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GENERAL SERVICES ADMINISTRATION

Actions Needed to Stop Buying Supplies From Poor-Performing Vendors

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The Honorable Jim Sasser
Chairman, Subcommittee on General Services,
Federalism, and the District of Columbia
Committee on Governmental Affairs
United States Senate

Dear Mr. Chairman:

This report responds to your request that we examine the General Services Administration's (GSA) governmentwide purchases of common-use supplies and equipment to meet federal agencies' needs. Our earlier work for you on GSA's overall vulnerability to fraud, waste, and mismanagement, on which we briefed your staff in July 1991 and subsequently reported in September 1992, identified this as one of GSA's eight most vulnerable activities.[1] Accordingly, you asked us to follow up on GSA supply product quality problems that we and the GSA Inspector General (IG) reported in the 1980s. Specifically, you asked us to determine whether GSA has continued to buy defective or poor quality products and, if so, to identify the causes and effects of such purchases.

One of GSA's primary responsibilities is to provide an economical and efficient means for federal agencies to obtain needed supply products, such as paints, tools, furniture, and office supplies and equipment. GSA attempts to meet agencies' common supply needs in two primary ways: (1) governmentwide single and multiple award schedules (MAS) contracts with commercial vendors under which agencies obtain needed products directly from the vendor at agreed upon schedule prices and (2) competitive, indefinite delivery contracts with private vendors under which GSA buys products in bulk or large quantities for resale to agencies through its depots and supply centers or via direct delivery from vendors.

As agreed with the Subcommittee, GSA's competitive, indefinite delivery contracts are the subject of this report. More specifically, this report focuses on GSA's award of supply contracts to vendors with histories of poor performance on earlier contracts.

Results in Brief

GSA appears to award the majority of its supply contracts to responsible vendors that are capable of supplying products that meet contract quality

[1]General Services Administration: Actions Needed to Improve Protection Against Fraud, Waste, and Mismanagement (GAO/GGD-92-98, Sept. 30, 1992).

and delivery requirements. However, GSA has continued to do business with a number of vendors that have histories of poor performance on earlier contracts for the same or similar products. Although we were unable to determine the overall extent or costs of such products because of the lack of complete data, between fiscal years 1988 and 1991 GSA awarded contracts valued at over $1 billion to at least 285 vendors whose products repeatedly have failed to meet contract specification and/or delivery schedule requirements.

Our case study reviews of a judgmental sample of 9 such contracts, extensive discussions with over 50 GSA procurement officials nationwide, and analyses of other GSA data illustrated how continuing to contract with poor-performing vendors has been wasteful and resulted in several adverse operational effects and consequences, such as impeding GSA's oversight of other contracts and compromising customer agencies' mission accomplishment. We further investigated five of the nine sample contracts, found indications of improper or illegal vendor activity on all five contracts, and provided the results to the GSA IG.

Our work identified two primary reasons GSA has continued to do business with repeat poor-performing vendors. First, GSA lacks complete and readily usable data on vendors' past contract performance. Second, GSA has not consistently emphasized or considered product quality, on-time delivery, or vendor capability and performance in awarding and administering its supply contracts. GSA procurement officials generally have been reluctant to use available data clearly indicating poor vendor performance to deny new contracts to such vendors or to terminate existing contracts.

GSA has taken actions against some poor-performing vendors over the years and recently initiated several new actions aimed at more fully protecting its supply operations from such losses and inefficiencies. It is too early to judge the impact that these new initiatives will have on reducing GSA's existing vulnerability.

Background

The nature, dollar magnitude, and governmentwide scope of GSA's supply operations provide ample opportunities for fraud, waste, and mismanagement. Such occurrences not only adversely affect the economy, efficiency, and effectiveness of GSA's multibillion-dollar operations but also the operations of federal agencies that rely on GSA for supplies. Consequently, it is especially critical that GSA's supply operations be adequately protected.

GSA's supply procurement and distribution activities involve huge sums of money and extensive interaction with the private sector. GSA's Federal Supply Service (FSS) has an extensive supply procurement, warehousing, and distribution system to acquire and resell supplies to federal agencies. GSA operates 5 supply depots that stock nearly 18,000 products, and it also acquires or arranges for federal agencies to acquire additional products that are not stocked in its depots.

In fiscal year 1991, GSA's 8 commodity centers nationwide awarded about 5,000 common-use supply contracts valued at about $4 billion. Five GSA regions administered these contracts. GSA's supply operations are financed primarily by revenue from sales to federal agencies. During fiscal year 1991, federal agencies bought $2.2 billion worth of supply items from GSA. While federal agencies are expected to buy supplies through GSA, they are permitted to buy products in the commercial marketplace if (1) needed products are not readily available from GSA or (2) commercial prices are lower.

GSA is expected to ensure that (1) federal agencies' requirements are filled with quality items that satisfy their needs and are reasonably priced and (2) the rights of the federal government and all responsible bidders are adequately protected. GSA's supply contracting activities are governed by the Competition in Contracting Act of 1984 (CICA), the Federal Acquisition Regulation (FAR), and its own implementing policies and regulations. FAR requires that GSA award contracts to vendors that are "responsible," which basically means they are capable of successfully performing the contracts and includes the condition that they have satisfactory performance records. FAR recognizes that poor vendor performance can result in inferior quality products, late delivery, and significant monetary losses or inefficiencies and that these problems can be compounded when vendors with histories of poor performance are awarded additional contracts.

FSS has a number of control structures, organizations, and processes designed to help ensure that the supply products it buys for resale to federal agencies meet contract requirements and satisfy agencies' needs. These include procurement and administrative contracting officers, the Quality Approved Manufacturer Agreement (QAMA) program, a national product testing laboratory, a federal agency complaints system, and contract management divisions in 5 of GSA's 11 regions nationwide. About 500 procurement contracting officers (PCO) at the 8 commodity centers that handle GSA's supply purchases have the responsibility and legal authority to judge whether bidders are responsible by reviewing data on vendors' performance, financial health, and production capability. Using competitive procedures, PCOs are then to make awards to the lowest "responsible" bidder.

QAMA requires vendors to establish and maintain product quality control systems that meet GSA's requirements and to certify that quality levels are being met. QAMA is managed by FSS' Office of Quality and Contract Administration at its headquarters in Crystal City, VA, and regional contract management divisions in Boston, Atlanta, Chicago, Fort Worth, and San Francisco. GSA's National Laboratory in San Francisco supports QAMA by performing sample testing to help ensure that vendors' products meet contract requirements; the lab tested almost 7,000 individual products in fiscal year 1990. GSA's complaints center in Kansas City, MO, receives federal agencies' complaints about product quality and forwards them to the contract management divisions for investigation and follow-up; over 1,800 complaints were received during fiscal years 1990 and 1991.

GSA's contract management divisions administer awarded contracts and oversee vendors' performance. As of September 25, 1992, these divisions had 64 administrative contracting officers (ACO) and 123 quality assurance specialists (QAS) whose key responsibilities include helping to ensure that contract delivery requirements are met and that vendors' quality assurance processes and products meet GSA's quality standards. Contract management staff are also to provide PCOs with information on vendors' performance, financial health, and production capability before contract award and make recommendations for the PCO's consideration on whether vendors are "responsible" and should be awarded additional contracts.

Poor vendor performance on GSA supply contracts has been a long-standing problem. Congressional hearings in the late 1970s disclosed that (1) poor vendor performance and resulting product quality and late delivery problems wasted federal procurement dollars and (2) in some cases GSA continued to award supply contracts to vendors with histories of poor performance on earlier contracts. GSA identified problems in the QAMA program as a material internal control weakness in its 1983 Federal Managers' Financial Integrity Act (FMFIA) report to the President and Congress but indicated in its 1984 report that this weakness had been corrected.

The GSA IG reported in 1985 that over 17 percent of the supply items it examined did not meet contract requirements.[2] We reported in 1987 that federal agencies received a number of defective or inferior quality supply products but frequently did not bother to report these product quality problems to GSA because they were unaware of the complaint process or believed that GSA would not resolve their complaints.[3] We also reported that GSA did not (1) know the full extent of its product quality problem, (2) effectively prevent acceptance of defective products, or (3) adequately monitor or oversee vendors' contract performance. Finally, recent GSA IG reports have documented recurring problems in GSA's supply contract management and QAMA programs. In 1989, the IG reported that agency QASs had not made required visits to vendor sites to check product quality or promptly followed up on complaints from customer agencies concerning defective supply products.[4] In 1991, the IG noted that the QAMA program in one GSA region had improved since the last IG review in 1984, but reported that over 16 percent of the supply items it randomly selected did not meet specified contract requirements.[5] These IG reports made several recommendations to correct these deficiencies.

Objectives, Scope, and Methodology

As part of our earlier work on GSA's overall vulnerability to fraud, waste, and mismanagement, on which we briefed your staff in July 1991 and subsequently reported in September 1992, we identified purchases of common-use supplies and equipment—under competitive, indefinite delivery as well as MAS contracts—as one of GSA's eight most vulnerable activities. You asked us to review this activity in more detail. As agreed with your staff, we concentrated our efforts on GSA's purchases of supplies under competitive, indefinite delivery contracts because (1) we already had work under way for a House Committee on GSA's MAS program that subsequently has been completed,[6] (2) GSA's IG had devoted and continued to devote considerable resources to MAS purchases, and (3) GSA had categorized MAS purchases as a high-risk area for FMFIA purposes.

