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The Federal Supply Service (FSS) is responsible for the procurement and supply of goods and services to Federal agencies. It maintains a priority requisitioning system in which customers assign a priority designator to each requisition indicating the urgency of their need, and requests are handled according to the priorities. Findings/Conclusions: There was extensive misuse of high priority codes. In a sample of civil and military requisitions in three FSS regions, 79% of high priority requisitions sampled had been assigned invalid designators. In March 1977, FSS started using a new computer system, the Central Requisition Router, to determine the most economical depot to fill customer requests. During fiscal year 1977, the system rerouted 95% of high priority requisitions, which could not be filled by primary depots, to secondary depots at an increase in transportation costs of about $1.06 million. High costs are also incurred by emergency purchases of relatively small quantities of items needed to fill priority requisitions. Delays in processing routine requisitions are caused by the large volume of high priority requisitions being handled. FSS believes that the responsibility for correcting the misuse of high priorities belongs with the requisitioning activities. While GAO acknowledged that the agencies are responsible for assigning priorities, FSS should do what it can to see that agencies comply with the intent of the priority system. Recommendations: The Commissioner of FSS should be required to: establish control procedures for monitoring the use of priority codes by customers; initiate programs to assist Federal agencies in developing management programs and procedures to promote the proper use of the priority code system; reevaluate the controls in the Central Requisition Router decision processes; and study the feasibility of implementing a program in which a premium would be paid by customers for priority treatment of orders. (HTW)

5131

REPORT TO THE CONGRESS

BY THE COMPTROLLER GENERAL OF THE UNITED STATES

Need For Improvements In The Federal Supply Service's Priority Requisitioning System

When ordering supplies from the General Services Administration, many Federal agencies are overstating the urgency of their need by assigning high priority codes to their requisitions. This results in shorter delivery requirements than necessary which (1) delays filling routine requisitions that are properly coded and (2) leads to higher transportation costs when requisitions must be filled by depots that are not the most economical. In fiscal year 1977 the General Services Administration's Federal Supply Service incurred $1.06 million in increased transportation costs due to high priority requisitions being filled by an alternate depot.

LSAD-78-47

JANUARY 25, 1978

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

B-114807

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

This report discusses the problems involved in the General Services Administration's priority requisitioning system. It also describes the General Services Administration's new computer system designed to minimize costs and improve service to customers.

Our review was made to determine the extent and effects of agencies' misuse of the priority system on the Federal Supply Service's operations and transportation costs of priority items.

We made our review pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

We are sending copies of the report to the Acting Director, Office of Management and Budget, and the Administrator of General Services.

Comptroller General
of the United States

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

NEED FOR IMPROVEMENTS IN THE FEDERAL SUPPLY SERVICE'S PRIORITY REQUISITIONING SYSTEM

D I G E S T

The Federal Supply Service of the General Services Administration is responsible for the procurement and supply of goods and services to Federal agencies. It maintains a priority requisitioning system. Customers assign a priority designator to each requisition indicating the urgency of their need. The Federal Supply Service then handles each request as dictated by the priority assigned.

GAO examined the extent of the use of high priority requests by Federal agencies and the effects of these requests on the Federal Supply Service's operations.

GAO found an extensive misuse of high priority codes. In a sample of civil and military requisitions in three Federal Supply Service regions, GAO found that 79 percent of the high priority requisitions sampled had been assigned invalid high priority designators. The reasons given by the agencies for this misuse were due to problems with the Federal Supply Service--poor services and delays in shipping low priority orders--or problems originating with the agencies--ignorance of the priority designator system and lack of customer planning for future needs. (See pp. 3 to 6.)

An analysis of the effect on depot operations showed that there have been delays in processing routine requisitions because of the significant volume of high priority requisitions being handled. (See p. 7.)

Emergency purchases of relatively small quantities of items needed to fill priority requisitions are frequently negotiated at high cost. In a prior review, GAO found

that the prices increased as much as 76 percent and averaged about 23 percent higher than prices paid under prior advertised contracts. (See p. 2.)

Unnecessary transportation costs have also been incurred. If a primary depot--generally the depot closest to the requisitioning organization--does not have the needed goods onhand, a search is made to locate a secondary depot which can provide the goods in a timely manner but at increased transportation costs. GAO examined 198 high priority requisitions referred to secondary depots during November 1975 and February 1976 and found that the transportation cost was 118 percent greater than it would have been if the primary depot had shipped the goods. (See pp. 7 to 10.)

In March 1976 the Federal Supply Service started using a new computer system, the Central Requisition Router, to determine the most economical depot to handle customer requests. GAO found that during fiscal year 1977, the system referred 95 percent of the high priority requisitions, which could not be filled by the responsible primary depots, to secondary depots. The increase in transportation costs attributable to these referrals was about $1.06 million. GAO further estimates that the Federal Supply Service incurred about $3.6 million in increased transportation costs due to both Central Requisition Router and commodity manager referrals of both high and low priority requisitions in fiscal year 1977. (See pp. 11 and 12.)

GAO's analysis of the Central Requisition Router showed that misuse of high priorities can aggravate the higher transportation cost problems. The decision processes in the router are more lenient in referring high priority requisitions to secondary depots than they are in referring low priority requisitions. In addition, the increase in transportation costs per high priority item referred to secondary depots is twice that of low priority items. (See pp. 12 and 13.)

The Federal Supply Service is aware of the misuse of high priorities and the effects on its operations, but believes the responsibility for correcting the problem belongs with the requisitioning activities. GAO acknowledges that the Federal agencies are responsible for assigning priorities to requisitions. However, GAO believes that it is the Federal Supply Service's responsibility to do what it can to see that the agencies comply with the intent of the priority system. (See p. 13.)

