

**GAO**

Report to the Chairman and Ranking  
Member, Committee on Small Business,  
House of Representatives

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January 2003

# CONTRACT MANAGEMENT

## Postal Service's National Office Supply Contract Has Not Been Effectively Implemented



**G A O**

Accountability \* Integrity \* Reliability

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Highlights of [GAO-03-230](#), a report to the Chairman and Ranking Member, Committee on Small Business, House of Representatives

# CONTRACT MANAGEMENT

## Postal Service's National Office Supply Contract Has Not Been Effectively Implemented

### Why GAO Did This Study

Over the past 2 years, the Postal Service has experienced growing financial difficulties. In an effort to transform the organization to reduce costs and increase productivity, the Postal Service awarded a national-level office supply contract to Boise Corporation. In addition, the Postal Service required Boise to submit a subcontracting plan, which outlines how small, minority-, and woman-owned businesses will be reached through the contract. GAO was asked to assess the status of the Postal Service's implementation of the Boise contract and Boise's achievement of its subcontracting plan. GAO also reviewed the extent to which the Postal Service is buying office supplies directly from small, minority-, and woman-owned businesses.

### What GAO Recommends

GAO is recommending that the Postal Service reexamine the national office supply contract to determine why it is not being used and whether it is an effective tool to achieve savings. If the contract is found to be beneficial, the Postal Service should track its employees' use of the contract. GAO also recommends the Postal Service revise its national contract to reflect realistic goals for small, minority-, and woman-owned businesses. The Postal Service agreed with GAO's recommendations.

[www.gao.gov/cgi-bin/getrpt?GAO-03-230](http://www.gao.gov/cgi-bin/getrpt?GAO-03-230).

To view the full report, including the scope and methodology, click on the link above. For more information, contact David Cooper at (202) 512-4841 or [cooperd@gao.gov](mailto:cooperd@gao.gov).

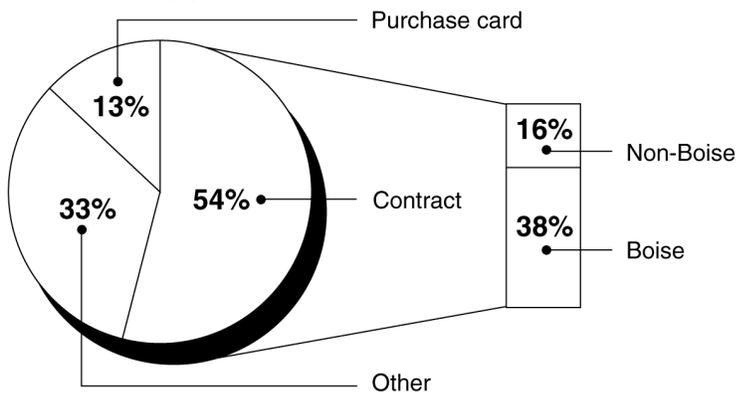
### What GAO Found

The Postal Service has not been successful in implementing its national-level contract to purchase most office supplies from Boise. Although the national contract was intended to be a mandatory source of office supplies, the Postal Service purchased less than 40 percent of its office supplies from Boise in 2001. GAO found that the Postal Service did not perform as planned under the contract because it did not take sufficient actions to ensure that the contract would be used. As a result, the Postal Service has not been able to realize its estimated annual savings of \$28 million. In fact, it was only able to provide documentation for \$1 million in savings for 2001.

Boise and the Postal Service have not paid sufficient attention to the subcontracting plan. The plan contains obvious ambiguities, and, in fact, Postal Service and Boise officials disagree on its goals. The Postal Service maintains that the goal is 30 percent of Boise's annual revenue from the contract. Boise has fallen far short of this goal, reporting that only 2.6 percent of subcontracting dollars were awarded to small, minority-, and woman-owned businesses in fiscal year 2001. Postal Service and Boise officials recognize that the performance on the subcontracting plan is not satisfactory and are taking a number of steps to achieve the plan's goals. Nevertheless, it is highly unlikely that the current subcontracting goals will be met.

The Postal Service reported that its small, minority-, and woman-owned business achievements have declined from fiscal years 1999 to 2001. Despite the Postal Service's reported statistics, we could not determine the extent to which it is buying directly from these businesses because the data are unreliable.

**Total Office Supply Purchases for Fiscal Year 2001**



Source: GAO analysis of U.S. Postal Service data.

Note: "Other" is local buys paid by cash, money orders and district invoices.

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## Abbreviations

JWOD	Javits-Wagner-O'Day Act
SMW	small, minority-owned, and woman-owned



United States General Accounting Office  
Washington, DC 20548

January 17, 2003

The Honorable Donald A. Manzullo  
Chairman  
The Honorable Nydia M. Velázquez  
Ranking Democratic Member  
Committee on Small Business  
House of Representatives

Over the past two years, the United States Postal Service experienced growing financial difficulties and struggled to fulfill its mission of providing affordable, high-quality universal service, while remaining self-supporting. Consequently, GAO reported that the Postal Service's current business model was at risk and placed its transformation and long-term outlook on our high-risk list in April 2001.<sup>1</sup> To transform the organization, reduce costs, and increase productivity, the Postal Service is, among other things, redesigning purchasing and material management functions to capture potential savings through a supply chain management initiative. The supply chain encompasses marketing, distribution, planning, manufacturing, and purchasing. One area of focus for this initiative is office supplies, on which the Postal Service spent \$125 million in fiscal year 2001.<sup>2</sup> To implement supply chain management for office supplies, the Postal Service awarded a national office supply contract to Boise Office Solutions (Boise) in January 2000.<sup>3</sup> Under the terms of the contract, Postal Service buyers are required, with a few exceptions, to purchase all office supplies from this contract. The Postal Service estimated that this contract would enable it to save up to \$28 million annually.

