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REPORT BY THE U.S.

General Accounting Office

Improvements Needed in the Management of Supplying and Distributing Vehicle Parts

The Department of Defense, the General Services Administration, and the U.S. Postal Service each operate a centralized distribution system to supply parts for Federal vehicles.

These agencies do not coordinate their programs. Therefore, duplicate management exists in the buying, stocking, and distribution of vehicle parts, unnecessary costs are incurred, and in the absence of any coordination, the logistics involved in obtaining vehicle parts varies from agency to agency.

GAO recommends that a single agency manage the Government's vehicle spare parts supply program.



LCD-78-202
MARCH 16, 1978



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

GENERAL GOVERNMENT
DIVISION

B-158712

The Honorable James T. McIntyre, Jr.
Acting Director, Office of Management
and Budget

Dear Mr. McIntyre:

This report discusses our review of the Department of Defense, the General Services Administration, and the U.S. Postal Service systems for supplying and distributing vehicle spare parts for the Federal fleet. We found that unnecessary costs are being incurred because these agencies are duplicating supply actions relating to buying, stocking, and distributing vehicle parts.

This report contains recommendations to you on page 12. 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 Senate Committee on Governmental Affairs and the House Committee on Government Operations 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 Senate Committee on Governmental Affairs and the House Committee on Government Operations; House and Senate Committees on Appropriations and Armed Services; the Secretary of Defense; the Administrator of the General Services Administration; and the Postmaster General.

Sincerely yours,

A handwritten signature in cursive script that reads "Victor L. Lowe".

Victor L. Lowe
Director

GENERAL ACCOUNTING OFFICE
REPORT TO THE OFFICE
OF MANAGEMENT AND BUDGET

IMPROVEMENTS NEEDED IN THE
MANAGEMENT OF SUPPLYING AND
DISTRIBUTING VEHICLE PARTS

D I G E S T

The U.S. Government spends an estimated \$100 million annually in purchasing replacement parts to support its fleet of 425,000 commercially designed vehicles. The Department of Defense, General Services Administration, and the U.S. Postal Service each operate a centralized distribution system to supply parts for Federal vehicles. (See p. 1.)

Because these agencies do not coordinate their programs, duplicate management exists in the buying, stocking, and distribution of vehicle parts. Also, in the absence of any coordination, the logistics involved in obtaining vehicle parts varies from agency to agency. Examples of some of these conditions follow:

--The Defense Logistics Agency and the Postal Service Western Area Supply Center stock and manage certain identical vehicle parts; however, Defense's costs to purchase the items are considerably higher. For instance, during a 1-year period, Defense could have saved about \$250,000 on procurement of 223 different vehicle parts had it purchased them at prices paid by the Postal Service. (See p. 3.)

--The Federal Supply Service and Defense Logistics Agency independently negotiate indefinite delivery vehicle parts contracts with suppliers. This not only increases administrative costs but results in agencies paying different prices for the same item. Vehicle repair facilities are making little or no use of the General Services contracts. Furthermore, even though use of the contracts are not restricted, the Defense Logistics Agency

contracts have not been made available to stateside military or civilian agencies since these contracts are primarily intended for overseas customers. (See p. 4.)

--Certain items stocked by the Defense Logistics Agency and the Postal Service are neither stocked by the General Services Administration nor included in its supply catalog. Therefore, General Services and other civil agencies have no access to the items and purchase them from private suppliers. Also, field installations of each of the military services often purchased commercially used vehicle parts from local vendors when the same or similar items were available through the Defense supply system. In addition, the Air Force is making extensive use of the contractor-operated parts stores concept while the Army and Navy buy vehicle parts from local vendors. Under this concept a contractor provides parts to an installation and operates the store on base. (See pp. 5, 6, and 7.)

