

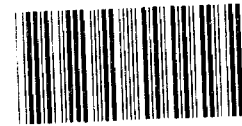
GAO

Report to the Ranking Minority Member,
Committee on Governmental Affairs, U.S.
Senate

June 1987

GSA PROCUREMENT

Quality Assurance for Common-Use Items Should Be Improved



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United States
General Accounting Office
Washington, D.C. 20548

General Government Division

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June 29, 1987

The Honorable William V. Roth, Jr.
Ranking Minority Member
Committee on Governmental Affairs
United States Senate

Dear Senator Roth:

This report responds to your request that we review the General Services Administration's (GSA) quality assurance program and use of contract warranties on commercial items.

The report discusses federal agencies' reporting of quality complaints to GSA and weaknesses in GSA's quality assurance program. It contains several recommendations for the Administrator of General Services to improve the quality assurance program.

As arranged with your office, unless you publicly announce its contents or authorize its release sooner, no further distribution of this report will be made until 15 days from its issue date. At that time, we will send copies of this report to the Committee on Governmental Affairs, other interested congressional committees, the Director of the Office of Management and Budget, and the Administrator of General Services.

Sincerely yours,

William J. Anderson
Assistant Comptroller General

Executive Summary

Purpose

Previous Senate hearings, as well as reports by GAO and others, have noted weaknesses in the General Services Administration's (GSA) quality assurance program. Weaknesses included (1) defective items being shipped to customer agencies, (2) agencies not reporting quality complaints to GSA, (3) quality complaints not being resolved by GSA, and (4) GSA not documenting contractor performance histories. During fiscal year 1986, GSA procured \$1.8 billion of common-use items under procurement programs which were covered by its quality assurance program.

The Chairman, Senate Committee on Governmental Affairs, requested GAO to evaluate the General Services Administration's (GSA) quality assurance program used in the procurement of common-use items and its use of contract warranties to require contractors to replace defective items. (See p. 12.)

Background

GSA procures common-use items, such as office equipment, furniture, and tools for federal agencies. GSA's responsibility is to ensure that federal agencies receive quality products. To achieve this goal, GSA manages a quality assurance program which requires contractors to (1) replace or correct defective items and (2) maintain quality control systems which meet GSA's requirements. When a federal agency receives a defective item, it should submit a quality complaint to GSA. If GSA determines the complaint is valid and was the contractor's fault, it should notify the contractor about replacing or correcting the defective item.

This quality assurance program depends on cooperation between GSA and federal agency customers. GSA relies on federal agencies to report the receipt of defective items so it can (1) take actions to remove the defective items from its procurement programs and (2) document contractors' performance files which are used to determine if the contractors receive future contract awards. Federal agencies, in turn, depend on GSA to (1) prevent the purchase of defective items and (2) require contractors to replace or correct defective items under contract provisions. (See pp. 8 to 12.)

Results in Brief

GAO visited 19 federal activities, including military bases and government offices. None were reporting all quality defects to GSA's complaint system. This hinders GSA's efforts to manage the quality assurance program because GSA does not know the extent of its problems with quality

and is unable to (1) take actions to prevent the receipt of additional defective items and (2) adequately document contractors' performance.

When GSA did receive quality complaints from federal agencies, it did not obtain replacement items in a timely manner for about three-quarters of the replacement actions that GAO reviewed.

Additionally, GAO found that 15 of 21 contractors submitted written quality control procedures to GSA that did not comply with existing standards, and that preaward surveys used to determine if a contractor was responsible did not correctly represent past contractor performance in 21 of 24 cases.

Principal Findings

Agencies Did Not Report Complaints

GAO visited 19 federal activities from 12 federal departments and agencies and at each activity identified some items with quality defects that were not reported to GSA's complaint system. When asked why defects GAO identified were not reported, activities' supply personnel told GAO they were unaware of the complaint reporting procedures, found them confusing, or believed that GSA would not resolve their complaints. GSA's complaint reporting procedures, which are explained in varying detail in GSA regulations, user manuals, and newsletters, require federal activities to report complaints to GSA. GAO reviewed GSA's complaint reporting instructions and found that they were inconsistent and confusing.

Activities that did not report complaints to GSA took several different actions when they received defective items. GAO found they either (1) threw defective items away and reordered new items from GSA or private industry, (2) repaired the defective items, or (3) stored the defective items in their warehouses. (See pp. 14 to 18.)

Defective Items Were Not Replaced in a Timely Manner

GAO sampled quality complaints submitted to GSA in Atlanta, Georgia, and Chicago, Illinois, that GSA determined required contractors to replace defective items. GAO found that 36 of 47 replacement actions were not timely. Sixty-six percent of the complainants eventually received replacements but the activities had waited an average of about 113 days for them. At the same time, 34 percent of the complainants did not receive completed replacements even though they had waited an

average of about 9 months. Contract provisions normally require replacement within 30 days after the contractor is notified by GSA of a defect. GAO found that items were not replaced in a timely manner because GSA's contract administration offices were not properly conducting their contract administration duties. (See pp. 22 to 24.)

Quality Control System Requirements Were Not Enforced

GSA's contractors' quality control systems are intended to ensure that federal agencies receive satisfactory products from GSA's procurement programs. To receive and keep their contracts, contractors are required to maintain systems meeting GSA's requirements.

GAO found that 15 of 21 contractors' written quality control procedures did not meet the GSA standard. (See pp. 28 to 30.)

Preaward Surveys Were Not Complete

GSA must be satisfied that a potential contractor has a satisfactory performance record before it awards that contractor a contract. If a contractor's performance information does not clearly indicate the contractor is responsible, it must be denied an award. The Federal Acquisition Regulation requires preaward surveys to contain the information needed to evaluate contractor responsibility.

GAO reviewed 24 preaward surveys and found that 21 did not contain the required details on contractors' poor performance, such as prior complaints about product quality and weaknesses in quality control systems. (See pp. 30 to 32.)

Recommendations

GAO recommends that the Administrator of GSA make several improvements in that agency's quality assurance program. These improvements involve reporting of quality complaints, obtaining replacements for defective items, preventing warehouses from shipping defective items, and recording information on past performance in preaward survey reports. (See pp. 20, 21, 24, 27, 29, and 32.)

