

GAO

Report to the Chairman, Legislation and  
National Security Subcommittee,  
Committee on Government Operations

May 1989

STATE  
DEPARTMENT

Procurement of  
Household Furnishings  
for Personnel Overseas



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National Security and  
International Affairs Division

B-231177

May 22, 1989

The Honorable John Conyers  
Chairman, Legislation and National  
Security Subcommittee,  
Committee on Government Operations  
House of Representatives

Dear Mr. Chairman:

The State Department procures household furniture for the use of its personnel at U.S. diplomatic posts overseas. At the request of the former Subcommittee Chairman, we reviewed the Department's selection criteria to determine if the current furniture contract was awarded appropriately and in a manner consistent with other agencies' furniture procurement.

## Results in Brief

Our review showed that State awarded its current household furniture contract based on criteria that stressed highly subjective considerations—suitability, aesthetics, and program administration—rather than cost. As a result, State awarded a contract that could cost the government as much as \$8 million more over the extended life of the contract than would have been incurred if another acceptable source had been awarded the contract.

In comparison, contracts awarded by other federal agencies to supply furniture have typically been awarded on the basis of criteria that emphasized cost as the primary factor. In the past, State fulfilled its overseas furniture needs through a contract awarded by the General Services Administration (GSA). The selection criteria for this contract focused primarily on cost. The reasons given by State officials for departing from selection criteria based primarily on cost are not persuasive.

## Background

State has over 250 overseas posts. Depending upon a variety of circumstances, the government may ship the personal household furnishings of employees assigned overseas to their duty station or provide government-supplied furniture while storing the employees' furnishings in warehouses.

Since the late 1960s State has had a program to provide home furnishings in a variety of styles, including transitional, 18th century English, and contemporary. The furnishings have come from manufacturers' regular commercial lines in the "middle to upper brackets" of the domestic furniture industry market. The furnishings may be made available to all direct hire personnel assigned overseas regardless of position or duties. Post officials determine how much furniture is needed and who will receive it. The household furnishings for ambassador and deputy chief of mission residences and for the embassies and consulates are provided through a separate program.

GSA has the overall responsibility for procuring household furnishings for the U.S. government. Normally, GSA solicits offers from various manufacturers by describing the technical specifications of the required items. In addition, the solicitation specifies the evaluation criteria to be used by GSA for selecting among the competing firms. Selected contracts for various items are then placed on "schedules," and other agencies can use the schedules to procure the items they require. Agencies may also solicit bids and independently select contractors provided they obtain authority from GSA to do so.

Between 1983 and 1986, State met its requirements for home furnishings at overseas posts through a GSA contract. To meet State's requirements, GSA awarded a contract to Ethan Allen, Inc., as a result of a competitive procurement that emphasized cost as the principal basis for the award (that is, 90 percent for cost and 10 percent for aesthetics, suitability, and program administration). Under this contract, Ethan Allen delivered about 290,000 items valued at about \$40 million based on 1,400 orders. The contract with Ethan Allen expired on September 30, 1986.

In November 1985 State requested authority from GSA to permit it to independently contract to buy home furnishings and related accessories. GSA granted this procurement authority on February 13, 1986, contingent on State's meeting several conditions, including GSA's approval of the furniture solicitation and any amendments prior to their issuance. In August 1986, State requested that GSA approve its solicitation covering the home furnishings procurement. GSA approved State's solicitation in May 1987, and State issued the solicitation in June 1987.

In its solicitation, State used selection criteria that varied significantly from criteria that GSA had previously used. State based its selection on 40 percent for lowest cost and 60 percent for other factors (20 percent

for aesthetics, 20 percent for suitability, and 20 percent for program administration). State received nine acceptable offers from furniture companies to provide packaged home furniture, including living room, dining room, and bedroom components. State awarded the current contract to Pennsylvania House Division of Chicago Pacific on April 20, 1988. The contract was for 1 year with four 1-year renewal options.

Two of the firms that were not selected (Horizon Trading Company, Inc., and Drexel Heritage Furnishings, Inc.) protested State's evaluation of their proposals. In the bid protest decision, the Comptroller General ruled that State had given adequate consideration to the offerors in accordance with selection criteria in the solicitation but pointed out that the criteria permitted a highly subjective evaluation (B-231177, July 26, 1988).