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<sup>1</sup> The high risk list identifies a federal program or operation that is highly vulnerable to waste, fraud, abuse, and mismanagement or that requires urgent attention to ensure that our national government functions in the most economical, efficient, and effective manner possible. U.S. General Accounting Office, *U.S. Postal Service: Major Management Challenges and Program Risks*, [GAO-01-262](#) (Washington, D.C.: January 2001); U.S. General Accounting Office, *U.S. Postal Service: Deteriorating Financial Outlook Increases Need for Transformation*, [GAO-02-355](#) (Washington, D.C.: Feb. 28, 2002); U.S. General Accounting Office, *U.S. Postal Service: Moving Forward on Financial and Transformation Challenges*, [GAO-02-694T](#) (Washington, D.C.: May 13, 2002).

<sup>2</sup> In this report, "fiscal years" are Postal Service fiscal years, which from 1999 through 2001 began in early- to mid-September.

<sup>3</sup> The awardee was formerly known as Boise Cascade Office Products.

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The Postal Service, which is not subject to the Small Business Act,<sup>4</sup> is not required to establish goals for contract awards to small businesses. However, the Postal Service has established a supplier diversity program and tracks dollars awarded to small, minority-owned, and woman-owned (SMW) businesses (minority- and woman-owned businesses can be large or small). One of the ways the Postal Service expects to increase the dollars going to these businesses is through SMW subcontracting. For example, Boise was required to submit a subcontracting plan to reach SMW businesses. In light of the potential impact of the Boise contract on small business vendors, you asked us to assess (1) the status of the Postal Service's implementation of its national contract with Boise, (2) Boise's achievement of its SMW subcontracting plan goals, and (3) the extent to which the Postal Service is buying office supplies directly from SMW businesses.

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## Results in Brief

The Postal Service has not yet been successful in implementing its national office supply contract. Although the contract was intended, with a few exceptions, to be a mandatory source of supply, in fiscal year 2001 the Postal Service spent over 60 percent of its office supply dollars on items purchased outside the Boise contract through purchase cards, other contracts, money orders, or cash. The lack of success was due in part to insufficient actions taken by the Postal Service to ensure that office supplies are purchased from the Boise contract. The Postal Service was unaware of the extent to which the contract was not being used because it has not adequately tracked or monitored its employees' office supply purchases. For fiscal year 2001, the Postal Service can document only \$1 million in savings from the use of the contract—though it had projected savings of up to \$28 million.

Boise and the Postal Service have not paid sufficient attention to subcontracting goals. The subcontracting plan was carelessly constructed and contains ambiguities that should have been resolved prior to the contract award. However, to date, Boise and the Postal Service have not taken actions to revise the plan. For example, the categories of SMW businesses in the plan are inconsistent with the way Boise has been reporting its achievements and with the way the Postal Service categorizes its diversity goals. Moreover, Boise and Postal Service officials do not agree on the goals. According to Postal Service officials, the overall goal

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<sup>4</sup> 15 U.S.C. Sect. 637c(2).

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is 30 percent of annual revenue for the contract—a figure confirmed in a preaward email from Boise. According to a Boise official, the goal is both a percentage of annual revenue for the contract as well as a fixed dollar value. Boise has fallen far short of the 30 percent goal. In fiscal year 2001, Boise reported that only 2.6 percent of its revenue was subcontracted to SMW businesses. Both Boise and the Postal Service now acknowledge that the 30 percent goal may have been unreasonable. Recently, Boise has begun to take actions to improve its performance. Nevertheless, it is highly unlikely that Boise will achieve its subcontracting goal.

The extent to which the Postal Service is buying office supplies directly from SMW vendors is unclear. From fiscal years 1999 through 2001, Postal Service data show that office supply purchases from SMW businesses through contracts and purchase cards decreased from 50 percent to 18 percent. However, the data are unreliable. The Postal Service has not tracked SMW business participation in other purchasing mechanisms, such as money orders and cash, and, like other agencies, its information on purchase card merchants contains numerous errors.

We are making recommendations to the Postmaster General of the United States concerning the need to re-assess the Postal Service's national office supply strategy and estimated savings and to revise Boise's subcontracting plan to accurately and clearly reflect realistic goals. In written comments on a draft of this report, the Postal Service agreed with our recommendations. Boise also provided written comments, offering its perspective on some of the information in the report.

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## Background

The Postal Service, an independent establishment of the executive branch of the U.S. government,<sup>5</sup> is the largest federal civilian agency, consisting of more than 38,000 post offices, branches, and stations and 350 major mail-processing and distribution facilities. As part of its strategy for better managing its procurement of goods and services, the Postal Service has centralized the procurement of commodities that were previously decentralized. For example, all office supply procurements are now managed by the Office Products and Utilities Category Management Center in Windsor, Connecticut, which is responsible for administering the national contract. Previously, office supply procurement was decentralized, with each area managing its own procurements.

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<sup>5</sup> 39 USC Sec. 201.

