

March 1998

# FEDERAL PRISON INDUSTRIES

## Limited Data Available on Customer Satisfaction



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**General Government Division**

B-278287

March 16, 1998

The Honorable Peter Hoekstra  
The Honorable Mac Collins  
The Honorable Roscoe G. Bartlett  
The Honorable Nathan Deal  
House of Representatives

This report responds to your July 8, 1997, request for information on whether Federal Prison Industries (FPI) collects and maintains data that would enable it to make reliable, generalizable statements about the satisfaction of its federal agency customers with respect to the quality, cost, and timely delivery of FPI's products. Specifically, you wanted us to determine (1) if FPI has data, either from its management information systems or other sources, to support overall conclusions about how federal customers who buy and use its products and services view their timeliness, price, and quality; and (2) whether agencies that are among the largest buyers of FPI products and services monitor FPI's performance the same way they do commercial vendors in terms of timeliness, price, and quality. Federal agencies are generally required to buy FPI products, but not services, because under 18 U.S.C. 4124 FPI is a mandatory source supplier.

You requested this review to determine if FPI had data to support statements made by its senior management officials at congressional hearings and elsewhere regarding federal agency customers' high level of satisfaction with FPI's products and performance, given that some private sector and federal government personnel made sharply contrary statements. You also wanted to determine whether FPI's statutory status as a mandatory supplier to the government caused federal agencies to develop and use past performance information about FPI differently from how the agencies used information about private sector government contractors.

To meet these objectives, we interviewed FPI officials and gathered information on their customer satisfaction efforts at FPI in Washington, D.C. We also met with officials at FPI's Customer Service Center in Lexington, KY and the Office of Federal Procurement Policy (OFPP); and spoke with officials at five of FPI's major customer agencies—the Defense Logistics Agency (DLA); the General Services Administration's (GSA) Federal Supply Service (FSS) in Arlington, VA, and Fort Worth, TX; the Department of the Army's Office of the Assistant Secretary of the Army for Research, Development, and Acquisition in Falls Church, VA; the Social

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Security Administration (SSA) in Baltimore, MD; and the United States Postal Service (the Postal Service) in Washington, D.C. In addition, we reviewed key laws and regulations, such as the Federal Acquisition Regulation (FAR) pertaining to procurement from commercial vendors and FPI, especially in relation to vendor performance. We also reviewed selected literature on customer satisfaction and compiled information on selected private and public sector organizations' efforts to gather and use customer satisfaction information. We did not assess FPI's overall efforts to promote customer satisfaction, such as resolving complaints; nor did we assess customer agencies' efforts to award and administer vendors' contracts.

We did our work between July 1997 and January 1998 in accordance with generally accepted government auditing standards. Appendix I provides a detailed discussion of our objectives, scope, and methodology. We requested comments on a draft of this report from the Director, Bureau of Prisons (BOP). These comments are discussed near the end of this letter and are reprinted in appendix II. We also held exit conferences with program officials of the other federal agencies to verify applicable data and facts presented in the report.

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## Results in Brief

FPI has been the subject of substantial debate over the years, much of which has centered on the timeliness, price, and quality of its products. Missing from this debate have been convincing data that show whether federal customers who buy and use FPI products and services are satisfied with FPI's performance. Although FPI says that it is committed to delivering total customer satisfaction, it lacks sufficient data that would allow it to make overall conclusions about whether federal customers are satisfied.

FPI has a variety of management information systems that, among other things, allow it to track customer orders and react to complaints. However, FPI does not have a systematic or structured process for collecting and analyzing customer satisfaction data so that conclusions can be drawn about customer satisfaction. FPI's efforts to gauge customer satisfaction have been limited to relying on narrowly scoped customer surveys as well as other efforts, such as customer advisory group sessions and trade shows held once or twice a year to obtain, among other things, feedback from customers. Our work showed that although these efforts may provide FPI with some insights about a particular problem, data are not systematically compiled and used to improve performance and are

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insufficient for supporting overall conclusions about whether federal customers are satisfied.

Without convincing data on customer satisfaction, FPI (1) remains vulnerable to assertions by its critics that federal customers are dissatisfied and, in turn, should no longer be required to buy FPI products; and (2) may miss opportunities to improve its operations by having better data on how federal customers view its performance in the areas of timeliness, price, and quality. Furthermore, FPI's lack of a systematic approach for collecting these data appears inconsistent with contemporary management principles used by both public and private sector organizations. These principles focus on reaching out to customers to improve performance, accountability, and results, as well as using customer satisfaction as a measure of organizational performance. Some organizations, such as the Postal Service, systematically collect customer satisfaction data to measure and improve performance.

Regarding agencies' efforts to monitor FPI performance, major customer agencies that we contacted—DLA, FSS, Army, SSA, and the Postal Service—said that they consider price when awarding contracts and monitor factors like quality and timeliness while administering contracts for all vendors, including FPI. As part of this process, the agencies said they also scored or rated the overall performance of many of their commercial vendors while administering contracts. In addition, DLA, FSS, and the Postal Service also developed performance ratings of FPI. According to agency procurement officials, regardless of the type of vendor, contracting officers have discretion when considering timeliness, price, or quality while awarding or administering a contract.

It should be recognized, however, that the contracting officer's leverage in resolving procurement problems is different for FPI from the leverage the contracting officer has for private sector vendors since the rules that typically govern contracts with private sector vendors do not apply to FPI. In this regard, on September 13, 1993, the Acting Attorney General issued a legal opinion that held that FPI, as a seller of goods to the federal government, is not covered by the FAR and must be treated under its authorizing legislation and FAR Subpart 8.6. When agencies do develop varying types of information on current and past performance of vendors, including FPI, there are major distinctions in how agencies can use this information. For example, in the case of a commercial vendor, all five agencies can use current performance information to terminate a contract for deficient performance and can use past performance information as a

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factor to consider in the award of contracts. In the case of FPI, with the exception of the Postal Service, agencies cannot use current performance information to cancel or terminate a contract with FPI unless agencies request cancellation or termination provisions during the negotiation process and FPI agrees to include them in the contract. According to FPI, agencies can, however, use current performance information to seek other remedies against FPI, such as fulfillment of lifetime warranties or damages for late delivery. We did not determine the extent to which agencies seek, or FPI agrees to authorize, these remedies; nor did we compare or evaluate the use of remedies by contracting officers in connection with contracts with FPI or commercial vendors.

Furthermore, agencies cannot use past performance information to deny awarding a contract to FPI because, under the law, FPI is a mandatory source of supply. However, at FPI's discretion, agencies can use it to negotiate with FPI on factors such as product quality or delivery time frames, or to seek a waiver from FPI so that they can buy from a commercial vendor that can better meet their quality or delivery requirements. Under 18 U.S.C. 4124 (b) disputes regarding "price, quality, character, or suitability" of products furnished by FPI are subject to resolution by a high-level arbitration board made up of the Attorney General, the Administrator of the General Services, and the President, or their representatives. The Postal Service, which is exempted from most federal laws dealing with public or federal contracts, is not required to buy FPI products and can treat FPI like a commercial vendor.

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## Background

FPI is a wholly owned government corporation managed by the Department of Justice's (DOJ) Bureau of Prisons (BOP). FPI was created by Congress in 1934 and serves as a means for managing, training, and rehabilitating inmates. Under the trade name UNICOR, FPI markets about 150 types of products and services to federal agencies. Products include furniture, textiles, and electronic components. Services include data entry, engine repair, and furniture refinishing. In fiscal years 1995 and 1996, FPI had net sales of about \$459 million and \$496 million, respectively, in products and services. In addition to buying products directly from FPI, agencies buy FPI products from central supply agencies like FSS or, in the case of the military, from DLA. FSS and DLA stock some FPI products for sale to customers; FPI delivers other products directly to customers when orders are placed with FSS or DLA. According to FPI officials, agencies generally deal directly with FPI when procuring services.

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The FAR generally governs all acquisitions by executive agencies and codifies policies and procedures for the federal acquisition system.<sup>1</sup> This system is designed to satisfy the customer in terms of timeliness, price, and quality by (1) maximizing the use of commercial products and services, (2) using contractors who have a track record of successful past performance or who demonstrate a current superior ability to perform, and (3) promoting competition. The federal acquisition system is also designed to minimize administrative operating costs; conduct business with integrity, fairness, and openness; and fulfill public policy objectives.

As the primary document for the federal acquisition system, the FAR sets forth the basic policies and procedures for making acquisition decisions and administering contracts. For example, Part 9 of the FAR outlines procedures for determining a prospective contractor's ability to responsibly provide products and services that meet specifications in a timely fashion. Part 15 deals with contracting by negotiation, including solicitation, source selection, and price negotiations with prospective contractors; and, among other things, it outlines evaluation factors that should be used during the selection process. In addition, Part 42 outlines policies and procedures for administering contracts. More specifically, Subpart 42.15 (1) establishes agency responsibilities for collecting and maintaining contractor performance data and (2) states that past performance information regarding a contractor's actions under previously awarded contracts is relevant for future source selection purposes.

