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Statement of
Walton H. Sheley, Jr., Acting Director
PROCUREMENT AND SYSTEMS ACQUISITION DIVISION
before the
Senate Subcommittee on Federal Spending
Practices and Open Government
Committee on Governmental Affairs
on
[GSA's Multiple Award Schedule
and Self-Service Store Programs]

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Mr. Chairman and members of the subcommittee, I am pleased to appear at these hearings and will comment, as you requested, on our assessment of GSA's actions to improve the Multiple Award Schedule Program and our recent review of GSA's Self-Service Stores.

THE MULTIPLE AWARD SCHEDULE PROGRAM

As you know, Mr. Chairman, on August 22, 1980, we issued a report which assessed the effectiveness of GSA's actions to improve the multiple award schedule program. This report evaluated GSA's efforts to correct the deficiencies identified in our previous audits, particularly our May 2, 1979, report entitled "Ineffective Management of GSA's Multiple Award Schedule Program--A Costly, Serious, and Longstanding Problem." We concluded that only recently did GSA begin to address the issues of improving the multiple award contracting process and reducing the number of schedules. We pointed out that the schedules remain in force and still are a major source of supply for Federal agencies.

While current GSA plans are responsive to many of the recommendations contained in our May 1979 report, much remains to be done. Consequently, our August 1980 report stated that Congressional oversight is needed and recommended that GSA:

--be placed under a mandatory schedule to comply with the time frames stipulated in the GSA Office of Acquisition Policy statement for improving the schedules program, and

--be required to report on the status of its improvement actions by submitting copies of its quarterly progress reports made to GSA's Office of Acquisition Policy.

In commenting on our report GSA stated that its efforts and achievements to date were not recognized or accurately presented and urged that we revise our recommendations. Although we believe that GSA's current plans and actions are commendable, we maintain that these initiatives must be placed in their proper perspective.

Between 1973 and 1979 we issued five reports which contained recommendations for improving the multiple award schedule program. Our recommendations to GSA included:

- obtaining more detailed knowledge of its customers,
- limiting the number of awards to increase competition,
- obtaining better data to improve contract negotiations,
- performing more postaward audits,
- reconsidering its service-oriented approach of trying to satisfy the unique needs of each customer,
- developing criteria to determine which items should be competitively purchased, and
- improving the contracting process for those items which should remain within the schedule program.

Over the years GSA management has agreed with most of our conclusions on the schedules program and agreed to take action on our recommendations. We are concerned that although

corrective actions have been repeatedly promised, GSA management has been unable to effect the changes needed to substantially improve the program. For example, in commenting on our May 1979 report GSA agreed the program had not been well managed. In fact, GSA concurred with each of our recommendations. Although there was a noticeable increase in activity after we issued our May 1979 report, subsequent GSA management action was sporadic, at best, until our follow-up review began in February 1980.

On March 23, 1980, the Commissioner of GSA's Federal Supply Service created a task force of about 60 persons under the guidance of the Director of Acquisition Planning. As a first step this task force was charged with (1) eliminating or greatly restricting 12 multiple award schedule items and all schedules on which total annual purchases are less than \$25,000, and (2) conducting test purchases by September 1980 on 11 item categories using competitive methods. By September 1981 the task force is charged with conducting test purchases on an additional 12 item categories. These latter items represent sales of about \$1 billion, and GSA expects to save \$100 million by fiscal year 1982. According to the FSS Commissioner, all multiple award schedules will be reviewed to determine if the items available under these schedules can be purchased competitively using commercial item descriptions. In addition, FSS is developing a multiple award data base to be used for forecasting agency requirements. FSS expects that all multiple award product categories will be incorporated into this management information system by 1986.

As of September 19, 1980, the task force had eliminated 13 multiple award schedules (primarily furniture) and conducted test purchases on fifteen multiple award item categories. Contracts for two item categories have been awarded and GSA expects to award contracts on the remaining thirteen item categories shortly. Therefore, it appears that GSA is making some progress toward improving the multiple award schedule program.

Because of GSA's poor track record in completing promised changes to the schedule program, we maintain that Congressional oversight is necessary to ensure that GSA completes needed program reforms in a timely manner. In GSA we have noticed that unless a program is given continual top management attention, the program reforms flounder. We support GSA's present plans and actions and believe that GSA should ensure their completion in a timely manner.

THE SELF-SERVICE STORE PROGRAM

On April 14, 1977, we issued a report dealing with GSA's Self-Service Store program. We reported that:

- GSA lacked adequate control over store inventories creating a potential for theft.
- GSA did not effectively determine agencies' needs that could be satisfied through the stores.
- Federal agencies lacked adequate control over GSA shopping plates and store purchases.