To control the misuse of high priority codes and to eliminate unnecessary increases in costs, GAO recommends that the Administrator, General Services Administration, require the Commissioner, Federal Supply Service, to:

--Establish control procedures for monitoring the use of priority codes by customers and following up on agencies frequently issuing high priority orders.

--Initiate programs to assist Federal agencies in developing management programs and procedures to promote the proper use of the priority code system.

--Reevaluate the controls in the Central Requisition Router decision processes.

--Study the feasibility of implementing a program whereby Federal Supply Service customers, submitting high priority requisitions, would pay a premium for the priority treatment of their orders.

The General Services Administration did not concur with GAO's recommendations. It believes its present methods for monitoring agency use of high priority designators are adequate. In addition, the General Services Administration does not believe that a study should be made on the feasibility of assigning a premium to high priority

requisitions. It believes that assigning premiums to high priority requisitions might cause its customers to buy increased quantities on the open market at an even greater cost to the Government. GAO believes that this would not be a natural result.

After our audit work ended, the Federal Supply Service issued instructions to customer service representatives, commodity managers, and requisitioning activities reemphasizing the need for proper use of priority codes. It also plans to issue a Federal Property Management Regulations Bulletin urging stricter compliance with the requirements for use of priority designator codes.

GAO believes that the actions taken by the General Services Administration will not be effective in correcting the deficiencies involved. They are the same as, or similar to, actions taken in the past that have proven ineffective. GAO, therefore, urges General Services Administration to take the additional actions recommended. (See pp. 17 to 20.)

Contents

ABBREVIATIONS

CRR	Central Requisition Router
FSS	Federal Supply Service
GAO	General Accounting Office
GSA	General Services Administration

CHAPTER 1

INTRODUCTION

The General Services Administration's (GSA's) Federal Supply Service (FSS) is responsible for supplying common-use items to Federal agencies at the lowest overall cost. The operations are carried out by 10 regional offices. Each region, together with FSS headquarters, administers a depot program; about 33,000 different common-use items are purchased and stocked in 23 regional depots. The items are sold and shipped to Federal agencies, cost reimbursable contractors, and other authorized user activities.

FSS maintains a priority requisitioning system. Customers assign a priority designator to each requisition indicating the urgency of their need. FSS then handles each request as dictated by the priority assigned. These designators consist of a 2-digit number ranging from 01 through 15 and indicate the relative importance and urgency of the item requisitioned.

FSS guidelines instruct customers on the appropriate use of the priority system. The designators are divided into three groups, each specifying criteria for its use. Group 1 (codes 01 through 03) and Group 2 (codes 04 through 08) are considered high priorities that require immmediate action. When assigning codes 01 through 06, customers are required to maintain documentation substantiating the urgency of the need. FSS is required to deliver the items within 7 days for Group 1 and 11 days for Group 2 requisitions. Group 3 is considered a normal priority to be used for routine stock replenishment and all other conditions not covered by Groups 1 and 2. FSS has 29 days to fill Group 3 requests.

The management of the priority requisitioning system is facilitated by an electronic data processing system. This system, called the Central Requisition Router (CRR), receives all incoming requisitions; analyzes the transportation cost in each stocking depot; and selects the most economical depot, called the primary depot, to fill that requisition. If the primary stocking depot does not have the requested stock, the requisition will enter a supply decision routine which may refer it to a secondary depot or place it on backorder at the primary depot until stock is received. There are four segments to the supply decision routine. Each segment evaluates a separate factor of the request and may decide to either refer the requisition or enter the next decision process. These decisions are affected by the priority assigned to the requisition.

In an August 14, 1975, letter to the FSS Commissioner, we reported that abuses by Federal agencies in assigning priority codes frequently resulted in unnecessary procurements by negotiation at premium prices. In reviewing a sample of such procurements, we found that prices were as much as 76 percent higher and averaged about 23 percent higher than prices paid under prior advertised contracts. In a number of the cases, the contracting officer agreed that the purchases probably could have been made at lower prices except for the time constraints caused by the high priority code used. We concluded that costly purchases under the exigency exception could be substantially reduced through better planning and management of stocks by GSA and through more control over priority designator assignments.

SCOPE OF REVIEW

We examined the use and operation of the priority requisitioning system by both FSS and its customers to determine (1) the extent of agency use of high priority designators, (2) the validity of this use, (3) what FSS does to control this use, (4) what differences existed in the way FSS handles high and low priority requisitions, and (5) the effects of both high and low priority requisitions on FSS operations.

To achieve these objectives, we analyzed (1) a random sample of requisitions in three FSS regions which were assigned high priority designators, (2) the priority assignment practices of customers in four FSS regions, (3) the decision processes of CRR in processing all requisitions, and (4) a random sample of high priority requisitions which were referred to alternate depots.

Our review included work at FSS headquarters and GSA's regions 1, 3, 6, and 10. We sent 282 questionnaires to civil and military activities in GSA's regions 1, 3, and 6. The questionnaires concerned the validity of the priorities assigned to specific requisitions. An analysis of those responses is included in chapter 2 of this report. We also analyzed the extent of high priority assignments by both civil and military activities in all four regions.

Our review concentrated on problems with the priority requisitioning system and the effects of the misuse of high priorities. Another closely related area--the adequacy of stocking levels at GSA depots--was not covered in this review.