To attain certain public policy objectives, there are exceptions to the full and open competition requirement of the federal acquisition system. One of these exceptions is FAR Subpart 8.6 pertaining to acquisitions from FPI.<sup>2</sup> FAR Subpart 8.6 implements the law setting forth FPI's status as a mandatory supplier, which means that federal agencies are generally required to purchase FPI products if they meet the buying agency's requirements and the prices charged do not exceed current market prices.<sup>3</sup> If FPI cannot meet the buying agencies' requirements, the FAR allows

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<sup>1</sup>The federal acquisition system consists of the FAR and agency acquisition regulations that implement or supplement the FAR.

<sup>2</sup>Other laws provide exceptions to the full and open competition requirements under the Competition in Contracting Act (41 U.S.C. 253), which is implemented by the federal acquisition system. For example, the Javits-Wagner-O'Day Act (41 U.S.C. 46-48(c)) provides an exception for acquisitions from qualified nonprofit agencies employing the blind or severely disabled. These nonprofit agencies are also a mandatory source of supply. In addition, Section 8(a) of the Small Business Act (15 U.S.C. 637) provides an exception for acquisitions through SBA with small disadvantaged business concerns.

<sup>3</sup>See 18 U.S.C. 4124.

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agencies to seek a waiver from FPI.<sup>4</sup> FPI's mandatory source status for products does not apply to the services that it offers to its federal customers.

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## Continuing Debate Over Customer Satisfaction With FPI Products

Over the years, supporters and critics of FPI have debated FPI's mandatory source status and whether FPI provides quality goods, at a reasonable price, and on a timely basis. Both sides recognize that FPI has a social objective to manage, train, and rehabilitate inmates through work programs. However, some critics continue to question, among other things, whether the products and services associated with FPI's work programs satisfy federal customers in terms of timeliness, price, and quality and whether FPI's mandatory source status results in unfair competition with the private sector.

In the early 1990s, the Senate and House Committees on Small Business held hearings on the effect of FPI on small business during which FPI, non-FPI vendors, and Members of Congress debated FPI's mandatory source status and the impact of FPI on various markets. One of the issues that arose during this debate centered on the timeliness, price, and quality of FPI's products and services. In particular, many of the non-FPI vendors and some Members questioned whether federal customers as well as the agencies they worked for, in general, were satisfied with the timeliness, price, and quality of FPI products and services. More recently the Vice President's September 1993 National Performance Review (NPR) report recommended, among other things, the elimination of FPI's mandatory source status in the face of agencies' concerns about FPI product price and timeliness problems. NPR stated that:

"The Federal Prison Industries' (FPI) mandatory source allows FPI to counter the dangerous effects of inmate idleness and to prepare prisoners for reintegration into society especially considering the rapid growth of the Federal prison inmate population. However, Federal agency dissatisfaction with the quality of FPI's services requires significant and immediate improvements in product delivery, and ultimately FPI should have to compete more like a private supplier."<sup>5</sup>

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<sup>4</sup>Because FPI is a mandatory source provider for items it produces, FPI's customers are required to obtain FPI's written authorization for clearance prior to placing an order for a similar item through outside sources. Federal agency customers can request a waiver by mail, electronically, or by facsimile. The waiver request asks the customer to justify that the FPI product does not meet the basic needs of the agency. Each request is evaluated on a case-by-case basis by FPI sales consultants, but systems furniture waivers are handled by FPI's systems project group. Waivers that are denied can be appealed to the FPI ombudsman in Washington, D.C.

<sup>5</sup>Reinventing Support Services, Accompanying Report of the National Performance Review, Office of the Vice President, September 1993.

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NPR went on to say that: “Agencies have indicated that promised delivery timeframes from FPI are already too long and generally unreliable. Agencies also confirm that other sources can provide equal or better products for less cost.”<sup>6</sup> To date, NPR’s recommendation related to FPI’s mandatory source status has not been implemented. The Justice Department favors maintaining FPI’s mandatory source status.

In June 1997, Government Executive published an article that, among other things, discussed the questions raised by some agency and military officials about the timeliness, price, and quality of FPI products.<sup>7</sup> In one instance, the article cited a statement to the House Committee on National Security from a Navy Master Chief Petty Officer who stated that FPI’s “product is inferior, costs more and takes longer to procure. UNICOR has, in my opinion, exploited their special status instead of making changes which would make them more efficient.” In the same article, the Deputy Commander of DLA’s Defense Personnel and Support Center, who wrote a letter of complaint about FPI to a Congressman in May 1996, was cited as saying that FPI’s prices were higher than commercial companies’ prices by an average of 13 percent and “there is no practicable way to terminate a contract or recoup monies that would normally be owed by a commercial firm.”

FPI and its proponents have acknowledged that there may have been problems with some FPI products in the past but claim it has made efforts to improve its products and delivery performance. In discussing FPI improvements, the Government Executive article cited the Deputy Commander of the Army’s Family Support Center as stating that FPI is “as reliable as any other vendor, and their prices are comparable or cheaper.” Likewise, with regard to changes in the quality and timeliness of FPI products, the article quoted a Navy contracting officer as stating that the change “has been something akin to the transformation of the ugly duckling into the beautiful swan.”

For its part, FPI maintains a folder of letters from contracting officials in military and civilian agencies that commend FPI and describe their experiences in dealing with it. FPI officials also provided copies of letters from FPI customers to NPR that cited FPI for its improved service and willingness to work with agency officials in delivering products and services. For example, in a letter to the Senior Policy Advisor to the President, the Commander of the Air Force’s 30th Contracting Squadron

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<sup>6</sup>Ibid.

<sup>7</sup>Jeff Erlich, “Competing With Convicts,” Government Executive, June 1997.

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wrote: "In recent years, I have seen what I would term 'tremendous efficiency improvements' in the areas of delivery and customer service." Likewise, an Army contracting officer from the Aviation and Troop Command said that:

"In my opinion, UNICOR has become more business oriented within the last couple of years. Products have been modernized to compete with the open market. Delivery has improved tremendously, to include a discount if the date is slipped. Services and the ease of doing business with UNICOR . . . has far exceeded our expectations."

In another letter, the Acquisition Chief of the Department of Veterans Affairs' Medical Center in Dallas wrote that FPI had taken actions to improve things like responsiveness and customer service and many, but not all, issues had been resolved. For example, the VA official stated that delivery performance had been a problem, but FPI had taken steps to improve its timeliness. In addition, he wrote that prices of some items, such as furniture, had become competitive, but some items, such as sheets, were still "overpriced." In terms of quality, the VA official said that "UNICOR chairs used to routinely break soon after they were put into service [and] case goods such as desks routinely had Formica peeling off the edges" and added that FPI "now makes a very durable chair line and case goods that still look good even after many years of service." The same official praised FPI's increasing emphasis on customer service and said that "To truly finish the 'remake' of UNICOR that has begun . . . UNICOR should become nonmandatory." The official added that such a step would force FPI to become competitive in all areas, not just in some areas.

According to FPI, it has implemented several initiatives to improve customer responsiveness. For instance, during fiscal year 1996, FPI's annual report stated that FPI had initiated a lifetime guarantee on products and services, opened a web site to advertise its products, and begun accepting orders via the Internet. The annual report also stated that, among other things, FPI reduced its average processing time on waiver requests to less than 4 days, incorporated liquidated damages clauses into contracts, and initiated automatic discounts for late delivery. FPI's annual report did not discuss, nor did we assess, the implementation or effectiveness of these stated initiatives.

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## FPI Lacks Systematic Data on Customer Satisfaction

FPI states that it is committed to delivering total customer satisfaction and has been satisfying federal customers since 1934. However, it lacks sufficient data to support any overall conclusions about whether federal customers who buy and use its products and services are satisfied with

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their timeliness, price, and quality. FPI's management systems are not designed to systematically collect and analyze federal customers' views about its products and services. Further, its efforts to gauge customer satisfaction have been limited and do not allow for measurement of, or overall conclusions about, customers' views on its products and services. Over the last several years, public and private organizations have recognized the merits of systematically obtaining and using customer satisfaction data to improve performance and adopting customer satisfaction as a performance measure. In the absence of such data and a related performance measure, FPI is unable to demonstrate with any degree of certainty the level of customer satisfaction it delivers. Furthermore, it (1) remains vulnerable to assertions by its critics that federal customers are dissatisfied and, in turn, should no longer be required to buy FPI products; and (2) possibly misses opportunities to improve its operations by having better data on how federal customers view its performance.

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### FPI Data Systems Not Designed to Track Customer Satisfaction

FPI has a variety of management information systems that, among other things, allow it to track customer orders and react to complaints. However, these systems are not designed to systematically obtain feedback on timeliness, price, and quality from federal customers. FPI's Manager of Information Systems told us that FPI does not have a management information system that tracks customer satisfaction. According to this official, FPI's complaint system comes the closest to measuring customer satisfaction. This system records and tracks individual complaints from customers for problems such as missing or loose parts, quality defects, or missed delivery dates.

In addition to the complaints system, we noted that FPI has a system that is used to record and track agency requests for waivers or clearances. As mentioned earlier, the FAR requires that a federal agency obtain a waiver from FPI before the agency can buy similar items from sources in the commercial market. FPI has established the procedures for requesting waivers, and cognizant FPI personnel initially consider the waiver request. If the waiver request is denied, the agency's next recourse is an appeal to the FPI ombudsman. According to FPI, its waiver system, which we did not assess, records various data, including the name of the requester; the date of the request; a description of the item(s); the quantity, unit, and total price of the item(s); whether the waiver was granted or denied; and whether or not that decision was appealed. The database also categorizes reasons customers' waiver requests were granted—such as FPI being

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unable to meet the price range, deliver within required time frames, or meet technical specifications or requirements; or denied—such as prices are consistent with those of similar products offered through alternative procurement sources, FPI offers comparable items that will meet required specifications, or not enough information has been provided.