Agency Comments

GSA generally concurs with the report recommendations and plans to review the resources devoted to quality assurance. GSA advised that it will:

- work to standardize reporting procedures and disseminate complaint reporting instructions to federal agencies,

Executive Summary

-
- strengthen existing procedures on replacements and highlight the requirement to monitor replacement actions,
 - better enforce procedures to prevent warehouses from shipping defective items, and
 - remind contract management personnel to adhere to existing requirements to include details on past performance in preaward survey reports.

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Abbreviations

ACO	Administrative Contracting Officer
FAR	Federal Acquisition Regulation
FPMR	Federal Property Management Regulation
FSS	Federal Supply Service
GAO	General Accounting Office
GSA	General Services Administration
MUFFIN	Multi-Use File for Interagency News
PCO	Procuring Contracting Officer
QAMA	Quality Approved Manufacturer Agreement program

Introduction

The General Services Administration (GSA) was established by the Federal Property and Administrative Services Act of 1949 to, among other things, give federal agencies an economical and efficient system for obtaining common-use items such as furniture, tools, and office equipment. GSA has assigned this responsibility to its Federal Supply Service (FSS). One important aspect of FSS's responsibility is ensuring that items it procures for federal agencies are quality products. To meet this responsibility, FSS has established a quality assurance program.

FSS's Quality Assurance Program

FSS calls its quality assurance program the Quality Approved Manufacturer Agreement program (QAMA). QAMA requires contractors to maintain quality control systems which meet FSS's requirements. Additionally, QAMA normally requires contractors to replace or correct defective items for a period of 12 months after the government accepts the items.

QAMA is managed by FSS's Office of Quality and Contract Administration at its headquarters in Arlington, Virginia, and five regional contract management divisions in Boston, Massachusetts; Atlanta, Georgia; Chicago, Illinois; Fort Worth, Texas; and San Francisco, California. Each contract management division consists of a quality assurance group and a contract administration group. Responsibilities of these organizations include:

- investigating federal agencies' quality complaints,
- conducting surveillances of FSS's warehouses to detect defective stock after a complaint investigation determines an item is defective,
- requiring contractors to replace or correct defective items,
- reviewing contractors' quality control systems to determine if they comply with QAMA, and
- providing procurement offices with required information on a contractor's performance prior to the award of a new contract.

Procurement Programs Covered by QAMA

QAMA covers items procured under FSS's stock, special order, and single award schedule procurement programs. Fiscal year 1986 sales of such items to federal agencies are listed in table 1.1.

Table 1.1: Procurement Programs and Fiscal Year 1986 Sales

Dollars in millions

Program	Fiscal year 1986 sales volume
Stock	\$850
Special order	558
Single award schedule	437
Total	\$1,845^a

^aExcludes \$535 million from the special order program for vehicles and \$2 million from the single award schedule program for leasing not covered by QAMA.

FSS signs contracts with contractors for items under each program. However, federal agencies' ordering and receiving methods differ for each program. A brief description of these procurement programs follows.

Stock: FSS orders items from contractors who deliver the items to FSS's warehouses. Agencies order the items from FSS and receive the items from the warehouses.

Special order program: Agencies order the items from FSS. FSS places the agencies' orders with the contractors who deliver the items to the agencies.

Single award schedule: Agencies place orders with the contractor identified on the schedule. The contractor delivers the item directly to the agency.

FSS's procurement offices are located in Arlington, Virginia; New York, New York; Fort Worth, Texas; and Auburn, Washington.

Organizations Involved in Quality Assurance Program

The effectiveness of FSS's quality assurance program depends on the participation of its procurement offices, federal agency customers, and quality assurance and contract administration groups. For example, FSS's

- procurement offices request contractors' performance histories from the quality assurance group to determine if the contractors can perform under a new contract,
- quality assurance groups receive quality complaints from federal agencies so FSS can take corrective actions to prevent further shipment of defective items from GSA warehouses or contractors, and

- contract administration groups are responsible for ensuring that contractors replace defective items received by federal agencies.

Since the organizations involved in FSS's quality assurance program are located in various geographical locations, the success of the program depends on prompt and accurate communication. For example, figure 1.1 shows the activities which could result from a single hypothetical quality complaint. The example assumes the

- original contract was awarded by FSS's Auburn, Washington, procurement office to a contractor in Kansas City, Missouri;
- items were in FSS's stock program and stored at warehouses within the Atlanta, Georgia; San Francisco, California; and Chicago, Illinois contract management regions; and
- federal agency receiving the defective item was located in Memphis, Tennessee.

The example illustrates the complexity of a single quality complaint within the quality assurance program.

Prior Senate Hearings

The Senate Governmental Affairs Subcommittee on Federal Spending Practices and Open Government held hearings during 1979 relating to a supplier's quality assurance program. During the hearings, the Subcommittee heard evidence that

- defective products were entering FSS's procurement programs,
- federal agencies were not reporting all quality complaints to FSS, and
- FSS was not resolving quality complaints.

Prior Reports on FSS's Quality Assurance Program

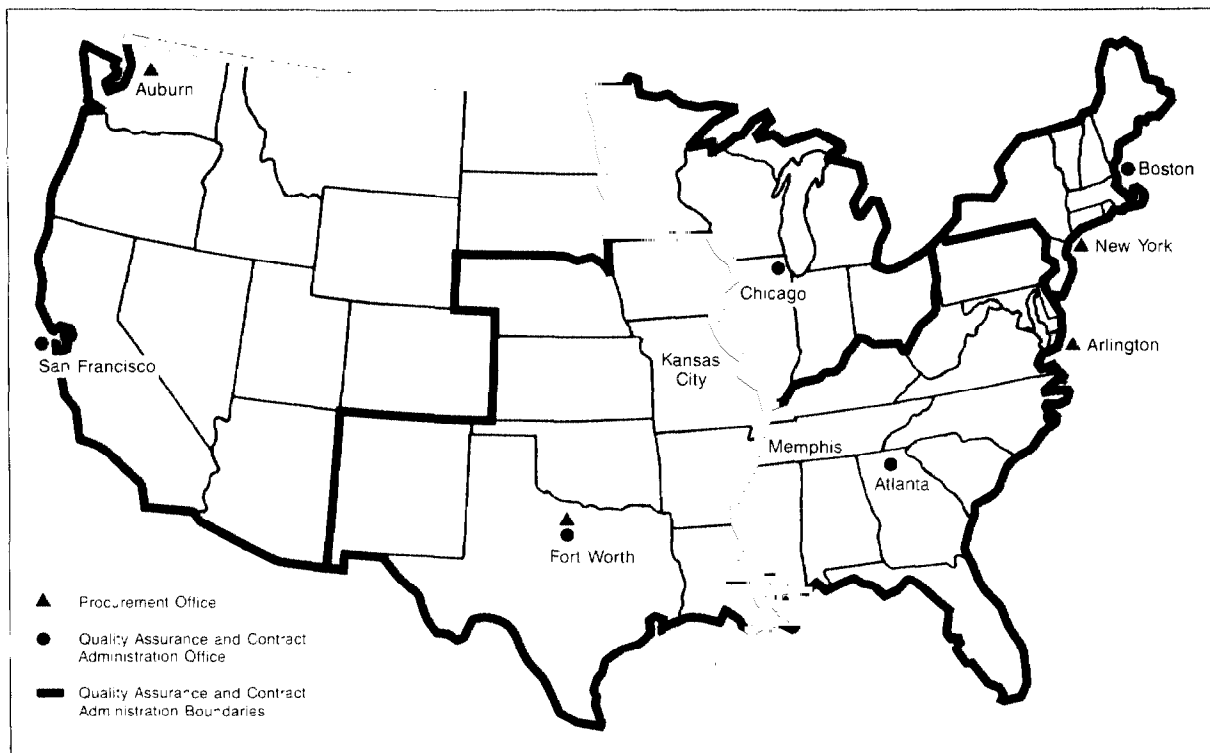
During September 1979, GAO¹ and the Defense Logistics Agency² issued reports relating to FSS's quality assurance program. The following weaknesses were disclosed in one or both of the reports:

- federal agencies were not reporting their quality complaints to FSS,
- procedures for reporting quality complaints were burdensome,
- FSS did not resolve federal agencies' complaints in a timely manner,

¹GSA Needs to Strengthen its Inspection and Testing to Make Sure the Government Gets the Quality it Pays for (PSAD-79-102, Sept. 21, 1979).

²A Review of General Services Administration/Federal Supply Service Procurement Quality Assurance Policies, Procedures and Practices for Metal Desks and Lateral Files (Sept., 1979).

Figure 1.1: Quality Assurance Actions After a Quality Complaint



The Memphis federal agency submits a quality complaint to the Atlanta quality assurance group.

The Atlanta quality assurance group

- investigates and determines whether the item is defective;
- conducts surveillance of its regional warehouse stock, identifies additional defective items, and notifies the Fort Worth contract administration group which is responsible for monitoring the Kansas City contractor's contracts;
- recommends that the Chicago and San Francisco quality assurance groups conduct surveillances of their regional warehouse stocks;
- notifies the Memphis agency that the defective item will be replaced by the contractor; and
- informs the Fort Worth quality assurance group, which is responsible for monitoring the contractor's quality control system, that a justified quality complaint was received.

The Chicago and San Francisco quality assurance groups conduct surveillances of their regional warehouse stock and notify the Fort Worth contract administration group of the results.

The Fort Worth quality assurance group visits the contractor to determine the cause of the problems.

The Fort Worth contract administration group settles the complaint with the contractor under the QAMA provisions.

Prior to the award of a new contract to the contractor, the Auburn procurement office requests a contract performance history from the Fort Worth contract management division.

The Fort Worth contract management division quality assurance group submits its performance history, which includes the complaint, to the Auburn procurement office.

- procurement offices were not receiving complete performance histories from the quality assurance groups, and
- inspections of contractors' quality control systems did not prevent the receipt of defective items.

During October 1985, the GSA Inspector General³ reported on FSS's quality assurance activities and said that FSS's inspection of its contractors' quality control systems has not prevented the receipt of defective items in its stock procurement program.

Objectives, Scope, and Methodology

The Chairman, Senate Committee on Governmental Affairs, requested that we evaluate GSA's quality assurance program and use of contract warranties in the procurement of common-use items. To respond to this request, we evaluated FSS's procedures for

- obtaining quality complaints from federal agencies;
- resolving agencies' complaints by requiring contractors to replace defective items;
- documenting contractors' performance histories on preaward surveys, which are used by procurement offices in determining whether a contractor should receive additional contracts; and
- requiring contractors to maintain quality control systems.

Our review work was performed at FSS's headquarters in Arlington, Virginia, and in regional offices in Atlanta, Georgia, and Chicago, Illinois. Review work was conducted from October 1985 to April 1986 in accordance with generally accepted government auditing standards.

To determine if federal agencies were reporting quality complaints to FSS, we visited 19 federal activities in the vicinities of Atlanta, Georgia; Chicago, Illinois; and Washington, D.C. During these visits we interviewed supply personnel and reviewed records to find out (1) how complaints were handled and (2) what was done with defective items. These activities provided supplies to the Departments of Defense, Army, Air Force, Navy, Commerce, Health and Human Services, Housing and Urban Development, Interior, Labor, and Treasury. Also, we visited one activity each from the Environmental Protection Agency and the Veterans Administration.

³Review of the Quality Approved Manufacturer Agreement Program (A40571/F/T/T6001, Oct. 18, 1985).

In selecting activities to visit, we considered the dollar value of federal agencies' purchases from FSS during the first half of fiscal year 1985. For example, defense agencies purchase the majority of FSS items. Consequently, we visited 10 defense and 9 civilian activities. We visited selected activities which used different types of FSS products, such as (1) military bases which used paint, chemicals, tools, and furniture and (2) federal office activities which used office supplies and equipment.

To determine FSS's response to agency complaints, we reviewed all quality complaints received by the Atlanta and Chicago contract management divisions during fiscal year 1985. Data from these complaints were used to determine (1) the time taken by federal agencies to report quality complaints to FSS and (2) which complaints FSS determined were valid due to the receipt of defective items. We then analyzed the complaints FSS considered valid to determine if FSS was (1) conducting timely warehouse surveillances after such complaints were received and (2) enforcing QAMA provisions by obtaining replacements for defective items.

To determine if FSS was replacing defective items under QAMA provisions, we reviewed all 197 quality complaints received and considered valid by the Atlanta and Chicago quality assurance groups between October 1, 1984, and July 31, 1985. Such complaints required the contractor to replace defective items. We selected a statistically valid sample of 49 of the 197 complaints to determine if the defective items were replaced. We contacted the federal activities that submitted the 49 complaints to determine if they received the replacements as well as the 5 FSS contract administration offices to determine the reasons activities had not received replacements.