CHAPTER 2

EXTENSIVE USE OF HIGH PRIORITIES

In a sample of civil and military requisitions in three FSS regions, we found that 79 percent of the high priority requisitions had been assigned invalid high priority designators. An analysis of customers in four FSS regions showed that the majority of customers who issued 50 or more high priority requisitions, issued such requisitions more than 50 percent of the time. In fact, almost 33 percent of these customers assigned high priority designators to over 95 percent of their requisitions.

MISUSE OF PRIORITY SYSTEM

Between November 24, 1975, and February 22, 1976, FSS regions 1, 3, and 6 received 3,161, 13,772, and 34,772 requisitions, respectively, which had high priority code assignments. These requisitions were from customers located both within and outside of each region's boundaries and included referrals from other regions.

To determine the validity of these assignments, we selected a random statistical sample of 282 high priority requisitions submitted to FSS by civil and military activities. We sent a questionnaire requesting justification for the priority code assignment to each customer in the sample. An analysis of the customers' responses revealed that 79 percent of the assignments were invalid at a 95-percent confidence level. 1/ The following table shows the results of this analysis:

Category	Requisitions					
	Civil		Military		Total	
	No.	Percent	No.	Percent	No.	Percent
Valid assignment	13	9	45	34	58	21
Invalid assignment:						
Problem with FSS	50	33	31	24	81	29
Customer problem	87	58	56	42	143	50
Total	150	100	132	100	282	100

1/A 95-percent confidence level means that there is only 1 chance in 20 that the difference between the estimates obtained from the sample and an audit of all requisitions would be greater than the sampling errors.

Valid assignment

Only 9 percent of the civil requisitions and 34 percent of the military requisitions analyzed were found to have a valid high priority code assignment. These assignments were generally made because the activity's ability to perform its mission could have been impaired and involved items required for equipment maintenance, needed tools replacement, and production delays prevention. Several of the valid requests were "walked through" (emergency pickup) by the customer.

Problems attributed to FSS

Customers responsible for 81 of the sampled requisitions attributed their misassignment of the high priority codes to past problems with FSS. The majority of these customers responded that they had done so because of FSS's previous poor service and delay in shipping items ordered with low priorities. One customer replied that it normally took 25 to 40 days to receive an item requested under a priority 08, while another told us that it generally took 50 to 75 days under a priority 15. GSA instructions allow 11 days for a priority 08 and 29 days for a priority 15. This customer had used a priority code of 06 on his three sampled items, and these requisitions resulted in deliveries from 27 to 63 days.

Several customers replied that FSS representatives had advised them to use a high priority code. One customer that was requisitioning 20 boxes of forks said that it was told to use a priority of 02 to 08 instead of 12. The reason given was that even though there was stock in the depot, it was limited and would not have been released to any requisition which had a priority greater than 08.

Some of the requisitions had left the ordering activities with a low priority but were elevated to a high priority code somewhere in FSS's supply system. Other requisitions were reordered under high priority codes because of (1) previous requests being canceled several times by FSS, (2) nonreceipt of items ordered under normal priorities, and (3) receipt of items with an expired shelf life.

Most of the items on the 81 requisitions were given high priority codes even though they were for customers' routine stock replenishment. Also, many were ordered in large quantities, including 288 wood rulers, 2,000 filing jackets, 288 salt shakers, and 576 rolls of cellophane tape.

Problems originating with the customers

We found 143 of the requisitions analyzed to have been improperly assigned high priority codes due to problems that originated with the customers. The major causes were nonconformance to or ignorance of the priority designator system and lack of customer planning for future needs. Other reasons included typographical and keypunch errors, lack of supervision over internal requisitioning procedures, and a normal practice of always using high priority codes. The latter was justified on the basis that all needs were urgent or that the customers lacked storage space.

Some customers that failed to plan for the future supply needs rationalized the use of the high priority codes on the basis of delivery time. Because they had not allowed sufficient time to receive the items before their stock was depleted, they assigned higher codes to obtain shorter delivery dates. FSS's instructions governing the use of the priority codes specifically prohibit this practice. The instructions require a code of 09 through 15 to be used when requisitioning items to replenish stock.

Most of the 143 items were for customers' routine stock replenishment and were ordered in large quantities. Examples of the items and quantities ordered included 200 boxes of index tabs, 1,444 erasers, 6,552 rolls of pressure tape, 50 cartons of razor blades, and 60 bed blankets.

Customers acknowledging misuse indicated there would be closer internal screening of requisitions in the future. In addition, others responded that they would implement informal training to familiarize personnel with the priority designator system.

Widespread use of high priority codes

FSS officials informed us that, as a general rule of thumb, no more than about 10 percent of an activity's requisitions should be coded high priority. FSS's Customer Service Branch maintains a quarterly report on customer ordering patterns which shows the number of requisitions received from each customer by priority group. This report indicates that some customers code most of their requisitions as high priorities.

We examined a section of this report which showed all customers that ordered 50 or more high priority requisitions from regions 1, 3, 6, and 10 during April, May, and June of 1976. There were 747 activities in this group, and their

requisitions accounted for approximately 50 percent of each region's total business for the 3-month period. Approximately 45 percent of the requisitions on the reports were assigned high priorities.

Only 19 of the 747 customers met FSS's general rule of 10 percent for high priority requisitions. Of the 728 customers that exceeded the 10-percent rule, 259 submitted between 50 and 94 percent of their requisitions with high priority codes; 216 submitted over 95 percent. (See app. I.)