It is important to note that although the complaint and waiver data touch on issues related to timeliness, price, and quality, using complaint and waiver data as measures of customer satisfaction has major limitations. First, FPI would have to know whether its federal customers are fully aware of the complaint and waiver processes. Second, FPI's federal customers would need to use them in a reasonably uniform manner. That is, FPI would have to be sure that federal customers who are dissatisfied actually follow through by registering a complaint. In this regard, it has been generally recognized in the business community that dissatisfied customers often do not file complaints. Further, FPI would need to be sure that contracting officers always seek a waiver when they believe FPI cannot meet their price or delivery time frames—we are not aware of any evidence that would suggest whether they do or do not. Finally, the complaint and waiver processes are not designed to allow federal customers to provide FPI with constructive feedback—information that it could use to make improvements and help support conclusions about federal customers' satisfaction.

Although FPI's systems are not designed to systematically obtain feedback from federal customers, early in our work it appeared to us that data from FPI's customer order entry database (COED) could possibly be used as a vehicle for obtaining federal customers' views. The COED system, housed at FPI's Customer Service Center in Lexington, KY, is used to track agency orders and to provide customers with information on the status of their orders. We explored the possibility of conducting a generalizable survey of FPI customers using data from COED. However, we discovered that the COED data in its current form were insufficient for this purpose and that we would have to identify customers for a survey on a case-by-case basis using hard copy orders from the agencies. Even after examining some of the hard copy orders, we often could not definitively determine the names and addresses of individuals in federal agencies associated with the orders, such as the procurement officers who signed them. In addition, data on end users, or individuals knowledgeable of end users' satisfaction with the products—potential respondents for the quality dimension of a survey—were generally not available in COED or identified in the product orders.

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FPI officials acknowledged that information in COED in its current form is not sufficient to use to identify federal customers who are the buyers and users of its products and services. They said that identifying and maintaining data on the end users of products would be difficult for any organization selling to the government. Also, they said that end users typically do not deal directly with FPI or other suppliers; others in the procurement process often purchase and provide end users with the products they use. Accordingly, FPI believes that identifying end users would require cooperation from customer agencies, who would have to devote time and resources to such an effort and may view it as overly burdensome. Nonetheless, the Office of Federal Procurement Policy (OFPP) has started to encourage agency contracting officers and program officials to measure end user customer satisfaction when considering the performance of their vendors. Furthermore, the FAR recognizes the benefits of obtaining end user input on the performance of vendors in providing products and services. Thus, regardless of the difficulty of measuring the views of end users, there is growing recognition of the importance of obtaining customer feedback as part of good business practices.

During our review, we noted that FPI compiles various data from the customer order entry system, as well as other systems, to monitor and improve performance. FPI tracks operational information by product line on such factors as sales and earnings, inventories, inmate staffing, complaints, and order delinquencies for all of its production facilities or factories. According to FPI, it uses these indicators to routinely evaluate its performance on a real-time, week-to-week, year-to-year, and factory-by-factory basis. However, none of these indicators provide conclusive insights into customer satisfaction. Given the limitations associated with using complaints as a measure of customer satisfaction and the fact that FPI's data systems are not designed to track customers' views, FPI is not in as good a position to monitor customer satisfaction as it is with other important indicators, such as sales.

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### FPI's Efforts to Collect Customer Satisfaction Information Have Been Limited

Over the years, FPI has relied on a variety of initiatives—at both the headquarters and factory levels—to obtain limited feedback from federal customers in general about its products and services. These initiatives have involved meeting with top officials from FPI's major customer agencies, conducting limited surveys of federal customers, and discussing problems with representatives of federal agencies at trade shows and advisory group sessions. These efforts have given FPI some insights into

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how these federal customers may view a specific product or operational process. However, the results have been too limited to reliably support broad generalizations regarding whether federal customers who buy and use FPI products and services are satisfied overall with FPI's performance. FPI officials acknowledged that their efforts to date have not yielded this type of information and that such information would give them valuable insights and help them improve their performance.

FPI officials told us that FPI has conducted some limited customer satisfaction surveys and has other efforts planned or under way to obtain information on customer satisfaction. FPI provided us with the results from four surveys of selected customers that resulted from a 1996 customer satisfaction survey plan it had developed. These four surveys obtained customer views on FPI's product catalog, the 800-number service used to facilitate customer orders, trade shows, and the Allenwood line of FPI furniture. Only the furniture survey, however, directly addressed issues related to the timeliness and quality of products produced by FPI, and this survey was limited in that it focused on selected furniture from one factory sold over a 4-month period. In addition, for the furniture survey FPI received only 42 responses out of 400 surveys that it sent—a response rate far too low to support any conclusions. FPI officials said that at the time of our review, they could not find documentation on any other survey efforts. Furthermore, they told us that the individual responsible for developing the 1996 survey plan and its accompanying survey efforts had since retired.

FPI also has organized a customer advisory group (CAG) and a design advisory council (DAC), which are made up of representatives from selected customer agencies and were formed so that FPI could get feedback from agencies about its products, services, and overall operations. The CAG is typically made up of contracting officers or other personnel from military and civilian agencies who have some direct involvement in procuring products or services from FPI. According to FPI officials, the group members, who serve at the invitation of FPI, are to solicit input on problems with FPI from other personnel in their agencies to develop a broad understanding of the problems experienced agencywide. FPI brings as many members as possible together once or twice a year, depending on the availability of funds, to discuss problems, suggest solutions, and review what FPI has done to resolve past problems. The DAC, made up of federal designers who configure and furnish agencies' workspace, meets periodically and works with FPI to ensure that its

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products meet their needs and are compatible with commercially available products that are being used.

According to FPI's Director of Sales, Marketing, and Customer Service, individual prison factories have undertaken some efforts to assess customer satisfaction, but such efforts are not monitored by headquarters staff. At our request, he queried 54 locations with 88 factories that had customers in other federal agencies. Of the 54 locations, 33 responded that they make some effort to contact the customer and discuss customer satisfaction. The most common effort, which 25 factories reported doing, was unstructured telephone calls to some customers to either follow up on a complaint or generally inquire into customer satisfaction. Eight locations said they use customer satisfaction surveys or guarantee forms with space to address customer satisfaction that they send to some or all of their customers. For example, the furniture factory in the Tallahassee Federal Correctional Institution had a customer satisfaction rating line on some of its guarantee forms. Based on the size of the order, a number of these are included in the orders, and the customer is asked to fax or mail the rating back to the factory. According to the factory staff, the responses have generally been positive; but response rates have been low, and steps are being taken to improve them.

Despite these efforts, the Director of Sales, Marketing, and Customer Satisfaction told us that none of the efforts reported by any of the prisons yielded generalizable results. That is, they did not use valid sampling techniques and did not garner meaningful response rates. Likewise, he said that the results of these efforts are not systematically compiled and cannot be used to make any overall conclusions concerning customer satisfaction with any product or factory, or about FPI in general. He further told us that he is not satisfied with FPI's progress in developing a more systematic approach to collecting customer satisfaction data. He attributed this delay to an FPI reorganization and the turnover among individuals responsible for developing improved approaches for collecting and analyzing customer satisfaction data. He said that FPI recognizes the importance of developing customer satisfaction data and is becoming more active in this area. For example, he said that a full-time staff member is now assigned to developing questionnaires in house and working with him to develop an overall strategy to measure customer satisfaction. He envisions hiring a private sector consultant to assist in FPI's development of an overall strategy for systematically obtaining customers' views.

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In addition, another unit within FPI, the Planning, Research, and Activation Branch, is working with DOD to develop a detailed survey instrument to begin to compile some customer satisfaction data at the Department of Defense (DOD). Under the National Defense Authorization Act for Fiscal Year 1998, FPI and DOD are mandated to conduct a joint study of procurement procedures, regulations, and statutes that govern transactions between DOD and FPI. As part of this study, FPI and DOD have developed a draft survey instrument that would ask DOD customers to respond to questions about the procurement process, including their rating of products like electronics, office furniture, and signs, on a scale of 1 (unsatisfactory) to 5 (exceptional) with regard to price, quality, delivery, and service. Among other things, the survey would also ask respondents to rate FPI as a supplier, provide information on their experiences requesting and securing waivers, and provide feedback on whether respondents would use FPI if it were not a mandatory source. According to an FPI industrial specialist with the Planning, Research, and Activation Branch, current plans are to hire a private company to administer the survey telephonically to FPI's DOD customers who purchased FPI products valued at \$10,000 or more over the last 3 years. The same official was not sure if the survey would obtain the views of end users. She said that FPI has plans to have the survey completed by the end of February so the results can be incorporated into the joint FPI/DOD report to Congress, which is due in May 1998.