To evaluate FSS's efforts to prevent defective items from entering its procurement programs, we selected 27 contractors in the Atlanta and Chicago regions as the focus of our review. These 27 contractors had the highest number of reported valid quality complaints for fiscal years 1984 and 1985, accounting for 36 percent of all valid complaints. We selected these contractors to determine if these past performance problems were documented on preaward surveys. All contractors selected had active contracts during fiscal year 1985. Our evaluation consisted of reviewing both the contract management divisions' documentation of past contractor performance problems on preaward surveys and the contractors' quality control system procedures.

FSS Needs Better Information on Quality Complaints

During fiscal year 1985, FSS received 998 quality complaints which it considered valid from federal agencies that obtained defective items from FSS's procurement programs. However, this figure is understated because all the federal agencies we reviewed had received defective items which they did not report to FSS. FSS needs to receive quality complaints so it can remove the defective items from its procurement programs and require contractors to replace or correct defective items.

When agencies do submit complaints to FSS, they often take several months to notify FSS of the defective items, hindering FSS's ability to manage its quality assurance program. This occurs because (1) additional defective items are shipped to federal activities and (2) the QAMA replacement period may expire before the contractor is notified of the defect.

FSS is working with federal agencies in an attempt to improve its knowledge of quality problems. However, as discussed below, we believe FSS can take additional actions to improve the information it receives from using agencies on problems related to their receipt of defective items from contractors.

Federal Activities Are Not Reporting Complaints

We identified some examples of unreported quality deficiencies and/or improper reporting of quality defects at each of the 19 federal activities we visited. Although these federal activities received a variety of items that did not work, such as defective tools, furniture, chemicals, and office supplies, they did not report these defective items to FSS. We found that activities that did not report defects to FSS often

- threw the defective items away and reordered new items from FSS or private industry. For example, garden hoses which split open during use were thrown away and new ones reordered.
- repaired the defective items using federal employees. For example, when picture frames fell apart they were repaired by a federal employee.
- hired a repair contractor to attempt repairs.
- stored the defective items in their warehouses. For example, we found that defective furniture was being stored in warehouses.

These actions by federal activities cost the government money because contracts require the contractors to replace or correct defective items. Additionally, when FSS is not aware of the defects, it cannot

- prevent the shipment of additional defective items to federal activities,
- make design corrections to an item if needed, and
- document contractors' performance histories with the complaints.

Figure 2.1 shows an example of a collapsed filing cabinet which was not reported to FSS.

Reasons Activities Do Not Complain

Federal activities were not reporting quality complaints to FSS because either they did not

- know about or fully understand FSS's complaint reporting instructions or
- realize the importance of complaint reporting to the quality assurance program.

Another reason given by supply personnel for not reporting complaints was they did not believe FSS would resolve their quality complaints. Our analysis of FSS's efforts to resolve complaints is included in chapter 3.

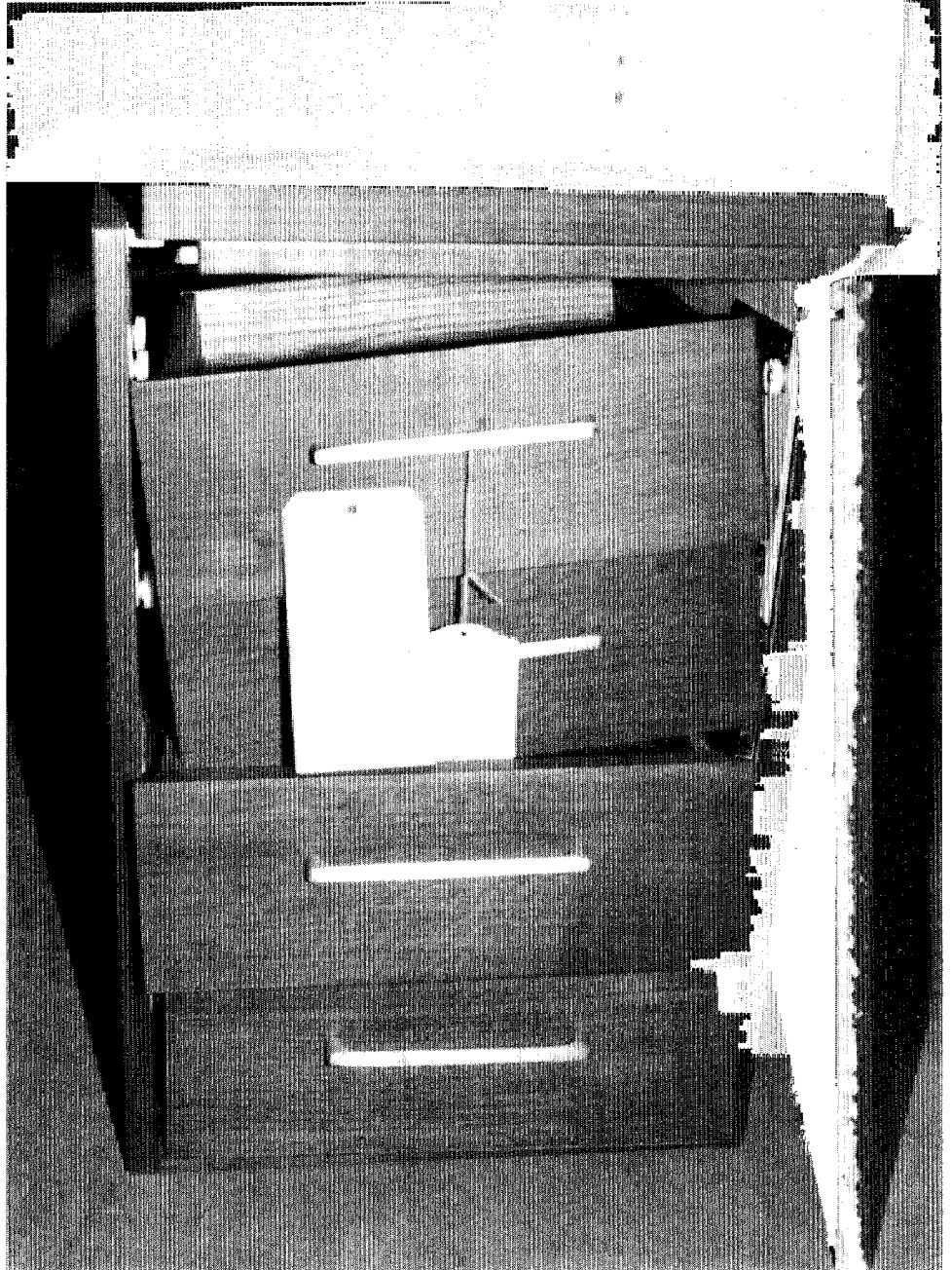
Poor Understanding and Awareness of Complaint Reporting Instructions

FSS's quality complaint reporting instructions are contained in varying detail in the Federal Property Management Regulation (FPMR); GSA Supply Catalog; and in GSA's assistance guide, newsletters, and individual single award federal supply schedules. The formal process for reporting quality complaints requires activities to submit such complaints on a standard form 368 to designated FSS contract management divisions. The appropriate contract management division is determined by an agency's geographical location. For example, federal activities located in Illinois, Indiana, Michigan, Minnesota, Ohio, and Wisconsin should report their complaints to FSS's Chicago contract management division. (See fig. 1.1.)

