

REVIEW OF GSA GLOBAL SUPPLY'S  
EXPANDED DIRECT  
DELIVERY PROGRAM  
REPORT NUMBER A040257/F/A/V05001

JUNE 6, 2005

Date: June 6, 2005

Reply to: William D. Anthony, Audit Manager  
Attn of: Acquisition Programs Audit Office (JA-A)

Subject: Review of GSA Global Supply's Expanded Direct Delivery Program  
Report Number A040257/F/A/V05001

To: Donna D. Bennett  
Commissioner, Federal Supply Service (F)

This report presents the General Services Administration (GSA) Office of the Inspector General's review of the Federal Supply Service (FSS) Office of Global Supply's Expanded Direct Delivery Program (EDD). The objectives of the review were to answer the following questions:

**Are orders placed under GSA Global Supply's Expanded Direct Delivery program processed in a timely manner? Are improvements needed in the Expanded Direct Delivery Program before Global Supply considers broadening the scope of products available?**

To accomplish the objectives, we:

- Reviewed the EDD Blanket Purchase Agreement Statement of Work, Standard Operating Procedures, and Federal Acquisition Regulations
- Interviewed associates from GSA Global Supply, the Region 6 Finance office (accounts receivable), the National Customer Service Center, and the FSS Office of the Chief Information Officer
- Reviewed EDD sales information and error/exception reports from October 2004 through January 2005 and selected a sample of transactions for testing to determine if EDD orders were being processed in a timely manner

The audit work was performed during the period of September 2004 through February 2005. The survey phase of the audit involved interviewing appropriate officials involved in the EDD process and reviewing EDD error reports and sales data. We also did some limited sample testing of EDD transactions in an effort to determine whether EDD orders were being filled in a timely manner. Our review

was principally conducted in FSS' Central Office, located in Arlington, Virginia. The audit was conducted in accordance with generally accepted government auditing standards.

## **Background**

GSA Global Supply is charged with directing the policy, programs, and worldwide operations for the Stock, Special Order, and Expanded Direct Delivery (EDD) Programs. In February 2004, the GSA Global Supply Expanded Direct Delivery Program began offering tools to GSA customers, and office products were added to the program in May 2004. The intent of the program was to offer a greater variety of products to GSA customers through a single point of sale.

Two blanket purchase agreements (BPAs) have been awarded: Office Products to Boise Office Solutions (Boise), located in Michigan with an approximate two year value of \$45 million; and Tools to J&L Industrial Supply (J&L), located in Chicago with an approximate two year value of \$55 million. Customers worldwide are able to order thousands of new products from both of these categories using EDD. In January of 2005, Global Supply added approximately 2,000 new office supplies to its product line.

The intent of the Expanded Direct Delivery Program is to provide customers a seamless integration between the varieties of mission-strategic products currently stocked in GSA depots, as well as significant portion of the qualified contractor's catalog. FSS customers have full, real time visibility of products offered, inventory availability, order status and order tracking.

## **Results of Audit**

Orders under the GSA Global Supply's EDD program are not processed in a timely manner as prescribed in the contract. While the contract requires that 95 percent of orders be delivered within seven days of receipt, we found that less than 95 percent of the orders were fulfilled within the required number of days. Backorders were as old as 200 days. Further, the EDD vendors did not always return a Shipment Status Record, thus inhibiting the research on unfulfilled orders. We believe establishing incentives for EDD contractors to fulfill their performance metric could eliminate these shortcomings. In addition, Global Supply intends to expand the EDD program through the use of Blanket Purchase Agreements. Prior to any expansion, Global Supply should obtain input from GSA's General Counsel office and FSS' Acquisition Management Center regarding acceptability of using Blanket Purchase Agreements.

## Timely Order Fill

The EDD Blanket Purchase Agreement Statement of Work includes a performance metric that 95 percent of orders are delivered within seven days of receipt. Based on a sample of three transaction days, Boise and J&L had order fill rates of approximately 86 percent and 82 percent respectively. In addition, we found backorders as old as 200 days. Global Supply conducts periodic teleconference discussions with both vendors addressing backorders, billing issues, and other EDD issues principally concentrated on exception reports in an effort to improve vendor performance. However, because performance metrics do not include incentives for timely order processing, and because a performance metric for filling backorders does not exist, Boise and J&L may not be as diligent as expected. While we do not know the impact on customer satisfaction, delayed shipping and backorders can negatively impact federal customers' confidence in the program.