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### Importance of Customer Satisfaction Data Reflected in Contemporary Thinking on Organizational Excellence

FPI's lack of sufficient information about customer satisfaction appears inconsistent with contemporary thinking on the importance of collecting and using such information to improve performance. Proponents of collecting and using customer satisfaction data have emphasized the need to measure performance by systematically collecting customer satisfaction data and to identify and address real and perceived organizational and performance problems. Criteria for awards in organizational excellence, such as the Malcolm Baldrige National Quality Award and the President's Quality Award, stress the importance of obtaining customers' views. Recent initiatives such as NPR and the Government Performance and Results Act of 1993 (known as GPRA or the Results Act) have focused on performance measurement. In particular, NPR has stressed the importance of promoting customer satisfaction in government and accountability to customers through feedback systems and performance measurement.

Contemporary management experts have stressed the importance of improving the quality of products and services, listening to the needs of

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customers, and meeting those needs. These factors, according to experts, are essential for success in both the private and public sectors. For example, W. Edwards Deming stressed that the quality of goods and services should aim to meet the needs of the customer, and customer needs and wishes have to be understood.<sup>8</sup> Tom Peters has advocated that one of the five essentials of organizational performance is an obsession with responsiveness to customers.<sup>9</sup> David Osborne and Ted Gaebler have stated that there is no reason public organizations cannot get close to their customers and listen to their needs just as private organizations do.<sup>10</sup> Osborne and Gaebler have likewise stated that customer-driven organizations are more accountable to their customers because they solicit and respond to feedback on customer needs.

Criteria published for measuring organizational excellence in both the private and public sectors include collecting customer satisfaction information and using results to improve performance. For example, for the private sector's Malcolm Baldrige National Quality Award and the executive branch's President's Quality Award, organizations are expected to (1) follow up with their customers regarding recent purchases of products and services to gauge satisfaction and resolve problems; and (2) include measures of customer satisfaction with their financial and other measures to improve operational results.<sup>11</sup>

It is important to note that these and other criteria do not call for a "cookbook" approach to collecting customer satisfaction data. Although the criteria mention a variety of approaches, such as surveys, focus groups, and interviews, they generally advocate leaving the specific choice of approaches or combination of approaches up to each organization. This flexibility recognizes that organizations of different types or sizes or organizations, such as FPI, that market an array of different products and services may use various approaches or a combination of approaches for different customers. Regardless of the choice of methods selected, however, the criteria do call for a convincing and systematic way to measure and report on customer satisfaction.

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<sup>8</sup>W. Edwards Deming, *Out of the Crisis* (Cambridge, MA: Massachusetts Institute of Technology, Center for Advanced Engineering Study, 1986), pp. 5 and 175.

<sup>9</sup>Tom Peters, *Thriving on Chaos* (New York: Harper and Row Publishers, Inc., 1987), p. 45.

<sup>10</sup>David Osborne and Ted Gaebler, *Reinventing Government: How the Entrepreneurial Spirit Is Transforming the Public Sector* (Reading, MA: Addison-Wesley Publishing Company, 1992), pp. 169-170.

<sup>11</sup>See, for example, *Malcolm Baldrige National Quality Award: 1997 Criteria for Performance Excellence*; and *1998 Application and Information: The President's Quality Award Program*.

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In recent years, the federal government has placed increased emphasis on customer service and has begun an initiative to become more businesslike by using performance information to measure results. The September 1993 NPR report stressed, among other things, the need for the federal government to emphasize customer satisfaction. Shortly thereafter, the President signed Executive Order 12862, which established and implemented customer service standards to guide the operations of the executive branch. The order called for executive departments and agencies that provide significant services to the public to take a number of actions. These actions include identifying and surveying customers, posting service standards and measuring results against them, and benchmarking customer service performance against the best in the business.

Although the order is directed toward agencies that serve the public, FPI's Chief Operating Officer told us that FPI has made a voluntary commitment to be in full compliance with the executive order. In response to the order, FPI developed a special report for the NPR Customer Service Team that acknowledged the importance of satisfied customers to UNICOR and also recognized the importance of customer surveys. The paper stated that within the competitive environment in which FPI operates, "it is critical, more than ever before, that UNICOR understand and 'know' its customers." The paper critiqued FPI's past efforts in using surveys and pointed out some potential design and response problems with those surveys. It also discussed FPI's strategy for responding to the Executive Order, which included expanding customer contact sessions as well as conducting more and broader written and telephone surveys. FPI's paper also defined its direct customer base—federal contracting officers, procurement personnel, and all federal employees who are end users of FPI products and services—and indicated that telephone-based surveys should consider measuring end users' satisfaction with FPI products. In addition, in October 1995, NPR published FPI's customer service standards that, among other things, committed FPI to surveying its customers annually.<sup>12</sup> According to FPI's Director of Sales, Marketing, and Customer Service and the Executive Assistant to the Chief Operating Officer, this commitment waned due to a reorganization, resource shortages, and other operational priorities. However, as discussed earlier, the Director of Sales, Marketing, and Customer Service said that FPI has recently taken steps to renew its commitment, including assigning a full time staff member to develop questionnaires and work on customer satisfaction issues. In fact, NPR's

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<sup>12</sup>Putting Customers First '95: Standards for Serving the American People, National Performance Review, October 1995.

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1997 report on customer service standards restates FPI's commitment to doing customer satisfaction surveys.<sup>13</sup>

The Results Act requires agencies to set goals, measure performance, and report on the degree to which their goals are met. As a starting point, the act requires agencies to develop multiyear strategic plans, the first of which were to be submitted to Congress by September 30, 1997, that include the agency's mission statement, general goals and objectives, and the strategies the agencies plan to use to achieve these goals and objectives. Although the Results Act does not require FPI to have its own strategic plan, the DOJ plan does have goals and objectives that relate to FPI. For example, under the Detention and Incarceration section of the Justice plan, one goal relates to the overall mission of BOP and includes a broad reference to FPI's principal function—"Provide productive work, education, medical, and other programs to meet inmate needs and facilitate their successful reintegration into society, consistent with community expectations and standards." In the Management section of the DOJ plan, another goal pertains to DOJ operations in general but seems especially pertinent to FPI and its operations—that is, the goal to "Meet or exceed the expectations of our customers." Thus, if satisfying customers were to be one of FPI's major goals, it seems that FPI would want reliable customer satisfaction data so that it could determine the extent to which it was meeting its goal.

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### Some Public and Private Organizations Obtain Customer Satisfaction Data

During our review, we found several examples of public and private organizations that have developed approaches to actively obtain and use customer satisfaction data. The U.S. Army Communications-Electronics Command's Logistics and Readiness Center (CECOM LRC) received the President's Quality Improvement Prototype Award for developing an approach for, among other things, systematically determining and measuring customer satisfaction.<sup>14</sup> The Postal Service systematically uses customer satisfaction data to develop internal and external measures of its performance; identify problem areas; and identify corrective actions, where necessary. Likewise, two GSA components, the Public Buildings Service (PBS) and the Office of Property Disposal, have begun to use

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<sup>13</sup>Putting Customers First '97: Standards for Serving the American People, National Performance Review, Oct. 1997.

<sup>14</sup>The Quality Improvement Prototype Award is given annually as part of the President's Quality Award Program. The award is given to federal organizations that have achieved high standards of customer service and quality. The process governing the award is comparable to the Malcolm Baldrige National Quality Award for private sector companies and consists of application review and site visits to finalists' organizations to validate the application review.

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customer surveys to monitor and improve their performance. In addition, according to officials at two trade associations that have members who sell products similar to FPI's, the National Electrical Manufacturers Association (NEMA) and the Business and Institutional Furniture Manufacturers Association (BIFMA), some of their progressive members regularly track customer satisfaction.

Our review of a series of case studies developed for the President's Quality Award Program showed that CECOM LRC, for example, has used surveys, performance data, and other information to develop a customer satisfaction index to measure and improve its performance. According to one of the case studies, CECOM LRC supplies the Army with communications and electronics systems as well as logistics support, engineering, and inventory management. It has, as one of its six strategic goals, a goal to continually demonstrate a commitment to internal and external customers, which include end users such as soldiers as well as project managers, depots, and foreign governments. In 1993, CECOM LRC realized that it needed to develop a more systematic approach to measuring customer satisfaction. Until that time, each of its eight directorates administered its own external survey to measure customer satisfaction, but feedback was not consolidated to gauge how well the organization was satisfying customers.

CECOM LRC concluded that surveys alone were not sufficient to accurately measure satisfaction and decided on an approach that aggregated various sources of information. It benchmarked with IBM and Texas Instruments to examine how large private sector organizations measured customer satisfaction. In 1994, it created the Customer Satisfaction Index, a composite measurement system based on information from mail and telephone surveys; performance statistics, including measures and trends of formal complaints; comparison data, including comparisons with similar providers; and internal perspectives that used workforce self-assessment surveys.

Similarly, in November 1992 and December 1995, we reported on Postal Service efforts to measure customer satisfaction.<sup>15</sup> Among other things, we reported that Postal Service officials recognize that the Service must do a better job of increasing customer satisfaction by improving service performance and pointed out that the Service increasingly was focusing on customer needs, expectations, and perceptions. We also discussed the

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<sup>15</sup>U.S. Postal Service: Tracking Customer Satisfaction in a Competitive Environment (GAO/GGD-93-4, Nov. 12, 1992); and U.S. Postal Service: New Focus on Improving Service and Customer Satisfaction (GAO/GGD-96-30, Dec. 20, 1995).