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

[3] GSA Procurement: Quality Assurance for Common-Use Items Should Be Improved (GAO/GGD-87-65, June 29, 1987).

[4] Review of the FSS Contract Management Program: Region 1, OIG (A90484/F/1/V89049, Aug. 10, 1989).

[5] Review of the Effectiveness of the Quality Approved Manufacturers Agreement Program: Region 5, OIG (A007891/F/5/V91019, June 14, 1991).

[6] Multiple Award Schedule Purchases: Improvements Needed Regarding Publicizing Agencies' Orders (GAO/NSIAD-92-88, May 12, 1992) and Multiple Award Schedule Purchases: Changes Are Needed to Improve Agencies' Ordering Practices (GAO/NSIAD-92-123, June 2, 1992).

Our preliminary work indicated that GSA still had not fully corrected the product quality problems we and the GSA IG reported in the 1980s and continued to do business with a number of vendors that had histories of poor performance on earlier and existing contracts. Since we were unable to determine the full extent, costs, and operational effects of poor quality supply products and late delivery because of the lack of complete and readily usable GSA data, we decided, and the Subcommittee agreed, to focus on GSA's awards of contracts to vendors with histories of poor performance. Accordingly, our objectives were to determine (1) the extent to which GSA has continued to award supply contracts to such vendors and (2) the causes, costs, and operational effects of these awards.

To determine the nature, extent, and costs of GSA's contracts with poor-performing vendors, we analyzed unorganized data that GSA provided to us on vendors who held contracts in fiscal years 1990 and 1991 and, according to GSA officials, had histories of poor performance. Using this data and other available GSA information on supply vendors' performance, we (1) identified the number of vendors whose products had failed to meet contract quality or delivery schedule requirements, (2) determined the number and dollar value of contracts these vendors held between fiscal years 1988 and 1991, (3) identified which of GSA's eight procurement centers awarded these contracts, and (4) examined available GSA data on the quality and timeliness of these vendors' products under these and earlier contracts. We also analyzed GSA laboratory testing and customer complaint data for these vendors. Although we did not validate the accuracy and reliability of the data GSA provided because of time constraints and resource limitations, we made adjustments to the data where we found errors.

To determine the reasons GSA has continued to award contracts to vendors with histories of poor performance and the adverse effects these awards have had on GSA's and customer agencies' operations, we did case study reviews of a judgmental sample of nine contracts held by repeat poor-performing vendors in fiscal years 1990 and 1991. Seven of these contracts were held by vendors whom we identified using the data that GSA provided and two were contracts that our preliminary work indicated may have involved improper or illegal vendor activities. We limited our case study analysis to only nine contracts because gathering information on and analyzing the history of each contract was a labor-intensive, time-consuming effort that involved examining records and interviewing various responsible GSA procurement officials at several different locations nationwide. Appendix I contains the results of our case study reviews.

Although our findings are not projectable to the entire universe of GSA's repeat poor-performing vendors, the case study approach provided specific illustrations of the causes and effects of continuing to do business with such vendors.

As part of our case study reviews, we interviewed over 50 responsible GSA procurement officials at 8 locations nationwide, including the PCOs, ACOs, and QASs associated with each contract and their supervisors. Besides discussing the specifics of each sample contract and vendor with these officials, we obtained their views on the overall nature and extent, causes, and effects of poor vendor performance and the resulting product quality and late delivery problems. This provided valuable insight on GSA's supply procurement process and overall vendor performance and product quality problems.

We investigated five of the nine sample contracts because of indications that these vendors may have engaged in improper or illegal activities. Using investigative techniques, our investigators examined contract files and other GSA records and interviewed three of the five subject vendors; the remaining two declined to be interviewed. Finally, our investigators discussed these matters with responsible officials of the cognizant U.S. attorney and GSA IG offices.

In doing our work, we also reviewed and considered relevant laws, regulations, policies, and other documents dealing with GSA's supply procurement activities and interviewed responsible management officials at GSA headquarters, GSA regional offices in Atlanta, Boston, and San Francisco, and the Office of Management and Budget (OMB). We did our work between August 1991 and July 1992 in accordance with generally accepted government auditing standards. We have included GSA's written comments in appendix II and summarized them in the agency comments and our evaluation section of this letter.

GSA Does Business With Many Vendors That Have Histories of Poor Performance

According to FAR, government contracts should be awarded to vendors that are capable of meeting contract quality and delivery requirements and have satisfactory past performance records. While GSA appears to award the majority of its supply contracts to such vendors, it has continued to do business with a number of vendors with histories of poor performance on earlier contracts. Using unorganized data that GSA provided to us, we determined that between fiscal years 1988 and 1991 GSA awarded 1,611 contracts valued at over $1 billion to 285 vendors who, during the preceding 3-year period, had failed to meet product quality and/or delivery requirements on some of their earlier contracts for the same or similar products. After we completed our review, GSA followed up on these 1,611 contracts and reported to us that at least 20 percent of them involved poor vendor performance. We noted that the number of GSA contract awards to these vendors more than doubled between 1988 and 1991—from 208 to 490.

Available GSA performance data for these 285 vendors showed histories of poor quality products, late delivery, and/or customer agency complaints. For example,

- the GSA national laboratory rejected 23 percent of these vendors' products that it tested in fiscal year 1990;
- about 29,000 of these vendors' orders, an average of 26 percent, were delivered late between fiscal years 1988 and 1990; and
- customer agencies filed 845 complaints with GSA about these vendors in fiscal year 1990.

In spite of these performance problems, GSA continued to award additional supply contracts to these vendors during subsequent contract cycles.

Although historical data on these 285 vendors' contracts before 1988 generally were not readily available from GSA's records, regional GSA contract management officials in the three regions we visited told us that the repeat poor-performing vendor problem has persisted for many years and that some of these vendors have received GSA contracts for decades. Of the 285 vendors, we were able to use available GSA data to reconstruct a contract history for 56 vendors. Our analysis indicated that 22 of them have held GSA supply contracts for over 10 years. For example, one vendor who has held GSA contracts since 1966 consistently has supplied products that have failed to meet contract quality and/or delivery schedule requirements. Finally, as discussed later in this report, both our investigations of some of these vendors and the IG's investigations of other GSA supply vendors have indicated improper or illegal vendor activities, including misrepresentation of products and intentional use of inferior materials. In some cases, these vendor activities have been going on for years. According to the Commissioner of FSS, GSA has referred some of these vendors for debarment action and terminated some of these vendors' contracts for default.

Adverse Effects on GSA's and Customer Agencies' Operations

Continuing to contract with poor-performing vendors has been wasteful and resulted in several adverse operational effects and consequences. Our case study analysis of 9 GSA supply contracts held by such vendors, extensive discussions with over 50 GSA procurement officials nationwide, and analyses of other available GSA data illustrate how this practice has impeded GSA's monitoring and oversight of other vendors' contracts and performance, compromised customer agencies' mission accomplishment, and in a few cases jeopardized federal employees' health and safety.

For 8 of the 9 contracts we analyzed, 20 of GSA's 26 contract management staff responsible for these contracts said that they believed the amount of time they had to spend monitoring them was excessive, thus impeding GSA's ability to adequately monitor and oversee other supply contracts and vendors. In fact, 7 of the 20 staff members said that they could not effectively monitor all their assigned contracts because of the excessive time they spent with these vendors. For example, one ACO said she spent about 20 percent of her time monitoring one of the sample contracts even though she was responsible for over 250 contracts. GSA regional management officials in two of the three regions we visited—Boston and San Francisco—confirmed that year after year they have spent excessive staff resources on repeat poor-performing vendors. This has made GSA vulnerable to more losses and inefficiencies because other contracts were not adequately monitored.

GSA's national testing laboratory also has been adversely affected by repeat poor-performing vendors. As mentioned earlier, the laboratory plays a supporting role in helping contract management officials monitor supply contracts by determining whether vendors' products meet GSA's quality standards. However, the laboratory primarily examines vendors' products that have already been accepted into GSA's supply system, and its ability to test products in a timely manner has been hampered in recent years by testing backlogs.

According to the head of the laboratory, testing poor-performing vendors' products has tied up scarce laboratory resources. Our analysis of 1990 testing data confirmed that the laboratory spent a significant portion of its available resources testing products from the 285 repeat poor-performing vendors discussed earlier. According to GSA, these products included tools, paints, sealants, and adhesives, which require close monitoring for customer agency mission and safety reasons. Although representing only 7 percent of the total number of supply contracts subject to laboratory testing, these 285 vendors accounted for over 50 percent of the laboratory's workload.

Continuing to do business with poor-performing vendors also can result in lost sales revenue for GSA and other adverse effects on customer agencies. As indicated earlier, customer agencies are permitted to purchase products on the open market if GSA is unable to satisfy their needs because of vendor product or delivery problems. However, such open market purchases can negate discounts associated with GSA's volume purchases and thus diminish the utility of a centralized, governmentwide procurement function.

