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CONTRACT MANAGEMENT

Roles and Responsibilities of the Federal Supply Service and Federal Technology Service

Statement of David E. Cooper, Director, Acquisition and
Sourcing Management



Mr. Chairman and Members of the Subcommittee:

Thank you for inviting me to participate in the subcommittee's hearing on the roles and responsibilities of the General Services Administration's (GSA) Federal Supply Service (FSS) and Federal Technology Service (FTS). As the government's business arm, GSA plays an important role in assisting agencies in procuring goods and services. FSS and FTS, in particular, facilitate a wide range of purchases, including telephone and computer systems, motor vehicles, travel, and everyday supplies, and do more than \$30 billion in business each year. They are not the only interagency purchasing programs available, but they are the most prominent.

Today, I would like to discuss the similarities and differences between the FSS and FTS purchasing programs and highlight GSA initiatives to assess how they are functioning. Briefly, FSS and FTS take different approaches to filling agency customers' requirements but, in the area of information technology (IT), they provide a similar range of goods and services and deal with many of the same vendors. On the face of it, maintaining overlapping programs to provide similar services to agency customers would appear to create the potential for inefficiencies. GSA, though, has little hard data to assess whether inefficiencies have been created. To its credit, GSA has embarked on initiatives designed to provide more useful information to assess the performance of FSS and FTS and identify more efficient ways of operating. If successfully implemented, these initiatives also may provide a road map for assessing the performance of other interagency purchasing programs.

Background

FSS and FTS are the principal GSA programs that assist agencies in acquiring products and services. FSS is responsible for a much wider range of business lines than FTS, yet both do billions of dollars in business. Both programs are funded by the fees they charge customers, and both receive only minor amounts of appropriated funding.

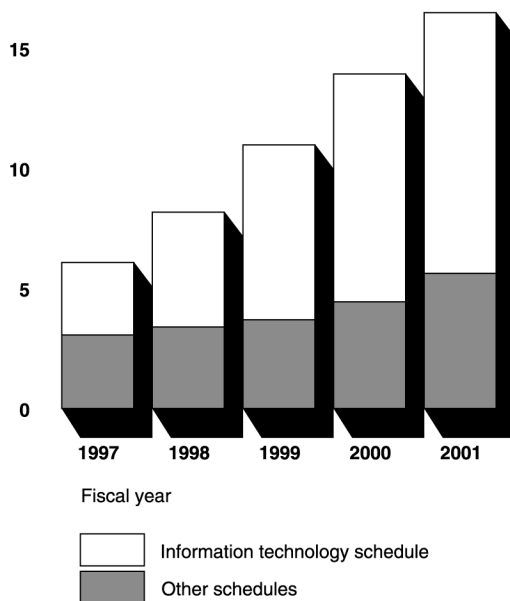
FSS

FSS assists federal agencies in acquiring supplies, furniture, computers, tools, equipment, and a variety of services. Its business lines include purchasing and leasing motor vehicles, acquiring travel and transportation services, and managing personal property. Purchasing activities are centered in its commercial acquisition business line, through which FSS provides agencies access to over 4 million items of commonly-used commercial supplies and services.

Sales under FSS's federal supply schedule program have increased significantly in recent years, and sales of IT products and services have been a principal source of this growth. As figure 1 shows, total sales under the schedule program increased from \$6.1 billion (in constant fiscal year 2001 dollars) in fiscal year 1997 to about \$16.5 billion in fiscal year 2001. Sales under the IT schedule increased from \$3.0 billion to \$10.9 billion, while increases in sales under other schedules were less substantial.

Figure 1: Sales under FSS Schedule Contracts—Fiscal Years 1997 to 2001

20 Constant fiscal year 2001 dollars in billions



Source: GSA.