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To demonstrate its commitment to reaching SMW businesses, the Postal Service has developed a 5-year supplier diversity plan. The plan focuses on maintaining a strong supplier base that includes SMW businesses. While it does not set specific dollar goals, the plan is intended to ensure that the Postal Service spends an increasing amount of its procurement dollars on goods and services from diverse businesses through fiscal year 2003. To monitor its progress, the Postal Service measures its prime and subcontracting spending achievements with SMW businesses.

During fiscal years 1999 through 2001, Postal Service procurement of goods and services (which includes office supplies) decreased from \$3.5 billion to \$2.6 billion. For the same time period, office supply procurement grew from \$107 million to \$125 million. Postal Service officials explained that this increase does not necessarily indicate an actual increase in office supply spending, but rather it reflects improvements in the procurement system's ability to track spending. The officials indicated that the data provided, while not perfect, are the best available information.

In October 1999, the Postal Service issued a solicitation for a national-level office supply contract. Four vendors submitted proposals. The solicitation provided that the award would be made to the vendor that offered the best overall value to the government, considering nonprice and price factors. The proposals were evaluated based on several factors, including the vendors' demonstrated understanding of the solicitation's (1) technical requirements, including the ability to implement and maintain a Web-based procurement system, and (2) business requirements. As part of their business plan, vendors were required to demonstrate their ability to deliver items within 24 hours of receiving an order, which is considered industry standard. Other factors on which the proposals were evaluated, in descending order of importance, were

- the inclusion of a subcontracting plan demonstrating the vendor's commitment to use SMW businesses,
- the ability to address environmental and energy conservation efforts.
- An explanation of the price discounts on items offered to the Postal Service,
- the ability to provide financial and purchasing reports that are integrated with the Postal Service's system, and
- the ability to provide Postal Service items, other than office supplies, that are used in an office setting.

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Additional evaluation factors included past performance and Javits-Wagner-O'Day Act (JWOD)<sup>6</sup> compliance.

The Postal Service awarded the contract to Boise with a start date of April 3, 2000. The contract is a firm, fixed-price modified requirements contract for a 3-year base period, with up to three 2-year options. The contract requires, with a few exceptions, that the Postal Service order from Boise all of the approximately 13,000 items in Boise's Postal Service office supply catalog. Exceptions to the mandatory requirement are where (1) the item can be found at a lower price (and it is not a JWOD item) or (2) the requirement is urgent and the supplier cannot meet the required delivery date. The Postal Service has since exercised the first 2-year option.<sup>7</sup>

The JWOD Act requires the Postal Service to comply with its requirements.<sup>8</sup> According to Postal Service and Boise officials, Boise has ensured through its ordering process that this compliance occurs. When Postal Service employees place an order with Boise for an item that is also on the JWOD procurement list, Boise substitutes the ordered item with a JWOD item that is essentially the same.

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<sup>6</sup> The Javits-Wagner-O'Day Act established a Committee for Purchase from People who are Blind or Severely Disabled, which maintains a procurement list of commodities or services that the government must procure from designated nonprofit agencies. These agencies are represented by central nonprofit agencies called the National Industries for the Blind and the National Industries for the Severely Handicapped (41 CFR ch. 51).

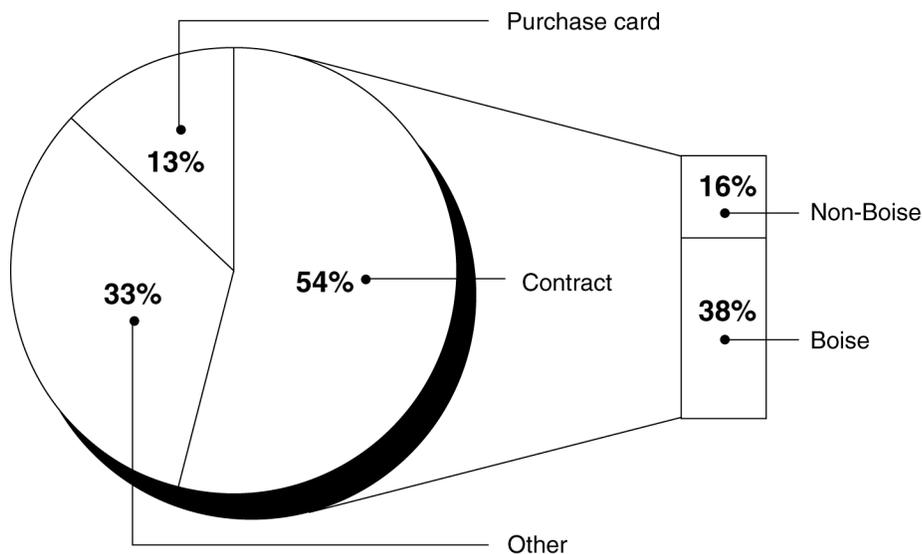
<sup>7</sup> The new option period expires on January 6, 2005. According to the contracting officer, it was necessary to exercise the option in January 2003, rather than April 2003, to prevent the contract from lapsing.

<sup>8</sup> 41 U.S.C. sec. 48b(7).

## National-Level Office Supply Contract Has Not Been Fully Implemented

The Postal Service has not been successful in implementing its national-level contract to purchase most office supplies from Boise. As shown in figure 1, during fiscal year 2001 less than 40 percent of the \$125 million in office supplies was purchased from the contract.

**Figure 1: Total Office Supply Spending for Fiscal Year 2001**



Source: GAO analysis of U.S. Postal Service data.

