOLS.

assume that shopping plate holders are authorized to purchase any item available through the stores. The store managers believe it is the purchasing agency's responsibility to control employee purchases.

CUSTOMER AGENCIES EXERCISE LIMITED CONTROL OVER PURCHASES FROM STORES

In discussions with 92 self-service store customers from various Federal agencies, we found that 59 customers had no restrictions on purchases, while 33 customers were restricted to certain items. Of the 92 customers, 80 made shopping lists but only 49 had their lists approved. Most of the customers said they shop weekly, browse in the stores, buy on impulse, and occasionally purchase items not on the shopping list.

According to GSA's Federal Property Management Regulations, agencies having shopping plates are responsible for the acquisition, control, and use of the items purchased and are to insure that items are used for official purposes. The regulations also state that if requisitions are not required in procuring items from GSA self-service stores, informal shopping lists should be approved at a responsible supervisory level. This approval supports the essentiality of supply requirements.

In addition, the regulations require agencies to be aware that such items as brief cases, ballpoint pens, dictionaries, and staplers are available. The regulations state that these items have proven personally attractive and are susceptible to unofficial use. (For a complete listing of these items, see app. VI.)

Improper use of shopping plates

Agencies may not have enough control over items purchased at the stores because of insufficient documentation for items purchased. Although most agencies compare self-service store cash register tapes with their GSA billing, this comparison only discloses errors in total billings. Agencies depend on budgetary controls and supervisors' integrity to control purchases from the stores.

As a part of our review, we selected several purchases and contacted the purchasing agencies to determine whether

the items bought were for genuine Government needs. While not exhaustive, the following examples illustrate nonessential purchases.

Photographic film

Two Army Aviation Systems Command employees have been disciplined for unauthorized use of GSA shopping plates. The employees purchased photographic supplies for personal use. One employee had purchased about \$18,000 worth of film for personal use. This person's employment was terminated. He was later found guilty and sentenced to 2 years in prison. The other employee purchased about \$800 in film and photographic supplies without authorization. These items were to be used for a junior achievement program.

At the time of these purchases, the Army Aviation Systems Command did not require that cash register receipts be reviewed or matched with sales slips. As a result of our review, Command procedures were changed, and all purchases were temporarily reviewed by an internal audit office while permanent procedures were being considered.

Weather radio

A Farmers Home Administration employee purchased a weather radio at a GSA self-service store for use in the office. However, after we discussed the purchase with the employee's supervisor, the Farmers Home Administration returned the radio to the self-service store because no valid need existed. The Farmers Home Administration's finance office controls purchases by matching sales slips with cash register receipts.

Electric saw

A GSA self-service store manager informed us that an electric saw was sold to an Army Military Personnel Records Center employee. The store manager said he noticed the sales slip and contacted the employee's supervisor to determine whether there was need for the item. After discussion, it was agreed that the employee had no valid need for the saw, and it was returned to the store.

Conclusion

The lack of controls over purchases made at GSA stores can lead to impulse buying of items nonessential to Government needs or procurement of items for personal use. Agencies

should establish procedures to assure the purchase of needed items only. This can be accomplished by requiring requisitions for all purchases which will be reviewed and approved by an appropriate agency official.

CHAPTER 5

CONTROLS OVER SHOPPING PLATES

General Services Administration self-service stores and their customers need to better control the issuance and usage of store shopping plates.

Agency officials often do not check into the need for a shopping plate. Departmental approval consists of a signature on the shopping plate application without any real review. Furthermore, when GSA receives an application, the billing address is verified and assigned to the shopping plate, without further review of the application. There is no limit to the number of plates issued by the Federal Supply Service or used by Federal agencies.

Because the number of shopping plates is unrestricted, some agencies have many plates at the same location. For example, in Dallas, Texas, the Department of Health, Education, and Welfare has 32 shopping plates, of which 25 are for the same address. The Corps of Engineers in Fort Worth, Texas, has 18 plates to support 240 people. A plate was issued for each project in the agency. All shopping, however, is done at the Fort Worth self-service store directly across the street from the agency's offices.