GAO also noted that some agencies use rebuilt parts while others strictly use new parts. For instance, the Postal Service Western Area Supply Center does not supply rebuilt parts and the Defense Logistics Agency offers only a limited number of rebuilt items. By increasing the use of rebuilt parts, the Government can increase energy savings and, at the same time, reduce pollution and operating costs. (See ch. 3.)

A common or single manager responsible for managing vehicle spare parts could eliminate the overlap and duplication in supplying and distributing vehicle parts. Although the single manager concept for Government supply items has been discussed and studied by the Government over the years, not much progress has been made. GAO reported on this matter in a 1976 report to the Congress. It would probably

be advisable for an outside party to direct the changes needed to improve the procurement and management of vehicle parts to overcome parochialism. The recently established Office of Federal Procurement Policy would appear to be the appropriate authority for providing the direction. (See pp. 11 and 12.)

Recognizing that the Postal Service is an organization independent of the President and executive branch, the Postal Service cannot be tasked to manage the Government's vehicle spare parts supply program or be compelled to participate in a unified program. However, GAO believes that the Postal Service should coordinate its vehicle parts supply program and work with the agency tasked to manage the Government's program.

GAO recommends that the Administrator, Office of Federal Procurement Policy,

--determine which agency will manage the Government's vehicle spare parts supply program,

--require that agency to evaluate the various systems in use to determine which system or combination of systems should be used for Government-wide support of all agencies, and

--consider requiring agencies to increase the use of rebuilt parts. (See p. 12.)

GAO also recommends that the Postal Service and the agency tasked to manage the Government's vehicle spare parts work together and coordinate their programs.

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ABBREVIATIONS

CCPARS	Contractor Operated Parts Stores
DLA	Defense Logistics Agency
DOD	Department of Defense
FSS	Federal Supply Service
GAO	General Accounting Office
GSA	General Services Administration
OFPP	Office of Federal Procurement Policy
USPS	United States Postal Service

CHAPTER 1

INTRODUCTION

The U.S. Government owns and operates about 425,000 commercial-type vehicles and spends an estimated \$100 million annually for replacement parts to support these vehicles.

The Department of Defense (DOD), the General Services Administration (GSA), and the U.S. Postal Service (USPS) each operate a centralized automotive parts distribution system which supplies parts for Federal vehicles.

DOD

DOD's Defense Logistics Agency (DLA) operates the vehicle repair parts distribution system for DOD. DLA basically stocks some vehicle parts for commercial vehicles and has 14 indefinite delivery-type contracts with commercial firms to provide the parts to overseas activities. DLA also stocks parts for tactical vehicles, some of which can also be used on commercial vehicles.

Although DLA stocks vehicle parts, DOD regulations permit the military services to obtain vehicle replacement parts through local purchase. Pursuant to this policy, military activities in the continental United States basically purchase their parts from local vendors or contractors.

GSA

GSA's Federal Supply Service (FSS) operates the vehicle repair parts distribution system for the civil agencies. FSS stocks only a limited number of parts at FSS depots and also provides indefinite delivery-type contracts for vehicle parts. Types of parts stocked by FSS are spark plugs, wiper blades, seat belts, and tire chains.

USPS

The USPS Western Area Supply Center operates the Postal Services automotive spare parts system. The center supplies and distributes only those parts with a high use rate to 261 Postal Services Vehicle Maintenance Facilities. There are about 1,500 items stocked by the Postal Service; other parts are purchased from either GSA contractors or local vendors.

Purchasing vehicle parts locally may be less costly than obtaining the items through the Government's supply system. In a 1977 report 1/ to the Congress, GAO endorsed the Office of Federal Procurement Policy requirement that Government supply agencies use commercial distribution channels to supply commercial products to users unless a full cost comparisons demonstrates that inhouse warehousing and distribution is economically justified.

The following chapters of this report discuss the problems being incurred because DOD, GSA, and USPS are duplicating supply actions relating to buying, stocking, and distributing vehicle parts.

1/Uniformed Procurement Decisions For Commercial Products Are Costly (PSAD-77-170, Oct. 26, 1977).

