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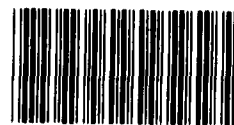
UNITED STATES GENERAL ACCOUNTING OFFICE  
WASHINGTON, D.C. 20548

MISSION ANALYSIS AND  
SYSTEMS ACQUISITION DIVISION

B-201643

MARCH 3, 1981

The Honorable Raymond Kline  
Acting Administrator of General Services



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Dear Mr. Kline:

Subject: [Effectiveness of GSA's Practice of Centrally  
Purchasing Low Dollar Value Items Under ~~the~~  
Nonstores Program] (MASAD-81-12)

We reviewed the General Services Administration's (GSA's) practice of centrally procuring low dollar value items under the nonstores program. Under this program, the Federal Supply Service (FSS) annually makes thousands of low demand procurements in which the total value of the items purchased is less than \$500. GSA's administrative cost to centrally purchase these items frequently exceeds the value of the items. Most Federal agencies can purchase these items at a reduced administrative cost. We believe that GSA should discontinue the practice of centrally purchasing such items.

BACKGROUND

Under the nonstores program, FSS procures items for Federal agencies which are neither included in GSA's stock program, the Federal supply schedules program, nor the self-service stores. Nonstores item purchases are made by FSS Headquarters and in each of GSA's 11 regional offices. In fiscal year 1979, FSS procured about \$530 million in supplies and services under the nonstores program.

Regulations require central procurement of nonstores items to (1) prevent the agencies from purchasing personal preference items and (2) obtain better prices through consolidated purchases. Historically, executive agencies were required to submit all requisitions for nonstores items in excess of \$25 to GSA for procurement action. However, an August 1980 change, which replaced a similar September 1979

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temporary regulation, provides that GSA is a nonmandatory source of supply when the total line item value is less than \$100.

In October 1980 GSA was managing about 60,000 nonstores items. The GSA-designated method of procurement for these items follows.

<u>Method of procurement</u>	<u>Number of items</u>
Local purchase	41,200
Direct order/direct delivery contracts	11,600
Nonstores centrally managed	<u>7,200</u>
Total	<u>60,000</u>

Our audit centered on the low dollar nonstores items that are centrally purchased by GSA.

The audit was conducted from July 1980 to December 1980. We interviewed procurement officials at GSA's FSS Headquarters, Arlington, Virginia; GSA Region 6, Kansas City, Missouri; GSA Region 2, New York, New York; the National Capital Region, Washington, D.C.; Langley Air Force Base, Hampton, Virginia; the Naval Supply Center, Norfolk, Virginia; the Department of Transportation, Washington, D.C.; and the Department of Energy, Washington, D.C. We examined procurement files, reviewed management policy and procedures, and reviewed GSA's internal audit efforts. We analyzed the nonstores procurements made by FSS during the first half of fiscal year 1980 and collected summary data for fiscal years 1977-80.

ADMINISTRATIVE COST FREQUENTLY  
EXCEEDS THE VALUE OF ITEMS PURCHASED

FSS saves procurement dollars mainly from consolidating Government-wide requirements and buying in large volume or entering into agreements for specified time periods at given prices for supplies and services. However, FSS makes thousands of procurements annually for low demand nonstores items in which the administrative cost of the procurements exceeds the dollar value of the items purchased.

We found nonstores purchases under \$100 make up less than 1 percent of the total nonstores purchases which annually

exceed \$500 million. However, these purchases accounted for more than half of the nonstores purchase transactions made in fiscal years 1979 and 1980. The following chart summarizes information on GSA nonstores procurements for fiscal years 1979 and 1980.

<u>Nonstores procurements</u>	<u>1979</u>	<u>1980</u>
Total transactions	94,394	123,751
Total under \$100	52,036	73,975
Percent of total transactions	55	60

We determined the administrative cost based on the number of transactions below \$10,000 and the total cost to complete these transactions. This procedure was used because GSA officials were unable to refine their information or to accurately determine the administrative cost for procurements in any dollar ranges below \$10,000. The following chart shows the administrative cost for FSS procurements under \$10,000. GSA officials believe that better identification and computation of administrative cost is necessary. However, they agreed the following figures are reasonable given the information available at this time.

<u>Fiscal year</u>	<u>Administrative cost</u> <u>(note a)</u>
1977	\$63.66
1978	74.54
1979	91.67
<u>b/1980</u>	85.54

a/Administrative cost includes all identifiable operational costs which relate to procurements under \$10,000. The following cost elements comprise FSS' administrative cost: requirements analysis and source selection, purchasing, order processing, quality control, logistics data management, customer service and support, and payment of invoices. The first three elements comprise 81 percent of the nonstores administrative cost.

b/First 6 months.

GSA officials said that the administrative cost for processing purchase orders appeared high in fiscal year 1979 due to fewer transactions resulting from budget constraints on procurements.

LOCAL PURCHASES--A LESS COSTLY ALTERNATIVE  
THAN NONSTORES CENTRAL PROCUREMENTS

Since needed items must be procured, the logical question is "who should perform the procurement function?" One alternative is for GSA's customers to procure needed items themselves. We found that the cost to local purchase low dollar items is frequently less than the cost to GSA to accomplish the same procurement through the nonstock central procurement process, especially on low dollar value, low demand items. FSS officials believe that agencies incur less administrative cost because they are in a better position to quickly and accurately determine the item that is needed. This process of identifying exactly what is needed is the largest portion of GSA's administrative cost.