The Blanket Purchase Agreement for Expanded Direct Delivery Program Commodities: Tools, Maintenance and Repair Operations, and Office Supplies, dated March 21, 2003, provides in the Statement of Work (SOW) in paragraphs 1.6 and 3.0 that delivery time required is no later than 7 days after receipt of order, and that the contractors' expected performance is 95 percent on time delivery—original due date.

Global Supply generates exception reports designed to track those EDD orders that are not finalized within seven days of the customer order date. We obtained EDD sales data for three separate transaction days (November 4 and December 7, 2004, and January 6, 2005) and corresponding exception reports (November 15 and December 16, 2004 and January 14, 2005). We found the following:

### ***Boise***

	<u>Nov. 4, 2004</u>	<u>Dec. 7, 2004</u>	<u>Jan. 6, 2005</u>
<b>No. of Orders</b>	429	174	114
<b>Unfilled orders after 7 days</b>	71	17	12
<b>% filled orders</b>	83.4	90.3	89.5

### ***J&L***

	<u>Nov. 4, 2004</u>	<u>Dec. 7, 2004</u>	<u>Jan. 6, 2005</u>
<b>No. of Orders</b>	380	211	237
<b>Unfilled orders after 7 days</b>	74	32	42
<b>% filled orders</b>	80.5	84.8	82.3

Note: Unfilled orders include backorders, partial backorders, and those orders with no shipping status.

Global Supply monitors EDD vendor performance utilizing electronic data specifically generated for EDD. Global Supply's own monitoring, October through December 2004, reflects Boise's rate at approximately 85 percent and J&L's at approximately 84 percent. We believe incentives in future contracts may enhance contractor performance. For example, establish a three-year contract with possible three one-year extensions. Contractor fulfillment of performance metric would equate to automatic one-year extension.

During our test work, we found pending backorders as old as 200 days. The following chart reflects the age of backorders as of December 16, 2004:

<b>Days Outstanding</b>	<b>No. of Backorders</b>	
	<b>Boise</b>	<b>J&amp;L</b>
> 150	14	4
90-149	69	15
30-89	68	168
< 30	137	266
<b>Total</b>	<b>288</b>	<b>453</b>

Currently, the SOW does not provide performance metrics for backorder fulfillment. We believe both performance metrics and incentives should be added to future contracts. For example, create a timetable for fulfillment of backorders within a certain number of days, preferably less than 60 days. In addition, for all current outstanding backorders, give contractors seven workdays to clear orders over 150 days old, fourteen workdays to clear orders 90 to 149 days old, and twenty-one workdays to clear orders 30 to 89 days old.

While the majority of unfilled orders after seven days were due to backorders, the vendor did not return a shipping status record (856) in some cases. Therefore, both Global Supply and the customer are unable to determine shipping status information for these orders, in some cases, for several months.

<b>Days Outstanding</b>	<b>No. of Missing 856s</b>	
	<b>Boise<sup>1</sup></b>	<b>J&amp;L<sup>2</sup></b>
> 150	6	6
90-149	14	39
30-89	40	121
< 30	38	92
<b>Total</b>	<b>98</b>	<b>258</b>

<sup>1</sup>Of the 98 missing 856s, 63 are from orders placed on 10/25, 10/28, and 11/17.

<sup>2</sup>Of the 258 missing 856s, 153 are from orders placed on 10/25, 11/12, and 11/18.

We believe that for all missing shipment status records, both Global Supply and the contractors should determine the status within 15 workdays.

### **Recommendation**

We recommend that the FSS Commissioner have the Assistant Commissioner for Global Supply:

1. Establish incentives for EDD contractors to fulfill their performance metric on orders fills and backorders, and establish a system to address missing shipment status records.

### **Management Comments**

Management generally concurs with the recommendation.