We asked supply personnel at the 19 activities if they were aware of the complaint reporting instructions in the FPMR, GSA Supply Catalog, individual single award schedules, and assistance guide. Supply personnel at 14 of the activities were not aware of all these sources of complaint reporting instructions. Because responsible supply personnel were not familiar with these requirements, they frequently did not report defective items to FSS. Supply personnel at three of the five federal activities who were aware of all the complaint instructions found them confusing.

We reviewed the complaint reporting instructions and found that they were incomplete, inconsistent, and difficult to understand. The GSA Supply Catalog provides a listing of FSS contract management divisions and the states within the divisions' regions. Agencies can tell which contract

Figure 2.1: Unreported Quality Problem



A Department of Defense activity received this collapsed filing cabinet during March 1985. Apparently, the cabinet was improperly assembled by the manufacturer. The item was stored in the warehouse as the 12-month replacement period expired and a quality complaint was not submitted.

Source: GAO

management division to submit complaints to based on their geographical location. However, the FPMR and the single award schedules do not contain this specific information. Agencies using the FPMR and single award schedules are referred to an additional handbook to determine where to send quality complaints.

Additionally, we found inconsistencies in reporting procedures for items under warranty which can result in agencies not reporting complaints to FSS. For example, the customer assistance guide dated November 1984, instructs federal activities to

“check to see if the item is under warranty and, if so . . . attempt to obtain corrective action from the contractor If the manufacturer/contractor refuses to correct or fails to replace a defective item under the warranty, the appropriate GSA office . . . should be notified.”

However, a newsletter dated July 1985 instructs federal activities that if “furniture . . . is warranted . . . customers should notify GSA of defective furniture by submission of Standard Form 368.”

The current FPMR and single award schedule instructions contain reporting requirements similar to those in the November 1984 customer assistance guide. These procedures require federal activities to notify FSS of defective items only if the contractors do not replace or correct the defective item. However, the July 1985 newsletter contradicts these procedures by requiring federal activities to report furniture complaints directly to FSS without exception.

Activities' Supply Personnel Did Not Understand the Importance of Complaint Reporting

We found that personnel at federal activities we visited were not regularly submitting quality complaints because they did not realize they could have an effect on the quality of FSS items. For example, a Department of the Interior employee ordering items from FSS's procurement programs did not submit formal complaints because he believed the reporting process was too time-consuming and the defective items would not be improved. Similarly, personnel at an Army activity received defective ice scrapers which broke in half during use, but did not complain because they believed it was too much trouble to submit a complaint and there was no incentive to do so.

We explained to the supply personnel that FSS needs complaint information to take the needed actions to replace the defective items or remove

contractors with poor performance records from the procurement programs. The supply personnel told us they would report complaints in the future.

Untimely Reporting of Quality Complaints

FSS needs to receive federal activities' quality complaints as soon as possible because it uses the complaints to identify defective items entering its procurement programs. For example, when FSS receives a quality complaint on a stock program item and confirms the complaint was valid, it initiates surveillances of its warehouses to prevent the shipment of additional quantities of this defective item to federal activities. Since items are constantly being shipped from FSS's warehouses, the faster FSS receives a quality complaint the faster it can move to verify the validity of the complaint and prevent the shipment of additional defective items. Additionally, since the QAMA replacement requirements normally last for 12 months, it is also necessary to receive complaints quickly for FSS to enforce the replacement provisions.

FSS procedures require civilian activities to report complaints within 15 calendar days after a defective item is discovered. Defense activities are exempted from this requirement. However, defense regulations require activities to submit complaints in a "timely manner." Table 2.1 provides an analysis of the time federal activities took to report complaints to FSS's Atlanta and Chicago contract management divisions during fiscal year 1985.

Table 2.1: Days Required by Activities to Submit Quality Complaints to FSS

Calendar days	Complaints	Percent of total complaints
15 or less	104	23
16 to 30	93	21
31 to 45	78	17
46 to 60	34	8
61 to 90	51	11
over 90	87	20
Total	447	100

The table shows that, in some cases, lengthy time periods passed before complaints were reported. Some of the lengthy time periods were caused because federal activities covered by the Atlanta and Chicago contract management divisions did not understand the complaint reporting process. For example, a Navy activity identified a defective desk during

November 1984 but mailed the complaint to the wrong office. As a result, the correct contract management division did not receive the complaint until March 1985. A Department of Labor activity identified a defective table during November 1984 and spent months trying to determine where to send a complaint about it. As a result, the correct contract management division did not receive the complaint until February 1985.

In other cases, long reporting times were due to the activities' internal routing of complaints. Some civilian and defense activities are required to submit their complaints through their agency's screening point. The screening points (1) review the standard form 368 to see if it is completed properly and (2) monitor the status of the quality complaint.

Since the defense activities listed the screening points which received their complaints, we were able to analyze the time taken by the defense screening points to process the complaints. Complaints involving the defense screening points averaged 78 days to reach FSS. Of the 78 days, 36 days were used by the screening points. In many complaints, the screening point added a significant amount of time to the reporting of quality complaints. For example, a screening point received a complaint from an Army activity 12 days after the activity identified a defective item. However, an additional 126 days passed before the FSS contract management division received the complaint from the screening point. In another case, a screening point received a complaint from a Navy activity 20 days after the activity identified a defective item. However, an additional 94 days passed before the FSS contract management division received the complaint from the screening point.

In its comments on this report, GSA agreed with our observation that the Department of Defense screening points are adding a significant amount of time to the reporting of quality complaints. GSA requested that we help it to alleviate this problem by addressing the issue to Defense. We will follow up with Defense to see what can be done to reduce the time it takes its screening points to process complaints. (See app. I.)