In three of the nine sample contracts we analyzed, customer agencies bought products on the open market because they were dissatisfied with either the quality of the GSA-contracted products or the GSA product was not available because of late vendor deliveries. According to the Director of GSA's International Tools Commodity Center, some customer agencies frequently have refused to buy hand tools produced by certain GSA vendors, including two of the vendors in our sample, because they have histories of supplying poor quality products and/or failing to meet contract delivery dates. For example, our case study reviews found that the Department of Defense bought hand tools in the commercial marketplace when the GSA vendor did not meet contract delivery requirements. According to a recent GSA survey, at least 39 percent of its hand tool customers have bought products on the open market when GSA vendors could not deliver on time.[7] Although GSA's information systems do not link sales data to specific vendors, we noted that GSA experienced an overall 10-percent decline in hand tool sales between fiscal years 1989 and 1990 that resulted in a $13-million loss in sales revenue on this commodity.

Our case study analysis identified several specific examples of how customer agency operations and worker safety have been compromised by vendors' defective products or late deliveries. For example, the U.S. Forest Service painted over 8 million trees with defective tree-marking paint, requiring remarking at additional cost. The Forest Service also suspected that this paint caused sickness among several of its workers. In another case, GSA engineers told us that poor quality wrenches manufactured by two of the sample vendors could cause worker injuries. Appendix I discusses these adverse effects in more detail.

[7]"GSA Tool Customer Backorder/Quality Survey." Kansas City Tools Commodity Center (June 1991).

Improper or Illegal Vendor Activities

Besides the audit reports on needed improvements in GSA's QAMA program mentioned earlier, GSA IG investigations have resulted in several successful prosecutions of supply vendors for fraudulent contracting activities. According to the Commissioner of FSS, the majority of these cases were referred to the GSA IG by FSS. For example, a U.S. District Court awarded the government a $5.6-million civil judgment against a partitions supply firm in 1989 based on its finding that the vendor had defrauded GSA by falsifying laboratory test results. This vendor previously had been convicted of conspiracy, submitting false claims, and making false statements.

Our investigations of five of the nine sample GSA supply contracts with repeat poor-performing vendors that we had selected for case study reviews indicated that all five vendors engaged in improper or illegal activities, including product substitution and falsified QAMA certifications. For example, one vendor pressured its employees to falsify the results of quality tests and then knowingly sent the inferior products to GSA. The President of another vendor told us that for the last 20 years, it was "part of the routine" to falsify official test results required by GSA. GSA's failure to raise any questions over this period demonstrated, in his view, GSA's acceptance of the activity. He also told us that his company sold to another federal agency the same products that GSA had rejected earlier. Our investigators discussed these five cases with the cognizant U.S. attorney and provided the results of our investigations to the GSA IG. The results of our investigations of these five vendors are discussed in more detail in appendix I.

These vendors' deception of GSA by defying QAMA requirements indicates that GSA's common-use supply system is highly vulnerable to fraud and illustrates how and why the government's interests are not adequately protected. These vendors' routine practice of submitting falsified QAMA certifications allowed them to successfully provide GSA with inferior products, concealed their poor performance, and contributed to their ability to get additional GSA contracts. Our investigations indicated that for between 2 and 30 years, these five vendors routinely submitted falsified performance certifications, financial reports, product test results, and statements of contracting history that GSA not only relied on in accepting defective or inferior products but also used to justify the award of subsequent contracts. According to the Commissioner of FSS, FSS has referred some of these vendors to the GSA IG for investigation and instituted debarment proceedings against two of these vendors.

Reasons GSA Has Continued to Do Business With Poor-Performing Vendors

Our work identified two primary reasons why GSA has continued to do business with poor-performing vendors. First, GSA has lacked complete and readily usable aggregate or individual data on vendors' past or current performance and has no organized, systematic database to adequately administer existing contracts or to make informed decisions about subsequent contract awards. Second, GSA has not consistently emphasized or considered vendor capability and past product quality and delivery performance in awarding and administering contracts. GSA procurement officials generally have been reluctant to use available data clearly indicating poor vendor performance to deny new contract awards to these vendors or terminate their existing contracts.

As discussed in our September 1992 report, GSA has lacked the quantity and quality of program data it needs to effectively manage and oversee its various activities and programs.[8] In the supply procurement area, deficiencies in the quantity, quality, and timely availability of data on vendors' past performance appear to have contributed significantly to GSA's practice of continuing to do business with vendors having histories of poor performance.

Because GSA's supply contracting and contract administration functions are decentralized, complete and reliable data are needed to manage the procurement process efficiently and effectively and to ensure that the products GSA buys for resale to the federal government community meet customer agencies' quality requirements and are available when needed. As indicated earlier in this report, however, GSA lacked complete and readily usable data on (1) the number or identity of supply vendors with histories of poor performance on earlier contracts, (2) the dollar value of such contracts, (3) the nature or extent of poor vendor performance, (4) which of its supply products and commodity centers were most affected, and (5) the resulting costs and other adverse effects on its operations or those of customer agencies. The lack of such data has impaired GSA's ability to address and resolve recurring vendor performance problems.

When we began our review in the fall of 1991, responsible GSA supply procurement officials said that GSA had few poor-performing vendors and did not consider this to be a major problem. In response to our specific inquiry, GSA provided us with various unorganized data on its supply vendors' contract performance over the 3-year period ended September 30, 1991. Using this data, we identified 1,611 contracts totaling over $1 billion that GSA awarded to 285 supply vendors with histories of

[8]GAO/GGD-92-98.

documented poor performance on earlier or existing GSA contracts for the same or similar products. However, the data GSA provided did not identify all the contracts held by these vendors. Using additional GSA data sources, we subsequently identified almost 200 additional contracts these vendors held that were not included in the initial data GSA provided to us. After we completed our review, GSA followed up on the 1,611 contracts and reported to us that at least 20 percent of them involved poor vendor performance.

Besides not having readily available, organized data to quantify the overall nature and extent of its contracts with documented poor-performing vendors, GSA's data on individual vendors' past performance frequently were incomplete. For eight of the nine sample contracts we analyzed, the data available to GSA procurement officials for judging these vendors' past performance were incomplete or inaccurate. For example, on one of the eight contracts the vendor had three purchase orders valued at $400,000 terminated because of its inability to supply the product; however, GSA's performance report for this vendor identified no terminated orders. According to the Commissioner of FSS, the failure of ACOs to ensure complete, accurate data on poor-performing vendors may stem from their view that PCOs do not adequately use such information in making subsequent award decisions.

In analyzing vendor performance management information deficiencies, we also noted that GSA's methodology for determining and reporting vendors' delivery performance appears to be flawed. GSA regularly calculates an overall vendor delivery effectiveness/efficiency rate, which is intended to be a measure of the timeliness of vendors' deliveries; in fiscal year 1990 GSA reported a rate of 95.7 percent. However, instead of dividing the number of late deliveries by the total number of deliveries for a given time period, which would accurately measure vendors' timeliness, GSA divides the number of undelivered late orders, including orders where the original due dates have been extended, by the total number of deliveries expected over the next 3 months. This method assumes that these future orders will be delivered on time, which is not always the case, and thus does not reflect actual delivery performance.

We discussed GSA's vendor delivery performance methodology with the Commissioner of FSS. The Commissioner said that a more reliable method of determining vendor delinquency would be to measure the percentage of purchase orders shipped by the original due date for a given period of time divided by the total number of orders due for that period. Another more reliable method the Commissioner identified is to monitor depot receipts for stock contracts. According to the Commissioner, this method indicates that the overall vendor delinquency rate is about 10 percent when comparing the product receipt date (allowing 15 days for transportation) with the original product due date.

Another reason GSA has continued to do business with vendors with histories of poor performance is that its supply procurement process has not adequately emphasized or considered vendor capability and past product quality and delivery performance in awarding and administering contracts. GSA's institutional emphasis on having contract coverage for all supply products, which includes meeting established award deadlines and having an active contract for each commodity, has created pressure on GSA procurement officials to award new contracts and not terminate existing contracts. Consequently, procurement officials have not effectively used available performance data to deny new contracts to poor-performing vendors or terminate their existing contracts. According to the Commissioner of FSS, this may be because GSA procurement officials could be taking the position that they are precluded from considering a vendor's past poor performance on contracts involving different products. However, the Commissioner said that he does not believe FAR supports that conclusion.

PCOs awarded seven of the nine sample contracts without obtaining or adequately considering available vendor performance data, a practice we consider unbusinesslike in light of guidelines set down by FAR. After reviewing available vendor performance data we provided, the PCOs for six of our nine sample contracts said that their award decisions had been inconsistent with available data on these vendors' past performance. For example, one PCO awarded a vendor a subsequent contract without obtaining and considering available past performance data showing that 50 percent of this vendor's deliveries under its last four GSA contracts had been late. In another case, a PCO awarded a subsequent contract to a vendor despite the availability of GSA data showing a total of 28 product quality rejections and/or customer agency complaints during the previous year.