Issuance of many plates to one location may complicate and hamper the control of purchases from the self-service stores. Neither GSA nor customer agencies keep updated records listing the total number of shopping plates issued. One GSA official said agencies should have a reasonable number of plates, but he emphasized that agencies are responsible for determining how many shopping plates they need.

In most instances, agencies and GSA lack controls over the use of shopping plates. For example, the Human Development Corporation in St. Louis, Missouri, had made at least three procurements in January 1975 with a cash card which had expired in November 1974. After the Corporation relinquished its expired card, it used a cash card which had been issued to the Urban League, a contractor, to make procurements for itself and several delegate agencies. These agencies operated socio-economic programs, most of which were ineligible to use GSA stores.

The Austin, Texas, self-service store retains a few customers' charge plates to provide mail order service. The charge plates are kept in the cash register and are used to imprint the sales slip which is signed by a store employee when an order is shipped. The New Orleans, Louisiana, store keeps one charge plate for GSA's Public Buildings Service. The card is left in the cash register for the Service's convenience since it uses the store so frequently. Four agencies leave their charge plates at the Oklahoma City, Oklahoma, store.

There is also a wide range of controls over the charge plates within different agencies. Several agencies require shoppers to sign for plates as needed; other agencies allow personnel to keep the plates in their possession. Unless a card is issued to an elected Federal official, it carries no expiration date. GSA periodically issues a list of stolen or lost cards, but some store managers complained they were not notified when cards were found.

Conclusion

Keeping agency shopping plates at the stores and allowing agency employees to keep the plates in their possession is a bad practice which could result in unauthorized purchases.

GSA and its customers should establish better control over the use of shopping plates to minimize unauthorized and unnecessary purchases.

CHAPTER 6

RECOMMENDATIONS

The General Services Administration self-service stores program provide customer agencies with commonly used office, janitorial, and maintenance supplies. It is one of GSA's most visible programs because it operates at the retail level and deals directly with customers.

GSA has not provided Government agencies with efficient service and necessary supplies. Consequently, customers often purchased supplies from commercial sources at higher prices.

GAO recommends that the Administrator of General Services:

- Consider the self-service stores program as an extension of the depot program. When ordering from the depots, store managers should have the flexibility to use priority codes applicable to the urgency of the need.
- Direct store managers to use the economic order quantity principle when replenishing store items. Through EOQ, stores will realize savings in operating costs and inventory investments.
- Improve controls over reporting of inventory price changes. Controls should reflect actual store inventory values.
- Revise self-service store physical inventory procedures so that inventories are taken by personnel who are not involved in daily store operations. This would eliminate lengthy store closings which reduce sales and service.
- Allocate resources to provide needed internal audit coverage of the self-service store operations.
- Coordinate issuance and control of shopping plates more closely with customer agencies.

--Provide guidance and instructions to customer agencies to enable them to obtain greater control over day-to-day use of the self-service stores.

--Analyze customer agencies located near self-service stores to determine their needs.

Agencies that procure from the GSA self-service stores should:

--Establish controls so that agencies purchase only needed items from the self-service stores. This could be accomplished by requiring requisitions for all purchases and having them reviewed and approved by an appropriate agency official.

--Provide adequate controls for the issuance and use of shopping plates.

CHAPTER 7

AGENCY COMMENTS AND OUR EVALUATION

In comments in an October 20, 1976, letter (see app. VII), the General Services Administration concurred with most of our audit recommendations. Concerning our comment on weak management in the self-service stores program, GSA agreed that weak spots remain to be corrected but progress has been made.

GSA did not concur with our recommendation that higher priority be assigned to the stores' orders from the depots. According to GSA, a high priority rating substantially changes order processing in the FSS system and restricts efficient planning of supply depot operations.

Although GSA did not concur with the above recommendation, it acted during our review to improve the shipment of depot items to the stores. For example, in February 1976, store managers were permitted to upgrade the priority of their back-ordered items. In March 1976, GSA supply facilities established distinct routes and stops for store delivery.