### **Expanded Direct Delivery Competition and Price Analysis Questions**

In December 2004, Global Supply sent two contract-related questions about their Expanded Direct Delivery program to GSA's General Counsel and FSS' Acquisition Management Center. Global Supply desires to significantly (undefined) expand the use of prime vendor contract vehicles and to use Blanket Purchase Agreements (BPAs) as much as possible to accomplish the expansion. To date, responses have not been received from either addressee regarding the two questions concerning competition and price analysis. We believe these questions should be answered before further program expansion occurs.

41 U.S.C. 253 (a) (1) (A and B) relate that an executive agency in conducting a procurement for property or services shall obtain full and open competition through use of competitive procedures. In addition, the agency shall use the competitive procedure or combination of competitive procedures that is best suited under the circumstances of the procurement.

Federal Acquisition Regulation Subpart 8.405-3 (d) (ii) provides that for Blanket Purchase Agreements, the ordering activity that established the BPA shall review it at least once a year to determine whether the BPA still represents the best value.

Global Supply chose to use a competitive procedure which combines procurement methods. Using BPAs, Global Supply competitively accepted bids from tool and office supply companies who already had Multiple Award Schedule

contracts. The products offered by bidding contractors would not duplicate schedule, warehouse, and/or NIB/NISH items.

Global Supply reportedly sent the following questions in December 2004 to GSA General Counsel and FSS' Acquisition Management Center:

- Will the strategy satisfy the Competition in Contracting Act (CICA) requirements?
- At what point will the original market basket (price) comparison analysis lose its validity?

Our discussions with a representative of the GSA General Counsel's office and FSS' Acquisition Management Center resulted in both relating, unofficially, that the use of a BPA as competed was sufficient to meet CICA requirements. And both offered that periodic, undefined price analysis would be necessary except in cases of product substitution. Both were working on responses to Global Supply.

### **Recommendation**

The auditors concur with Global Supply in delaying expansion plans until responses to the CICA and price analysis questions are received and evaluated. We recommend that the FSS Commissioner have the Assistant Commissioner for Global Supply upon receipt and evaluation of the responses:

2. Incorporate suggested competition and/or price analysis strategies into the EDD program.

### **Management Comments**

Management generally concurs with the recommendation.

### **Issues For Further Study**

1. Guidance for submitting invoices

Associates from GSA Global Supply and the Region 6 Finance Office (accounts receivable) indicated that vendors could facilitate EDD order processing by accurately and completely submitting invoice records. We believe that creating formal guidance to the vendors may help eliminate any problems with invoicing.

2. Tracking orders for export shipments

Most export orders are shipped to an Export Packing Facility (EPF) by the vendor before being sent overseas. Global Supply is not able to provide a shipping status to the customer once the order is sent to the EPF.

3. GSA payment on orders that have not been shipped

Our review of EDD exception reports revealed that as of December 16, 2004, it appears that GSA paid on over 200 line items despite the vendors' failure to ship the line item.

**Internal Controls**

Except for the control aspect of order processing discussed in the Results of Review section, this review did not require, nor did we perform, a review of internal controls.

We wish to thank you and your staff for the courtesies extended to the auditors during this review. Should you or your staff have any questions concerning this review, please contact me at (703) 603-0189.

WILLIAM D. ANTHONY  
Audit Manager  
Acquisition Programs Audit Office (JA-A)





MAY 26 2005

MEMORANDUM FOR EUGENE WASZILY  
ASSISTANT INSPECTOR GENERAL  
FOR AUDITING (JA)

FROM:

DONNA D. BENNETT  
COMMISSIONER (F) (FPP)

A handwritten signature in blue ink, appearing to read "Donna D. Bennett", is written over the typed name and title.

SUBJECT:

GSA Draft Report on "Review of GSA Global Supply's  
Expanded Direct Delivery Program" (A040257), dated  
May 6, 2005

The Federal Supply Service (FSS) staff has reviewed the subject report and actions are underway to implement the two report recommendations.

We wish to thank you and your staff for their dedication and hard work in completing this review. The draft report provides useful information that will assist FSS in guiding future policies and procedures related to the Expanded Direct Delivery program.

cc:

Kenneth L. Crompton (JA-A)

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