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Postal Service's efforts to collect customer satisfaction data on, for example, timeliness of delivery; whether its services were a good value for the price; the helpfulness and courtesy of Postal personnel; and its complaint handling. Furthermore, we discussed how the Postal Service systematically uses these data to develop internal and external measures of its performance; identify problem areas; and identify corrective actions, where necessary. In addition, the Postal Service Strategic Plan, which was submitted to Congress in September 1997 as required by the Results Act, discusses how the Postal Service uses customer satisfaction as one of its key performance measures.

GSA also has taken some steps to measure customer satisfaction among some of its components. For example, according to GSA's 1998 budget justifications, GSA's PBS uses a survey developed by the Gallup Organization to evaluate customer service performance against industry standards and to guide PBS in making enhancements to its real property management function. The survey measures the satisfaction of building occupants with the way GSA cleans, protects, repairs, heats, and manages buildings. PBS uses the results to measure its performance and has a long-term goal of achieving a satisfaction rating of 85 percent, which according to PBS is consistent with the private sector standard. PBS reported that preliminary survey results in 1996 showed that it had achieved its interim customer satisfaction rating goal for very large buildings. GSA's Office of Property Disposal also uses a private survey firm to measure customer satisfaction with its programs and services. According to GSA's 1998 budget justifications, this office is focused on providing better quality service with a goal of 95 percent customer satisfaction. According to the responses received by the survey firm, customer satisfaction improved from 78 percent in fiscal year 1995 to 92 percent in fiscal year 1996.

In addition, our discussions with officials representing two trade associations—NEMA and BIFMA—that have members that sell products similar to FPI indicated that some of their more progressive members regularly track customer satisfaction. The BIFMA official told us that some companies contract with firms that provide customer satisfaction measurement services. The same official referred us to Kennedy Research, which is part of a worldwide business research firm, Wirthlin Worldwide, that provides opinion research services for both public and private clients. The president of Kennedy Research said that his firm uses customized data collection methods and analytical techniques to survey a client's current and past customers, with the focus on developing recommendations that can lead to improved customer satisfaction.

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## Agencies Develop Performance Information on All Vendors but Apply It Differently to FPI

Major customer agencies—DLA, FSS, Army, SSA, and the Postal Service—consider price when awarding contracts and monitor factors like quality and timeliness while administering contracts for all vendors, including FPI. As part of the process of developing performance information, all five agencies also scored or rated the overall performance of many of their commercial vendors while administering contracts. In addition, the two major supply agencies—FSS and DLA—and the Postal Service said that they developed performance ratings of FPI. According to agency procurement officials, regardless of the type of vendor, contracting officers have discretion when considering timeliness, price, and quality while awarding or administering contracts.

It should be recognized, however, that the contracting officer's leverage in resolving procurement problems is different for FPI from the leverage the contracting officer has for private sector vendors since the rules that typically govern contracts with commercial vendors do not apply to FPI. In this regard, on September 13, 1993, the Acting Attorney General issued a legal opinion which held that FPI, as a seller of goods to the federal government, is not covered by the FAR, and must be treated under its authorizing legislation and FAR Subpart 8.6. When agencies do develop varying types of information on current and past performance of vendors, including FPI, there are major distinctions in how agencies can use this information. For example, in the case of a commercial vendor, all five agencies can use current performance information to terminate a contract for deficient performance and can use past performance information as a factor to consider in the award of contracts. In the case of FPI, with the exception of the Postal Service, agencies cannot use current performance information to cancel or terminate a contract with FPI unless agencies request cancellation or termination provisions during the negotiation process and FPI agrees to include them in the contract.<sup>16</sup> According to FPI, agencies can, however, use current performance information to seek other remedies against FPI, such as fulfillment of lifetime warranties or damages for late delivery. We did not determine the extent to which agencies seek, or FPI agrees to authorize, these remedies; nor did we compare or evaluate the use of remedies by contracting officers in connection with contracts with FPI or commercial vendors.

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<sup>16</sup>According to FPI officials, there are no aggregate data to show how often FPI allows agencies to include these provisions in the contracts. However, they did say that its contracts for electronics and textiles typically include a provision to terminate contracts for default. Because data were not readily available, we did not verify the extent to which cancellation or termination provisions were included in contracts associated with the numerous products that FPI sells to government agencies.

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Furthermore, agencies cannot use past performance information to deny awarding a contract to FPI because, under the law, FPI is a mandatory source of supply for products. However, at FPI's discretion, they can use it to negotiate with FPI on factors such as product quality or delivery time frames, or to seek a waiver from FPI so that they can buy from a commercial vendor that can better meet their quality or delivery requirements. Under 18 U.S.C. 4124 (b) disputes regarding "price, quality, character, or suitability" of products furnished by FPI are subject to resolution by a high-level arbitration board made up of the Attorney General, the Administrator of the General Services, and the President, or their representatives. The Postal Service, which is exempt from most federal laws dealing with public or federal contracts, is not required to buy FPI products and can treat FPI like a commercial vendor.<sup>17</sup>

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## Pre-Award Process

Officials at DLA, FSS, Army, and SSA said that before awarding a contract, they do many of the same things when considering acquisitions from both commercial vendors and FPI. Generally, in considering price, agency contracting officials are to examine the prices offered by a prospective vendor and take steps, such as a price evaluation if, in their judgment, they believe the offerer's price does not represent a good value for the government. With commercial vendors, a price that is found to be high can be used as a factor in eliminating a prospective vendor from the selection process. However, because of FPI's mandatory source status, they told us that the contracting officer is limited to using the results of his or her assessment of price to attempt to negotiate the price with FPI or justify a waiver request. FPI is required by statute to price its products at not to exceed current market price.<sup>18</sup> According to FPI, the method for determining current market price varies by product and the price can be negotiated by FPI and the customer. If the agency is not satisfied with the price and the cognizant FPI personnel deny the waiver request, the contracting officer can appeal the decision to the FPI ombudsman. We did not determine how often prices were negotiated or waivers approved by cognizant FPI personnel or the FPI ombudsman.

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<sup>17</sup>Services provided by FPI are not afforded the same mandatory source status as products provided by FPI. Officials we spoke with at agencies other than the Postal Service did not, at the time of our review, have direct knowledge of service contracts with FPI because these contracts tend to be small and are handled by local procurement offices. Postal Service officials said they treat FPI service and product contracts alike because neither is mandatory for the Postal Service. During fiscal years 1995 and 1996, contracts for services constituted about 5 percent of FPI's annual sales.

<sup>18</sup>In 11 Comp. Gen. 75 (1931) GAO quoted a February 1931 decision by the BOP Board of Arbitration—Prison Industries which stated that FPI did not have to set its price at the lowest bid price to comply with the current market price requirement.

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In addition, for commercial vendors, agency officials said that contracting officers are to make a determination of “responsibility” in accordance with FAR Part 9; that is, they assess whether the vendor has such resources as the facilities and personnel needed to carry out the terms of the contract. If the vendor had a previous contract with the agency, they are required to examine the vendor’s past performance record. However, in the case of FPI, agency officials told us that contracting officials cannot disqualify FPI from being eligible for a contract award based on “responsibility” because, again, FPI is a mandatory-source supplier. Nonetheless, they said that in contracting with FPI, agency contracting officials may consider their experiences on previous FPI contracts and may attempt to negotiate contract terms designed to avoid previous difficulties. They also may rely on these experiences to develop request for waivers from FPI.

According to officials at the Postal Service, they do many of the same things their non-Postal counterparts do to consider things like price and vendor responsibility during the pre-award process. However, because the Postal Reorganization Act of 1970 exempts the Postal Service from most federal laws dealing with federal or public contracts, FPI is not a mandatory source for the Postal Service.<sup>19</sup> As with other agencies, before awarding a contract, Postal procurement officials told us that they have discretionary authority to check that the price is fair and reasonable and examine whether vendors are capable of performing under the contract. However, unlike their counterparts, they do not have to purchase products from FPI. Instead, Postal Service officials can procure the product from another vendor.

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## Contract Administration

Once a contract is awarded, contracting officers are to take steps to administer contracts, including those with FPI, in accordance with their responsibilities under the FAR. The officials we spoke with at DLA, FSS, SSA, and Army told us that contracting officers have discretion over the depth of monitoring activities they do and the data they collect. However, their efforts are to include an assessment of the extent to which the vendors meet the terms and specifications of the contract and may involve specific steps to ensure a vendor’s products meet the quality standards specified in

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<sup>19</sup>Under the U.S. Postal Service Purchasing Manual, contracting officers can consider purchasing from FPI when the quality, delivery terms, and prices offered are competitive with those offered in the commercial marketplace. Thus, according to Postal Service officials, the Postal Service can acquire supplies from FPI by either (1) following the formal competitive procurement procedures, which typically includes soliciting proposals that the Postal Service evaluates before awarding the contract to the supplier providing the best overall value; or (2) negotiating a noncompetitive contract directly with FPI on a sole source basis if market research or other means show price and delivery terms are reasonable compared with those available within the commercial marketplace.

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the contract. In doing so, contracting officials monitor issues related to overall performance, such as timeliness of delivery and quality issues arising out of user complaints. DLA and FSS officials, for example, told us that contracting officers track and document issues related to timeliness, product quality, and complaints from product users. SSA and Army officials said that contracting officers look at some of the same things and, like DLA and FSS, tend to work with vendors to resolve problems. According to officials we spoke with, it is important to recognize that monitoring of things like product quality is quite often done on an exception basis—that is, contracting officers deal with problems as they arise, such as when a complaint is levied by an end user.