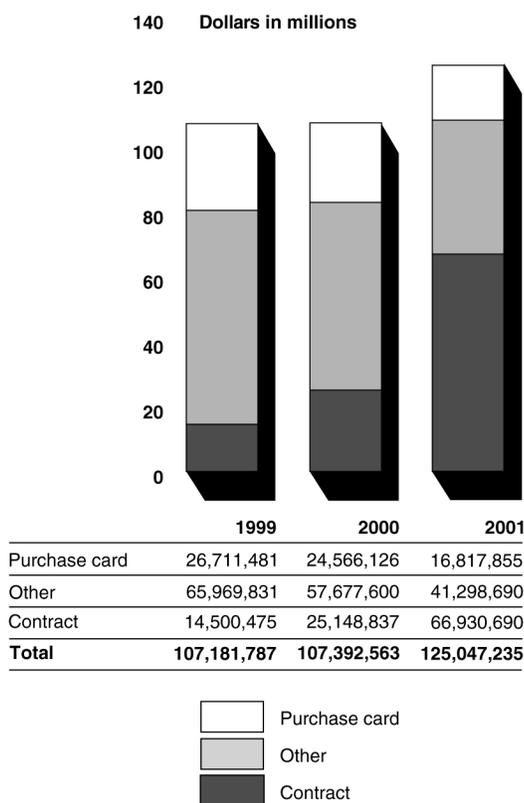
Note: "Other" is local buys paid by cash, money orders, and district invoices.

The Postal Service has not taken sufficient actions to ensure that the contract would be used as anticipated. While fiscal year 2001 data show an improvement over the 6 months that the contract was used in fiscal year 2000, when about 75 percent of office supplies were purchased outside the contract, the Postal Service is concerned that its employees continue to spend a significant percentage of office supply dollars outside the contract. Anticipated savings were based on the assumption that almost all supplies would be purchased from the national contract. The fact that this has not occurred, together with the absence of a benchmark against which to measure savings, has contributed to the Postal Service's failure to realize estimated savings from its supply chain initiative.

## Postal Service Did Not Take Sufficient Actions to Ensure Contract Would Be Used

Although the Postal Service conducted market research that supported the implementation of a national-level contract for office supplies, it did not take sufficient actions to ensure that the contract would be used as anticipated. Figure 2 shows that Postal Service employees buy office supplies through three mechanisms: contracts (including Boise and non-Boise contracts), purchase cards, and other methods such as cash and money orders.

**Figure 2: Office Supply Spending (Fiscal Years 1999 to 2001)**



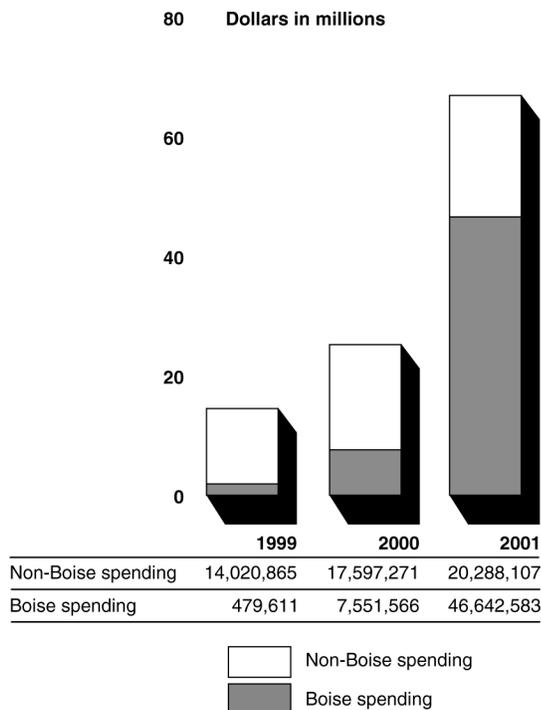
Source: GAO analysis of U.S. Postal Service data.

Postal Service officials stated that the increase in contract dollars from fiscal year 1999 to 2001 indicates that the national contract is being used more extensively. However, they have not determined why employees continue to buy their supplies outside the contract. Postal Service officials did not expect immediate compliance with the contract; they anticipated that some purchasing would occur outside the national contract during the implementation period because the cultural environment of the

Postal Service has allowed local buyers to make purchases independently. However, they were unaware of the extent to which the contract is not being used because they did not sufficiently plan its implementation, nor have they adequately tracked and monitored office supply purchases.

There are several indications that the Postal Service did not take sufficient action to ensure that the contract was properly implemented. First, the Postal Service continues to maintain a number of non-Boise office supply contracts. Although the number of vendors on these other contracts declined from 49 to 33 from fiscal years 1999 through 2001, the dollar value of supplies bought from these contracts has grown, as shown in figure 3.

**Figure 3: Postal Service Office Supply Spending with Contract Vendors (Fiscal Years 1999 to 2001)**



Source: GAO analysis of U.S. Postal Service data.

Note: Boise spending in fiscal year 1999 represents business from its existing contract with the Postal Service, prior to the national contract award.

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The Postal Service did not undertake a systematic review of all office supply contracts when it implemented the national contract. Such an assessment would have provided an indication of which non-Boise contracts should have been continued and which phased out. In fact, some of the items purchased under non-Boise contracts in fiscal year 2001—such as binders, paper, and measuring tape—should have been purchased from Boise, according to the terms of the national contract. According to Postal Service officials, other items—such as printed envelopes and some types of rubber bands—are purchased under separate contracts because the items are not part of the Boise catalog or they are unique and purchased in volume. Postal Service officials told us that the improved oversight they expect as a result of centralized office supply procurement will allow them to phase out some of the existing office supply contracts.