Also, during 1977, fraud in the program surfaced, U.S. attorneys investigated and convictions were subsequently

obtained. Generally, this fraud was accomplished by exploiting the program weaknesses mentioned in our report.

We recently completed a comprehensive audit of the program and issued a report on August 28, 1980, entitled "Poor Management of GSA's Self-Service Stores Leads to Needless Duplication and Potential for Fraud." In this report we point out that the program is intended to save the Government money by

- providing Federal agencies with an efficient and economical retail supply system and
 - consolidating unnecessary agency stockrooms and stores.
- We concluded that the program does neither well.

The Self-Service Store Program
is not a competent retail program

There are two primary problems which prevent the retail program from being a competent operation. These are the lack of (1) management control over program operations and (2) satisfaction of agencies' retail needs.

In the area of management control we noted that GSA lacks effective

- control over store inventories,
- oversight of store operations, and
- control over shopping plates issued to Federal activities.

Over the past several years, GSA has been attempting to attain inventory accountability by developing a computerized inventory system. GSA is currently planning to implement a

point-of-sales inventory control system. If such a system is proven cost effective and installed in the program, management control can be improved. However, GSA should not consider this system a panacea. Regular internal audits and effective management surveillance visits of the stores will be needed to complete a management control system. GSA can immediately improve its control over shopping plates issued to Federal activities by (1) improving its security over the raw materials used to make the shopping plates and (2) recalling unneeded shopping plates from Federal activities.

GSA's problems with satisfying agencies' retail needs include

- an inconsistent policy in determining items to be stocked in the stores,
- the sale of damaged supplies, and
- wholesale sales from the retail outlets.

GSA's policies for determining which items should be stocked in self-service stores has been inconsistent. The policy has ranged from allowing self-service store managers to stock anything they thought might sell, which we noted in our 1977 report, to the Federal Supply Service central office's arbitrary determination of what they believed should be stocked in the stores, which is noted in our current report.

During 1978 the number of items stocked in the stores was reduced from 16,000 items to a universe of 3,000 items. This reduction was based on the FSS central office personnel's

arbitrary determination of what they believed should be available for stockage in the stores. A subsequent reduction decreased the authorized stock list of items to approximately 2400 items. The items in the stores which did not appear on the authorized stock list were purged and shipped to designated depots. After complaints were received from agencies for taking needed items out of the stores, the authorized stock list was abolished on August 3, 1979, and regional offices were instructed to canvass customer demand. The authority to select items for stockage in self-service stores was vested in Regional Administrators, who could delegate this authority to Regional Commissioners, Federal Supply Service. During April 1980 the Deputy Commissioner for Requirements and Supply, Federal Supply Service, notified all Regional Administrators to discontinue adding new items to self-service stores. The purpose was to allow a consultant to review the stores as they existed and provide advice on what should be included in stock. During the course of the consultant's review, the Assistant Regional Administrators, were allowed to develop and forward, to the Deputy Commissioner, listings of items which they believed should be stocked that were in addition to those already in the stores. Decisions on appropriate stockage will be made after the consultant completes his review.

Another problem preventing the satisfaction of customer needs is the stockage and sale of damaged merchandise.

For example the stores stocked

- leaking ink pads,
- glue which was dried in its bottle,
- flashlight batteries with shelf-life dates that had expired.

Our observations were further supported by complaints from Federal personnel who purchased defective supplies.

Also, large volume sales were being made by the self-service stores. For example, the following individual line items were taken from sales slips:

- 1,000 appointment books
- 1,000 planning books
- 144,000 paper bags, and
- 110 wall clocks.

It was not uncommon to find individual sales transactions amounting to several thousand dollars. We found individual sales exceeding \$10,000 and in one case \$20,000. These large volume sales are generally to stock agency stores. These transactions deplete store's inventories which should be available for true retail customers.

The retail program fails to eliminate agency stores and stockrooms

Although a primary purpose of GSA's retail program is to consolidate agency stores and stockrooms, we found Federal agencies operating their own retail outlets in every metropolitan area we visited. These agency retail outlets were located in the same building as

- GSA stores and
- other agencies' retail outlets.

Not only didn't the GSA retail outlets consolidate agency stockrooms, but it served them. In some cases, sales to agency retail outlets represented a large percentage of a GSA stores sales.

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

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

In response to our current report, GSA explained that a consultant is conducting an in-depth review of the program. This review includes, but is not limited to, an appraisal of the line items carried, operating procedures, accounting, inventory management, program concepts, and general management controls. We were told that this report is not yet completed and therefore was not available for our review.

In summary, Mr. Chairman, despite our 1977 report and the self-service store scandals and convictions, management controls are still inadequate to provide reasonable assurance that fraud and corruption are not currently a part of this program.

This concludes our prepared testimony. We would be pleased to respond to any questions that you may have.