Although these attempts by GSA to improve store operations are noteworthy, we continue to believe that GSA should emphasize the role of the stores in providing retail supply support. This goal can only be achieved if the stores obtain needed goods in a timely manner. Presently, depot goods may only be obtained under the FEDSTRIP system, and GSA believes that the assignment of a high priority to all self-service store orders would restrict efficient planning of supply depot operations. Given these circumstances, we believe, as a minimum, GSA should treat orders from self-service stores with the same urgency it handles orders from other customers.

GSA concurred with our recommendation that store managers use the economic order quantity principle when replenishing store items. To this effect, GSA indicates that it does apply a modified EOQ technique as permitted by the Federal Property Management Regulations. We do not question these modified procedures as outlined in the self-service store handbook. Rather, we are concerned with GSA's decision to make these EOQ procedures optional for use by store

managers in view of the infrequent use the managers already have made of the EOQ techniques. We believe that GSA should require use of EOQ procedures whenever store items must be replenished.

GSA concurred with our recommendation that it improve controls over reporting inventory price changes. During management visits, GSA stated it will stress the importance of making timely price changes and submitting inventory adjustments. Also, back orders will be released to stores at current prices to reduce or eliminate pricing discrepancies in the stores.

Management visits are a positive step toward strengthening store manager's reporting of inventory adjustments. In addition, GSA should emphasize the importance of inventory price changes by issuing written guidelines to its store managers.

GSA agreed to act on our recommendation that it revise self-service store physical inventory procedures. GSA is reviewing its inventory procedures to reduce or eliminate store closings for long periods. If GSA's revised procedures require independent personnel and reduce time and effort in inventory taking, we believe unnecessary store closings would be reduced or eliminated.

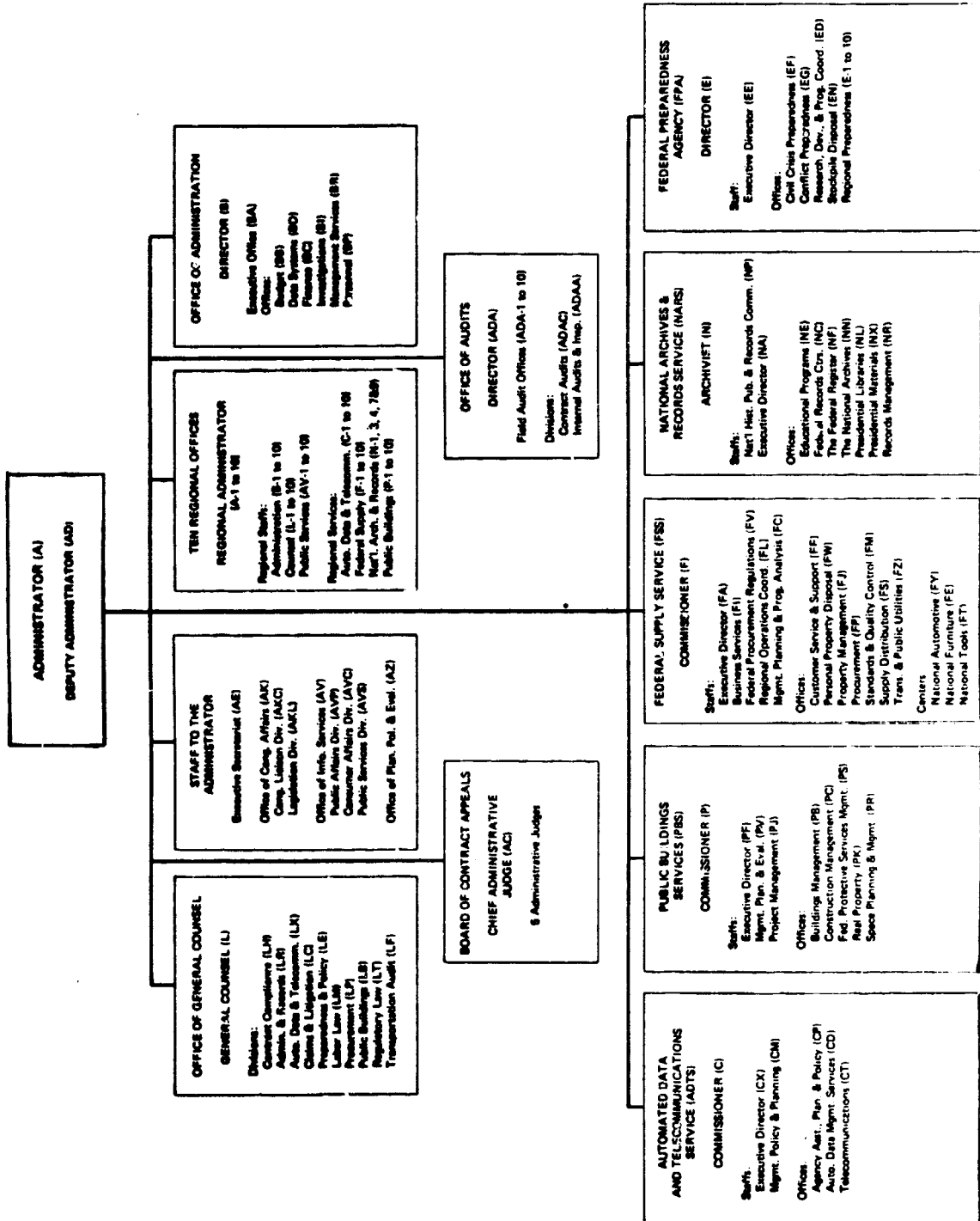
Concerning our recommendation that GSA increase internal audit coverage of store operations, GSA's fiscal year 1977 audit plan will increase emphasis on the stores. Besides placing increased audit emphasis on store operations, GSA's fiscal year 1977 audit plan and successive plans should contain a definite timetable for auditing the stores.