FTS

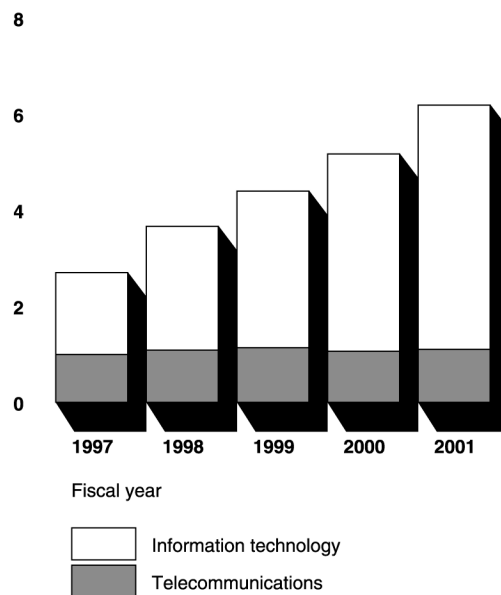
FTS provides customers with network services and IT solutions. Its network services program specifically provides global voice, data, and video communication services. Its information technology solutions program provides a full range of IT products and services.

At FTS, IT products and services have accounted for virtually all the increase in revenues in recent years. As figure 2 shows, total revenues for FTS purchasing programs increased from \$2.7 billion (in constant fiscal year 2001 dollars) in fiscal year 1997 to \$6.2 billion in fiscal year 2001. Revenues from IT products and services increased from \$1.7 billion to

\$5.1 billion, while revenues from telecommunications services increased only modestly.

Figure 2: Revenues under FTS Purchasing Programs—Fiscal Years 1997 to 2001

10 Constant fiscal year 2001 dollars in billions



Source: GSA.

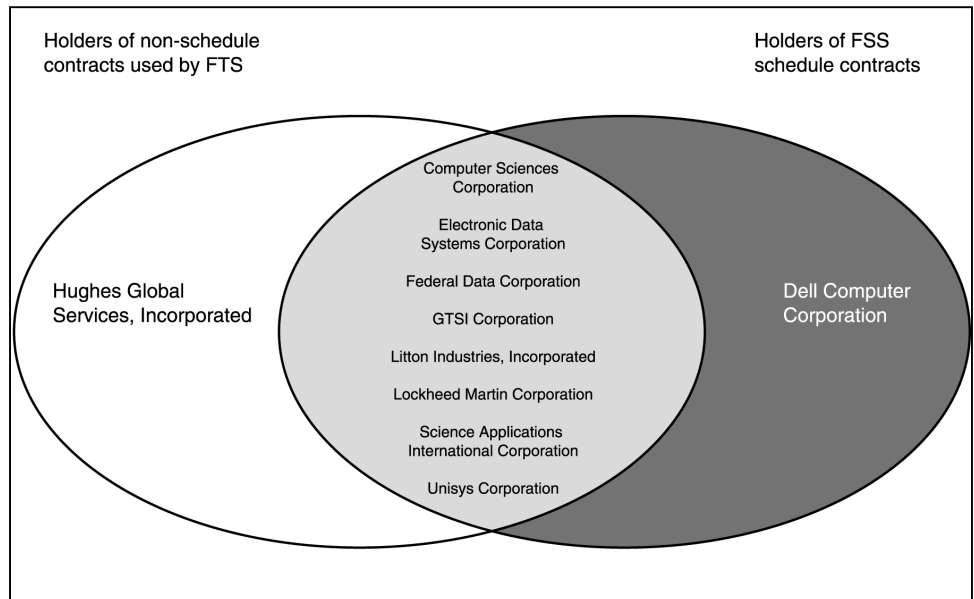
Both FSS and FTS have reoriented their purchasing programs in recent years to provide better service to the federal agencies that are their customers. FSS, for example, has pursued efforts to expand access to commercial products and services and to reengineer its processes to implement commercial buying practices and streamline purchasing for customers. FTS, for its part, focuses on providing superior service to customers, analyzing emerging technologies to identify attractive new service offerings, and taking advantage of the flexibility offered by acquisition reform to bring these technologies to the government marketplace as rapidly as possible.

FSS and FTS Pursue Distinct Business Models but Offer Similar Products and Services

FSS and FTS offer some similar products and services, but they take very different approaches to doing so. Views on whether the overlap is beneficial or inefficient vary.

Both programs offer federal agencies a full range of IT service contracts, including networking, information systems analysis and design, and installation. Further, the two organizations provide customer agencies with access to many of the same vendors. In fact, as figure 3 shows, 8 of the top 10 suppliers of IT to the federal government held FSS schedule contracts and non-schedule contracts used by FTS during fiscal year 2000. Overall, according to data in the governmentwide prime contract database, over 300 vendors received awards under both FSS schedule contracts and nonschedule contracts used by FTS during fiscal year 2000.