We visited four agencies, two Defense and two civil agencies, to collect data on procurements, including administrative costs, to compare with the GSA/FSS administrative cost of \$85.54 per purchase order. Information on the administrative costs at these four agencies follows.

Department of Transportation

Department of Transportation officials estimated the administrative cost to be between \$75 and \$100; however, they were unable to provide support for their estimates. These officials said that procurements under \$500 were made through GSA only if the Transportation buyer had reason to believe the items were on Federal supply schedules. The Department of Transportation prefers not to procure through GSA because of the additional time required to process a purchase request as opposed to Transportation's open market procurements.

Department of Energy

Department of Energy officials were unable to provide an estimate of the administrative cost or data to determine costs incurred in completing their open market transactions. Agency officials said that they saw no benefit in sending a low dollar nonstock procurement to GSA and would not go to GSA if the needed item is available on the open market and can be locally purchased.

Langley Air Force Base,  
Base Contracting Office (Defense)

During fiscal year 1980, the Base Contracting Office completed 153,723 small purchase actions valued at \$95.8 million. Of 15,221 open market purchase order transactions, 12,175 (80 percent) were less than \$500. These purchase orders were for a variety of items, for example: snow plow blade, cloth name tags, drugs for a hospital, prescription eyeglasses, desks, sheet metal screws, and various other items. The Langley Air Force Base contracting officials prefer to purchase nonstores items through open market small purchase procedures.

The administrative cost provided by the Langley Air Force Base Contracting Office was \$44 per open market purchase order transaction. This cost was based on operating cost incurred and was averaged over the number of transactions.

Naval Supply Center,  
Norfolk, Virginia (Defense)

Open market purchase order procurements for the Naval Supply Center under \$10,000 totaled \$17.1 and \$23.7 million for fiscal years 1979 and 1980, respectively. The Navy Supply Center accomplished 25,339 purchase order procurements under \$10,000, and of this total, 16,634 (67 percent) were valued at \$500 or less during fiscal year 1980.

The Naval Supply Center regional contracting officials prefer not to use GSA due to excessive time and paperwork needed to complete transactions. Based upon the variety of items procured, the Naval Supply Center experiences no difficulty in satisfying their requirements through open market purchase order transactions.

The administrative cost at the Naval Supply Center for open market purchase orders was \$22.13. Their procedures were similar to those used at Langley Air Force Base to determine administrative costs.

RECENT GSA ACTIONS

GSA is aware of the problem discussed in this report and issued regulation changes in 1979 and 1980 to alleviate the problem. The regulations require central procurement of nonstores items to prevent the agencies from purchasing personal preference items and to obtain better prices through consolidated purchases. Historically, executive agencies

were required to submit all requisitions for nonstores items in excess of \$25 to GSA for procurement action. However, an August 1980 change, which replaced a similar September 1979 temporary regulation, provides that GSA is a nonmandatory source of supply when the total line item value is less than \$100.

GSA stated that raising the dollar level of nonstock centrally procured items was necessary because of the higher cost of preparing and processing requisitions. Also, ordering small quantities of low dollar value items from GSA is not the most economical method of obtaining items. According to GSA, the change in the dollar limits to a minimum of \$100 for nonstock centrally procured items is designed to reduce Government costs by allowing agencies to purchase small quantities of many low dollar value items on the open market rather than obtaining the items from GSA. However, without the means for enforcement, this regulation will not decrease the large number of GSA procurements under \$100 in value. The following chart summarizes procurements under \$100 during 2 prior fiscal years.

<u>Procurements under \$100</u>	<u>1979</u>	<u>1980</u>
Total dollar value	\$1,740,887	\$2,447,883
Average dollar value	33	34
Administrative cost:		
Cost per transaction	91.67	85.54
Fiscal year administrative cost	4,770,140	6,327,821
Number of transactions	52,036	73,975

Low dollar procurements, as shown above, have not decreased even though the minimum dollar limit for agencies to local purchase items increased from \$25 to \$100 in September 1979.

According to GSA officials, they are not saving the Government money by procuring low dollar, low demand nonstock items. GSA only provides a convenient service to customer agencies, that of a procurement office.

#### CONCLUSIONS

The cost for FSS to process nonstock low dollar purchase orders is currently \$85.54 per purchase order. Since the total administrative cost for procuring about \$2.5 million in supplies was more than \$4.7 million in fiscal year 1979

and \$6.3 million in fiscal year 1980, it is not economically feasible for FSS to continue such procurements.

We agree with the principle of establishing a minimum threshold for nonstock centrally procured items valued below a determined level as presented in the August 1980 revision to the Federal Property Management Regulation (Title 41 CFR 101-26.102). However, the same revision states that GSA will continue to process such procurements if requested by agencies. Without the capability of enforcement, the potential for compliance is reduced.

Based upon the cost, demand, and other factors, we believe that the low dollar, low demand nonstores central procurements as currently operated should be discontinued. We recognize that Defense and some civil agencies have remote activities which may not be able to purchase some items; however, these should be infrequent and should be carefully reviewed before procurement actions are initiated.

#### RECOMMENDATIONS

We recommend that the Administrator of GSA direct the Commissioner of FSS to review the current practice and policy of centrally procuring low dollar nonstores items and take action to eliminate those GSA procurements which are not cost effective.


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 Secretaries of Defense, Transportation, and Energy; interested committees; and Members of Congress.

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We would appreciate your comments on these matters and would be pleased to discuss any questions you may have.

Sincerely yours,



W. H. Shelley, Jr.  
Director