PCOs said that awarding contracts is a very subjective process, and they were uncertain as to how to use information on vendors' past poor performance in deciding whether they were capable of successfully performing subsequent contracts. Ten of the 13 PCOs we interviewed nationwide said that GSA had not provided them with adequate guidance for judging and considering past poor vendor performance in making contract award decisions. Consequently, these PCOs said that they must rely completely on their own judgment to determine what constitutes unacceptable vendor performance. On the basis of our case study reviews of the nine contracts, interviews of PCOs, and other available GSA data, we determined that PCOs often had information clearly indicating poor vendor performance but did not act upon it based on their view that they lacked the criteria needed to consider, interpret, and use it in making subsequent award decisions.

We also noted that GSA's supply procurement process and employee performance appraisal and related rewards systems—merit pay, bonuses, etc.—create disincentives for PCOs to deny contracts to vendors based on poor past performance. GSA places great emphasis on maintaining contract coverage but does not uniformly include a measure of contract quality. Pay and bonus decisions for the heads of GSA's procurement centers, their top managers, and PCOs appeared to be based largely on contract coverage statistics, not product quality and on-time delivery, although on-time delivery is used to measure ACO performance. Consequently, GSA does not appear to have adequately stressed the importance of awarding contracts to responsible vendors. GSA's procurement files for the nine contracts we analyzed did not contain the PCO's rationale for making the contract awards without obtaining or considering vendors' past performance on earlier GSA contracts. In response to our specific questions, the PCOs for eight of the contracts did not provide any compelling reasons why they made these awards. The PCO for one of the contracts said that the primary reason was pressure from GSA management to award the contract on time and maintain contract coverage.

The emphasis GSA places on contract coverage statistics and the increased time it can take to deny a contract to a vendor that is the low bidder, even though this vendor has a history of poor performance on earlier GSA contracts for the same or a similar supply item, create disincentives for PCOs to obtain, consider, or use past performance data to deny subsequent contracts to vendors. Since (1) GSA management appears to focus primarily on contract coverage in rating and rewarding its PCOs and other responsible procurement officials and (2) efforts to deny contracts based on vendors' past performance may contribute to missed contract award deadlines and supply products for which GSA has no active contracts, GSA procurement officials appear to lack adequate incentives to take the necessary time and effort to successfully deny contracts to vendors based on past poor performance.

According to GSA, such denials can lead to award protests, nonresponsibility referrals to the Small Business Administration (SBA), congressional inquiries on behalf of the affected vendor, and other additional time-consuming work. GSA pointed out that the contract denial process for "small business" vendors can be especially time-consuming because of the legal requirement that the PCO refer a determination that a small business is nonresponsible (not capable of performing satisfactorily) to SBA, which has the ultimate authority for determinations of nonresponsibility for small businesses. If GSA disagrees with SBA's decision, it can file an appeal with SBA. If the vendor is not a small business, the vendor can protest the PCO's nonresponsibility determination to GAO, GSA's Board of Contract Appeals, or the federal courts. The increased steps these processes add to the contract award process may create an additional disincentive for denying contracts to small business vendors with histories of poor performance on earlier contracts.

For similar reasons, PCOs also have a disincentive to terminate supply contracts once they have been awarded. Although we found that between 1988 and 1991, GSA did terminate one or more of the contracts held by 47 percent of the 285 vendors with histories of poor contract performance, available evidence indicated that GSA could and probably should have terminated additional contracts held by these particular vendors. Despite vendors' poor performance, however, our work indicated that procurement officials have been reluctant to terminate contracts. Terminating contracts also has a negative effect on contract coverage statistics because (1) GSA could be without an active contract for an item while the PCO solicits new suppliers, which can take months, and (2) the PCO's workload increases.

For five of the nine contracts we analyzed, the cognizant ACOs recommended contract termination to the PCO because of documented poor vendor performance. In four of these cases, however, the PCOs declined to terminate the contract and, in the case in which the PCO did take action, GSA endured 18 months of poor performance before the PCO terminated the contract. In this case, the PCO repeatedly refused requests by the ACO to terminate the contract even though GSA clearly acknowledged that the vendor's product had failed laboratory tests and the vendor would be unable to meet delivery schedule and quality requirements. According to the PCO, terminating the contract would have left him without a supply source for months while he rebid the contract; from his perspective, having the repeat poor-performing vendor as a source of supply was better than having no source of supply at all.

According to the Commissioner of FSS, rebidding the procurement using exigency procedures would have been preferable since this could have provided the contract coverage far sooner than the approach taken.

GSA Acknowledges the Problem and Has Initiated Corrective Actions

During the course of our review, GSA acknowledged that it has serious supply vendor performance problems and identified several specific corrective actions it is taking or plans to take to begin addressing the practice of awarding additional contracts to vendors with histories of poor performance on earlier contracts. These actions include the following:

- improving guidance to assist PCOs in defining "poor performance" and more accurately identifying poor-performing vendors and an initiative to either bring such vendors up to acceptable performance levels or remove them from the supply system;
- implementing a vendor rating system under which GSA's PCOs will use specific performance criteria and data relating to past performance in awarding subsequent contracts;
- establishing a new procurement data system to provide procurement officials with timely, complete, and accurate data on vendors' past performance;
- issuing to commodity centers a listing of vendors with documented performance problems on earlier contracts;
- requiring referral to the assistant FSS commissioner for commodity management all recommendations for terminations, above a certain dollar threshold, that were not approved by the PCO;
- emphasizing to all supply procurement PCOs and ACOs that quality contracts are GSA's primary objective, not contract coverage, backorder fill rates, or other established performance measurements;
- developing and implementing new training classes and a program to better equip PCOs, ACOs, and QASs to better ensure that GSA buys high quality products at reasonable prices;
- requiring that performance criteria for awarding quality contracts be included and addressed in all PCOs' performance evaluations;
- initiating commodity center management reviews with particular emphasis on dealing more effectively with vendors with histories of poor contract performance;
- requiring a pre-award survey on all vendors defined as poor performers that is to include a complete and accurate performance history; and
- identifying and implementing several Total Quality Management (TQM) projects aimed at improving the reliability and effectiveness of GSA's QAMA program.

These actions, especially developing a new vendor performance data system and criteria to define and rate vendor performance, are steps in the right direction. However, they have not yet been fully developed and implemented.

Conclusions

GSA appears to award the majority of its supply contracts to responsible vendors that are capable of meeting contract quality and delivery requirements. However, GSA has continued to contract with at least 285 supply vendors with histories of poor performance on earlier contracts for the same or similar products that have repeatedly supplied defective or inferior quality products and/or been late with deliveries.

Although GSA has taken actions against some poor-performing vendors over the years, continuing to do business with such vendors is a wasteful, unbusinesslike way of meeting federal agencies' common-use supply needs. It has increased the costs of supply operations and had several adverse operational effects and consequences for GSA as well as customer agencies. Despite earlier problems with product quality that both we and the GSA IG reported in the 1980s, our work also indicated that GSA's QAMA program has not been as effective as it should be in preventing vendors from successfully deceiving the government.

GSA has continued to do business with poor-performing vendors because it lacks complete and readily usable data on vendors' past and current performance and has not adequately emphasized or considered available data on vendors' capability or performance in awarding and administering contracts. Our work indicated that GSA procurement officials have not effectively used available data clearly indicating poor vendor performance to deny these vendors new contract awards, terminate their existing contracts, or otherwise combat poor vendor performance that has come to their attention. Procurement officials have been reluctant to deny new contracts and terminate existing ones because (1) they believe that GSA has not developed adequate guidance on what constitutes poor vendor performance and how it can and should be dealt with and (2) GSA's procurement process and employee performance appraisal, merit pay, and bonus systems place more emphasis on product contract coverage than on product quality and on-time delivery, thereby providing disincentives for denying contracts.

GSA recognizes that it cannot afford to continue to do business with several hundred repeat poor-performing vendors and recently began several new initiatives aimed at more fully protecting its supply procurement operations from such losses and inefficiencies. However, it is too early to judge their adequacy and effectiveness in reducing GSA's existing vulnerability in this area.

Recommendations

To help make supply purchases less vulnerable to fraud, waste, and mismanagement and ensure that GSA stops awarding supply contracts to poor-performing vendors, we recommend that the Administrator of GSA make this a more clearly stated agency goal and place more emphasis on product quality, on-time delivery, and vendors' capability and past performance in awarding as well as administering supply contracts.

As a minimum, the Administrator should

- complete and fully implement ongoing initiatives to (1) develop more complete and readily usable data on supply vendors' capabilities and past performance and (2) more fully address the product quality and delivery problems that result from poor vendor performance;
- make effective use of the new data, criteria, and guidelines, which GSA is developing, to deny additional contracts to repeat poor-performing vendors and terminate existing contracts or otherwise deal more effectively with documented poor performance and/or improper or illegal vendor activities;
- reevaluate the adequacy and effectiveness of GSA's QAMA program and other internal controls designed to prevent and detect receipt of defective or poor quality products into the governmentwide supply system; and
- reexamine the emphasis GSA's procurement and performance pay and bonus systems now place on product contract coverage in assessing the performance of its commodity centers and procurement officials.

Agency Comments and Our Evaluation

In written comments dated November 13, 1992, GSA agreed with the thrust of our report and acknowledged that it has experienced difficulties in contracting with supply vendors that have failed to perform as quality contractors. GSA concurred with all our recommendations and provided updated information on various initiatives it has planned or under way to implement them. GSA's initiatives are responsive to our findings and recommendations. If fully and effectively implemented, these initiatives could resolve the contracting and contract administration problems discussed in this report.