CHAPTER 2

AGENCIES NOT COORDINATING THE SUPPLY AND DISTRIBUTION OF VEHICLE PARTS

The Department of Defense, the General Services Administration, and the U.S. Postal Service operate their individual vehicle parts distribution systems without coordinating supply actions relating to buying, stocking, and distributing parts. Consequently, duplicate management exists, unnecessary costs are incurred, and the logistics involved in obtaining vehicle parts varies from agency to agency. For example, we found that:

- DOD's Defense Logistics Agency and the Postal Service's Western Area Supply Center stock and manage certain identical vehicle parts; however, DOD's costs to purchase the items are considerably higher.
- GSA's Federal Supply Service and the Defense Logistics Agency independently negotiate indefinite delivery-type contracts for vehicle parts from the same suppliers.
- GSA and other civil agencies usually purchase spare parts not stocked by GSA from local vendors, even though some of the items are available in the DOD and USPS systems. Also, DOD installations purchase certain repetitive-use vehicle parts from local vendors when the same or similar items are available through the DOD supply system. In addition the Air Force obtains vehicle parts from onbase contractor-operated parts stores.

IDENTICAL PARTS PROCURED AT DIFFERENT PRICES

DLA and the Postal Service Western Area Supply Center both stock and manage certain identical vehicle parts. Of the 1,500 items stocked by the Postal Service, DLA stocked and inventoried 365 items valued at \$654,398.

Information available at DLA and the Postal Service Supply Center enabled us to compare the unit prices paid by the centers for 223 of the 365 items. DLA paid \$751,125 to vendors for one year's supply of the 223 items. Using Postal Service unit prices for these items, DLA could have obtained them for \$504,161 or \$246,964 less than what had been paid for them. The following table illustrates the difference in prices paid by the Postal Service and DLA for certain parts bought by DOD during a 1-year period.

Part	No. purchased by DOD	Postal Service		DLA		Excess DOD cost
		Unit price	Cost	Unit price	Cost	
Starter	469	\$22.65	\$10,435.25	\$38.25	\$17,953.32	\$7,518.07
Exhaust muffler	880	6.91	6,080.80	14.51	12,768.80	6,688.00
Alternator	190	28.05	5,329.50	47.85	9,091.50	3,762.00
Brake cable	35	1.28	44.80	4.52	158.20	113.40

The Postal Service is able to obtain lower unit prices because it makes volume buys, usually a year's supply, of these types of items. DLA, on the other hand, awards yearly contracts and processes orders as needed.

DOD officials told us that they were not aware of the disparity in the unit prices paid for common items and said that they would include this matter in their planned study of DLA's procurement and distribution of vehicle parts.

DUPLICATION OF VEHICLE PARTS CONTRACTS

GSA and DLA both provide indefinite delivery-type contracts covering commercial vehicle repair parts. Under both systems customer orders for vehicle parts are filled directly by the vendors. Duplicate contracts to provide parts result in the Government paying unnecessary administrative costs and some Federal agencies not being able to take advantage of the lowest contract prices.

GSA region 10, Auburn, Washington, publishes three national indefinite delivery-type contracts (Federal Supply Schedules) for vehicle parts. Agencies place orders directly with the contract services who are generally parts manufacturers. However, data on actual dollar value or volume of orders placed against the contracts was not available because GSA's system is not designed to provide such information.

DLA provides vehicle repair parts to overseas customers through use of 14 indefinite delivery-type contracts. Customer orders for repair parts not stocked by DLA are processed through the center and forwarded to the contractor who individually packages and ships the parts to overseas customers. Two manufacturers participate in this program. All other contracts are with parts wholesalers or vehicle dealers. Fiscal year 1976 purchases under the contracts were about \$4,167,000.