GSA also concurred with our recommendation that it coordinate the issuance and control of shopping plates more closely with customer agencies. GSA plans to provide additional guidance and instructions on the use of shopping plates primarily through agency liaison visits and regional seminars. We believe such additional guidance and instructions will minimize unauthorized and unnecessary purchases.

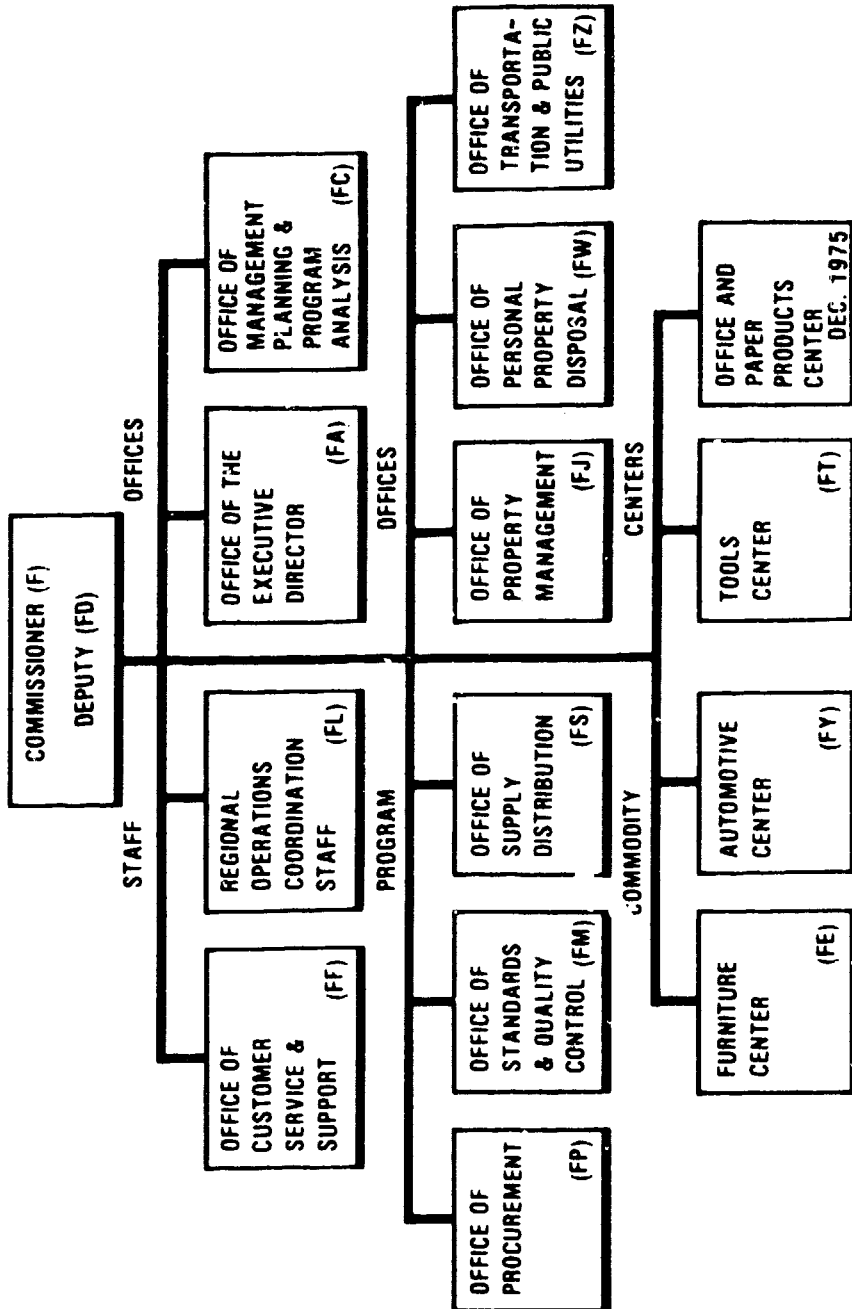
GSA also concurs in principle with our recommendation that it provide guidance and instructions to customer agencies who need to obtain greater control over use of the stores. GSA does not agree, however, that users should prepare a requisition for each item purchased at the store.