The 747 customers consisted of 361 civil and 386 military activities. The Departments of Agriculture and the Interior and the Veterans Administration accounted for 133 of the 361 civil activities. There were 83 GSA activities; most submitted more than 95 percent of their requests with high priority codes.

Of the 386 military activities, 145 were Navy facilities, and 156 were Air Force activities. These two Departments accounted for 78 percent of the defense activities submitting 50 or more high priority requests. The majority of the Navy activities assigned high priority codes to over 50 percent of their requisitions.

CHAPTER 3

EFFECTS OF THE MISUSES OF HIGH PRIORITY CODES

The purpose of the priority system is to enable FSS to give special and prompt attention to filling requisitions for urgently needed supplies. When customers misuse the system, it causes workload problems at depots, processing and shipping delays for routine requisitions, and unnecessary transportation costs. It can also result in small procurements being expedited at higher than normal prices as discussed in our report of August 14, 1975, mentioned on page 2. Most of the following discussion centers on unnecessary transportation costs, one of the most costly effects of misusing high priorities. FSS is aware of the misuse of the priority system and the negative effects it has on FSS operations but believes the responsibility for correcting the problem belongs with the requisitioning activities.

EFFECTS OF PRIORITIES ON DEPOT OPERATIONS

Each regional office maintains a computer file of routine priority coded requisitions awaiting processing and shipping. High priority requisitions bypass this file and are transmitted directly to the appropriate depot for immediate processing. Daily, a planned workload of the low priority requisitions is taken from the file and sent to the depot for processing. The volume of this workload is based on the depot's capacity remaining after the higher priority requisitions are processed. If a large volume of high priority requisitions is received, the low priority requisitions are obviously delayed. When this occurs daily, a lengthy delay in shipping low priority requisitions can result.

For the first 9 months of calendar year 1976, 24 percent of all requisitions shipped by region 3 had high priority codes. For this time period, an average of 35 percent of all the requisitions shipped by region 3 were late; the major cause was the large volume of high priority requisitions being processed.

EFFECTS OF HIGH PRIORITIES ON TRANSPORTATION COSTS

The misuse of the high priority requisitions causes unnecessary transportation costs. If a primary depot--generally the depot closest to the requesting organization--does not have the needed goods on hand, a search is made to locate a secondary depot which can provide the goods in a timely

manner, but at increased transportation costs. We examined 198 high priority requisitions, referred to secondary depots during a 3-month period, to determine the increase in transportation costs. We found that transportation costs were 118 percent greater than they would have been if the primary depots had shipped the goods. During this time only high priority requisitions were referred to secondary depots. Routine requisitions had to be filled by the primary depot.

In March 1976 FSS started using CRR to determine the most economical depot to ship customer requisitions. The primary difference between CRR and the prior referral system is that CRR forwards some routine as well as priority requisitions to secondary depots to be filled. We found that during fiscal year 1977, CRR referred 95 percent of the high priority and 77 percent of the low priority requisitions which could not be filled by the responsible primary depots. Further, a substantial number of additional requisitions were manually referred to secondary depots by commodity managers after CRR found it uneconomical to do so. For fiscal year 1977 we estimate that FSS will have incurred about $3.6 million in increased transportation costs due to both CRR and commodity manager referrals--about $1.06 million attributed to referrals of high priority coded items. About $2.8 million was incurred under CRR, and we estimated an additional $0.8 million as a result of manual referrals by inventory managers.

Examples of increased transportation costs from November 1975 to February 1976

As explained above, FSS changed its system of referring high priority requests to secondary depots in March 1976. Although the following examples are from a prior time frame, they illustrate the increased transportation costs caused by referring high priorities with a questionable urgency.

To determine the percentage increase in transportation costs incurred by shipping high priority items from alternate depots, we selected a random sample of 200 civil and 200 military high priority requisitions received by regions 1 and 3 during a 3-month period. These requisitions originated in activities located outside of each region's service area, but were filled by regions 1 and 3. All were assigned high priority codes of 01 through 06. We obtained the actual cost of transportation, except for those requisitions which were sent by parcel post, where the cost had to be estimated. By comparing this actual cost to the cost which would have

been paid had the items been shipped from primary depots, we determined the additional cost incurred by shipping from alternate depots.

Of the 400 sample requisitions, 289 were referred to and shipped from alternate depots. The remaining orders were either shipped from primary depots, canceled, or their shipping costs could not be determined. 1/ The following is a summary showing the excess costs incurred on the 289 requisitions:

No. of requisitions	Method of transportation	Actual shipping cost	Primary depot shipping cost	Difference between actual and primary costs	
				Cost	Percent increase
97	Commercial carrier	$2,539.11	$1,055.41	$1,483.70	141
192	Parcel post	500.90	339.83	161.07	48
289		$3,040.01	$1,395.24	$1,644.77	118

Specific examples of these shipments are illustrated in the table on the next page.

1/Sample selection was based on the geographic location of the requesting activity--96 items were requested by activities located within the regions' boundaries.

Examples of High Priority Requisitions Shipped by Commercial Carriers

Item	Quantity	Destination	Value	Transportation costs			
				From shipping depot	From primary depot	Percent of cost increase	Percent of actual cost to value
Washington, D.C., shipping depot:							
Flat glass	1 carton	Vallejo, Calif.	$19.80	$20.95	$6.89	204	106
Revolving chair	25 each	Chattanooga, Tenn.	$2,400.00	$122.21	$21.56	467	5
Steel desk	2 each	Dorisville, R.I.	$370.00	$42.61	$14.93	185	12
Boston, Mass., shipping depot:							
Paint	1 gallon	Washington, D.C.	$3.80	1/$17.60	$14.10	25	463
Sanitary napkins	4 cases	Richland, Wash.	$140.00	$69.08	$9.86	600	49
Air filters	600 each	Oakland, Calif.	$420.00	$214.63	$25.29	749	51
Dinner plates	6 dozen	Mountain Home, Idaho	$31.80	$25.30	$13.94	81	80

1/We were informed by a GSA official that this item could have been shipped by United Parcel Service for $2.01.