As with their counterparts in other agencies, Postal Service officials also said that they take steps to monitor contracts from the perspective of contract terms and assurance that the vendor can meet its quality standards. They added that contracting officers, who likewise have discretionary authority over the depth of their oversight responsibilities, examine things like customer complaints about quality and try to work with vendors to resolve them. In addition, they told us that contracting officers routinely monitor timeliness as one of the elements of compliance with the contract. Like their non-Postal counterparts, Postal Service officials said that contracting officers attempt to work with vendors to resolve problems if and when they arise.

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## Contractor Performance Ratings

As part of routine contract administration, DLA, FSS, SSA, and Army also have processes for rating the overall performance of many of their commercial vendors in accordance with the FAR. In addition, officials at the major supply agencies, DLA and FSS, also said that they routinely evaluate and rate FPI's performance as part of their general business practices. SSA and Army officials told us that they do not routinely do so for FPI, because the FAR exempts FPI from the requirement that customer agencies develop performance evaluations.<sup>20</sup> According to officials at the Postal Service, the Service, which is not covered by the FAR, evaluates and rates the performance of certain vendors, including FPI, that are selected by contracting officers based on factors like the dollar magnitude of the contract or the product being critical to achieving the agency's mission. According to these officials, the Postal Service evaluation includes a variety of factors, such as fabrication and assembly, workmanship, and

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<sup>20</sup>FAR Part 42.1502(b) states that agencies shall not evaluate performance for contracts awarded under Subparts 8.6 and 8.7. FAR Subpart 8.7 governs acquisitions from nonprofit agencies employing people who are blind or severely disabled, which are mandatory source suppliers. The issue of rating FPI performance is addressed later in the report.

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timeliness, that are based on agreements between the Postal Service and the vendor and prescribed in the contract. With regard to the ratings, the same officials told us that FPI's performance, like that of its other vendors, has been generally acceptable.

As mentioned earlier, Subpart 42.15 of the FAR requires that agencies do performance evaluations to document a contractor's actions for consideration of future contracts.<sup>21</sup> According to the FAR, these evaluations—required for each contract in excess of \$1 million beginning July 1, 1995, and \$100,000 after January 1, 1998—are to be done at the time the work under the contract is completed and are to be prepared on an interim basis for contracts exceeding 1 year. The FAR also stipulates that agencies shall not prepare evaluations of contractors under Subpart 8.6—the provision pertaining to FPI.

For example, as of December 1997, SSA officials told us that SSA requires that project officers and technical representatives involved in contract administration prepare a monthly evaluation of commercial vendor contracts valued in excess of \$500,000 (below the 1995 threshold of \$1 million) but not of contracts with FPI. These officials then are to send the evaluations to the responsible contracting officers, who compile them and prepare a separate evaluation report at the end of the contract. In doing their monthly evaluations, agency officials are to use a scale of 0 (unsatisfactory) to 4 (excellent) to measure a contractor's performance in six dimensions—quality of product or service, cost control, timeliness of performance, business relations, end user customer satisfaction, and other. SSA officials told us that SSA does not do these evaluations for FPI products, because it is not required to do so under the FAR.

Even though the FAR states that agencies shall not prepare evaluations regarding FPI performance, officials at the two major supply agencies included in our review told us that they do the evaluations for all vendors, including FPI, as part of their normal business processes. For instance, DLA officials told us that they use DLA's Automated Best Value Model (ABVM) to collect past performance data on all of its contracts, including those with FPI, regardless of size and translate the data into a numeric score ranging from a low of 0 to a perfect score of 100. The scores, which are calculated monthly, represent a combination of quality and delivery scores. The quality score reflects validated product and packaging problems caused by

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<sup>21</sup>The Federal Acquisition Streamlining Act (FASA) of 1994, Public Law 103-355, amended the Office of Federal Procurement Policy Act at 41 U.S.C. 405 note and acknowledged that it is both appropriate and relevant for the government to consider a contractor's past performance in evaluating whether the contractor should receive future work.

the contractor and negative lab tests during the rating period. The delivery score reflects shipments that are not shipped and/or received in their entirety by the contract delivery date. DLA then updates the score every month and makes it available to vendors so that they can gauge their performance and challenge scores when they disagree. The scores are also available to contracting officers so that they can consider them in conjunction with outputs from other DLA contract monitoring systems when making decisions about future source selections. Because of the disparate nature of these various systems, data were not readily available for developing an aggregate analysis of FPI's performance over any particular period in time. In other words, at DLA, FPI performance successes and problems would have to be analyzed on a product-by-product and factory-by-factory basis using the various systems available.

At FSS, contracting officials told us that they prepare a supplier rating report for all of FSS' contracts, including those with FPI, using seven dimensions—contracts terminated, orders terminated, deliveries on-time per the "original" due dates, quality cure letters issued, justified quality complaints, quality deficiency notices issued, and rejections. Performance in each category is scored on a scale of outstanding, satisfactory, or poor. Every 6 months, FSS generates a supplier rating report, sometimes called a contractor report card, which enables FSS and the vendor to open a dialogue about performance issues. At the conclusion of the contract, FSS issues a final report rating the contractor's performance along with a letter that tells the contractor that its past performance will be considered when GSA makes future awards.

FSS officials told us that they also use the supplier report card to prepare FSS's contractor alert list (CAL), which identifies contractors that fail to meet some portion of their contract terms and are considered to be a higher risk to the government as future contractors. Thus, if a vendor, including FPI, scores a poor in any one of the seven report card categories, the vendor and its contract are placed on the CAL and they remain on it for a designated period, depending on the problem documented. For example, a poor timeliness rating would cause a vendor and its contract to show up on the CAL until the timeliness problem was corrected, whereas a quality deficiency problem may cause a vendor and its contract to remain on the CAL for the duration of the contract. Upon reviewing examples of the CAL, we noted that both commercial vendors and FPI contracts were on the CAL for a variety of reasons, including quality and timeliness problems. FSS officials told us that as of August 1997, 17 of FPI's 60 contracts with GSA

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were on the CAL because of timeliness problems; and 1 of FPI's 60 contracts was on the CAL because of a product quality problem. FPI's remaining 42 contracts were not on the CAL.

It is important to note that as in the pre-award process, FSS, DLA, SSA, and Army can use the information they collect via a report card or any other means to communicate about performance issues with vendors, including FPI. However, the agencies can terminate a contract with a commercial vendor, but they cannot cancel or terminate a contract with FPI unless FPI had agreed to include provisions in the contract that allow the agency to either cancel the contract or terminate it for default. Nonetheless, FSS, DLA, SSA, and Army can use the information they collect on any particular FPI acquisition to initiate waiver requests, so that if the waiver is approved, the balance of an agencies' requirements can be filled by a vendor other than FPI. Likewise, in terms of new acquisitions from commercial vendors, these agencies can use performance information as a basis for making acquisition decisions and considering the award of a contract. With FPI, however, FSS, DLA, SSA, and Army cannot use the information to make a decision about buying FPI products, but they can use it to alert FPI to past problems, negotiate with FPI about ways to prevent future problems, or to apply for waivers so they can buy from another source. The Postal Service, on the other hand, can treat FPI like any other vendor, because FPI is not a mandatory source for the Postal Service.

There is some question about whether agencies subject to the FAR are prohibited from evaluating FPI's performance. As mentioned earlier, Part 42 of the FAR states that agencies "shall not" evaluate the performance of contracts awarded under Subpart 8.6, the provision pertaining to FPI. According to OFPP's Deputy Associate Administrator for Procurement Innovation, this provision was added to the FAR because FPI is considered to be a social program and has mandatory source status; and, regardless, agencies still have to purchase FPI products. It was designed to reduce the burden on agencies by not requiring them to develop performance data on FPI. However, he said the provision was never intended to preclude agencies from doing performance evaluations of FPI contracts as part of their efforts to maintain good business practice. As we pointed out, some agencies do it as part of their normal business practices, and others do not because they are not required to. The Deputy Associate Administrator added that OFPP is recommending a change to the FAR that would make it clear that agencies are not precluded from doing performance evaluations on mandatory source suppliers like FPI, especially since OFPP promotes vendor performance evaluations as good business practice.

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According to OFPP guidelines on performance evaluations, as of August 1995, there were at least 12 past performance information systems in use by various organizations throughout the government.<sup>22</sup> Although OFPP sanctioned these systems as long as they met the requirements of the FAR, it is encouraging the voluntary development of a uniform governmentwide format for recording contractor performance information that source selection officials can use. In doing so, OFPP has suggested the development of an interagency Contractor Performance Report, which, among other things, would contain six areas in which to rate a contractor's performance—quality, timeliness, cost control, business relations, customer satisfaction, and key personnel. According to OFPP, some of the elements, like timeliness, are important because they directly reflect compliance with contract terms. Others, however, like customer satisfaction, are equally important because, according to OFPP's guidelines, satisfying the customer is the most important goal in the private sector and should be in the government sector. With regard to the customer satisfaction element, OFPP goes on to suggest that agencies look at the satisfaction of the end users and that the best way to do so is through customer satisfaction surveys. If agencies collect this information, it may provide FPI with additional customer satisfaction data that could supplement any efforts it decides to take to develop systematic data and performance measures.