FSS's Efforts to Improve Complaint Reporting

During 1984, FSS initiated two informal quality feedback systems to improve its product quality information. The systems include:

- a Quality Complaint Hotline, consisting of a telephone number which federal personnel can use to notify FSS of an unsatisfactory item, and

-
- an Electronic Quick-Call System called Multi-Use File for Interagency News (MUFFIN) which can be activated by a computer terminal to FSS using a commercial telephone number.

FSS received 165 informal quality complaints through these two systems during fiscal year 1985 in addition to the 998 formal quality complaints.

The Hotline and MUFFIN provide FSS's headquarters with information it can use to detect the receipt of defective items and take remedial action. However, the two systems do not provide agencies with a resolution of their problems because they are still required to submit formal complaints to receive replacements for their defective items. Additionally, not all the federal activities we visited had access to computer terminals to use the MUFFIN system. Further, during our visits to the 19 federal activities we found that 9 of the 19 activities were not aware of either the Hotline or MUFFIN.

Conclusions

FSS did not know the full extent of its quality problems because the federal activities we visited were not reporting all their complaints. Failure to report complaints has cost the government money because activities are disposing of defective items which contractors are required to replace or correct under their contract provisions. Additionally, FSS could not take remedial actions because it was not aware of the problems. When agencies did complain, they often took months to report their complaints. These delays also hindered FSS's ability to manage its quality assurance process because it could not take remedial action until it received the complaints.

Although FSS is taking some action to improve quality complaint reporting, we believe additional actions should be taken.

Recommendations

We recommend that the Administrator of GSA

- standardize the complaint reporting procedures contained in the FPMR, GSA supply catalog, assistance guides, newsletters, and single award schedules;
- provide reporting instructions that let agencies know where to submit complaints; and
- disseminate complaint reporting instructions to federal agencies and instruct the agencies to provide these instructions to their supply personnel.

Agency Comments and
Our Evaluation

GSA agreed with these recommendations and plans to standardize the reporting procedures and disseminate the procedures to federal agencies.

FSS's Response to Quality Complaints

After FSS receives a federal activity's quality complaint and determines it was the result of a defective item, it must

- require the contractor to replace or correct the items and
- inspect its warehouses to prevent any additional shipment of the defective item to other customers.

We found that FSS was not obtaining timely replacements of defective items. We also discovered that warehouse inspections sometimes were not timely and that the controls to prevent shipments of defective items should be strengthened.

Replacement of Defective Items

QAMA contract provisions normally require contractors to replace or correct defective items within 30 calendar days after FSS notifies them of a defective item. The FSS quality assurance group receiving a quality complaint from a federal activity investigates the complaint and makes a recommendation to the FSS administrative contracting officer (ACO), who is monitoring the contracts, as to whether the items should be replaced or corrected. The ACO decides whether replacement or correction is required and is responsible for monitoring the contractor's replacement or correction of the defective item.

In the majority of cases, this process involves FSS quality assurance and contract administration groups located in different cities. Additionally, the agency with the defective item and the contractor are often located in different cities. For example, a Washington, D.C., federal activity would submit its quality complaint to the Atlanta quality assurance group for investigation. If the contractor that produced the defective item is located in Los Angeles, California, the San Francisco contract administration group is responsible for requiring the contractor to replace the defective item. The ACO in San Francisco would have to maintain contact with the federal activity in Washington, D.C., to make sure that the contractor replaced the defective item. Because the parties to a quality complaint resolution are generally in different places, communication is very important to this process.

Delays in Receipt Of Replacements

We randomly selected 49¹ quality complaints from a universe of 197² quality complaints received at the Atlanta and Chicago contract management divisions to determine how quickly defective items received by federal activities were replaced. The quality complaints we sampled were investigated by the Atlanta and Chicago quality assurance groups. However, the required replacements were administered by all five of FSS's contract administration groups.

Records showed that replacement actions had not been completed on 16 complaints even though a minimum of 5 months had passed since FSS determined a replacement was warranted. For these 16 cases, the federal activities had waited an average of 279³ days, or about 9 months, and the replacement actions were not completed.

We discussed these 16 cases with both the ACOs and the complaining activities and determined that ACO communications with complaining activities were breaking down. For example, an ACO closed a replacement file without knowing whether a replacement from the contractor was acceptable because the ACO had difficulty contacting the agency personnel who made the complaint. Another ACO did not follow up with agency personnel to determine if a contractor completed a promised replacement action.

We also noted some communication weaknesses between the quality assurance groups and the contract administration groups. For example, one contract administration group did not receive the complaint documents from a quality assurance group and was unaware that a problem existed.

Replacements were received for defective items in 31 of 47, or 66 percent, of the complaints which required replacement actions. However, it took an average of 113 days for the federal activities to receive replacements. Table 3.1 shows the length of time required for replacement of the defective items.

¹In two cases FSS reversed its original decision to replace the item. Therefore, we reviewed 47 complaints.

²These complaints were received and determined by FSS to be justified during the period October 1, 1984, through July 31, 1985.

³The time period was calculated from the date the quality assurance group recommended replacement of the item to the date we contacted the federal activity.

Table 3.1: Time Required to Replace Defective Items

Days ^a	Complaints	Percent
60 or less	9	31
61 to 120	8	28
over 120	12	41
Total	29^b	100 %

^aDays were calculated from the date the quality assurance group recommended replacement to the date the agency received the replacement.

^bIn two additional cases we were unable to determine the date the federal activity received a replacement.

For our review, we arrived at 60 days as a reasonable time for FSS to obtain replacements from a contractor. The 60-day period provides (1) the normal 30 days contractors have to replace the defective items under their contracts and (2) an additional 30 days for FSS to notify the contractors that replacement actions were required. When the 16 complaints discussed on page 23 are added to the 20 items in table 3.1, which took over 60 days to replace, 36 of the 47 replacement actions or 77 percent took longer than 60 days.

Conclusion

FSS's ACOS were not enforcing the contract provisions which require contractors to make timely replacements of defective items because they are not monitoring the replacement actions of the contractors.

Recommendation

We recommend that the Administrator, GSA, reinforce the requirement for ACOS to monitor contractors' replacement efforts until the agencies receive a satisfactory replacement.