Agencies are making local purchases of vehicle parts that are available through Government supply systems because: (1) civil agencies are not aware of all items available through DLA, (2) civil agencies cannot readily identify items in the DLA system, and (3) DOD regulations allow field installations to make local purchases of items available through DLA. Our tests showed that DLA discounts are more favorable for parts furnished by two manufacturers, while the GSA discount was better for parts supplied by another manufacturer.

We compared prices under GSA and DLA contracts, using discounts available to local vehicle repair facilities on small- and moderate-sized orders. For example:

<u>Manufacturer</u>	<u>No. of parts we priced</u>	<u>GSA Federal Supply Schedule price</u>	<u>DLA indefinite delivery contract price</u>
A	46	\$477	\$566
B	40	327	202

We believe that it is unreasonable for two agencies to be negotiating indefinite delivery-type contracts for the same parts with the same manufacturer at different prices.

AGENCIES BUY VEHICLE PARTS FROM COMMERCIAL SOURCES THAT ARE ALREADY IN THE GOVERNMENT'S SUPPLY SYSTEM

Agencies are making local purchases of items that are available in the Government supply systems because the DLA system is inaccessible to civil agencies, and local purchases are more convenient.

DOD and USPS stock certain items that are neither stocked by GSA nor included in its supply catalog. As mentioned in chapter 1, GSA stocks only a few vehicle parts such as spark plugs, wiper blades, and tire chains. We noted that GSA motor pools usually purchase items not stocked by GSA from private suppliers, even though either DOD or USPS stocks some of the parts. Also DOD field installations purchase vehicle repair parts from local vendors that are available in the DOD supply system. In addition about 85 Air Force installations obtain vehicle repair parts from onbase contractor-operated parts stores. Examples of these conditions follow.

GSA interagency motor pools

Vehicle repair items, such as voltage regulators, thermostats, fuel pumps, and radiator caps stocked by both DLA and USPS were purchased on the open market by the GSA Kansas City interagency motor pool. Officials at the motor pool who purchased the items said that they would order these items from the Government's supply system if the items were identified in the GSA supply catalog and the vehicle application was listed the same way as commercial retail catalogs. They emphasized that they do not have the capability of identifying items stocked by DLA and USPS.

DOD field installations

We reviewed the procurement of spare parts at Fort Riley and McConnell Air Force Base. At Fort Riley we noted that buyers purchased vehicle repair parts, such as batteries, transmission fluid, sealed beam headlights, paint, booster cables, car wax, etc., from local vendors even though such parts were available through DLA's supply system. In October 1975 GAO reported to the Secretary of the Army about Fort Riley's acquiring items on the open market that could have been purchased through the Federal Supply Service. ^{1/} Procurement personnel at Fort Riley justified local procurement on the premise that acquiring vehicle spare parts through the system was too slow.

At McConnell Air Force Base, vehicle parts are obtained from an onbase Contractor Operated Parts Store (COPARS). The COPARS concept provides for the award of a formally advertised contract by the base commander to a contractor that agrees to provide parts to inhouse Air Force maintenance activities. The contractor operates the facility onbase and, as part of the contract, the Government furnishes necessary space, including utilities, at no cost to the contractor. In an April 1975 memorandum, the Assistant Secretary of Defense for Installations and Logistics reversed previous DOD policy which required Air Force activities to obtain DLA centrally managed and stocked items from DLA. The new policy permits Air Force activities to purchase repetitive demand items from local COPARS contractors, even though the items are available through DLA.

^{1/}"Opportunities for Decreasing Procurement Through Increased Use of Competition and Federal Supply Service," (PSAD-76-29, Oct. 16, 1975).

McConnell Air Force Base ordered certain items, e.g., batteries, sealed beam headlights, and transmission fluid from DLA's supply system. However, items such as spark plugs, fuel filters, and air and oil filters, available through DLA, were purchased from the COPARS contractor. Base officials told us that using the supply system for some items requires too much stockage and often results in both long leadtimes for restockage and vehicle downtimes.