We believe that a requisition approval process is necessary within each customer agency to provide assurance that employees are purchasing items to meet a valid need or justification. Any inconvenience experienced by preparing requisitions before visiting self-service stores would be outweighed by the benefits of control. Since, as GSA mentions, agencies are responsible for controlling shopping plates, requisitions would provide an efficient means of controlling purchases.

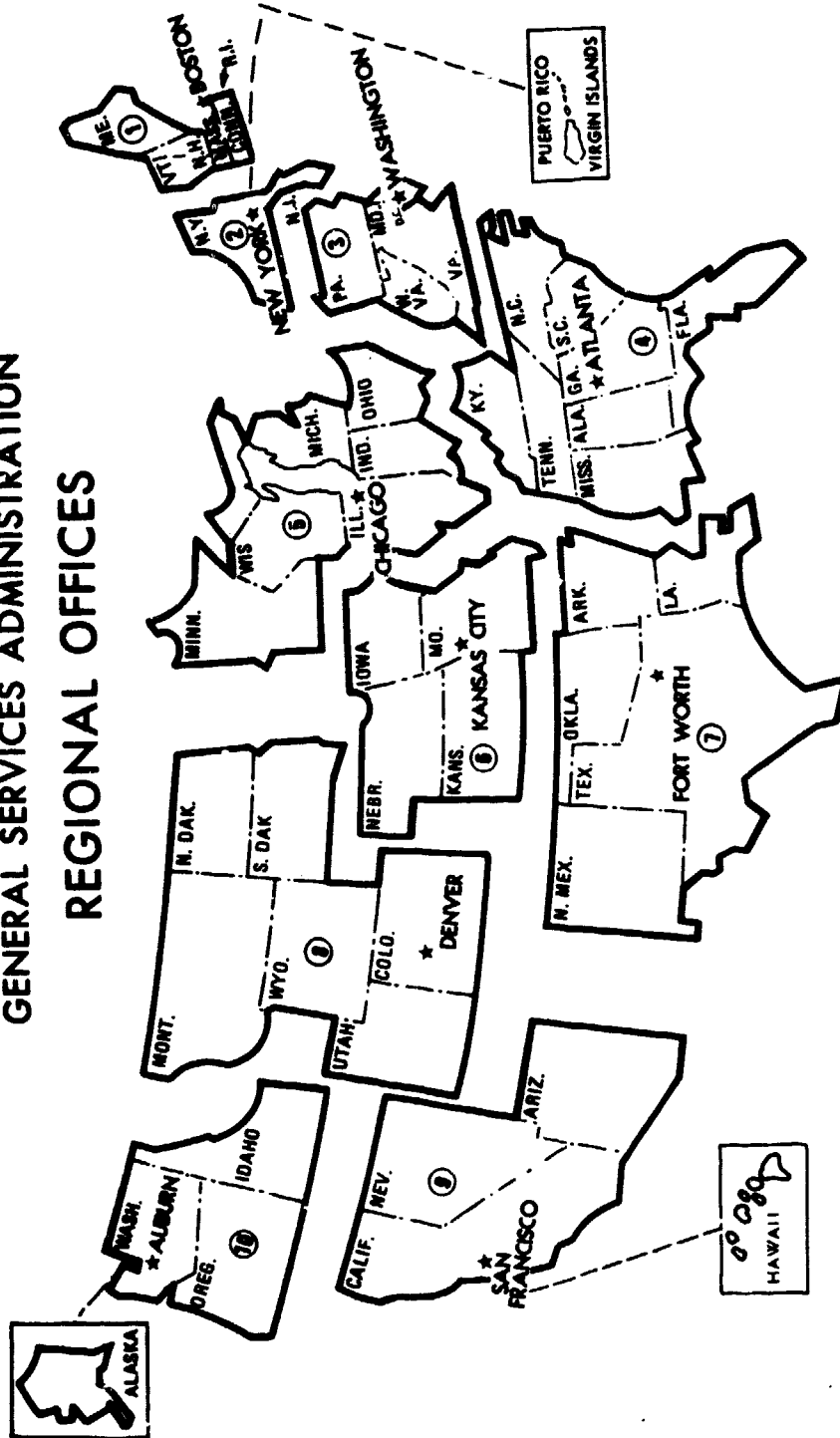
GENERAL SERVICES ADMINISTRATION



FEDERAL SUPPLY SERVICE CENTRAL OFFICE ORGANIZATION



GENERAL SERVICES ADMINISTRATION REGIONAL OFFICES



1971 GSA REGION 6 OFFICE
MEMORANDUM CONCERNING STOCKING OF
ADDITIONAL ITEMS BY SELF-SERVICE STORES

C O P Y

GENERAL SERVICES ADMINISTRATION

Region 6
1500 East Bannister Road
Kansas City, Missouri 64131

DATE: March 18, 1971

REPLY TO
ATTN OF: 6FSR

SUBJECT: SSS Memo #1-4
Stocking of additional items by self-service stores

6FSR-1 6FSR-2 6FSR-3 6FSR-4 6FSR-5 6FSR-6

A review of the stores' SSIR shows that the number of items stocked in the various stores ranges from a low of 1,336 items to a high of 2,695.

Theoretically, a self-service store should stock approximately 2,000 fast moving items. We realize that having a large number of items does not automatically guarantee greater volume. However, we are certain that most stores would have more volume if additional items were stocked.

During the coming months, each store should raise the number of items stocked to approximately 2,000. Put new items in the store on a trial basis, and let the customer know about them. Recently, literature was sent concerning Ozium Air Spray, plastic spray bottles and self-inking special rubber stamps. These items are selling well in the stores that have ordered them. All stores should stock items such as a road atlas, Thesaurus, and pink and yellow word-pickers, to name a few. More

emphasis on merchandising is needed at some stores. Don't be afraid to buy an item just because you've never had a request for it. The stores are established to aid customers. If an item is legal, there is no reason why it should not be bought for the customer, or stocked in the store.

As you add these new items to your stock, make certain they are added to your SSIR.

GSA SELF-SERVICE STORES SALES SLIP

	STORE NO.	DATE OF SALE	SALE NO.	AMOUNT	TYPE OF SALE
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The undersigned acknowledges receipt of the material covered by this Sales Slip and certifies its purchase is necessary for the Official Business of the U.S. Government.

