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United States General Accounting Office
Washington, DC 20548

January 8, 2001

The Honorable Duncan L. Hunter
House of Representatives

Subject: General Services Administration: Unauthorized Activity Codes Used to Requisition New and Excess Government Property

Dear Mr. Hunter:

This letter is part of our continuing effort to address inventory management activities within the Department of Defense (DOD) as a high-risk area.¹ We recently determined that the Army, Air Force, and Navy used activity address codes² designated as unauthorized to requisition to inappropriately requisition over \$4 billion in new government property and over \$440 million in excess government property over the past 5 years. You asked that we determine whether other federal agencies maintained activity codes designated as unauthorized to requisition and, if so, whether any of these codes were used to requisition new and excess government property. As discussed with your office, this letter focuses on the General Services Administration's (GSA) use of unauthorized activity codes.

Scope and Methodology

We interviewed GSA service point personnel who provided a list of GSA activity codes identified as unauthorized to requisition. We provided the codes to the Defense Automatic Addressing System Center and the Defense Reutilization and Marketing Service to determine whether any had been used to requisition new and excess government property from January 1995 through June 2000. We then obtained

¹ In 1990, we began a special effort to review and report on the federal program areas we identified as high risk because of vulnerabilities to fraud, waste, abuse, and mismanagement. This effort, supported by the Senate Committee on Governmental Affairs and the House Committee on Government Reform, resulted in a much-needed focus on problems that were costing the government billions of dollars. We identified DOD's inventory management as a high-risk area at that time because levels of unneeded inventory were too high and systems for determining inventory requirements were inadequate.

² *Department of the Air Force: Unauthorized Activity Codes Used to Requisition New and Excess DOD Property* (GAO-01-196R, Jan. 8, 2001); *Department of the Navy: Unauthorized Activity Codes Used to Requisition New and Excess DOD Property* (GAO-01-206R, Jan. 8, 2001); *Department of the Army: Unauthorized Activity Codes Used to Requisition New DOD Property* (GAO-01-85R, Dec. 6, 2000); and *Inventory Management: Better Controls Needed to Prevent Misuse of Excess DOD Property* (GAO/OSI/NSIAD-00-147, Apr. 28, 2000).

information about the requisitioning activity associated with these codes from the Defense Automatic Addressing System Center and the Defense Reutilization and Marketing Service. We performed our investigative work from June 2000 to September 2000 in accordance with investigative standards established by the President's Council on Integrity and Efficiency. Our audit work was conducted during the same time period and in accordance with generally accepted government auditing standards.

Results in Brief

As of June 2000, GSA maintained 52 activity codes identified as unauthorized to requisition government property. During the past 5 years, four of these codes were inappropriately used to requisition approximately \$3,000 in new and excess government property. While this amount represents a small percentage of total GSA requisitions made during the 5-year period, existing safeguards are inadequate to prevent situations in which unauthorized activity codes are inappropriately used to requisition government property. As we recommended, GSA is in the process of tracing the various items. However, it does not agree with our recommendation for enhancing existing safeguards. We recommend that GSA assess the cost effectiveness of enhancing existing safeguards before closing this matter.

Background

An activity address code is a distinct, six-position alphanumeric code that provides a uniform method for controlling government assets and recording the receipt and disposition of property. The first two characters of an activity code identify the requisitioning service or agency. GSA is responsible for activity codes that begin with a G, 0, 1, 2, 3, 4, 5, 6, 7, 8, or 9.³ Federal Supply Service (FSS) guidelines⁴ provide procedures for establishing, changing, and terminating activity address codes.

The DOD Activity Address File is the automated master activity address code file maintained for military activities, federal agencies, and contractors by the Defense Automatic Addressing System Center. An activity within a military service or federal agency that is assigned the responsibility of controlling activity code data is known as the service point. The GSA service point, located at the FSS Acquisition Operations and Electronic Commerce Center in Arlington, Virginia, is responsible for assigning, canceling, or changing civilian agency activity codes.

³ The only exceptions are codes that begin with 18. According to GSA, the Postal Service is responsible for maintaining these codes. A Postal Service official advised that the Postal Service does not create or maintain activity codes that are unauthorized to requisition.

⁴ FSS-19.10, *Automated Requisition Processing Systems Desk Guide*, Aug. 1995.

According to a senior GSA official, GSA activity codes that are unauthorized to requisition government property begin with the letter “G.”⁵ As of June 2000, there were 52 such activity codes.