CHAPTER 3

NEED FOR UNIFORM POLICY TO USE REBUILT PARTS

Government agencies were not taking full advantage of savings available through the use of rebuilt parts. The local repair facilities we visited were using some rebuilt parts and expressed satisfaction with them. However, the Postal Service does not supply rebuilt parts, and the DLA supply center has taken only limited steps towards supplying them.

In addition to accomplishing repairs at lower prices, the use of rebuilt parts also aids in energy conservation and pollution reduction.

GOVERNMENT AGENCIES MAKE LIMITED USE OF REBUILT PARTS

Although the repair facilities we visited were using some rebuilt parts, the Postal Service Supply Center supplies only new parts and the Defense Logistics Agency only recently (in 1976) began to supply several rebuilt parts for commercial-type vehicles.

Rebuilt parts used by the repair facilities are purchased from local vendors. Officials and mechanics at the military and civil agency repair facilities visited expressed satisfaction with the performance of rebuilt parts. According to these individuals, rebuilt parts were used because they are cheaper and provide satisfactory service.

Officials at Fort Riley told us that they generally use rebuilt parts for all parts that can be rebuilt. In addition to purchasing rebuilt parts from local sources, the Postal Service Vehicle Maintenance Facilities in Kansas City, Kansas, and Kansas City, Missouri, rebuild many parts, such as starters, alternators, and transmissions, inhouse. The COPARS contract lists rebuilt parts at Offutt and McConnell Air Force Bases and both were buying such items from the contractor.

The Postal Service Western Area Supply Center supplies only new parts. Postal Service officials said that stocking rebuilt parts would not be economical because of the low prices at which the Supply Center is able to purchase new parts. The vehicle parts technical analyst at the Supply Center told us that he believed that selectively stocking some rebuilt parts would be economical but that the Postal

Service policy to only stock new parts prevents them from considering rebuilt items.

In May 1976 DLA's Supply Center began to supply some rebuilt parts for commercial vehicles. However, the Center accepts only original equipment manufacturers' factory rebuilt parts under its indefinite delivery contracts. This excludes potential suppliers of rebuilt parts from bidding on the contracts. To insure that lowest available prices are obtained, we believe that all qualified suppliers of rebuilt parts should be allowed to bid on indefinite delivery contracts.

Shown below are examples of savings which the Center has realized by purchasing rebuilt parts.

<u>Part description</u>	<u>Price new</u>	<u>Price rebuilt</u>	<u>Number purchased</u>	<u>Savings</u>
Brake shoe set	\$10.89	\$ 6.17	240	\$1,133
Starter	36.58	26.11	55	576
Alternator	28.40	20.45	350	2,783
Starter	49.34	25.35	21	504

USE OF REBUILT PARTS PROVIDES ENERGY SAVINGS AND POLLUTION REDUCTION

On November 25, 1975, a White House conference on Automotive Parts and Tire Recycling reported that American consumers saved about \$4.7 billion and the equivalent of 700 million gallons of crude oil during 1974 by purchasing recycled vehicle parts and retreaded tires. For example the number of vehicle generators alone remanufactured in 1974 saved over 3 million gallons of crude oil, excluding the energy savings realized by not having to mine new ore, and machine, heat-treat, grind, and polish new castings.

The dollar savings are measured by the difference between the purchase price of a new vehicle part versus a comparable rebuilt one. The crude oil savings represent the additional energy and materials that would have been required to produce new parts and tires versus remanufacturing.

The report also pointed out that, in addition to the savings in dollars and crude oil, environmental benefits consisting of saving hundreds of acres of landfill and the reduction of millions of pounds of particulates in the air each year occur when using recycled parts.

Furthermore, the report stressed that retreading and remanufacturing technology have advanced to the point where recycled tires and parts are as safe and dependable as new.

CHAPTER 4

CONCLUSIONS, AGENCY COMMENTS, AND RECOMMENDATIONS

CONCLUSIONS

The Department of Defense, the General Services Administration, and the U.S. Postal Service each supply and distribute vehicle parts but have not coordinated supply actions relating to buying, stocking, and distributing the parts. As a result, duplication exists in the management, procurement, and inventories of certain items.