Agency Comments and Our Evaluation

GSA agreed with this recommendation and plans to strengthen existing procedures and highlight the requirement for ACOS to monitor contractors' replacement efforts.

Shipment of Defective Items Continues

Federal activities continue to receive defective items from FSS's procurement programs several months after FSS first becomes aware of the defects in its items. For example, FSS's

- Fort Worth contract management division received a complaint during December 1984 that deicing fluid was leaking through its containers

because of defects in the containers. However, federal activities continued to receive the defective items as late as May 1985.

- Atlanta contract management division received a complaint during August 1984 that award holders were defective. However, federal activities continued to receive the defective award holders as late as March 1985.

Federal activities continued to receive defective items after quality defects were identified because FSS was neither

- conducting necessary warehouse surveillances in a timely manner to stop the shipment of additional defective items, nor
- maintaining control of defective items in its warehouses.

Warehouse Surveillances Were Not Always Timely

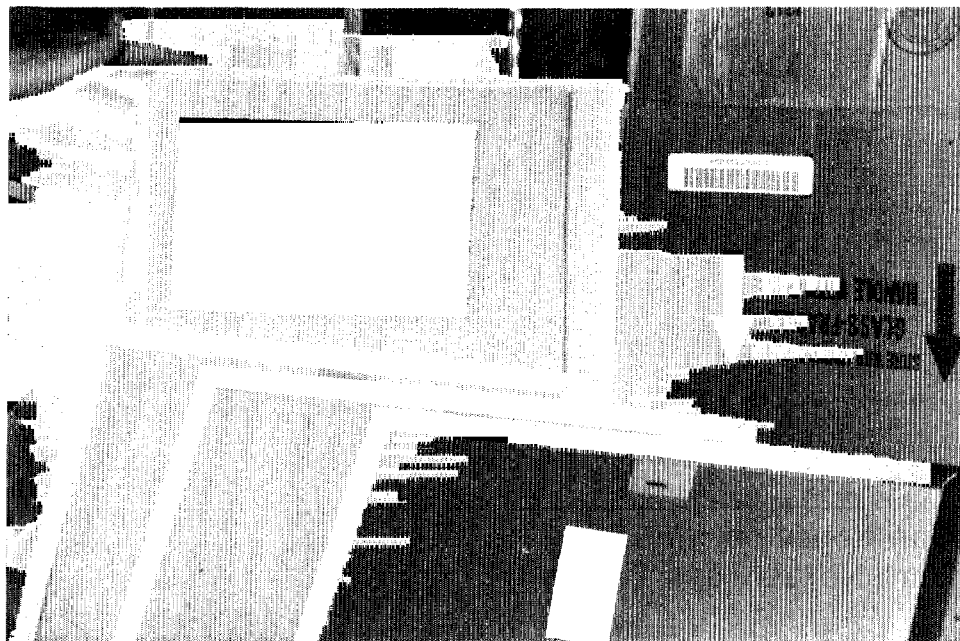
When a contract management division receives a federal activity's quality complaint identifying a defective item, the contract management division is supposed to inspect its warehouse stock to identify any additional quantities of the items. If the items in the warehouse stock are defective, the stock is to be placed in an "administrative hold" status, an FSS procedure intended to prevent further shipment to federal activities.

When warehouse surveillances are performed quickly and thoroughly, the defective items can be held in the warehouse for replacement by the contractor. If the inspections are not performed quickly, additional defective items may be shipped to federal activities.

Our review of surveillances performed at the Atlanta and Chicago warehouses showed that 52 of 89, or 58 percent, were performed within 15 days after a complaint investigation identified a defective item. However, 18 of 89, or 20 percent of the surveillances, were completed more than 30 days after the defective item was identified, resulting in additional shipment of defective items in some cases. For example, a warehouse surveillance at the Atlanta warehouse was not performed until 2 months after a complaint was determined valid by FSS and an additional 4,644 defective items priced at \$8,848 were shipped from the warehouse before the items were placed on hold.

Figure 3.1 shows defective picture frames in an "open" status and ready for shipment to federal activities from the Atlanta warehouse. These items were on administrative hold in Fort Worth and San Francisco to prevent further shipment to federal activities.

Figure 3.1: Defective Picture Frames Available for Shipment From the Atlanta Regional Warehouse



The picture frames fell apart at the corners. The separation in the joints can be seen in the right hand corner of the picture frame directly under the arrow.

Source: GAO

Items on “Hold” Are Also Shipped

Once defective items are placed on administrative hold, they are supposed to be kept from shipment to federal agencies. However, in three cases at the Atlanta and Chicago warehouses we found defective items on administrative hold were shipped to federal activities. For example, while defective hand cleaner was placed on hold during November 1984 at the Atlanta warehouse, federal activities received the hand cleaner from the Atlanta warehouse in December 1984. Inventory records for the defective hand cleaner showed that 665 cans, priced at \$2,361, were shipped to federal activities during December 1984. Warehouse personnel shipped the items by mistake because they were not physically separated from good quality items in the warehouse.

Conclusion

Untimely warehouse surveillances and the failure to separate defective items on administrative hold from good items in the warehouses caused agencies to receive defective items from FSS months after FSS knew the items were defective.

Recommendations

We recommend that the Administrator of GSA

- direct quality assurance groups to perform warehouse surveillances as soon as possible when defective items are identified and
- provide better control over defective items being held on administrative hold in FSS warehouses. One alternative would be to physically separate defective items from items without defects.

Agency Comments and Our Evaluation

GSA agreed with these recommendations. GSA plans to strengthen current procedures for warehouse surveillances and has notified its warehouses to take appropriate actions to prevent the shipment of defective items.

Eliminating Defective Items From Procurement Programs

FSS's contract management divisions can help eliminate defective items from FSS's procurement programs by

- requiring contractors to maintain quality control systems which are in compliance with QAMA and
- providing procurement offices with complete details of a contractor's performance before the award of a new contract to that contractor.

Compliance with the QAMA quality control system requirements should prevent a contractor from shipping defective items, while complete details on contractors' performance can prevent a contractor with a poor performance record from receiving a new contract.

We found that FSS's Atlanta and Chicago contract management groups were not requiring strict compliance with QAMA's quality control system requirements. Additionally, important details of contractors' performance were not being submitted to procurement offices. These weaknesses in FSS's quality assurance process result in defective products entering its procurement programs.

Contractors' Quality Control Systems Should Be Improved

Fifteen of 21 contractors' quality control systems we reviewed did not meet the QAMA requirements. Such weaknesses in contractors' quality control systems can result in the shipment of defective items to federal activities.