Second, Postal Service employees continue to use purchase cards to buy office supplies outside the contract. Because the purchase card cannot be used to order from the Boise contract, none of the \$16.8 million spent on office supplies through purchase cards in fiscal year 2001 was spent under the contract. Postal Service officials have not tracked or monitored purchase card procurements to determine why these employees are not using the contract. Postal Service managers indicated that they are able to use quarterly purchase card spending reports to identify errant purchases—office supplies that should have been purchased from the national contract. However, they acknowledge that these reports are not used consistently to monitor employee purchases of office supplies.

Finally, Postal Service employees continue to use cash and money orders to buy supplies from local vendors. As with the purchase cards, cash and money orders cannot be used to buy supplies from the Boise contract. Because the Postal Service has limited information about cash and money order purchases, it was unaware that 33 percent of office supply spending in fiscal year 2001 occurred through these methods. Postal Service officials remarked that they are encouraged by the decrease (from about \$66 million in fiscal year 1999 to \$41 million in fiscal year 2001) in office supply purchasing using cash and money orders. However, until the Postal Service is able to better track and monitor local office spending, it will lack the information it needs to ensure that the national contract is being used as intended.

Postal Service officials explained that their ability to track office supply spending—enabling them to better target those employees who are not using the contract—should improve as Boise contract use increases

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because the contract requires Postal Service employees to use a Web-based purchasing system referred to as e-buy.<sup>9</sup> The Postal Service's expectation is that information about e-buy purchases will be systematically and consistently collected. However, use of the contract is not being enforced, and employees continue to use other methods—such as contracts outside the national contract, purchase cards, cash, and money orders—to buy office supplies.

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### Postal Service is Unable to Document Estimated Savings

The Postal Service's decision to award a national-level contract to a single supplier was based, in part, on an expectation of saving up to \$28 million annually. These savings would result from (1) purchasing a large quantity of items from a single supplier, thereby reducing item costs, and (2) implementing the e-buy purchasing process, which would reduce overall transaction costs. To realize the maximum benefits and cost savings under the Postal Service's acquisition strategy, almost all office supplies must be purchased from Boise. However, the fact that employees continue to buy supplies outside the contract, combined with the lack of an established benchmark to measure savings, prevents the Postal Service from determining whether it is achieving its savings goals.

The Postal Service's reported savings are calculated using a formula established in 1999. The formula is based on market research, Postal Service Annual Report data from 1998, and spending on an office supply contract in existence at that time. This methodology predicted transaction cost savings of up to 70 percent and item price savings of up to 10 percent on a \$50 million contract. The Postal Service claimed savings of up to \$28 million for fiscal year 2001 using these estimates. However, when we asked for evidence of actual savings to date, the Postal Service could provide documentation for only about \$1 million. This amount reflects rebates that Boise agreed to give the Postal Service on all new business and reduced prices negotiated as part of the contract.

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<sup>9</sup> E-buy requires use of the intranet for placing orders. In the event of a telephone or fax order, a Boise customer service representative inputs the order.

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## Boise Is Not Achieving Subcontracting Plan Goals

Boise and the Postal Service have not paid sufficient attention to the subcontracting goals under the national office supply contract. The subcontracting plan was carelessly constructed, and it contains obvious ambiguities. In fact, Postal Service and Boise officials do not agree on the basic subcontracting goals. Notwithstanding this disagreement, for the purposes of this report we have used the Postal Service's position that the goal is to award 30 percent of annual revenues to SMW businesses.

Boise has fallen far short of achieving the 30 percent goal. In fiscal year 2001, Boise reported achievements of only 2.6 percent. Boise has also fallen short of its specific goals for minority and woman-owned businesses. Boise and the Postal Service provided several reasons why Boise is not achieving the subcontracting goals and they have identified actions that they believe will improve performance. However, these actions will not be sufficient to enable Boise to reach its subcontracting plan goals.

When Boise initially submitted its proposal, its subcontracting goal was to provide 12 percent of its Postal Service business to SMW subcontractors. This proposed subcontracting plan included 4 percent goals for minority- and woman-owned businesses. However, after Boise was selected as the intended awardee—but before the contract was awarded—the goal for SMW businesses was increased to 30 percent based on negotiations with the Postal Service. At the same time, Boise increased its goals for minority- and woman-owned business from 4 to 6 percent.

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## Subcontracting Plan Contains Inconsistencies

The subcontracting plan contains obvious ambiguities that should have been addressed prior to contract award. For example, because the plan is not clearly written, Postal Service and Boise officials disagree on the overall SMW subcontracting goal. Postal Service officials maintain that the goal is 30 percent of overall revenue for the contract, a figure confirmed in a preaward email from Boise. A Boise official, however, asserts that there is both an overall 30 percent goal and a fixed dollar value goal of \$3,300,000. Despite this disagreement, neither Boise nor Postal Service officials have taken steps to revise the plan.

Further, the subcontracting plan misstates two of the three reporting categories for which there is a contractual goal. The language in the plan includes goals for “small, disadvantaged businesses” and “small, woman-owned businesses.” In practice, however, the Postal Service and Boise report achievements for “minority” and “woman-owned” firms, which may be small or large. There is no clear linkage between the

categories of SMW businesses as stated in the plan and the way Boise is reporting its achievements. A Boise official explained that the subcontracting plan reflects the categories the firm typically uses when contracting with federal agencies, and it did not revise the reporting categories to reflect the Postal Service's supplier diversity categories. In responding to our questions, the Postal Service officials acknowledged that the plan is inconsistent with the way Boise's achievements are measured and that it needs to be revised.