Impact of CRR

CRR was installed as an attempt to improve customer service and eliminate unnecessary transportation costs. It receives all incoming requisitions; analyzes the transportation costs in each stocking depot; and selects the most economical depot, called the primary depot, to fill the requisitions. CRR is designed to handle and give special consideration to requests with high priorities before those of low priorities.

After CRR selects the primary depot, the stock level at the depot is examined. If the depot has stock available, the requisition is forwarded for shipping. However, when this depot does not have stock available, CRR must determine whether to refer the requisition to some secondary depot or to backorder the requisition at the primary depot. This decision is broken into four separate segments and is based on the priority code assigned to the requisition, the difference in transportation costs between the two depots, and the anticipated time lapse before the primary depot would receive stock on backorder.

The first segment considers only those requisitions which can be sent by parcel post and have a high priority code of 01 through 03. These requisitions are automatically forwarded to secondary depots without economic analysis. Justification for this action is based on the urgency of the need implied by the high priority code.

All other requisitions enter the second decision segment. This segment examines the increase in transportation costs between the primary and secondary depots. If the increase is less than 5 percent, a requisition will be referred; if not, the requisition will advance to the third segment of the decision process.

The third segment evaluates the potential delay involved in filling the requisition at the primary depot. The evaluation is based on the priority code assigned to the requisition and the delay anticipated until stock is received at the primary depot. If the delay criteria is satisfied and the difference in cost between shipping an item from a primary and secondary depot to the customer does not exceed $250, the item is referred. Those which have an increase in transportation cost of more than $250 are backordered. The remaining requisitions, which did not meet the delay criteria, enter the final segment of the decision process.

This fourth process introduces a penalty cost to the decision. The cost is developed by considering any anticipated delay for each requisition on the basis of the priority assigned and the number of days delay involved if the requisition is backordered. If this penalty cost exceeds the increase in transportation cost, the requisition will be referred. If it is less than the increase, the requisition will be backordered at the primary depot. However, commodity managers responsible for the items on requisitions which are backordered by CRR may elect to override CRR's decision and refer the requisition to the secondary depot.

Misuse of high priorities and the higher transportation costs

We found that the high volume of CRR referrals to secondary depots is caused by overly lenient control values used in the decision segments. Furthermore, CRR decision processes are more lenient in referring high priority requisitions than low priority requisitions. For example, the first decision process involves no economic analysis. The third and fourth decision processes, however, use the priority assigned to the requisition as a basis for determining whether or not the potential delay in filling the requisition at the primary depot is tolerable.

In the third decision process, the transportation cost differential of $250 is one factor designed to stop uneconomical referrals. In the random sample of 400 high priority requisitions, shipped from regions 1 and 3 to customers located in other FSS regions, none were found to have a cost differential of $250 or more. Furthermore, this differential is the same for shipments of all weights and distances. This figure appears high and unrealistic since shipment of a carton of pencils is evaluated against the same criteria as a shipment of filing cabinets.

In fiscal year 1977, 95 percent of the high priority and 77 percent of the low priority requisitions, which could not be filled by the primary depot, were referred to secondary depots. The increase in transportation cost for high priorities was $1.06 million; for low priorities, $1.75 million. The additional transportation cost per high priority items referred to secondary depots was more than twice as much as that for a low priority item.

Additional Cost of Transportation Incurred During Fiscal Year 1977

	High priority requisitions	Low priority requisitions	All requisitions
Number invoking program	203,862	953,205	1,157,067
Number referred by CRR	194,513	736,215	930,728
Percentage referred	95	77	80
Additional cost incurred	$1,065,526	$1,752,734	$2,818,260
Additional cost incurred per requisition referred	$5.48	$2.38	$3.03

Magnitude of interregional shipments

In fiscal year 1976, 10 FSS regions had $608.9 million in sales to domestic customers. For this time period, $168.5 million of these sales were interregional, amounting to 28 percent of the total sales. Though some of the interregional sales were the result of stock being assigned only to specific depots, many were for items commonly stocked in all regions. For example, region 3 handled $24.3 million in sales for customers located outside of its assigned service area; however, only $5 million of these sales were the result of region 3 being the sole stocking region.

FSS AWARE OF MISUSE

FSS is aware of the misuse of high priorities and the negative effects it has on FSS operations, but disclaims responsibility. An official informed us that FSS customer representatives do counsel some of the major high priority users of their possible abuse of these codes; however, they lacked the authority to limit the use of these codes.

FSS officials believe the requisitioning guidelines contain adequate information and instructions and that the agencies should insure compliance with these instructions. In a 1975 letter to our Office, the FSS Commissioner wrote,

> "* * * regarding the validation of priority designations, FSS is not in a position to

monitor the justification for assigned priority designators. The justification should be convincing within the requisitioning agency before the request is sent to FSS."

However, the FSS priority designator guidelines inform customers of FSS's right to audit their justification for using high priority codes.

CHAPTER 4

CONCLUSIONS AND RECOMMENDATIONS

ONCLUSIONS

Currently there is widespread misuse by many Federal agencies in the assignment of high priority codes for processing FSS requisitions. Misuse has imposed problems on FSS operations. Considering the magnitude of interregional shipments and the substantial increase in cost they may incur, we believe FSS should do all it can to correct the problems identified.