QAMA requires contractors to establish and maintain quality control systems which will provide FSS with products that meet contract specifications. Federal Standard 368A, approved by FSS in 1979, establishes the minimum requirements for an acceptable quality control system. These requirements include a written description of the methods, procedures, controls, records, and maintenance of a system which will assure the production of quality items.

The quality control system requirements are included in all QAMA contracts. By using the QAMA requirements in its contracts, FSS is replacing its own item inspection with a contractor's quality control system.

Since the contractors' quality control systems are intended to provide the assurance that federal activities receive satisfactory products, FSS's quality assurance groups are mandated to verify that the contractor has a system in compliance with QAMA requirements before the start of item production and throughout the course of the contract.

We compared the written procedures submitted by the 21¹ contractors to six basic requirements for written procedures contained in Federal Standard 368A. In our opinion the procedures submitted by 15 of these 21 contractors did not comply with these requirements. We found weaknesses in areas of the quality control systems, such as (1) descriptions of inspection procedures and (2) use of inspection equipment.

These weaknesses can result in the production of defective items. For example, a contractor did not have testing equipment to test parts received from its suppliers. Since the contractor did not have the proper test equipment, the contractor produced defective items because a supplier's defective part went undetected. A thorough review of the contractor's quality control procedures may have shown that the contractor did not have the proper test equipment.

Similar Findings by GSA Inspector General

The GSA Inspector General completed audit work during 1985 on a series of regional reports reviewing the QAMA process. The Inspector General reported that of the 22 contractors' quality control systems it reviewed, 16 did not comply with the QAMA requirements. The Inspector General concluded that the quality control system weaknesses resulted in the shipment of defective items to FSS and recommended that FSS improve (1) training of its quality assurance personnel and (2) procedures for conducting quality control system surveillances.

Conclusions

Contractors' quality control systems are needed to prevent defective items from entering FSS's procurement programs. However, these quality control systems were not in compliance with FSS's QAMA requirements. These weaknesses result in the shipment of defective items to federal activities.

Recommendation

We recommend that the Administrator of GSA direct quality assurance groups to accept only those quality control systems which meet the provisions of Federal Standard 368A.

¹Procedures for the remaining 6 of the 27 contractors in our group were not available for review.

Agency Comments and Our Evaluation

GSA agreed with our recommendation, but questioned the process that led to it. GSA said that actual contractor performance and what is reported in the preaward survey (plant facility report) are more important than adherence to federal standard 368A. As shown on page 16 of this report, we reviewed the procedures of those contractors which had the most valid quality complaints. We also reviewed the preaward surveys that were prepared for these contractors and found that information on past performance was not included. (See pp. 33-34.) Further, as discussed on page 32, the GSA Inspector General has also reported that contractors' quality control systems did not comply with requirements.

Complete Contractor Performance Histories Needed on Preaward Surveys

The Federal Acquisition Regulation (FAR) requires procuring contracting officers (PCO) to be satisfied that a potential contractor has a satisfactory performance record before it is awarded a contract. If the information does not clearly indicate the contractor is responsible, it must be denied a contract award. The FAR points out that an award of a contract to a contractor based on lowest price alone can be false economy if there is unsatisfactory performance resulting in additional contractual or administrative costs. In determining if a potential contractor has the responsibility to perform under a contract, the PCO needs to know, among other things, the

- number of contracts and extent of past performance deficiencies;
- extent to which the prospective contractor plans, or has taken, action to correct the deficiencies; and
- information on any persistent pattern of need for costly and burdensome government assistance, inspection, or testing beyond the requirements of the contract.

The FAR requires that this information be provided in preaward survey reports. However, we found that these reports were not including this information.

We reviewed the most recent preaward surveys for 24² contractors to determine if available performance details were provided to PCOs. We found that 21 of the 24 preaward surveys did not contain needed details on contractors' performance histories. For example, one contractor had 14 quality complaints during the prior 12 months but the preaward survey did not mention the complaints. Another contractor had 11 quality

²Three of the 27 contractors in our study did not have preaward surveys in the last 2 fiscal years.

complaints during the prior 12 months but the preaward survey did not mention these complaints. Likewise, a third contractor had 9 quality complaints during the prior 12 months but the preaward survey did not mention these complaints.

Performance Histories Were Incomplete

Contract management divisions maintain performance history records for contractors located in their regions and such records are used during the preparation of the preaward surveys. However, we found that the records did not contain all quality complaints received by the contractors.

Contract management divisions need all quality complaints received about a contractor to prepare a complete preaward survey report. The contract management division's records should contain quality complaints received (1) from federal activities within its region and (2) by the other four contract management divisions. Table 4.1 compares the total complaints listed at FSS headquarters for the 27 contractors included in our study from the Atlanta and Chicago regions with the complaints contained in the regional contract management division records.

Table 4.1: Comparison of Complaints Received With Complaints in Contract Management Records

	Total Complaints	Complaints contained in records	
		Number	Percent
Received by either the Chicago or Atlanta Contract Management Division	20	20	100
Received by the other Contract Management Divisions	123	84	68

The table shows that all the complaints received by the Atlanta and Chicago contract management divisions from federal activities in their region were maintained in the records. However, 32 percent of the complaints received by other contract management divisions from activities in their regions were not on record in the Atlanta and Chicago contract management division performing the preaward survey.

Performance Histories Were Inaccurate

After the completion of a contract, the contract management division completes a report describing the contractor's quality performance on the completed contract. This report may provide the number of quality

complaints received on the contract. We found that 9 of 13 reports contained in the files did not list the correct number of complaints. FSS had received 21 complaints of defective items on the contracts before the reports were completed, but 16, or 76 percent, of the quality complaints were not listed in the reports. This inaccurate information could result in a contractor with a poor performance record not being identified during the preparation of preaward surveys.

Conclusions

FSS's contract management divisions were not providing PCOS with needed performance details in preaward survey reports. Additionally, the contract management divisions were relying on incomplete and inaccurate performance histories to prepare the preaward surveys.

Recommendations

We recommend that the Administrator of GSA develop procedures to ensure that

- all complaints received by contract management divisions are recorded in performance histories and
- details on past performance are included in preaward survey reports.

Agency Comments and Our Evaluation

GSA said that all contract management divisions will be reminded to comply with requirements to record performance histories and details on past performance.

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