## Boise's Reported Achievements

Despite its disagreement with the Postal Service about the subcontracting goals, Boise reports the dollars and percentages that went to SMW businesses based on the annual total revenues under the contract. Table 1 reflects reported achievements for fiscal year 2001.

**Table 1: Boise's Reported Fiscal Year 2001 Subcontracting Achievements**

	<b>Percent of dollars to SMW businesses</b>	<b>Total dollars to SMW businesses</b>	<b>Percent of dollars to minority businesses</b>	<b>Total dollars to minority businesses</b>	<b>Percent of dollars to woman-owned businesses</b>	<b>Total dollars to woman-owned businesses</b>
Reported achievements	2.6%	\$1,245,161	0.7%	\$345,556	1.9%	\$899,625

Source: Boise.

Note: Boise's total sales to the Postal Service on the national contract for fiscal year 2001 were \$47 million.

Postal Service and Boise officials stated that 30 percent was a stretch goal to demonstrate the Postal Service's commitment to supplier diversity. A Boise representative stated that Boise agreed to the 30 percent goal because Boise understood the goal to be negotiable. Even though the Postal Service has no plans to renegotiate the goal before the end of the initial contract performance period of 3 years, Boise and the Postal Service have started discussions to renegotiate the subcontracting goal in the event that the Postal Service decides to exercise an option to extend the contract. Postal Service officials noted that they realize, in hindsight, that the 30 percent goal may have been unreasonable.

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## Several Reasons Offered for Failure to Meet the Goals

Boise and Postal Service officials provided several reasons why the subcontracting goals have not been achieved. First, a Boise official said that Boise agreed to the 30 percent goal based on its earlier achievements under the General Services Administration's Federal Supply Schedules program.<sup>10</sup> In fiscal years 1999 and 2000, Boise awarded small businesses 24.6 percent of its Schedules program sales. In retrospect, Boise and Postal Service officials explained that the Schedules program was not a reliable source for an estimate because Boise's contract under the Schedules program included 1,800 items, compared to about 13,000 items in the Postal Service contract. Moreover, the total dollar sales in Boise's Schedules contract—\$14.3 million in fiscal year 2000—were considerably lower than the total sales on the Postal Service contract—\$47 million in fiscal year 2001.

Second, while Boise has a corporate supplier diversity strategy, a Boise official stated that the company's ability to achieve the subcontracting plan goals has been hampered by the fact that the Postal Service does not require its employees to target SMW businesses when ordering from the catalog. In fact, officials at one district we visited had the impression that by simply purchasing from the contract they were complying with the Postal Service's SMW business initiatives. At another district we visited, employees were not aware that the Postal Service had SMW subcontracting goals in the contract. All of the district officials we spoke with stated that they base their purchasing decisions on the lowest available price and do not search the catalog for SMW businesses.

Third, one of the primary reasons Boise and Postal Service officials offered for the low subcontracting achievements was that compliance with the JWOD Act is taking away dollars from small businesses. However, Boise records show that of the 47 Boise vendors whose items were replaced with JWOD items in fiscal year 2001, only 7 were small businesses. These 7 vendors supply 26 out of the 404 Postal Service office supply items that are subject to the automatic JWOD replacement. Moreover, financial data from Boise show that in calendar year 2000, while total sales on JWOD items were just over \$3 million, the impact of JWOD compliance on these 7 vendors was relatively small. These vendors potentially lost \$167,629 in business due to the automatic substitution of

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<sup>10</sup> The Schedules program provides federal agencies with a simplified process for obtaining commonly used commercial supplies and services, ranging from office supplies to information technology services, at prices associated with volume buying.

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JWOD items for their items. In calendar year 2001 (representing one full year of contract sales), these 7 vendors potentially lost \$297,036 of sales, while the total sales on JWOD items for the year doubled to almost \$6 million. This trend continued in the first 6 months of 2002.

Finally, Postal Service officials also explained that Boise could not reach its goal because it had planned to subcontract with a woman-owned enterprise that provided cash register tapes, a technology that the Postal Service decided to phase out. They stated that although Boise had relied on this business to reach its subcontracting goal, a change in technology resulted in significantly less business with this vendor than was expected. However, neither Postal Service nor Boise officials could provide us with specific estimates of expected sales. In fact, sales to this woman-owned firm increased in 2001 and 2002. Boise records show a growth in sales of the cash register tapes from this business of approximately \$283,000 in 2000 to \$455,000 in 2001. Sales for the first half of 2002 indicate a dollar amount in sales similar to the total sales in 2001. Moreover, Boise was notified of the changes to the new technology as far back as 1998; therefore, this was not new information received during the negotiations regarding the subcontracting goals.

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## Actions to Improve Subcontracting Performance

The Postal Service and Boise recognize that the performance on the subcontracting plan is not satisfactory and have started to take some actions to improve Boise's achievements under the current contract. While Boise is responsible for its contract performance, the coordinated actions of the Postal Service and Boise can assist Boise's ability to achieve the subcontracting plan goals. Although the following steps are being taken to improve performance, it is highly unlikely that these actions will enable Boise to reach its 30 percent subcontracting goal.