GSA also emphasized that proposed legislation allowing it to award two parallel contracts for the same supply product would improve vendors' performance. Parallel contracting could address the operational effects of poor vendor performance by providing the government with a readily available alternate source of supply in the event of vendor product quality or delivery problems. However, parallel contracting should not be viewed as a panacea for improving vendors' contracting performance. Even if parallel contracting legislation is enacted, GSA still needs to stop buying supplies from poor-performing vendors. GSA's comments are presented in appendix II.

As agreed with the Subcommittee, we plan no further distribution of this report until 10 days after the date of issuance, unless you publicly announce its contents earlier. At that time, we will send copies to the Administrator of GSA, the Director of OMB, several other congressional committees and subcommittees, and other interested parties. Copies of this report will be made available to others upon request.

The major contributors to this report are listed in appendix III. If you have any questions or would like additional information, please contact me on (202) 275-8676.

Sincerely yours,

L. Nye Stevens

L. Nye Stevens
Director, Government Business
Operations Issues

Results of Case Study Reviews of Contracts GSA Awarded to Vendors With Histories of Poor Performance

Overview

We selected a judgmental sample of nine contracts held in fiscal years 1990 and 1991 by seven vendors with clear histories of poor performance on earlier contracts and two who appeared to be engaged in improper or illegal activity. These nine contracts, awarded between May 1988 and June 1990, covered a range of common-use supplies, including paint, tools, aircraft sealant, and office supplies.

We reviewed General Services Administration (GSA) documents, interviewed GSA officials, and, in some cases, interviewed the vendors to (1) develop a profile and brief history of each vendor, (2) determine why, given histories of poor performance, GSA awarded these vendors additional contracts, (3) determine the nature and extent of their poor performance and any improper or illegal activity, and (4) identify the adverse effects these vendors' poor performance had on GSA or customer agencies.

Procurement contracting officer (PCO) decisions to award seven of the nine contracts were questionable given the availability of information clearly indicating poor vendor performance on earlier contracts for the same or similar products. The PCOs for the other two contracts had no information on prior vendor poor performance; we selected these two contracts because the vendors appeared to be engaged in improper or illegal activity.

On all nine contracts, vendors supplied poor quality products and on six of the nine contracts, vendors were late with deliveries. On eight of the nine contracts, GSA eased contract requirements after poor vendor performance but did not terminate the contract; on the remaining contract, GSA took no formal actions to modify the contract. Our investigations indicated that vendors on five of these contracts engaged in improper or illegal activities, including submissions of false Quality Approved Manufacturer Agreement (QAMA) certifications and substitutions of inferior materials. We provided the results of our investigations on these five vendors to the GSA Inspector General.

We found that vendor performance on each of the nine contracts either had or could have had adverse effects on both GSA and the customer agencies that relied on these products. Eight of the nine contracts required excessive GSA oversight, four strained GSA laboratory resources, and customer agencies bought products on the open market because of poor GSA vendor performance on three of the contracts. In addition to late and poor quality products, we found that customer agency operations either were or could have been adversely affected by seven of the nine contracts and worker health and safety was or could have been jeopardized as a result of three of the contracts.

Table I shows the poor performance data available to the PCO before contract award, poor performance on the sample contract, and whether GSA eased contract requirements after the vendor performed poorly.

Table I: GSA Awarded Additional Contracts to Poor Performers and Eased Contract Requirements

	Data indicating poor performance available to PCO before award			Indications of poor performance on case study contract			GSA eased contract requirements after poor performance continued
Case	Poor quality[a]	Lateness	All data not obtained	Poor quality[a]	Lateness	Improper or illegal activity	
A		X	X	X	X	X	X
B	X	X	X	X			X
C				X		X	
D	X	X	X	X	X	X	X
E	X	X	X	X	X		X
F	X		X	X	X	X	X
G	X	X	X	X	X		X
H			X	X			X
I				X	X	X	X

[a]Poor quality is defined as noncompliance with contract specifications.

Vendor A: Loose-Leaf Binders

Vendor A has sold loose-leaf binders to the government since at least 1987 but consistently has delivered them late—50 percent of orders were delivered late on four contracts, valued at over $4 million, which were completed prior to this contract award. Before awarding the subject contract, the PCO (1) reviewed the pre-award survey completed by the quality assurance specialist (QAS), which showed that Vendor A on average delivered more than 20 percent of orders late on three current contracts, and (2) did not obtain, as required by GSA guidelines, a GSA management information report which provides past performance statistics. The QAS's supervisor told us that Vendor A's lateness was unacceptable and Vendor A was, at that time, incapable of meeting GSA's requirements for supplying the product. However, the PCO awarded Vendor A the subject $1.8-million contract in June 1990.

Under this contract, Vendor A shipped 57 percent of its orders late and supplied 125,000 poor quality binders that GSA rejected. These binders, which represented 14 percent of the purchase orders, had thin cover material and were poorly constructed. Before shipments, Vendor A falsely certified to GSA that its binders met GSA quality standards and provided an altered document that misrepresented it had sufficient materials available to meet the contract's requirements. As a result, GSA did not know that Vendor A had also previously supplied hundreds of thousands of poor quality binders. GSA eventually accepted and unknowingly sold to customer agencies more than 500,000 binders that did not meet the original contract requirements. Rather than terminating this contract, GSA modified it to extend delivery dates as long as 3 months on orders valued at $111,000 and eased quality requirements on orders valued at more than $700,000.

Five of six contract management officials reported spending amounts of time they considered excessive monitoring Vendor A's contracts, including the contract we reviewed in detail. Specifically, two administrative contracting officers (ACO) reported spending about 25 percent of their time on Vendor A's contracts, despite Vendor A only making up 7 percent of a typical ACO's workload as prescribed by GSA management. Their supervisor also reported spending an excessive 10 to 20 percent of his time monitoring Vendor A, and the QAS reported spending 40 to 60 percent of his time monitoring Vendor A, despite Vendor A only making up 13 percent of a typical QAS's workload as prescribed by GSA management. The supervisory QAS also reported excessive time monitoring Vendor A because of its high volume of business and alleged improper or illegal activity.

As a result of Vendor A's poor performance on this contract, customer agencies bought substandard binders that may not last as long as they should because their cover material is thin and they are poorly constructed. The QAS believed that since the binders would wear out faster than other binders, GSA customers would have to replace them sooner than expected.

Vendor B: Hand Tools

Vendor B has sold hand tools to the government since 1966. According to GSA officials, Vendor B historically failed to meet contract requirements for delivery and quality. Before awarding the subject contract, the PCO (1) reviewed a pre-award survey completed by the QAS showing that Vendor B had 28 complaints and quality deficiency notices during the previous year and was late delivering 10 percent of the purchase orders on two recent contracts and (2) did not obtain, as required by GSA guidelines, GSA's management information report containing past performance statistics. The PCO awarded Vendor B the $1.5-million subject contract for 43,000 wrench sets in June 1990. In response to our specific questions, the PCO said that he did not adequately review the pre-award survey and under this contract, Vendor B supplied defective products.

Under the contract, GSA's laboratory rejected more than 50 percent of Vendor B's wrenches that it tested, and Vendor B provided defective replacements when GSA gave it the chance to correct quality problems. Rather than terminating the contract, GSA extended delivery dates an average of 66 days on three orders valued at $518,000. In addition, according to a GSA official, Vendor B may have falsely certified to GSA that its products met contract specifications. Contract management officials we interviewed took no action on the alleged false certifications because they believed they had insufficient evidence to prove Vendor B had committed criminal acts. We did not independently investigate Vendor B's performance under this contract.

The three contract management officials assigned to this contract all told us they spent what they considered to be excessive amounts of time monitoring Vendor B. The ACO reported spending about 50 percent of his time monitoring Vendor B, even though Vendor B comprised about one-third of his workload. He said that the excessive time spent monitoring Vendor B negatively affected his ability to monitor his other contracts. The QAS and supervisory QAS stated that the time they spent monitoring Vendor B was excessive, and the supervisory QAS said specifically that time he spent monitoring Vendor B affected his ability to adequately monitor other vendors. In addition, the laboratory had to test 27 times the average number of samples from Vendor B, and GSA lost sales revenue because customer agencies purchased products on the open market as a result of Vendor B's poor performance.

While Vendor B held this contract, GSA was unable to provide tools needed by customer agencies because Vendor B was late on deliveries and supplied defective tools. Customer agencies received hundreds of defective wrench sets, and GSA engineers told us that the nature of the defects in Vendor B's wrenches are known in the tool industry to cause hand injuries and to cause damage to aircraft engines.

Vendor C: Leather-Working Tools

Vendor C has sold leather-working tools to the government for over 30 years. Until 1989, GSA was unaware that Vendor C was supplying tools that did not meet the contract's quality requirements; Vendor C had been certifying to GSA that its products were meeting those requirements. In 1988, GSA awarded Vendor C the $160,000 subject contract for five different types of leather punches.