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## Conclusions

The debate over FPI's mandatory source status and the timeliness, price, and quality of its products and services is likely to continue partly because FPI lacks sufficient data on how federal customers view FPI's products and services. FPI's current management information systems are not designed to systematically collect federal customers' views, and FPI's current efforts to obtain customers' feedback are limited and cannot be used to support general conclusions about customer satisfaction. Without this information, FPI is not well positioned to demonstrate whether it is achieving total customer satisfaction as it says it is striving to do or to use customer satisfaction as a key performance measure. Furthermore, the lack of a systematic approach for collecting and analyzing these data is inconsistent with recent public and private sector initiatives to use customer satisfaction data to measure performance and address real and perceived performance problems.

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<sup>22</sup>Past Performance Information, Office of Federal Procurement Policy, OFPP Policy Letter 92-5, August 2, 1995.

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Although FPI has recognized the importance and benefits of obtaining and using more data on customer satisfaction and made a commitment in October 1995 to doing so, it has not followed through on this commitment, citing personnel turnover, resource constraints, and the need for customer cooperation. We recognize that it may be challenging and resource intensive for FPI to develop better data and related measures for customer satisfaction and that FPI will need the cooperation of its customers. However, we believe it will be more challenging for FPI to continue to operate in today's customer-oriented environment and in the face of strong opposition to its mandatory-source status without the benefit and use of such information, both to improve performance and to measure its performance in meeting customer satisfaction goals.

FPI is a governmental organization that operates in a businesslike fashion in that it manufactures and sells products to customers. Thus, it seems reasonable that FPI would have guidelines and principles used by other public and private sector organizations such as those calling for systematic assessment of customer satisfaction, and then using that information to measure and improve performance. Several other organizations we identified in both the private and public sectors have found various approaches to systematically collect and use such information, either independently or with the help of others, such as contractors. We found no reason why FPI could not also search for cost-effective ways to assess customer satisfaction. In considering these approaches, FPI will need to determine what approach or combination of approaches will produce the best results at the lowest possible cost and least possible burden on its customers.

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## Recommendation to the Director, Bureau of Prisons

In order to institutionalize within FPI an assessment of overall customer satisfaction and the use of this assessment to measure and improve performance, we recommend that the Director, Bureau of Prisons, direct FPI's Chief Operating Officer to (1) examine available approaches to collect and use customer satisfaction data to determine the most cost-effective approaches for FPI; (2) develop a plan for collecting customer satisfaction data that would allow for supportable conclusions about federal customers' views on timeliness, price, and quality; (3) develop a timetable for implementing the plan; and (4) set performance goals for the levels of customer satisfaction that FPI wants to attain and measure results against these goals.

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## Agency Comments

In written comments dated February 10, 1998, BOP generally agreed with the thrust of the draft report and said that it intends to implement our recommendation. BOP also made additional comments on some of the issues addressed in the report. First, BOP acknowledged that the draft identified many of the initiatives FPI has taken to demonstrate its commitment to customer satisfaction and listed some other initiatives that it has taken over the last few years. Furthermore, BOP recognized that FPI does not have a systematic approach for measuring customer satisfaction and how its customers responded to these initiatives. Second, BOP highlighted some of the problems FPI may encounter in collecting data because of the nature of the federal procurement process and said that some highly respected private sector vendors do virtually no federal customer satisfaction data collection. But, in agreeing with our recommendations, BOP stated that there is a benefit to collecting customer satisfaction data. Third, BOP stressed the importance of agency evaluations in providing feedback on FPI's performance and said FPI would advise its customers of FPI's desire to be evaluated so that it can get such feedback and of its willingness to include termination clauses in FPI's contracts.

Finally, BOP said FPI's actions to improve customer satisfaction have been aimed at eliminating negative perceptions about purchasing from FPI as a mandatory source and stated that FPI is striving to be viewed as a "preferred" source. BOP added that in its view, FPI's most vocal opponents are not customers but private industry representatives who maintain that FPI, as a mandatory source supplier, has an adverse effect on them. Furthermore, BOP stated its belief that regardless of FPI's customer satisfaction rating, opponents will continue to argue against FPI's status as a mandatory source supplier. (See app. II for the full text of BOP's written comments.)

We also obtained oral technical comments from FPI's Chief Operating Officer and his staff and from program officials in the agencies included in our review on various portions of a draft of this report. These technical comments have been incorporated in the final report as appropriate.

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As agreed with your office, unless you publicly announce the contents of this report earlier, we will not distribute it until 30 days from its date. Then, we will send copies of this report to the Attorney General, Director of BOP, Chief Operating Officer of FPI, Director of the Office of Management and Budget, Administrator of OFPP, and the heads of the

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customer agencies we contacted. We will also make copies available to interested congressional committees and others on request.

Major contributors to this report are listed in appendix III. If you have any questions, please contact me on (202) 512-8387.



Bernard L. Ungar  
Director, Government Business  
Operations Issues

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## Abbreviations

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| ABVM      | Automated Best Value Model  |
| BIFMA     | Business and Institutional Furniture Manufacturers Association                |
| BOP       | Bureau of Prisons   |
| CAG       | customer advisory group   |
| CAL       | contractor alert list   |
| CECOM LRC | U.S. Army Communications-Electronics Command's Logistics and Readiness Center |
| COED      | Customer Order Entry Database   |
| DAC       | design advisory council   |
| DLA       | Defense Logistics Agency  |
| DOD       | Department of Defense   |
| DOJ       | Department of Justice   |
| FAR       | Federal Acquisition Regulation  |
| FASA      | Federal Acquisition Streamlining Act  |
| FPI       | Federal Prison Industries   |
| FSS       | Federal Supply Service  |
| GPRA      | Government Performance and Results Act  |
| GSA       | General Services Administration   |
| HHS       | Department of Health and Human Services                                       |
| NEMA      | National Electrical Manufacturers Association                                 |
| NIH       | National Institutes of Health   |
| NPR       | National Performance Review   |
| OFPP      | Office of Federal Procurement Policy  |
| PBS       | Public Buildings Service  |
| SSA       | Social Security Administration  |
| VA        | Department of Veterans Affairs  |

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# Objectives, Scope, and Methodology

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Our objectives were to determine (1) if Federal Prison Industries (FPI) has data, either from its management information systems or other sources, to support overall conclusions about how federal customers who buy and use its products and services view their timeliness, price, and quality; and (2) whether agencies who are among the largest buyers of FPI products and services monitor FPI's performance the same way they do commercial vendors in terms of timeliness, price, and quality. In doing our work, we interviewed FPI officials and gathered information on their customer satisfaction efforts at FPI in Washington, D.C. We also met with officials at FPI's Customer Service Center in Lexington, KY; the Office of Federal Procurement Policy (OFPP); and spoke with officials at five major customer agencies—the Defense Logistics Agency (DLA); the General Services Administration's (GSA) Federal Supply Service (FSS) in Arlington, VA, and Fort Worth, TX; the Department of the Army's Office of the Assistant Secretary of the Army for Research, Development, and Acquisition in Falls Church, VA; the Social Security Administration (SSA) in Baltimore, MD; and the United States Postal Service (Postal Service) in Washington, D.C.

We also did limited work at the Department of Health and Human Services (HHS) in Washington, D.C.; the Department of Defense's (DOD) Office of the Secretary of Defense at the Pentagon; and the National Institutes of Health (NIH) in Bethesda, MD; and we spoke with officials from various trade associations and one company that does customer satisfaction analysis. We attended an FPI customer advisory group meeting in Orlando, FL. We did not assess FPI's overall efforts to promote customer satisfaction, such as resolving complaints or granting waivers, nor did we assess customer agencies' efforts to award and administer vendors' contracts. We also did not assess agencies' efforts to monitor small purchases from FPI, such as credit card purchases.

To meet the first objective, we interviewed FPI officials at FPI headquarters in Washington, D.C., to discuss their efforts to collect and analyze customer satisfaction data and whether existing management systems were used to gauge customer satisfaction. We then obtained and analyzed various FPI documents that discussed FPI efforts in the area of customer satisfaction and examined surveys and the results of surveys that were available from officials at FPI headquarters. We also worked with headquarters officials to collect and analyze information about what individual prisons do to monitor customer satisfaction.

In addition, we reviewed key laws and regulations pertaining to FPI. We also reviewed Executive Order 12862—Setting Customer Service

Standards; related NPR reports; media publications about FPI in particular and customer satisfaction in general; case studies documenting the experience of award recipients under the President's Quality Award Program and the criteria for the President's Quality Award and the Malcolm Baldrige National Quality Award; and GAO reports dealing with customer satisfaction and agency performance measurement, including reports on the implementation of the Government Performance and Results Act of 1993. Early in our review, we also explored the possibility of using data from FPI's customer order entry database (COED), which is housed in Lexington, KY, to conduct our own customer satisfaction survey. However, as discussed in the report, we were unable to use COED data, because, among other things, it did not identify end users. We also spoke with representatives of two trade associations about their members' efforts to monitor customer satisfaction and with a representative of a company that does customer satisfaction analysis for private and public organizations. Finally, we did a literature search of publications pertaining to customer satisfaction and public and private organizations' efforts to collect customer satisfaction information and use it to measure and improve performance.