In the absence of any coordination by these agencies, the logistics involved in supplying and distributing vehicle parts varies from agency to agency. Some agencies procure parts locally on the open market when the same or similar items are available through the Government's supply system.

In addition some agencies use rebuilt parts while others strictly use new parts. Rebuilt parts generally accomplish repairs at lower unit prices and provide energy savings and pollution reduction.

A common or single manager responsible for managing vehicle spare part items would eliminate the overlap and duplication in supplying and distributing vehicle parts. However, we reported ^{1/} that the concept of a single manager for each supply item throughout the Government has been studied for over 12 years, but that not much progress has been made by the responsible agencies toward developing and formalizing a plan for implementation. We pointed out that the parochial interests of agencies inhibit a smooth progression to integrated management of common supply items.

In our opinion, direction and impetus for a common manager for vehicle spare parts should be provided by an outside party that does not have a parochial interest in solving the problem. We believe that the Office of Management and Budget's Office of Federal Procurement Policy (OFPP) has the appropriate authority to exercise this responsibility.

^{1/}"Status and Progress Toward Implementing a Material Supply System," (LCD-75-232, Feb. 18, 1976).

OFPP was created (Public Law 93-400, 93d Cong., 98 Stat. 769) to provide overall direction of procurement policies, regulations, procedures, and forms for executive agencies to use in assisting the Congress in promoting economic, efficient, and effective policies throughout the Federal Government. The law provides, among other things, that OFPP should avoid or eliminate unnecessary overlapping or duplication to procurement and related activities.

With respect to the Postal Service, we recognize that it is an organization independent of the President and executive branch. Thus, the Postal Service cannot be tasked to manage the Government's vehicle spare parts supply program or be compelled to participate in a unified program. However, the Postal Service should coordinate its vehicle parts program and work with the agency tasked to manage the Government's program.

AGENCY COMMENTS

We discussed our observations with DOD, Office of Management and Budget, and Postal Service headquarters officials, and obtained informal comments.

Except for the Postal Service, these officials agreed with our observations and conclusions. The DOD officials told us that they had already planned to study this matter and would consider our observations. The Postal Service officials told us that they were satisfied with their own system and would prefer to provide their own support.

RECOMMENDATIONS

We recommend that the Director, Office of Management and Budget, direct the Administrator, OFPP, to

- determine which agency will manage the Government's vehicle spare parts supply program,
- require that agency to evaluate the various systems in use to determine which system or combinations of systems should be used for Government-wide support of all agencies, and
- consider requiring agencies to increase the use of rebuilt parts.

We also recommend that the U.S. Postal Service and the agency tasked to manage the Government's vehicle spare parts supply program work together and coordinate their programs.

CHAPTER 5

SCOPE OF REVIEW

We reviewed the U.S. Postal Service, the General Services Administration, and the Department of Defense systems for supplying and distributing vehicle parts for the Federal fleet.

We interviewed officials and obtained information on the agencies' methods of purchasing, supplying, and distributing vehicle parts at the following activities.

--Army: Fort Riley, Kansas.

--Air Force: Headquarters, Strategic Air Command and Offutt Air Force Base, Omaha, Nebraska; McConnell Air Base, Wichita, Kansas.

--Defense Logistics Agency: Defense Construction Supply Center, Columbus, Ohio.

--GSA: Motor Equipment Services Division, region 6, Kansas City, Missouri; Kansas City, Missouri, Inter-agency Motor Pool.

--USPS: Western Area Supply Center, Topeka, Kansas; Vehicle Maintenance Facility, Kansas City, Kansas; Vehicle Maintenance Facility, Kansas City, Missouri.

We also discussed with USPS, GSA, and DOD headquarters personnel their policies and procedures for supplying and distributing vehicle parts.

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