Under this contract, Vendor C continued to certify to GSA that its products were meeting contract requirements. Interestingly, however, Vendor C was certifying to GSA that it was meeting a specification that GSA later found to be in error and well outside accepted industry and government standards. For 30 years, Vendor C did not raise questions about the erroneous specification because it never used the specification to make its products. Vendor C told us that GSA had visited its plant every month for the previous 30 years, but GSA also did not raise questions about the erroneous specification until after it made the 1988 contract award.

GSA contract management officials responsible for monitoring Vendor C told us that Vendor C was able to certify that it was meeting an erroneous specification and continue to get GSA contracts because (1) GSA relied on Vendor C's certifications to ensure that it was supplying quality products and (2) GSA never tested the punches to determine if Vendor C was meeting contract requirements.

Vendor D: Enamel Paint

Vendor D has sold paint products to the government for over 20 years. During this time, GSA terminated a number of Vendor D's contracts because its products were poor quality, and there were numerous customer agency complaints about its products. Vendor D was also late on deliveries, failed to correct numerous deficiencies in its quality assurance system, and often failed to complete required testing before shipment.

Before the subject award, the PCO reviewed the pre-award survey completed by the QAS showing that Vendor D (1) was late on more than 50 percent of orders on the prior contract for the same product, (2) had three unresolved customer agency quality complaints, and (3) had five unresolved quality deficiencies. In addition, the PCO did not obtain, as required by GSA guidelines, GSA's management information report on Vendor D containing past performance statistics. In March 1990, the PCO awarded Vendor D the subject contract valued at about $8.9 million for interior and exterior enamel paint. In response to our inquiry, the PCO said that he should have questioned a "capable" recommendation by the QAS in light of information on Vendor D's performance. After we brought this to his attention, the PCO said that he should not have made the award to Vendor D.

Under this contract, Vendor D shipped 37 percent of its purchase orders late and had numerous laboratory failures that were grounds for contract termination. The Director of GSA's Quality Assurance Division reported that Vendor D's laboratory failures were serious, it was incapable of meeting the contract requirements, and it exhibited gross manufacturing negligence. This official recommended that the Paints Commodity Center terminate Vendor D's contract. GSA procurement officials, however, did not terminate the contract at that time. Instead, GSA eased delivery requirements for 139 purchase orders valued at nearly $1 million (39 percent of the total purchase orders of the contract) and terminated 122 orders valued at over $1 million (about 35 percent of the total contract purchase orders). GSA finally terminated the entire contract in September 1991. During the 18 months Vendor D held the contract, GSA reported paying Vendor D about $1.7 million.

Vendor D falsely certified to GSA that paint it shipped met contract specifications. A former employee of Vendor D told us that Vendor D knowingly delivered at least two batches of paint to the government that did not meet contract specifications. Another former employee told us that Vendor D's management pressured him to certify falsely that required quality tests had been done.

During the contract, in an effort to refute GSA laboratory test results showing its paint was poor quality, Vendor D sent paint samples to independent laboratories for testing. GSA later found that Vendor D selectively conveyed to GSA the results of these tests, focusing only on the positive results and omitting poor results. Further, the U.S. Army tested paint from Vendor D and found that samples used for independent and GSA laboratory testing came from different batches, even though Vendor D certified to GSA that the samples came from the same batch. Two former Vendor D employees stated that the company falsely certified that the paints came from the same batch. Vendor D also certified that its 25,000-gallon shipments were from the same batch even though Vendor D's production capacity was limited to only 5,000 gallons per batch. Vendor D also shipped paint back to another federal agency that GSA had previously rejected by mixing it in other batches.[1]

[1]We also found that under other GSA contracts, Vendor D (1) sought reimbursement from GSA for unused contract material that GSA later found was contaminated and not even bought for the contract and (2) may have substituted an inferior quality aluminum pigment in their aircraft coatings paint.

All six contract management officials involved with Vendor D reported spending excessive amounts of time monitoring Vendor D. An ACO had to be assigned full time to monitor Vendor D's contracts because the previous ACO was unable to administer his other assigned contracts while monitoring Vendor D. A subsequent ACO spent 45 percent of her time dealing with Vendor D, and her supervisor spent 35 percent of her time monitoring Vendor D, which they considered excessive. Both QASS assigned to this contract also told us they spent what they considered to be excessive amounts of time; one said he spent nearly all his time monitoring Vendor D, and the other spent approximately 60 percent of his time monitoring Vendor D. In addition to these contract management staff resources, GSA also spent considerable laboratory resources testing Vendor D's products.

GSA's depot stock for the paint under this contract was in backorder, and GSA was unable to fill customer orders on time because of Vendor D's continued poor performance. One customer agency—the U.S. Marine Corps—complained that Vendor D's paint sagged, ran, and its surface coverage was poor.

Vendor E: Aircraft Sealant

Vendor E has sold sealing compound to the government for at least the last 10 years. GSA performance assessments of Vendor E in 1984 found its performance on three contracts to be unsatisfactory. In a pre-award survey before awarding the subject contract, the QAS recommended against award because (1) Vendor E was late on 63 percent of the orders for the previous 5-month period and (2) Vendor E was late 50 percent of the time on current contracts. The survey also noted that GSA had received six customer agency complaints for the product in the prior year. Instead of denying Vendor E the award, the PCO requested a second pre-award survey but limited its scope to only the last 30 days to consider whether recent hiring by Vendor E had solved the problems. The PCO told us that the scope was limited because (1) excluding past performance from the scope of the survey would ensure a positive award recommendation and (2) taking this step was "easier" than if Vendor E were to appeal an award denial to the Small Business Administration (SBA), which he thought would override GSA. The PCO reviewed the new pre-award survey but did not obtain, as required by GSA guidelines, GSA's management information report containing past performance statistics. He eventually awarded Vendor E the subject $2.5-million contract in May 1988.

Under this contract, GSA reported that Vendor E was late in shipping 61 percent of the purchase orders, and the GSA laboratory found that more than 50 percent of 43 samples it tested were deficient in quality. Rather than terminating the contract, GSA (1) eased delivery requirements for 44 percent of all purchase orders, affecting 383 purchase orders valued at over $250,000, and (2) eased quality requirements (which previously had caused Vendor E to fail GSA laboratory tests) on 114 purchase orders valued at $111,000. GSA eventually terminated a total of 53 purchase orders under this contract.

Three contract management officials reported spending what in their opinions were excessive amounts of time monitoring Vendor E. A prior QAS told us she spent 40 to 60 percent of her time visiting Vendor E's plant to make sure it was meeting contract requirements, although Vendor E contracts made up only about 25 percent of her workload. The next QAS told us she had to visit Vendor E about twice as often as her other vendors. In addition, the GSA laboratory had to test six times as many samples from Vendor E as from a typical vendor. A GSA regional official estimated that Vendor E's poor performance caused a 50 percent increase in the cost to GSA of the contract because of excessive staff resources spent monitoring this contract.

While Vendor E held this contract, GSA repeatedly could not meet customer agency needs for the sealant. When agencies finally received shipments, they complained that GSA had delivered products with expired shelf lives. According to responsible GSA officials, customer agencies eventually bought this sealant on the open market because of delays and frustration related to GSA's product. This resulted in lost sales revenue to GSA.

Vendor F: Paper Towel Dispensers

GSA has contracted with Vendor F to supply paper towel dispensers for at least 10 years. Quality assurance officials we interviewed said that Vendor F consistently has supplied poor quality products and has been late on deliveries.

Before awarding the subject contract, the PCO initially determined that the vendor was not capable of successfully performing under the contract based on credit and performance problems cited in financial and performance history reports. These problems included poor quality products, poor internal quality controls, a poor payment record to subcontractors, and other financial problems. The PCO received certification from SBA that Vendor F could meet the contract requirements; however, the SBA certification did not address all of Vendor F's problems. Instead of appealing SBA's certification, which GSA requires when doubts remain about the vendor's competency, the PCO awarded Vendor F the subject $572,000 contract in May 1988. However, the PCO did not obtain a pre-award survey or consider GSA's management information report containing data on the vendor's past performance. The PCO said that she could have obtained more information to challenge SBA's certification of competency.

Under this contract, Vendor F delivered 32 percent of the orders late, and GSA rejected 1,488 dispensers valued at $11,829 for quality deficiencies. Rather than terminating the contract, GSA modified it to ease delivery requirements. Purchase orders valued at $168,302, or 30 percent of the total contract value, were extended for an average of 44 days, with one of the orders extended more than 1 year.

To obtain this contract, Vendor F falsely certified that (1) it had no judgments or lawsuits pending when, in fact, according to a credit report, it was being sued by a former supplier and (2) it had not been terminated for default on a public contract within the last 3 years, even though 15 months earlier GSA had terminated one of its contracts for default.

Three of the four contract management officials assigned to this contract reported spending what they believed were excessive amounts of time monitoring Vendor F. Specifically, the ACO told us she spent over 25 percent of her time monitoring this contract even though it represented only about 4 percent of her typical workload at that time. A QAS told us he spent 20 percent of his time at Vendor F's plant even though Vendor F represented only 3 percent of his workload. And, his supervisor reported spending more time monitoring Vendor F at its plant than any other comparable vendor.