## Questionable Basis for Emphasizing Non-Cost Factors

State officials could not fully support their reasons for emphasizing factors other than cost in their criteria for selecting household furnishings. State officials said that their reasons for changing the selection criteria were that (1) State had experienced some difficulties in the administration of the program under the previous contract and (2) certain furnishings were not of acceptable quality or fashion.

According to State officials, the previous contract with Ethan Allen did not meet State's requirements. These officials said that State had received written complaints from 56 posts about problems with some of the furniture orders they had received, although State could not accurately account for the number of orders with which it had problems.

Of the approximately 1,400 orders made under the contract, available documentation indicates that the 56 posts that had formally complained had received about 150 orders. We were told that additional complaints had been made, but State could not document the nature or extent of the problems. Our review of cables and other documentation concerning the complaints from the 56 posts indicated that most of the problems had to do with misshipments and damaged furniture. Only 10 of the posts' complaints related to the quality or aesthetics of the furnishings.

Department officials acknowledged that the majority of the shipments had arrived at posts on time and in good order, and at the time of our review, State had resolved with Ethan Allen most of the shipping and damaged goods problems. However, a few outstanding claims remained

unresolved. State could not provide further documentation to demonstrate serious problems with the Ethan Allen contract. Since relatively few posts complained about the quality of the furniture and most of the program administration problems had been resolved, the rationale for changing the criteria is questionable.

## Selection Criteria Highly Subjective

State's use of criteria that emphasized highly subjective values rather than cost is also questionable. Although GSA eventually approved State's solicitation, GSA had initially rejected State's selection criteria.

The Competition in Contracting Act of 1984 generally requires that a solicitation include specifications which permit full and open competition (41 U.S.C. sec. 253(a) [Supp. IV 1986]) and include restrictive conditions only to the extent necessary to satisfy the needs of the agency (41 U.S.C. sec 25a(a)(2)(B)). Under the act, agencies have broad discretion in selecting evaluation factors (including price) that they reasonably expect to consider in evaluating competitive proposals and the relative importance assigned to each of these factors. Thus, State's decision to use noncost evaluation factors was consistent with the Competition in Contracting Act. Nonetheless, the use of the more heavily weighted non-cost factors represented a departure from the approval usually given by GSA.

During the early stages of the procurement process, GSA rejected State's proposed solicitation because the criteria were too subjective and the evaluation factors and their relative importance were not clearly stated. For example, in its rejection notice, GSA stated that State's proposed solicitation used statements such as "pleasing to the eye" and "for representational and overseas living" without establishing specific criteria to assess proposals of competing offerors.

Although GSA raised serious objections to State's selection criteria, the delegation of solicitation authority was subsequently approved without State changing the selection criteria. According to GSA officials, when State was seeking procurement authority, GSA was experiencing staffing shortages and was seeking to reduce its work load by delegating procurement authority to other agencies. GSA was encouraging agencies to independently procure more of the items they needed.

Some examples of the criteria that State used for evaluating the offerors' furnishings are as follows:

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**Aesthetics:**

- light and airy and clean in form
- quiet dignity and graceful simplicity
- ease and elegance

**Suitability:**

- requirements of representational and overseas living
- ease of reupholstering and repair and durability
- appropriateness of fabrics

**Program administration plans:**

- demonstrated understanding of the program
- experience with packaged home programs
- tracking system to identify the status of any order within 2 hours.

The State Department believes that the mission of foreign affairs agencies justifies unique requirements for home furnishings when compared with other federal agencies. State officials told us they stressed aesthetics, suitability, and program administration in the selection criteria because having appropriate quality furnishings is an important factor for representational purposes<sup>1</sup> and for maintaining the staff's morale and well-being. They also stated that the wear and tear caused by overseas shipments and regular moving and storage was an important consideration.

For various reasons, the importance that State placed on these non-cost factors is suspect. For example, State's evaluation panel decided what furniture would be aesthetically pleasing to thousands of employees; however, aesthetics, like fashion, is a matter of personal taste. Furniture that is pleasing to one person may be unappealing to others. Such qualities as elegance, graceful simplicity, and quiet dignity in furniture cannot be objectively measured. While such factors have relevance, it is difficult to defend the prominence they were given in the selection process.