SPECIAL TYPE ITEMS (Check, if applicable)

- FILM
- HAND TOOLS
- ATTACHE CASES
- AUTOMOBILE ACCESSORIES
- PHOTOGRAPHIC SUPPLIES
- AUTOMOBILE PARTS
- OTHER (Specify)

SIGNATURE John E. Yabuta

GSA SELF-SERVICE STORES SALES SLIP

GENERAL SERVICES ADMINISTRATION

GSA FORM 831 (REV. 1-73)

FEDERAL PROPERTY MANAGEMENT REGULATIONLIST OF PERSONALLY ATTRACTIVE ITEMS

Attache cases	Pencil sharpeners
Ballpoint pens	Portfolio (leather,
Ballpoint pen refills	plastic, and writing pads)
Brief cases	Rubber bands
Binders	Rulers
Carbon paper	Scissors
Dictionaries	Spray paint and lacquer
Felt tip markers	Stapler
File folders	Staples
Letterex	Staple removers
Letter openers	Tape dispensers
Pads (paper)	Transparent tape
Paper clips	Typewriter ribbons
Pencils	

UNITED STATES OF AMERICA
GENERAL SERVICES ADMINISTRATION
WASHINGTON, D.C. 20405



October 22, 1976

Honorable Elmer B. Staats
Comptroller General of the United States
General Accounting Office
Washington, D. C. 20548

Dear Mr. Staats:

This is in response to Mr. R. W. Gutmann's letter of August 23 1976, requesting the General Services Administration's (GSA) comments on your draft report to the Congress entitled, "Federal Supply Service Self-Service Stores Can Be Improved".

We concur with most of the audit recommendations. However, with respect to the comment concerning weak management in the program, while agreeing that some weak spots remain to be corrected, significant progress has been made to strengthen the management of self-service stores. The program has grown significantly in recent years. In conjunction with this growth, several noteworthy steps have been taken to improve the entire program. Examples include:

1. During an October 1975 reorganization of the Federal Supply Service, the entire self-service store program was placed under the organizational responsibility of the Assistant Commissioner for Customer Service and Support. The purpose of the move was to increase customer service with the support of Marketing, Market Research and National Liaison Programs.
2. In March 1976, the Civil Service Commission reclassified store manager grades to equalize salaries with the private sector. This permits the selection of a more professional staff.
3. Store managers now make visits to customer agencies to seek out new or improved ways that GSA might better fulfill customer needs.

4. In January 1976, we developed simplified procedures for adding new items to the stores. To fill these requirements, we expanded the procurement authority of store managers in April 1976.

5. To further strengthen the operation of the self-service stores, we are nearing completion of redrafting the store operations handbook.

At your convenience, we will be glad to answer any questions you may have regarding our comments.

Sincerely,


JACK ECKERD
Administrator
Enclosure

GAO Draft Audit Report:

"Federal Supply Service Self-Service Stores Can Be Improved"

Recommendation No. 1 - Consider the self-service store program as an extension of the depot program. As such, a high priority level should be assigned to the stores when ordering from the depots to ensure the availability of needed items on a regular basis.

Response: We do not concur in the use of high priorities when ordering for normal stock replenishment. A high priority rating substantially changes the processing of orders in the FSS system. This restricts efficient planning of the supply depot operation, affecting all work-in-process. In March 1976, GSA supply facilities were directed to establish distinct routes and stops for self-service store delivery, with selection for shipment not less than once weekly. This should assure adequate replenishment of stores' stocks. Also in February 1976, an ADP program was initiated to allow store managers to upgrade any back-ordered items from priority 15 to priority 8, providing for release of backorders to the stores prior to customers with priorities 9-15. However, in the event of an emergency or deterioration of supply support, the Store Managers will be instructed to assign a high priority level to replenishment requisitions.

Recommendation No. 2 - Direct store managers to use the EOQ principle when replenishing store items. Through EOQ the stores will realize savings in operating costs and inventory investments.