Unauthorized Requisitions Are Infrequent but Safeguards Are Needed

We obtained a list of the activity codes that GSA identified as unauthorized to requisition. We provided these codes to the Defense Automatic Addressing System Center and the Defense Reutilization and Marketing Service to determine whether any had been used to requisition new and excess government property. It was determined that of the 52 GSA activity codes, 4 had been used to requisition \$1,817 in new property and \$1,250 in excess property⁶ from January 1995 to June 2000. Although unauthorized requisitioning activity was minimal, the Defense Automatic Addressing System Center and the Defense Reutilization and Marketing Service had no safeguards to preclude these codes from requisitioning property.

Conclusions and Recommendations for Executive Action

Unauthorized activity codes were used in four instances to inappropriately requisition new and excess government property worth about \$3,000 from January 1995 through June 2000. Whether this condition is indicative of a large-scale problem is unknown. However, existing GSA safeguards are inadequate to prevent such situations from occurring. Accordingly, we recommend that the Administrator of General Services

- determine why the unauthorized activity codes were approved for requisitioning property and whether the requisitions resulted in an inappropriate transfer of government property and
- assess the cost-effectiveness of enhancing GSA’s existing safeguards to prevent this situation from reoccurring.

Agency Comments and Our Evaluation

GSA provided oral comments on a draft of this letter and the data related to the issues in our letter. GSA agreed with our first recommendation. The agency has traced transaction activity associated with the new property requisitions and is in the process of completing an investigation of the use of unauthorized activity codes to requisition excess government property. As for our second recommendation, GSA believes that the establishment of additional safeguards is unnecessary because of

⁵ In addition, approximately 91,000 other G category codes are related to authorized government credit card requisitioning, according to a senior GSA official.

⁶ These amounts represent the acquisition value of the property.

the low level of questionable requisition activity associated with the unauthorized codes. GSA stated that it plans no further expenditure of resources on this issue and considers the matter closed. However, as discussed below, we still believe there is a need to consider enhancing existing safeguards.

GSA stated that the four activity codes we identified as being used to requisition new and excess government property were unauthorized to do so. However, GSA believes that no inappropriate transfer of government property occurred in these instances. Although the Defense Automatic Addressing System Center attributed about \$1,800 of the \$3,000 discussed in the draft letter to new property requisitions, GSA viewed the incidents as “free issue” transactions. According to GSA, the Air Force, unbeknownst to GSA, had used one of the codes to redistribute material among various Air Force entities. However, while GSA described the Air Force’s use of this particular code as peculiar, it stated that there was no indication of an inappropriate transfer of government property. GSA noted that the Air Force Materiel Command has been apprised of this situation and is reviewing the matter at this time. In addition, GSA deleted the code from the master activity code file maintained by the Center. That action should avoid unauthorized requisitions using that activity code.

According to a GSA analysis, the other activity code that requisitioned new government property was used by one of its acquisition centers to replenish stock using the Defense Logistics Agency as the supply source. This code accommodated an infrequent situation where an automated system is not used. A GSA official stated that someone had used this code in a fashion other than for what it was intended and noted that if this type of activity occurred more often, it would require a system edit. However, while it was unusual to use this code in this fashion, GSA does not view it as an inappropriate transfer of government property. While this may be the case, system vulnerability does exist that could be corrected by an edit. Therefore, we have modified our recommendation to state that GSA should assess the cost-effectiveness of making such an edit.

As for the activity codes used to requisition excess government property, GSA acknowledged that this activity was unusual and is investigating it. The GSA officials also noted, however, that there is no indication at this time of an inappropriate transfer of excess government property.

As arranged with your office, unless you announce its contents earlier, we plan no further distribution of this letter until 30 days after the letter’s date. At that time, we will send copies of this letter to interested congressional committees, the Administrator of General Services, the Office of the Secretary of Defense, and the

Director of the Defense Logistics Agency. The letter will then also be available on GAO's homepage at www.gao.gov. If you have any questions, please call Robert H. Hast at (202) 512-7455 or David R. Warren at (202) 512-8412. John Ryan, Richard Newbold, Brian Chan, James Loschiavo, Marc Schwartz, and David Epstein made key contributions to this investigation and letter.

Sincerely yours,



Robert H. Hast
Managing Director
Office of Special Investigations



David R. Warren
Director, Defense Capabilities
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