Figure 3: Overlap Between FSS Schedule Contracts and Nonschedule Contracts Used by FTS for the Federal Government’s Top 10 IT Suppliers—Fiscal Year 2000



Source: GAO Analysis of Federal Procurement Data System Information.

Decisions made in the mid-1990s led to the two organizations having overlapping IT acquisition programs. Until that time, GSA had governmentwide responsibility for supervising IT acquisitions. GSA carried out this oversight responsibility through its Information Resource

Management Service (IRMS), which also administered all IT contracts awarded by GSA. In 1996, the Congress, through the Clinger-Cohen Act,¹ eliminated GSA's governmentwide responsibilities over IT acquisitions. Following this congressional action, GSA decided to disband IRMS and distribute IT contracts to its other organizations. Certain IRMS contracts that were structured like federal supply schedule contracts were transferred to FSS, and the remaining contracts were transferred to FTS.

Although both FSS and FTS provide IT products and services to customer agencies, the two organizations take different approaches to delivering products and services. FSS follows a "self-service" business model and considers its primary mission to be making attractive contract vehicles for acquisition of commercial products and services available to customers. Its federal supply schedule contracts are designed to be flexible, simple to use, and to embody commercial buying practices. FSS negotiates master contracts with vendors, seeking discounts off commercial list prices that are at least as favorable as those vendors offer their most favored customers. Once FSS has negotiated these master contracts, personnel in customer agencies may place orders against them and, if they have large requirements, seek additional price discounts beyond those FSS has negotiated.

FTS follows a "full-service" business model and manages the acquisition of information technology and telecommunications products and services on behalf of federal agencies. FTS contracting officers help agency customers fill their requirements using contracts FTS has awarded competitively to vendors that offer the most favorable combinations of quality and value. FTS contracting officers also have the discretion to select the contract vehicle they consider most advantageous for filling a requirement. For example, FTS is a major user of the FSS federal supply schedule contracts, and also uses a range of contract vehicles other federal agencies have awarded—commonly known as governmentwide acquisition contracts. FTS provides agency customers support in overseeing the entire acquisition process, including helping customers with defining requirements, placing orders to fill requirements, and administering orders.

¹ P.L. 104-106, Feb. 10, 1996.

Views on Overlapping Differ

Concerns have been raised about whether GSA's procurement programs are operating efficiently. For example, one industry association, noting that duplicative contract vehicles exist throughout the government, has criticized duplication of efforts between FSS and FTS. In particular, the association took issue with FTS's decision to award separate contracts for seat management services,² even though the services could have been acquired through FSS schedule contracts. According to the association, companies incurred additional costs to prepare proposals to win these separate contracts, and FTS incurred additional costs to evaluate proposals and select the winning contractors. The association argued that administrative costs for both companies and the government could have been reduced had FTS chosen to negotiate agreements to provide seat management services under existing FSS schedule contracts. However, the association did not provide firm estimates of how much costs could have been reduced.

During our work, we found no comprehensive analysis conducted by GSA of how the overlap between FSS and FTS has affected administrative costs or the prices the government pays for products and services. However, the GSA Inspector General (IG) interviewed a limited number of IT vendors and federal agency customers and reported that these parties had a favorable view of the overlap. Vendors, the IG reported, were willing to accept the increased cost of administering overlapping contract vehicles because they viewed these vehicles as opportunities to win more federal business. Agency customers viewed the overlapping vehicles as providing them procurement options. Nonetheless, the diverging views regarding the impact of overlap between FSS and FTS contracts indicate a need for GSA to take a hard look at how effectively its procurement programs are operating.

² Contracts for seat management services typically call for a single vendor to provide all hardware, software, and management and support services needed to operate an agency's in-house desktop computer network for a fixed monthly fee, instead of the agency acquiring these products and services separately from various sources.

GSA Has Begun Initiatives to Assess How Well Its Procurement Programs Are Performing

GSA has recently begun two initiatives that will provide better information on how well its procurement programs are operating. The first focuses on building better performance measures; the second on assessing the structure and efficiency of FSS and FTS and their services.