We believe that the volume of referrals is higher than it should be due to the leniency in the decision processes and the misuse of high priority codes. This aggravates the problem of secondary depots incurring higher transportation costs since the average increase in cost per high priority item is $3.48 as opposed to $2.38 per low priority item. (See ch. 3.)

We believe FSS is responsible for monitoring the use of the priority system and insuring that agencies comply with its instructions. This responsibility is contained in the regulations governing FSS operations.

CRR was installed to improve the service to customers and minimize the costs of transportation involved in shipping customers' requisitions. We believe CRR has the potential to substantially improve FSS. We do not believe, however, that it is operating effectively due to the misuse of high priority codes and the overly lenient control values used in the various decision segments. FSS, in particular, needs to reconsider the $250 constant intended to reduce unnecessary additional transportation costs. In this case, a tolerable maximum percentage increase in transportation costs, rather than the $250 constant, may be one alternative.

In our review we did not analyze the stocking levels and stocking patterns at GSA depots. In addition to adopting the following recommendations, we believe GSA should look into the possibility of making improvements in its depot stocking patterns to reduce the number of shipments that are being made from alternate depots.

RECOMMENDATIONS

To control the misuse of high priority codes and to eliminate unnecessary increases in costs, we recommend that the Administrator, GSA, require the Commissioner, FSS, to:

--Establish control procedures for monitoring the use of priority codes by customers.

--Initiate assistance programs whereby FSS could aid Federal agencies in developing management programs and procedures to assure proper use of the priority code system.

--Reevaluate the control values used in the CRR decision processes.

--Study the feasibility of implementing a program whereby FSS customers, submitting high priority requisitions, would pay a premium for the priority treatment of their orders. This would more closely relate billings with services provided and could serve as a deterrent to the misuse of high priorities.

CHAPTER 5

AGENCY COMMENTS, OUR EVALUATION, AND AGENCY ACTIONS TAKEN OR PLANNED

Agency comments are contained in appendix II. The following is a discussion of the agency's major comments on our report and our evaluation of these comments.

AGENCY COMMENTS AND OUR EVALUATION

GSA did not concur with our recommendation to establish control procedures for monitoring the use of high priority codes by customers. GSA commented that the present methods it employs to monitor the use of the high priority system are adequate--(1) customer service representatives use a quarterly report of customer ordering patterns to identify excessive use of high priority codes and discuss this use in meetings with customer agencies and (2) with respect to DOD, scheduled briefings are held where the use of priority designators is discussed.

We do not agree that the present GSA methods are sufficient. GSA regulations do state that the customer service representative, in preparation for his visit to requisitioning activities, should review this quarterly report for priority utilization as well as sales volume, ordering patterns, and other factors. No other guidance or instructions are given, however, as to what might constitute excessive use of high priority codes. We continue to believe that GSA should establish control procedures by providing guidelines as to what percentage might constitute excessive use of high priorities and require customer service representatives to followup on the validity of the activity's priority designations. We believe these procedures would provide GSA management better visibility on possible abuse of high priority designations.

GSA commented that because of the nature of the system, FSS cannot ensure compliance with the intent of the use of priority designator codes except on an after-the-fact basis. It states that the application of priorities relies on the integrity of the requisitioning activities, and to preclude misuse is dependent on the cooperation and support of the management of these activities.

We agree that the proper use of priority codes is largely dependent on civil and military agency cooperation.

We believe, however, that increased efforts are needed, as our second recommendation suggests, to gain cooperation from Federal agencies by assisting them to develop internal programs to better assure the proper use of the priority code system.

On our recommendation to initiate programs to help agencies set up procedures to ensure proper use of priority codes, GSA commented that customer service representatives and notices published in regional newsletters provide assistance on the use of priority designators. GSA also stated that continued emphasis will be placed on this subject during future onsite visits and interagency seminars.

As evidenced by our analysis of a sample of high priority requisitions, there was a high incidence of abuses--91 percent of the civil agency requisitions, and 66 percent of the military requisitions. We believe that this information suggests that additional GSA assistance and agency cooperation is needed, particularly in civilian agencies, to reduce the high frequency of abuse. One such aid to agencies might be providing agency procurement officials with a summary of those activities under their cognizance which are experiencing excessive high priority code usage.

In commenting on our recommendation to reevaluate the control values in the CRR decision processes, GSA advised that it would consider establishing a variable percentage of increased transportation cost as a cost control factor.

GSA did not agree with our projection of over $1 million increased transportation costs for high priority referrals for fiscal year 1977. GSA stated that the average increase in transportation costs per month for priority requisitions coded 01 through 03 was $6,833, $5,854, and $5,479 for the first three quarters of fiscal year 1977, respectively.

GSA, however, did not consider the additional high priority codes 04 through 08 in its computation. On the basis of the actual data for fiscal year 1977 (tabled below), the increase in transportation costs for high priority referrals by CRR was $1.06 million. An additional $1.75 million was incurred for low priority requisitions which were referred to secondary depots by CRR. We believe these costs are considerable and feel they should be carefully evaluated as to the benefits they produce.