Response: We concur in the principle of EOQ as an integral part of inventory management. However, space and inventory limitations restrict its full use in the self-service store program. Also, it is not practical or feasible for Store Managers to manually attempt to compute cost to hold, cost to order and other computer mathematical equations involved in the computation of EOQ. Therefore, we apply a modified EOQ technique as permitted in FPMR 101-27.102.3. The modified EOQ technique is outlined in Chapter 25 of FSS P 2900.4, "Handbook of Supply Operations".

Recommendation No. 3 - Improve controls over reporting of inventory price changes. Controls should be able to reflect actual store inventory values.

Response: We concur in this recommendation. During management assistance visits we stress the importance of making timely price changes and submitting inventory adjustments. This coupled with the September 1976 ADP program change permitting backorder releases to the self-service stores at current catalog prices will reduce/eliminate pricing discrepancies in the stores.

Recommendation No. 4 - Revise self-service physical inventory procedures so that the inventories are taken by personnel not involved in daily store operations and reduce store closings for long periods which reduce sales and service.

Response: We concur in this recommendation. Inventory procedures are currently under review to develop methods to reduce/eliminate the time period stores are closed for taking inventory.

Recommendation No. 5 - Increase internal audit coverage of the self-service store operations.

Response: We concur that additional audit coverage would be worthwhile. Our Fiscal Year 1977 Audit Plan will include increased emphasis on self-service store operations.

[See GAO note.]

Recommendation No. 6 - Coordinate the issuance and control of shopping plates more closely with customer agencies.

Response: We concur in this recommendation. We plan to provide additional guidance and instructions on the use of shopping plates primarily through agency liaison visits and regional seminars. However, we must emphasize that the ultimate responsibility for the control of a shopping plate lies with the using agency, not GSA.

Recommendation No. 7 - Provide guidance and instructions to customer agencies enabling them to obtain greater control over day-to-day use of the self-service stores.

Response: We concur in principle. In accordance with FPMR 101-25.107 and 101-28.303, responsibility for controlling the use of shopping plates is vested in the agencies which use them. However, we will emphasize the need for additional controls primarily through agency liaison visits and regional seminars. We do not agree that it is necessary that the users prepare a requisition for each item to be bought with a shopping plate (second paragraph, page 27 of the draft report). This would negate the basic intent of shopping in the self-service stores.

GAO note: The deleted comment pertains to a matter discussed in the draft report but omitted from the final report.

PRINCIPAL OFFICIALS OF THE
GENERAL SERVICES ADMINISTRATION
RESPONSIBLE FOR THE
ACTIVITIES DISCUSSED IN THIS REPORT

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
ADMINISTRATOR, GENERAL SERVICES ADMINISTRATION:		
Robert T. Griffin (acting)	Feb. 1977	Present
Jack M. Eckerd	Nov. 1975	Feb. 1977
Dwight A. Ink (acting)	Oct. 1975	Nov. 1975
Arthur F. Sampson	June 1972	Oct. 1975
Rod Kreger (acting)	Jan. 1972	June 1972
Robert L. Kunzig	Mar. 1969	Jan. 1972
COMMISSIONER, FEDERAL SUPPLY SERVICE:		
Wallace H. Robinson, Jr.	Feb. 1976	Present
J. H. Bolton (acting)	Nov. 1975	Feb. 1976
Michael J. Timbers	June 1973	Oct. 1975
Milton S. Meeker	Jan. 1972	June 1973
Lewis E. Spangler (acting)	May 1971	Jan. 1972
H. A. Abersfeller	Mar. 1970	May 1971
ASSISTANT COMMISSIONER FOR CUSTOMER SERVICE AND SUPPORT (note a):		
D. K. Mitchell	Oct. 1975	Present
ASSISTANT COMMISSIONER FOR SUPPLY DISTRIBUTION:		
William B. Foote	Feb. 1973	Present
George W. Saunders	June 1965	Feb. 1973

a/The Federal Supply Service Office of Customer Service and Support was established on October 1, 1975, by GSA order. This office assumed responsibility for the self-service store program which was transferred from the Office of Supply Distribution.