Vendor G: Engineering Wrenches

GSA has contracted with Vendor G to supply wrenches for over 20 years. The Director of GSA's International Tool Commodity Center, who has supervisory responsibility over the PCO that awarded the subject contract, told us that Vendor G has never performed well. On an earlier wrench contract, GSA accepted late delivery on 26 percent of Vendor G's orders. In addition, Vendor G was late an average of 21 percent of the time on four recently completed contracts; on one it was late 62 percent of the time.

Before awarding the subject contract, the PCO obtained a pre-award survey that recommended against award—Vendor G was late on 15 percent of the deliveries on a recent contract and did not have a source for a critical subcontracted manufacturing process. The PCO decided not to make the award to Vendor G and referred her decision to SBA as required. SBA overruled the PCO's decision because it said the past performance problems were generally isolated on one previous contract, the cause had been corrected, and Vendor G had a 20-year history of satisfactory performance.

However, after getting SBA's decision, the PCO (1) did not confer with the QAS and appeal SBA's decision, even though the QAS's reasons not to award the contract were not addressed by SBA, and (2) did not obtain, as required, GSA's management information report containing data on the vendor's past performance. The PCO awarded the subject $187,000 contract to Vendor G in May 1988 for 11 different types of engineering wrenches.

Under this contract, Vendor G shipped 55 percent of the purchase orders late, had over half of its samples tested at the GSA laboratory fail for insufficient plating thickness and strength, and had 20 percent of the total contract value involving 28,000 wrenches terminated for default. Instead of terminating the entire contract, GSA eased requirements by allowing Vendor G to (1) deliver at least five purchase orders an average of 60 days beyond the original due date and (2) supply wrenches that, according to a GSA engineer, had an inferior undercoat.

Two of four contract management officials told us that they spent excessive amounts of their time monitoring Vendor G. One ACO reported spending most of her time monitoring this contract even though it represented about one-third of her total workload. Another ACO believed that this contract took up an excessive amount of time—over 50 percent of her time in any given week.

Customer agencies sometimes did not receive needed wrenches because of Vendor G's late deliveries. Also, agencies received defective wrenches that potentially could have caused injury and malfunctioning aircraft. Forty-eight percent of the purchase orders that GSA rejected failed the plating thickness specification outlined in the contract. According to a GSA engineer, the plating is likely to flake, which can cause cuts and potentially cause aircraft to malfunction in flight. Also, 43 percent of the rejected purchase orders failed to pass strength requirements. In this regard, a GSA engineer told us that the use of these wrenches could cause broken fingers and hands or severe cuts.

Vendor H: Tree-Marking Paint

GSA has contracted with Vendor H since at least 1987 to supply tree-marking paint and tracer test kits. To prevent theft of federally owned trees, the U.S. Forest Service marks trees with the paint and uses the test kits to detect tracer elements when it checks trees cut by private loggers. GSA terminated a previous Vendor H contract for default. In addition, paint this vendor supplied on a subsequent contract had high lead content and unacceptable odor.

Before awarding the subject contract, the PCO did not obtain readily available information on Vendor H's past performance from other PCOs in the commodity center and did not obtain, as required by GSA guidelines, GSA's management information report containing data on the vendor's past performance. The PCO who made the previous award to Vendor H was aware of the vendor's poor performance record, and several documents describing Vendor H's performance problems on a prior contact were on file in the commodity center. In addition, the PCO was unaware of other important performance information because the scope of the pre-award survey that he requested was very limited. The PCO awarded Vendor H the $515,000 subject contract for tree-marking paint and tracer test kits in March 1990.

Under this contract, the GSA laboratory failed 40 percent of Vendor H's sampled products. Vendor H supplied partially filled containers, laboratory test results indicated its test kits could not detect tracer elements in the paint, and its paint sagged when it dried and had poor spraying properties. GSA also received numerous Forest Service complaints about Vendor H's product. Instead of terminating the entire contract, GSA terminated almost 100 purchase orders and modified at least 104 purchase orders to extend the original delivery dates, sometimes by more than 5 months. Vendor H also certified to GSA that many orders met the contract specifications; however, GSA found that they did not. In addition, according to GSA, Vendor H shipped several orders from a batch of paint that had been previously rejected.

The ACO assigned to this contract told us that she spent an excessive amount of time monitoring Vendor H—20 percent of her time on this single contract even though she was responsible for 250 contracts. Other impacts on GSA included an above-average number of laboratory tests—three times that for a typical vendor—and lost sales revenue when the Forest Service had to purchase the paint and test kit on the open market.

The Forest Service reported having to impose work stoppages while workers waited for deliveries and estimated it painted 8 million trees with defective paint—the tracer element could not be detected and the paint did not meet visibility and durability requirements. Thousands of dollars in staff resources were wasted marking trees with the defective paint, which would require remarking at additional cost. Vendor H's paint also was suspected of causing illness among workers. After using Vendor H's paint, Forest Service workers in Oregon, South Dakota, and Wyoming complained of headaches, dizziness, shortness of breath, nose bleeds, nausea, skin rashes, and burns. Other Forest Service employees reported that, because of the paint's poor spraying properties, the strain of getting Vendor H's paint through their tree-marking guns caused hand blisters, muscle aches, and possible tendinitis and carpal tunnel syndrome.

Vendor I: Stain and Varnish

GSA has contracted with Vendor I and its predecessor for over 20 years for adhesives and coatings. During this time, Vendor I falsely certified to GSA that its products met quality requirements. Because GSA officials relied on these false certifications to make award decisions, Vendor I's poor performance went undetected, and it received additional contracts year after year. GSA awarded the subject $891,000 contract for wood oil stain and varnish in February 1989.

Under this contract, Vendor I was late delivering 47 percent of the purchase orders issued and had an unacceptable level of GSA rejections. As a result of product failures at the GSA laboratory, the QAS concluded that the vendor's quality assurance system had serious deficiencies that affected all of its contracts. Vendor I promised to correct the deficiencies but never took complete corrective action. Instead of terminating the entire contract, GSA cancelled six of its purchase orders and eased contract requirements by extending delivery dates for 30 percent of all remaining purchase orders.

Vendor I had routinely submitted certifications that testing had been done which Vendor I did not have the capability to do. Vendor I's President told us that since GSA officials had raised no objections in the last 20 years about the certifications, he believed that GSA accepted the practice. GSA staff also told us that Vendor I had sold products that GSA had previously rejected to another federal agency.

Two of three contract management officials responsible for this contract told us that they spent excessive amounts of time monitoring Vendor I. An ACO reported spending almost all of his time monitoring this contract. A QAS stated that he spent about 90 percent of his time monitoring Vendor I's contracts, which represented only 11 percent of his workload. While the supervisory QAS did not indicate that he spent an excessive amount of time monitoring Vendor I, he did report that he had to assign, on several occasions, an extra person for about 3 or 4 months at a time to assist the QAS with monitoring Vendor I.

Comments From the General Services Administration

Administrator
General Services Administration
Washington, DC 20405

November 13, 1992

The Honorable Charles A. Bowsher
Comptroller General
of the United States
General Accounting Office
Washington, DC 20548

Dear Mr. Bowsher:

Thank you for the opportunity to comment on the General Accounting Office (GAO) draft report, "General Services Administration: Actions Needed to Stop Buying Supplies from Poor Performing Vendors (GAO/GGD-93-XX)."

As the draft report indicates, the General Services Administration's (GSA's) Federal Supply Service (FSS) has experienced difficulties in contracting with vendors that have failed to perform as quality contractors. Specific comments on the report's recommendations are provided in the enclosed statement. I have asked the Commissioner, FSS, to take actions on these recommendations as expeditiously as possible.

While we have many initiatives planned or underway to resolve these problems, I would like to emphasize the valuable role parallel contracting would serve in improving FSS' contractor performance. We are still in the process of seeking legislative approval for this method of contracting. Parallel contracting would significantly reduce the risk the Government incurs by being locked into one source of supply during a specific contract period. With parallel contracting, the Government would have the benefit of a dual source of supply. If one vendor began to experience product quality or delivery problems, the Government would have a readily available alternate source of supply.

I appreciate the time and effort expended by GAO officials in developing the draft audit, and I look forward to continuing our joint efforts to improve GSA operations.

Sincerely,

Richard G. Austin
Administrator

Enclosure

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GENERAL SERVICES ADMINISTRATION COMMENTS ON THE GAO DRAFT REPORT, "GENERAL SERVICES ADMINISTRATION: ACTIONS NEEDED TO STOP BUYING SUPPLIES FROM POOR PERFORMING VENDORS (GAO/GGD-93-XX)," DATED OCTOBER 8, 1992

Recommendation 1:

Complete and fully implement ongoing initiatives to (1) develop more complete and readily usable data on supply vendors' capabilities and past performance and (2) more fully address the product quality and delivery problems that result from poor vendor performance.

Comment:

Concur. Numerous corrective actions have been initiated in the past year as indicated in the draft report. The status of these ongoing efforts follows:

1. Listing of vendors with documented performance problems. By memorandum dated September 24, 1992, the FSS Office of Quality and Contract Administration issued the first Contractor Alert List (CAL) which identifies vendors that have failed to meet their contractual obligations. By memorandum of the same date, the FSS Office of Commodity Management issued instructions to all commodity centers on application of the CAL in the evaluation and award process. An Acquisition Letter is currently being coordinated, as required by GSAR, to formally implement these procedures. Revision of the Procurement Handbook, chapter 9, will follow.