- Boise is working with the Postal Service to include additional SMW businesses as subcontractors. For example, Boise continues to work with the Postal Service to identify small business suppliers of recycled toner cartridges, who in many cases provide their products at half the price of new toner cartridges. District officials received a listing of small businesses supplying recycled toner cartridges in October 2001. However, neither the Postal Service nor Boise has determined the extent to which this information will increase Boise's subcontracting achievements.
- Boise is working with the Postal Service to reflect indirect services provided to Boise by small businesses in its reporting of subcontracting plan achievements, as it is allowed to do under the Postal Service contract. Indirect services include data entry and information management services,

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such as invoicing and tracking sales information. However, Boise estimates that including indirect services provided by SMW businesses will have minimal impact on subcontracting plan achievements. Currently, there is no time frame for implementing this change in Boise's reporting of its subcontracting achievements.

- In October 2001, the Postal Service and Boise teamed up to design a quarterly report that tracks SMW business purchases at the Postal Service districts. The Postal Service expects to finalize and distribute these reports in January 2003.
- The Postal Service and Boise are expanding the education of Postal Service employees on the benefits of seeking out SMW suppliers when they order office supplies from the national contract. Since initial office supply contract training was provided in the fall of 2000, Postal Service efforts to educate employees about SMW suppliers have been through informal channels, such as e-mail. Boise's educational efforts focus on providing more information to the Boise sales representatives that work with the Postal Service. While Boise expects some improvements in its subcontracting achievements as a result of the educational efforts, their impact is unknown.

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## Reports Indicate a Drop in Small Business Dollars, but Data Are Unreliable

Postal Service data show that office supply purchases made directly from SMW businesses—using contracts and purchase cards—decreased from about 50 to 18 percent from fiscal year 1999 through 2001. However, the extent to which the Postal Service is buying office supplies from SMW businesses is unclear because its purchase card information is unreliable and because the Postal Service has not tracked purchases by employees using mechanisms such as money orders and cash. Our review, as well as a report by the Postal Service Inspector General,<sup>11</sup> found that incomplete and unreliable diversity statistics on suppliers resulted in the Postal Service overstating or incorrectly classifying dollars awarded to SMW businesses. The Inspector General's report made nine recommendations to correct the reporting of diversity statistics.<sup>12</sup>

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<sup>11</sup> Office of Inspector General, U.S. Postal Service, *Supplier Diversity Program for Supplies, Services, and Equipment Purchases*, CA-AR-01-005 (Arlington, VA: Sept. 6, 2001).

<sup>12</sup> The Postal Service has addressed only one of these recommendations, noting in its April 2002 Purchasing Assessment Report that fiscal year 1999 and 2000 data contained errors in SMW data.

Table 2 shows the decline in the percentage of SMW purchases from fiscal years 1999 through 2001, based on Postal Service data.

**Table 2: Reported Office Supplies Purchased from SMW Businesses**

Office supplies	1999	2000	2001
Total purchases	\$ 107,181,787	\$ 107,392,563	\$ 125,047,235
SMW purchases	\$ 20,207,461	\$ 16,939,654	\$ 15,002,143
SMW purchases as percent of total purchases	19%	16%	12%
Total purchases using contracts and purchase cards only	\$41,211,956	\$49,714,964	\$83,748,545
SMW as percent of total purchases using contracts and purchase cards	49%	34%	18%

Source: GAO analysis of U.S. Postal Service data.

Note: "Total purchases" reflects contracts, purchase cards and other purchasing mechanisms such as money orders and cash.

During the same 3-year period, SMW business participation has decreased as a percentage of contract spending (excluding spending through purchase cards, cash, and money orders), while the overall dollar value of office supplies purchased through contracts increased from \$14.5 million to almost \$67 million. In addition, the number of SMW vendors selling office supplies to the Postal Service decreased during this period. Postal Service district officials told us that they are no longer attempting outreach to local SMW businesses—such as participating in small business conferences or trade shows to attract new vendors—because of the emphasis on buying office supplies only through the Boise contract. Table 3 shows the decline in contract activity with small businesses from fiscal years 1999 through 2001.

**Table 3: Reported Office Supplies Purchased through Contracts**

	1999	2000	2001
Purchase of office supplies using contracts	\$ 14,500,475	\$ 25,148,837	\$ 66,930,690
Contract purchases from SMW businesses	\$ 5,440,943	\$ 9,150,457	\$ 9,938,844
SMW businesses as percent of total contract spending	38%	36%	15%
SMW vendors	27	29	17

Source: GAO analysis of U.S. Postal Service data.

Similarly, the Postal Service reports that office supply procurements from SMW businesses through purchase cards decreased from fiscal years 1999 through 2001. Table 4 shows the decline in the percentage of purchases from SMW businesses using purchase cards from fiscal year 1999 through 2001.

**Table 4: Reported Office Supplies Purchased Using Purchase Card**

	<b>1999</b>	<b>2000</b>	<b>2001</b>
Total purchase card spending	\$26,711,481	\$24,566,126	\$16,817,855
Purchase card purchases from SMW businesses	\$14,766,518	\$7,789,198	\$5,063,299
SMW businesses as percent of total purchase card spending	55%	32%	30%

Source: GAO analysis of U.S. Postal Service data.

Despite the Postal Service’s reported statistics, we could not determine the extent to which the Postal Service is buying from SMW businesses. First, because the Postal Service does not track or report socioeconomic data when payments are made to vendors using cash or money orders, it is not possible to assess SMW business achievements when those payment methods are used.