First, GSA is encouraging the managers of its procurement programs to develop performance measures that can support an assessment of whether the best value is being achieved. GSA already has measures for these programs, but they focus on increasing revenues and customer satisfaction and not specifically on the question of whether quality products and services are being provided at competitive prices and significant savings to the government.³

To date, FSS has proposed two measures that would provide information on its ability to achieve cost savings. The first of these would examine price competitiveness, as reflected in the discounts obtained when negotiating master contracts. The second would examine the additional discounts that customers obtained when negotiating individual orders. FSS officials, however, noted that implementing this second measure is not currently practical because the organization does not receive information on discounts customers have negotiated. Officials anticipate that customers and vendors will find the burden of routinely reporting this information unacceptable and are considering whether collecting information on a limited sample of orders would be a more appropriate approach.

FTS, for its part, has proposed a number of measures that should shed light on whether it is achieving customers' timeliness, quality, and cost goals. Specifically, FTS is proposing to measure how frequently it is able to award orders by the dates agreed to with customers and how frequently products it purchases are delivered by the dates agreed to with customers. These two measures should provide useful information on timeliness. In addition, FTS is proposing to compare the prices it negotiates with

³ The Government Performance and Results Act of 1993 requires agencies to set goals, measure performance, and report on their accomplishments. We recently reported on the performance goals GSA had established for selected key outcomes in its Annual Performance Plan for Fiscal Year 2002, including the planned outcome "Quality products and services are provided to federal agencies at competitive prices and significant price savings to the government." We reported that performance goals for this outcome were generally measurable and quantifiable. See U.S. General Accounting Office, *General Services Administration: Status of Achieving Key Outcomes and Addressing Major Management Challenges*, [GAO-01-931](#) (Washington, D.C.: Aug. 3, 2001).

vendors to independent government cost estimates for the products and services purchased. This measure will provide some insight into whether FTS is obtaining good prices. FTS officials, however, acknowledged that the validity of government estimates, which they propose to use as a measurement benchmark, depends heavily on the skills and capabilities of the estimators, which in their experience has varied.

Second, GSA has chartered a study of the structure and efficiency of FSS and FTS and the services they provide agency customers. This study was initiated through award of a contract to a well-known management-consulting firm. The consulting firm will survey key current and potential customers of GSA's procurement programs to identify their needs for IT and telecommunications services. The consulting firm will then analyze GSA's current approach to filling these needs and identify high-potential alternative approaches to doing so. The study's ultimate objective is to develop strategies to improve GSA's capability to serve the federal technology market.

We believe both initiatives are good steps toward answering the questions this subcommittee is asking today. They will be challenging in view of the potential reluctance of customers and vendors to comply with additional reporting burdens and difficulties associated with producing independent cost estimates. But it is important for GSA to work through these issues to gain assurance that its programs are delivering value to the government and to identify opportunities to increase their efficiency.

Moreover, any success that GSA achieves with these initiatives can also be applied to numerous other interagency contract vehicles. Little is known about these vehicles—specifically whether they are providing high quality and best value and whether, from a governmentwide perspective, the right mix of options is available to agencies.

Conclusion

In conclusion, FSS and FTS are similar in that they provide a broad range of IT products and services and access to many of the same vendors. They differ in that one provides a full range of support services to help agencies manage acquisitions while the other simply provides access to flexible, convenient contract vehicles. Some would suggest that maintaining overlapping procurement programs gives rise to inefficiencies and others that doing so provides agencies desirable flexibility. As these programs have grown in size and significance and as more agencies take on similar programs, it is becoming increasingly critical to answer this question. We support GSA's efforts to do so and believe that their results could also be

beneficial in terms of looking at this issue from a governmentwide perspective.

Mr. Chairman and members of the subcommittee, that concludes my statement. I will be happy to address any questions you may have.

Contact and Acknowledgment

For further information, please contact David E. Cooper at (202) 512-4841. Individuals making key contributions to this testimony include Cristina Chaplain, Ralph Dawn, Linda D. Koontz, Mary T. Marshall, Monty Peters, and Jeffrey V. Rose.