2. Implementation of a vendor rating system. FSS is in the process of evaluating various vendor rating systems currently in place at other agencies to determine their possible appropriateness for FSS.

   Meetings have been scheduled with several Department of Defense components to examine these rating systems. The systems being reviewed include the Red/Yellow/Green, Blue Ribbon, Defense Vendor Rating System, etc. A meeting was held on October 21, 1992, and more meetings will be held in November 1992.

3. Establishing a new procurement data system. The Office of Federal Supply Service Information Systems is presently analyzing the requirements to improve the Supplier Summary and will schedule the necessary changes. The modifications are to consolidate all relevant, existing supplier information regarding quality and delivery

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performance on a single form. Information on complaints, Quality Deficiency Notices, Notice of Inspection (GSA Forms 308), and laboratory rejections, as well as delivery performance to original due dates, will be included in an easy-to-use format.

Also, this revised summary will capture information on hours expended by the Quality Assurance Specialist (QAS) and the Administrative Contracting Officer (ACO) on a given contract. This information, when combined with hourly cost figures, will provide a cost/$00 measure, which will provide an additional management tool to monitor the impact of poor vendor performance. Benchmark figures also have been recently developed for QAS hours, which will be used to identify potentially excessive demands on staff resources. Finally, ACO's have been instructed to carefully review supplier summary information at the time of contract closeout to ensure the accuracy of the data (e.g., amended and terminated orders).

4. Elevating the approval level for all PCO's nonconcurrences on ACO's recommendations for termination. Instructions are being developed to require approval by the FSS Assistant Commissioner for Commodity Management on all PCO nonconcurrences on ACO recommendations for termination of contracts. No dollar thresholds will be specified as indicated in the GAO draft report; i.e., the new procedures will apply regardless of dollar value.

5. Emphasize contract quality as a priority over established performance measurements. On October 21, 1992, the FSS Commissioner sent a memorandum to all FSS Program Offices communicating that while contract coverage, fill rate, and other indicators are important, the award of quality contracts must be our primary consideration.

6. Training classes. In March 1992, two pilot classes, Contracting with Responsible Contractors, were conducted by the GSA Office of Acquisition Policy. The content and format of the class has now been finalized. A schedule is currently being developed to conduct the class nationwide throughout FSS.

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All PCO's, ACO's, and QAS' will participate in the training. The class focuses on determinations of responsibility, preparing Certificate of Competency referrals and appeals, and debarment of poor performing vendors.

7. Including award quality in PCO's performance evaluations. Contract quality is already a performance criterion for PCO's and is included in their critical elements. The Office of Commodity Management will issue a memorandum addressing the need to prioritize contract quality in PCO performance evaluations.

8. Initiating commodity center management reviews. Special reviews which focus on contracting with quality contractors are currently underway. Reviews began in May 1992 and are expected to be completed in March 1993. Reviews conducted to date have been beneficial and resulted in corrective actions and recommendations for improvement.

9. Requiring a Plant Facilities Report (PFR) on all poor performers. The initiation of the CAL, discussed in item 1 above, requires a PFR on all vendors identified as experiencing performance problems. Instructions have been issued to ACO's to include vendor performance history data on all PFR's. Further, the FSS Offices of Commodity Management and Quality and Contract Administration are working jointly to revise the PFR (GSA Form 353) to formally address vendor past performance, make general improvements to the form, and provide enhanced instructions to PCO's, ACO's, and QAS' in completing and utilizing the report.

10. Total Quality Management (TQM) projects on the Quality Approved Manufacturer Agreement (QAMA) program. We have consolidated the various issues and initiatives concerning the effectiveness and efficiency of the QAMA program into a single Quality Improvement Team, with representatives from all five contract management zones. The team has determined that the philosophy of QAMA is an effective approach, if and when it is properly applied. The six areas that were identified for further discussion by the team are:

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- A national approach towards termination of contracts for quality issues, along with an agreement on how small purchases will be handled.

- A review of the destination inspection process and the impact this process has on the success of the QAMA program.

- Application techniques and guidelines when QAMA lot-by-lot inspections are utilized.

- Adequacy of communications and guidance.

- Establishing a framework for a team approach to resolve communication problems and differing goals between the FSS Offices of Commodity Management and Quality and Contract Administration.

- Review of how Plant Facilities Reports are utilized, consistency of recommendations between regions, and impact of Certificates of Competency on the process.

Additional Quality Improvement Teams may be established in the future as additional issues concerning the effectiveness and efficiency of the QAMA program are identified.

11. Improving guidance to Procuring Contracting Officers (PCO's) on poor performing vendors. In addition to the Federal Acquisition Regulation (FAR), the following documents are available to the PCO's on this issue:

   - General Services Administration Acquisition Regulation (GSAR):

     - 509.106-70, Disagreement with Preaward.
     - 519.6, Certificate of Competency (COC).
     - 553-370.353, Plant Facilities Report and PCO Instructions.

   - FSS 2901.2A, Procurement Handbook, chapter 9, Contractor Qualifications.

   - Procurement Information Bulletins:

     - Low Bidder Gets the Award - Not Necessarily, dated January 22, 1992.

- Improvements in the COC Process, dated September 18, 1992.
- Debarment/Suspension Actions - What are Your Responsibilities, dated October 9, 1992.

In addition to these current documents, the Procurement Handbook, chapter 19 on Certificate of Competency and chapter 9 on Contractor Qualifications, both of which address evaluation of contractors, are being revised.

Recommendation 2:

Make effective use of the new data, criteria, and guidelines, which GSA is developing, to deny additional contracts to repeat poor performing vendors and terminate existing ones or otherwise deal more effectively with documented poor performance and/or improper or illegal vendor activities.

Comment:

Concur. The FSS Contractor Alert List (CAL), discussed in item 1, has been established as a tool to identify repeat poor performing vendors and to more effectively deal with this documented poor performance on current, as well as future, contracts. Six separate categories have been established, each one identifying a specific area of poor performance which will be monitored. Some of these categories, e.g., "percent of shipments to original due date," address a major GAO concern from the draft report; others, for instance, "percent of laboratory rejections," highlight additional concerns expressed in the GAO report, e.g., disproportionate time and expense devoted to poor performers.

Using these categories, a listing of current poor performers has been compiled and provided to all commodity centers and Contract Management Zones. The objective of the CAL is to (1) identify those active contractors who have had performance problems in one or more of the six designated areas, and (2) focus efforts on moving contractors off the list, either through improved performance or through contract terminations.

Additionally, the FSS Office of Quality and Contract Administration is focusing attention on suppliers with multiple contracts. Within this group those with poor performance problems will be highlighted for management review (both Central Office and the regions) to determine the extent and cost of the poor performance; cure plans for a get-well plan; and possible actions to prevent future contract awards until performance problems are cured. Visits to senior management officials at these companies will be part of the strategy.

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Recommendation 3:

Reevaluate the adequacy and effectiveness of the agency's Quality Approved Manufacturer Agreement (QAMA) program and other internal controls that are designed to prevent and detect receipt of defective or poor quality products into the Governmentwide supply system.

Comment:

Concur. We are implementing a number of initiatives to improve the adequacy and effectiveness of the QAMA program. At the initial contractor visit, QAS' will emphasize to contractors the impact and seriousness of false certifications, specifically the fact that it is a criminal offense, and that we will report all instances to the Inspector General for investigation and possible prosecution. We will stress to all QAS' the importance of continued surveillance (at least every two months) throughout the life of the contract. During our regional management surveys, team members will perform QAMA surveillance to ensure that inspection and test data is factual and as certified by our suppliers.

We are further expanding the Stock Items Quality program to ensure that depot stock is suitable for issue and will meet the customers' needs. Also, the PFR will be revised to address additional information to support the Contractor Alert List program, as well as to better withstand challenges and appeals by the Small Business Administration of "incapable" recommendations. Finally, during fiscal year 1993, training will be provided to all regions regarding PFR's and the requirements of Federal Standard 368a regarding contractor quality systems.

Recommendation 4:

Reexamine the emphasis GSA's procurement and performance pay and bonus systems now place on product contract coverage in assessing the performance of its commodity centers and procurement officials.

Comment:

Concur. As discussed in item 7, the PCO's critical elements already address exercising sound business judgment in making quality awards. However, FSS top management will provide emphasis and direction to ensure that the proper priority is placed on the quality of awards in evaluating performance.

Major Contributors to This Report

General Government Division, Washington, D.C.

Gerald Stankosky, Assistant Director, Government Business Operations Issues
Robert B. Mangum, Assignment Manager
David E. Sausville, Deputy Assignment Manager

New York Regional Office

Robert H. Hast, Assistant Director for Investigations
Gerald T. Maguire, Issue Area Manager
Daniel P Schultz, Evaluator-in-Charge
Joseph L. Santiago, Senior Evaluator
William D. Hamel, Special Agent
Kathryn M. Kelly, Site Senior
Joel W. Hanks, Site Senior
Angelia L. Collier, Evaluator

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