To meet the second objective, we reviewed key laws and regulations, such as the Federal Acquisition Regulation (FAR), pertaining to procurement from commercial vendors and FPI, especially in relation to vendor performance. Using FPI sales reports, we initially selected four of FPI's major customer agencies—DOD, GSA, HHS, and the Postal Service—to examine their approach for monitoring the performance of commercial vendors and FPI. We selected these agencies because they had the largest volume of FPI sales during fiscal years 1995 and 1996. We did not select the Bureau of Prisons (BOP), another major purchaser of FPI products, because of BOP's relationship with FPI. Because of staffing constraints and time limitations, we further refined our selections at DOD, the largest of FPI's customers, to include only DLA and Army, which, according to FPI sales records, were the DOD agencies with the largest volume of sales during fiscal year 1996. At GSA, the second largest FPI customer in terms of sales volume during fiscal year 1996, we focused primarily on FSS, which, according to FPI, constituted more than three-fourths of FPI's sales to GSA.

In addition, at HHS, our discussions with procurement officials indicated that the volume of FPI sales to HHS was relatively small, contrary to FPI sales figures for both fiscal years. Subsequently, we contacted the Manager of FPI's Planning, Research and Activation Branch, who told us that HHS sales figures still included SSA, which became a separate agency in 1995.

He added that the vast majority of HHS sales listed in FPI's sales report for both fiscal years were actually attributable to SSA and that FPI plans to change the sales report in the future to reflect the change in SSA's relationship to HHS. As a result of our conversations, we selected SSA as one of the agencies for our examination. We also met with an official of OFPP in Washington, D.C., to discuss OFPP guidelines and initiatives pertaining to evaluating contractor performance.

To determine how the five selected agencies monitor the performance of commercial vendors and FPI, we spoke with responsible officials in each of the agencies to discuss their overall efforts to evaluate the performance of commercial vendors and FPI as part of the procurement process and in administering contracts. Our discussions focused on the processes and procedures these agencies used to evaluate the performance of commercial vendors and FPI. We also focused on the similarities and differences in how commercial vendors and FPI are treated in terms of performance evaluation, including remedies for nonperformance of contract terms. We also obtained and analyzed agency documents that described their processes and procedures for vendor performance evaluations. Although we obtained examples of their evaluations, we did not (1) comprehensively evaluate their efforts or determine whether they complied with applicable laws and regulations or (2) do an independent assessment of whether customer agencies were satisfied with FPI and its products and services. For purposes of this report, we used the term contract to include agency agreements with FPI.

We did our work between July 1997 and January 1998 in accordance with generally accepted government auditing standards. We received written comments on a draft of this report from BOP, which we have included in appendix II. BOP's comments are summarized and discussed on page 29. FPI's Chief Operating Officer and his staff also provided several oral technical comments on various portions of a draft of this report. We also held exit conferences with program officials of the other federal agencies to verify selected data and facts presented in the report.

# Comments From the Bureau of Prisons



U.S. Department of Justice

Federal Bureau of Prisons

Office of the Director

Washington, DC 20534

February 10, 1998

Bernard L. Ungar  
Director  
Government Business Operations Issues  
General Accounting Office  
Washington, D.C. 20548

Dear Mr. Ungar:

We appreciate the opportunity to provide the Department of Justice comment on the General Accounting Office (GAO) draft report titled, FEDERAL PRISON INDUSTRIES (FPI), Limited Data Available on Customer Satisfaction. We generally concur with GAO's conclusion that FPI does not have a comprehensive, systematic means of measuring customer satisfaction. We believe that improving our means of assessing customer satisfaction would be beneficial and we intend to implement GAO's recommendations. There are a few areas addressed in the report which warrant further comment.

We appreciate GAO's recognition of FPI's continued efforts to be more customer focused. While we lack systematic means to measure their effects, the customer-driven programs initiated over the past few years, many of which you identified, can leave no doubt of our customer satisfaction commitment. These initiatives include a complete redesign of our entire furniture line; an increase in fabric offerings from 15 to 1,100; acceptance of credit cards for all purchases; destination pricing and inside delivery for all orders; publishing our entire catalogue and ordering capability on the Internet; initiation of a whole-room procurement method for dormitory furniture; free assistance with interior design and space planning; inclusion of liquidated damages and contract termination provisions in customer contracts; a quick ship program for several hundred individual items; a discount program for any late deliveries; a lifetime guarantee on all items, retroactively applied; the establishment of customer and designer advisory groups to critique our performance; a reduction in waiver request processing to an average of four days; the acceptance of waiver requests by mail, fax, e-mail and Internet; the addition of

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**Appendix II**  
**Comments From the Bureau of Prisons**

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several commercial service partners to support customer needs; direct vendor delivery and distribution services; electronic data interchange for ordering, invoicing and payment; and, significant improvement in our on-time delivery performance.

I mention these examples because they illustrate the steps FPI is taking to meet or exceed our customers' expectations. We have not relied on an inflexible application of our mandatory source status or on the compelling argument that FPI is the Bureau of Prisons' most important inmate correctional program. Rather, our focus has been on improving what we offer our customers. We are pleased that several of our customers have reported to us that, collectively, FPI now provides a level of service which exceeds that of many private sector vendors.

We agree with GAO's conclusion that our current data system is not designed to systematically obtain feedback from federal customers. We also concur with GAO's recognition that, "... it may be challenging and resource intensive for FPI to develop better data and related measures for customer satisfaction and that FPI will need the cooperation of its customers." The very nature of federal procurement makes it very difficult for most government vendors to systematically collect customer satisfaction data because the customer (end user) is generally not the purchaser (contracting officer). For these reasons, as discussed during the exit interview, there are highly respected private sector government vendors who do virtually no Federal customer satisfaction data collection. These observations notwithstanding, we believe there is benefit in more systematic collection of such data. As noted in your report, our earlier efforts toward this end were not entirely successful, but we intend to implement GAO's recommendations that FPI (1) examine available approaches to collect and use customer satisfaction data to determine the most cost-effective approaches for FPI, (2) develop a plan for collecting customer satisfaction data that would allow for supportable conclusions about federal customers' views on timeliness, price, and quality, (3) develop a timetable for implementing the plan, and (4) set performance goals for the levels of customer satisfaction that FPI wishes to attain and measure results against these goals. We agree with your conclusion that, "In considering these approaches, FPI will need to determine what approach or combination of approaches will produce the best results at the lowest possible costs and the least possible burden on its customers."

As indicated in GAO's report, agency evaluations of vendors are one clear indication of customer satisfaction.

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**Comments From the Bureau of Prisons**

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You note that currently the Federal Acquisition Regulation directs that contracting officers "shall not" evaluate the performance of mandatory source vendors, including FPI. This not only precludes valuable feedback but also frustrates an agency's ability to terminate contracts or take other steps to remedy poor performance. You indicate that the Office of Federal Procurement Policy is initiating changes to these provisions to provide for evaluation and feedback to all government vendors. We welcome such changes. In the interim, we will advise our customers of our desire for evaluations of FPI's performance and of our willingness to include termination for cause clauses in FPI's contracts.

Our final comment relates to the various references in your report to FPI's mandatory source. All of our efforts to improve customer satisfaction have been aimed at eliminating negative customer perceptions about purchasing from FPI as a mandatory source. We believe the evidence, although not systematically collected, is persuasive that we have made considerable progress toward this goal. Many contracting officers have told us that, in light of the government-wide reduction of procurement personnel, being able to buy from a reliable mandatory source can be the most convenient procurement method available. Thus we are striving to be viewed by our customers as a "preferred" source.

The vocal opponents of our mandatory source, however, are not our customers. They are the private industry representatives who assert that our program is having an adverse effect on them. These detractors are not dissuaded by improvements in FPI's customer service. In fact, no matter how well we perform, the outcome can be used to support their position on our mandatory source: If FPI had 100 percent customer satisfaction, they would argue that our performance is so commendable we should be able to compete against them without any preferential consideration; if we had a customer satisfaction rating of zero, they would argue that the lack of competition is making us complacent and non-responsive to our customers. Variations on these disingenuous arguments can be crafted irrespective of FPI's customer satisfaction rating.

Thus, we believe our continued focus on our customers, including the adoption of GAO's recommendations, is the course of action which will best serve the public policy interests

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**Appendix II**  
**Comments From the Bureau of Prisons**

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associated with FPI's mission. Thank you once again for the opportunity to comment. If you should have any questions, or need additional information, please feel free to contact, Steve Schwalb, FPI's Chief Operating Officer.

Sincerely,



Kathleen M. Hawk  
Director

# Major Contributors to This Report

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## General Government Division, Washington, D.C.

Gerald Stankosky, Assistant Director  
John F. Mortin, Assistant Director  
William J. Dowdal, Senior Evaluator  
David E. Sausville, Senior Evaluator  
Martin de Alteriis, Senior Social Science Analyst  
Hazel Bailey, Evaluator (Communications Analyst)

---

## Office of General Counsel, Washington, D.C.

Alan Belkin, Assistant General Counsel  
Susan Michal-Smith, Senior Attorney

---

## Dallas Field Office

Robert T. Griffis, Senior Evaluator  
Patricia Sari-Spear, Senior Evaluator

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