Monthly Average (By Quarter) of the Number of Requisitions Referred by CRR and the Additional Transportation Costs Incurred during FY 1977

	High priorities				Low priorities	
	Group I--01-03		Group II--04-08		Group III--09-15	
Quarter	Number	Cost	Number	Cost	Number	Cost
1st	1,332	$6,833	19,004	$98,198	70,703	$129,122
2d	1,222	$5,854	14,090	$75,113	56,727	$ 91,743
3d	1,015	$5,479	12,892	$70,187	56,190	$156,461
4th	1,144	$5,825	14,138	$87,687	61,785	$206,918

In an effort to reduce the number of items manually referred by item managers, GSA issued instructions on December 20, 1976, and May 31, 1977. The December memorandum placed a moratorium on item manager referrals except in emergencies. This instruction was superseded by the May guidance which provides for customer complaints, inventory imbalance, and other instances that item managers can cite as reasons to refer the item to a secondary depot for action. We believe that while the initial instruction probably severely reduced the number of manually referred items, the May instruction will have the effect of significantly increasing the number.

GSA did not agree that a feasibility study should be made on the possibility of assigning a premium for priority requisitions. GSA felt that an adverse customer reaction could be created if customers were penalized because GSA primary depots were out of stock. GSA commented that arbitrarily assigning premiums to all priorities would in all probability force agencies to buy products on the open market at higher costs to the Government. Further, GSA believes that charging premium transportation would be contrary to their agreement with DOD to support combat readiness.

We view the assignment of a premium to high priority requisitions as a surcharge for preferential treatment to offset increased costs to GSA. Presently, we believe there is little, if any, incentive for agencies to use the lower priority designators because the same price is charged to agencies regardless of priority. We believe the premium may act as a deterrent to the abuse of high priorities and

still be a reasonable charge for those who use high priority codes properly. We do not agree with GSA's assumption that a premium assigned to all priorities would force agencies to purchase higher priced items on the open market. We recommend that GSA reconsider this along with our other recommendations presented above.

AGENCY ACTIONS TAKEN OR PLANNED

After the field work on our review had been completed, GSA took some steps to emphasize the proper use of priority designators by requisitioning activities.

On December 7, 1976, a letter was sent to all customer service representatives calling their attention to the possible misuse of priority codes. The January issue of the FSS publicati "Marketips" also had a reminder to all agencies on the con tions for the proper use of priority designators.

GSA stated that they will further stress the need for compliance in future meetings with both civil and military customers. They also plan to publish a Federal Property Management Regulations Bulletin discussing the problems encountered in our audit and urging proper use of priority designator codes.

FREQUENCY OF HIGH PRIORITY USAGE BY GSA CUSTOMERS IN FOUR REGIONS (note a)

	Percentage of requisitions assigned priorities					
	0-10	11-49	50-84	85-94	95-100	Total
CIVIL:						
Regional customers:						
Boston	0	2	1	0	13	16
Washington	2	27	29	7	24	89
Kansas City	0	5	2	3	13	23
Auburn	1	16	26	15	26	84
Other customers:						
Boston	1	7	3	1	10	22
Washington	0	7	11	10	52	80
Kansas City	1	4	5	6	25	41
Auburn	0	2	2	1	1	6
Total	5	70	79	43	164	361
Percentage	1	19	22	12	46	100
MILITARY:						
Regional customers:						
Boston	1	3	3	0	0	7
Washington	1	28	15	1	9	54
Kansas City	2	6	2	1	5	16
Auburn	5	15	3	3	5	31
Other customers:						
Boston	3	3	3	1	2	12
Washington	0	14	13	2	8	37
Kansas City	2	111	72	15	23	223
Auburn	0	3	3	0	0	6
Total	14	183	114	23	52	386
Percentage	4	47	29	6	14	100
ALL ACTIVITIES:						
Regional customers:						
Boston	1	5	4	0	13	23
Washington	3	55	44	8	33	143
Kansas City	2	11	4	4	18	39
Auburn	6	31	29	18	31	115
Other customers:						
Boston	4	10	6	2	12	34
Washington	0	21	24	12	60	117
Kansas City	3	115	77	21	48	264
Auburn	0	5	5	1	1	12
Total	19	153	193	66	216	747
Percentage	2	34	26	9	29	100

a/Representative of all GSA customers in the four regions who submitted 50 or more high priority requisitions during the period April to June, 1977.

APPENDIX II

UNITED STATES OF AMERICA
GENERAL SERVICES ADMINISTRATION
WASHINGTON, DC 20405

October 13, 1977

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

Dear Mr. Staats:

Thank you for your letter of August 25, 1977, transmitting your draft report entitled "Need for improvement in the Federal Supply Service's priority requisitioning system."

We are pleased to provide you, as an enclosure to this letter, our comments on each recommendation.

Sincerely,

Robert T. Griffin
Deputy Administrator

Enclosure

APPENDIX II

GSA Comments on GAO draft report entitled "Need for improvement in the Federal Supply Service's priority requisitioning system

Recommendation

The Commissioner, FSS, establish control procedures for monitoring the use of high priority codes by customers. Summary information regarding the use of high priority codes by agency and location should be incorporated in the data retrieval system. This information would allow FSS to identify and follow up with those agencies abusing the priority system.

Comment

The following methods are employed by GSA in monitoring the use of the high priority system:

1. A quarterly report of customer ordering patterns is prepared which identifies customers, by State, and the number of priority requisitions, by group, prepared by the customer. This report is used by our Customer Service Representatives (CSR) in discussions with customer agencies. When it appears that the use of high priority codes is excessive, as is illustrated in the GAO report, this information is discussed in these meetings and customer agencies are urged to correct their abuses of the priority code system.

2. With respect to the Department of Defense which requisitions a major share of the stock items issued by FSS, scheduled briefings are held with the Deputy Chief of Staff for Logistics for each of the Services. A statistical summary is developed on the use of priority designators and is discussed at these meetings.