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<sup>1</sup>Representational purposes means providing a suitable environment for entertaining foreign guests at employees' residences as part of their official duties. The U.S. government provides U.S. employees living overseas with free housing. The housing units are to be assigned according to space standards set by State. The size of housing authorized for individuals with representational duties tends to be larger and more expensive than nonrepresentational housing.

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Although State officials said that the furniture had to be suitable for representational purposes, the State Inspector General reported in April 1987 that the provision of representational housing for officials below deputy chiefs of missions was no longer justified because most of these officials were not holding representational functions in their homes. Our recent report on State's real estate management<sup>2</sup> corroborated the Inspector General's finding. Therefore, legitimate questions can be raised about whether the government-supplied furnishings for such homes need to meet representational requirements.

Providing overseas staff with high quality furniture may have some impact on staff morale, as will many other factors. However, State has not, and probably cannot, effectively measure or differentiate the extent to which staff morale would be affected by furniture supplied by one firm compared to other acceptable offerors.

As previously discussed, program administration was not a serious problem under the prior contract, which emphasized cost, and most problems with shipping and damaged goods had been resolved. Few complaints were made about the quality of the furniture that was supplied, and several posts had made favorable remarks about the furnishings they had received. In addition, State records did not reflect how the issue of wear and tear would be objectively measured, and there was no indication that wear and tear had been a problem under the prior contract.

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## Other Agencies Emphasize Cost Criteria

State's selection criteria deviated considerably from the normal criteria used by the two main agencies (GSA and the Department of Defense) that contract for household furnishings. GSA's practice is to emphasize lowest cost—usually 90 percent of the rating—when awarding contracts for such items.

The Department of Defense, which has significant numbers of personnel stationed overseas, selects about 70 percent of its household furnishings from the GSA schedules, and the remaining 30 percent is obtained from such other sources as the Defense Logistics Agency, Federal Prison Industries, and specialized noncompetitive small or handicapped businesses. Our review of recent Defense purchases indicated that Defense had made no large-scale purchases of home furnishings packaged as

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<sup>2</sup>State Department: Management of Real Property Needs Improvement (GAO/NSIAD-89-116, Apr. 13, 1989).



complete rooms of furniture similar to those made by State. However, in its contracts for furniture and furnishings, Defense had typically emphasized lowest cost as the primary basis of its award criteria, and we found no instances in which the principal criteria were based on other factors such as those used by State.

## Selection Criteria Resulted in Greater Costs

Because State used criteria that emphasized subjective values rather than cost, the current home furnishings contract will cost as much as \$8 million more over a 5-year period, including option years, than other acceptable offers.

Although all offers were evaluated by State as acceptable in all areas, five of the other eight proposals were less costly than the selected offeror's proposal. Had State used the previous selection criteria (90 percent for cost, 10 percent for other factors), another firm would have been selected, reducing procurement costs from about \$46 million to \$38 million over a 5-year period.<sup>3</sup>

In initially rejecting State's selection criteria, GSA told State that its use of the 40-60 evaluation criteria would, among other things, "give exponentially greater advantages to the highest bid price...." Our analysis of the nine proposals showed that the bid prices ranged from a low of \$38 million to a high bid price of \$64 million; the selected offeror's bid price was \$46 million.

## Conclusions and Recommendation

In awarding a contract for overseas household furnishings, the State Department used subjective selection criteria that are difficult to measure objectively. GSA raised objections to State's selection criteria. Even though GSA subsequently approved State's criteria, the reasons for GSA's approval had more to do with easing its work load than concurring with State's criteria. State's selection criteria differ widely from the criteria used by other agencies. The contract will cost the government as much as \$8 million more over the life of the contract (including option years) than if cost had been the primary basis for award.

<sup>3</sup>Since this is a requirements contract, meaning that the total cost will depend on the number of specific orders placed during the contract period, the procurement price is calculated based on State's estimate of orders that will be placed. Our calculations were based on State's scoring of the nine offers. We applied the criteria of 90 percent for cost and 10 percent for other factors to State's scores. The non-cost factors were not changed, only the relative weights.

We recommend that the Secretary of State not exercise next year's option of the current contract but instead, with GSA approval, solicit offers for a new contract to meet State's future requirements for household furnishings and make the selection from among acceptable competing offers based on more appropriate criteria, such as a much greater consideration of cost.