From time to time, additional actions are taken such as on December 7, 1976, a letter was sent to all CSR's calling their attention to the possible misuse of priority codes; and an article was printed in our January 1977 publication, "Market Tips" which was distributed to all requisitioners.

We believe these methods serve as a suitable monitoring tool within GSA. Accordingly, we do not agree that any additions are necessary to the data retrieval system or that such additions would result in more effective monitoring of the priority system.

Because of the nature of the system, it is readily apparent that FSS cannot ensure compliance with the intent of the use of priority designator codes except as an after the fact review as described above. The application of priorities at the time the order is prepared relies primarily on the integrity of the activity submitting the requisition. As a supply organization, FSS must assume that the priorities are valid at the time the requisition is in process through FSS and thus ensure prompt response, to the extent practicable, as dictated by the priority designator. Preventive measures to preclude misuse of the system can only be taken at the ordering level and are dependent upon the cooperation and support of the various echelons of management which are involved in the requisitioning function. Notwithstanding, GSA will stress further the need for compliance with the system in future meetings with both civil and military customers. In addition, we will publish a Federal Property Management Regulations Bulletin which will review the problems encountered in the audit and urge stricter compliance with the requirements for use of priority designator codes.

Recommendation

Initiate assistance programs whereby the FSS could aid Federal agencies in developing management programs and procedures to assure proper use of the priority code system.

Comment

The CSR's in each of our regional offices conduct scheduled onsite visits to civil and military customer activities located in the U.S. and overseas. Through direct personal contact with the customers, the CSR's evaluate the quality of support being provided, render assistance in resolving support problems, explain FSS programs and systems, and point out errors or noncompliance with directives in the procurement/supply systems. In addition, CSR's, during visits and interagency supply seminars, explain to the customer the conditions for which priority designator codes may be used in the MILSTRIP/FEDSTRIP systems. Further, assistance in the proper use of priority codes is provided by notices published in regional newsletters which are distributed to all customer supply activities. Continued emphasis will be placed on this subject by making it a special subject during future onsite visits and interagency seminars.

Recommendation

Reevaluate the control values used in the CRR decision processes to eliminate any unnecessary referrals to secondary depots.

Comment

The criteria for determining variable values and criteria used in the CRR formula decision rules have been reviewed on several occasions since implementation of the CRR and formula values adjusted to achieve GSA goals and objectives. Any changes in current CRR referral factors to prevent referrals to a secondary depot, however, will have an impact on back order ratio and customer support which must also be considered. Our review of CRR criteria will continue in order to achieve the lowest possible transportation costs for shipment from FSS depots while maintaining the lowest possible inventory investment with acceptable service rates to customers. We will also consider establishing a variable percentage of increased transportation cost as a cost control factor.

The report appears to accurately reflect the situation with regard to referral of customer requisitions and CRR criteria as relates to inventory management during the August-December 1976 period in which the study was conducted. We cannot agree, however, with the projected $1.3 million increased transportation costs for high priority referrals for FY 1977 due to the following:

a. The $1.3 million projection was based upon the going rate of referrals during the August-December study period.

b. The average number and the average cost per month of high priority referrals in designator codes 1-3 to secondary depots have declined each quarter in FY 1977 as follows:

	Numbers	Cost
1st Qtr.	1,332	$6,833
2nd Qtr.	1,222	5,854
3rd Qtr.	1,015	5,479

c. It is expected that manual referrals by item managers during FY 1977 will decline due to instructions issued December 20, 1976, by the Commissioner, FSS, severely restricting manual referral actions; and further definition of specific circumstances under which manual referrals may be made issued May 31, 1977, by the Assistant Commissioner for Procurement, FSS.

Recommendation

Study the feasibility of implementing a program whereby FSS customers, submitting high priority requisitions which result in additional transportation

APPENDIX II

costs would pay a premium for the priority treatment of their orders. This would more closely relate billings with services provided and could serve as a deterrent to the misuse of high priorities.

Comment

We do not agree that a feasibility study should be made on the possibility of assigning a premium for priority requisitions. The report states that the additional transportation costs are mainly generated on high priority orders because the primary depot is out of stock. It does not appear that by charging our customers a premium for high priority referrals we can overcome the reason for the referral. It also appears that we could create a very adverse reaction from our customers by penalizing them because the GSA primary depot does not have the stock ordered. An arbitrary assignment of premiums to all priorities would in all probability force agencies to buy more on the open market at a still higher cost to the Government thus producing negative rather than positive results.

Further, an agreement with the Department of Defense, which represents approximately 55% of our stock business states that GSA will honor the Defense Uniform Materiel Movement and Issue Priority System (UMMIPS) time standards in filling requisitions of all customers. Charging premium transportation would, in effect, be contrary to our national defense policy which is to support the combat readiness of the military services.

APPENDIX III

PRINCIPAL OFFICIALS OF GSA RESPONSIBLE FOR THE ACTIVITIES DISCUSSED IN THIS REPORT

	Tenure of office	
	From	To
ADMINISTRATOR, GENERAL SERVICES ADMINISTRATION:		
Joel W. Solomon	May 1977	Present
Robert T. Griffin (acting)	Feb. 1977	May 1977
Jack M. Eckerd	Nov. 1975	Feb. 1977
Dwight A. Ink (acting)	Oct. 1975	Nov. 1975
Arthur F. Sampson	June 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	May 1971	June 1973
Lewis E. Spangler (acting)	Mar. 1970	May 1971

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