## Objectives, Scope, and Methodology

The former Chairman of the Legislation and National Security Subcommittee, House Committee on Government Operations, requested that we determine whether State's award criteria were appropriate, justified, and consistent with other federal government agencies' criteria in awarding contracts for household furnishings. As requested, we also (1) determined whether the selected firm's pricing of items manufactured by subcontractors was in accordance with applicable regulations and (2) reviewed allegations of bias on the part of a member of State's evaluation panel for the procurement. The results of our review of these two matters are contained in appendix I.

We conducted our review primarily at the Department of State's Bureau of Administration and Information Management and at GSA's Federal Supply Service. We reviewed all available records concerning State's selection process and interviewed responsible officials. We obtained information from the Office of the Assistant Secretary (Production and Logistics) in the Department of Defense, the Contracting Directorate in the Defense Logistics Agency, and GSA concerning the selection criteria these agencies used in contracting for furniture and furnishings.

As part of our assessment of the allegation of an employee's bias, we met with officials from State's Office of the Inspector General and reviewed the documents in their files. We also interviewed other members of State's procurement evaluation panel and compared the various panel members' ratings for significant deviations.

Our work was performed between January and March 1989 in accordance with generally accepted government auditing standards. As requested, we did not obtain official agency comments on a draft of this report, but we did discuss the information in this report with the appropriate State Department officials. They said that as of March 1989 they had made no determination as to whether to seek GSA approval to exercise the option on the contract for the upcoming fiscal year.

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As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from its issue date. At that time, we will send copies to the Secretary of State; Director, Office of Management and Budget; and other interested parties.

This report was prepared under the direction of Joseph E. Kelley, Director for Security and International Relations Issues. Other major contributors are listed in appendix II.

Sincerely yours,



Frank C. Conahan  
Assistant Comptroller General

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## Abbreviations

GSA      General Services Administration



# Other Matters Pertaining to State's Household Furnishings Contract

At the request of the former Chairman of the Legislation and National Security Subcommittee, House Committee on Government Operations, we reviewed other matters pertaining to State's household furnishings contract. We determined that procurement regulations did not require that State consider subcontractor pricing in the contract selection process. We also found no evidence to support the allegations of bias on the part of a member of State's panel evaluating the offers for household furnishings.

## Subcontractor Price Markup Information Not Required by Regulations

Because State's selection of the contractor for furnishings was based on competition and prices to State were below established commercial prices, the regulations governing the consideration of price markups on items manufactured by subcontractors do not apply. Under Federal Acquisition Regulations (sec. 52.215-24), contractors are not required to include subcontractor cost and pricing data in their proposals provided that (1) price competition is adequate, (2) prices to the U.S. government are based on established catalog or market prices of commercial items sold in substantial quantity to the general public, or (3) the procurement is set by law or regulation.

Contract documentation showed that nine proposals were submitted and price competition was adequate. Moreover, State's comparisons of proposed prices with the firms' published commercial price lists revealed that the offered prices were below market prices of items sold to the general public. These factors render the consideration of price markups on subcontractor-supplied items a moot point.

## No Evidence of Bias Found in Selection Process

The State Inspector General found no evidence to support the allegation that an involved State employee had a conflict of interest in the contractor selection process. The Inspector General initiated an investigation in October 1988 to determine if the individual in question violated the basic conflict of interest statute (18 U.S.C. 208(a)), which prohibits an officer or employee from participating in his official capacity in any particular matter affecting his own or certain other specified interests.

The Inspector General reviewed financial records and interviewed company personnel and found the employee did not have a financial interest in NOVA International at the time of the contract deliberations. The State employee in question did go to work for NOVA International, the parent company of Pennsylvania House, after retiring from State. However, the Inspector General found no evidence that the individual had

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**Appendix I  
Other Matters Pertaining to State's  
Household Furnishings Contract**

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been in contact with NOVA about future employment while employed by State.

Concerning the allegation of bias in the selection process, we examined all documentation collected by the Inspector General, interviewed members of State's selection panel, and reviewed contract files. We also examined scoring sheets and found no inconsistency among the ratings that would indicate bias by this evaluation panel member in favor of any particular offeror.

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