Second, the Postal Service, like other federal agencies, relies on reports from banks for annual purchase card transaction and vendor information. This information is ambiguous and contains numerous errors because socioeconomic categories are often inaccurate. For example, the Postal Service’s purchase card data for fiscal years 1999 through 2001 included over \$40 million dollars in office supply purchases from businesses that were identified as both small and large.

The Postal Service is aware of the problems with the purchase card transaction information and has been working with Visa Corporation to improve the data. Because banks and payment card associations, such as Visa, control the transaction databases, the Postal Service must rely on the information provided by these institutions. We recently reported on the issue of unreliable and incomplete socioeconomic data on purchase card merchants.<sup>13</sup>

<sup>13</sup> U.S. General Accounting Office, *Contract Management: Government Faces Challenges in Gathering Socioeconomic Data on Purchase Card Merchants*, [GAO-03-56](#) (Washington, D.C.: Dec. 13, 2002).

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## Conclusions

The Postal Service has not achieved its goal of using a single supplier for office supplies and, as a result, has not achieved its anticipated savings. Because the Postal Service has not analyzed how its employees buy office supplies, it does not know why the national contract is not being used as extensively as planned. In fact, the Postal Service has no assurance that the national strategy is effective because it has not adequately tracked its employees' office supply purchases.

Implementing a national-level office supply contract through a single supplier makes the realistic development and measurement of Boise's subcontracting goals and achievements critical to the Postal Service's efforts to achieve its supplier diversity objectives. The failure to establish an effective subcontracting plan and the lack of oversight and enforcement has created an environment where participation by SMW businesses is minimal. The fact that the Postal Service and Boise cannot agree on the levels of SMW participation established in the contract is evidence of the lack of attention Boise and the Postal Service have paid to this issue. While Boise and the Postal Service have taken some actions to address SMW achievement, it is highly unlikely that Boise will be able to reach its subcontracting goal.

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## Recommendations

We recommend that the Postmaster General of the United States

- determine why the national contract is not being used as a mandatory source of office supplies;
- reassess the cost effectiveness of a national office supply contract and measure actual savings from using the contract rather than applying the outdated estimating formulas initially established;
- develop mechanisms to track employees' compliance with the mandatory use of the contract, if analysis indicates that the national-level contract is beneficial; and
- direct that the contract be modified to include a revised subcontracting plan that accurately and clearly reflects realistic goals for small, minority, and woman-owned businesses, consistent with the Postal Service's supplier diversity program.

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## Agency Comments

In written comments on a draft of this report, the Postal Service agreed with our recommendations and indicated that our report will help it develop and enforce policies aimed at improving performance under the national office supply contract. Recognizing that the success of a contract such as this requires continuous management, the Postal Service has established a new supply management organization that will use our findings and recommendations to determine why the contract is not being used as fully as anticipated. The Postal Service indicated that it will continue to seek cost-effective ways to expand its oversight efforts and expects that increased use of the Web-based purchasing system will assist in these efforts. Regarding the savings from the contract, the Postal Service stated that its internal analysis has validated \$5.3 million in cost reductions during fiscal year 2002. This analysis was not shared with us during our review. Finally, the Postal Service stated that it has corrected the ambiguities in the subcontracting plan and is working with Boise to establish more realistic subcontracting goals. The Postal Service's letter appears in appendix I.

We also received a written statement from Boise expressing its opinion on federal subcontracting involving SMW businesses and offering several comments on our findings. Boise stated that actual sales under the contract (approximately \$50 million) far exceeded its expected contract amount of \$11 million. Boise uses this information as a rationale for its failure to achieve its subcontracting goals, which it asserts were based on the \$11 million expected contract amount. However, the contract did not guarantee a minimum or maximum level of sales to Boise and, as noted in our report, a 30 percent goal was confirmed by Boise in a pre-award e-mail. Further, the Postal Service based its projected savings on an estimated contract amount of \$50 million. Boise also noted that sales to SMW businesses with the Postal Service increased from fiscal year 1999 to fiscal year 2001. However, Boise's analysis relies on a comparison of sales data from a previously existing Postal Service office supply contract, for 200 high-use items, to the sales data from the current contract, which covers almost 13,000 items. Because Boise is comparing sales data from two different contracts, we do not believe that this is a legitimate comparison. Boise indicated that it is working with the Postal Service to correct the inconsistencies we noted in the subcontracting plan.

In addition, Boise believes that JWOD items block sales to SMW businesses; however, Boise did not provide sufficient evidence to support this claim. As noted in our report, the potential lost sales to SMW businesses due to JWOD item replacements were relatively small.

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Boise also commented that because sales of a cash register tape made by a woman-owned business did not increase at the expected rate, its SMW achievements were affected. However, as discussed in our report, neither Boise nor the Postal Service could provide us with documentation on the expected sales of the IRT tapes.

Finally, Boise was concerned about our selection of field sites because it was not based on a random sample. We targeted locations that, according to Boise's data, were low users of the contract. The objective of our field visits was not to identify overall awareness of the contract. Rather, our intent was to gain an understanding of why certain locations were not using the contract as a mandatory source of office supplies. Boise's letter appears in appendix II.

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## Scope and Methodology

To meet our objectives, we reviewed the Postal Service's office supply spending and the related SMW achievements during fiscal years 1999 through 2001.

To examine the status of the Postal Service's implementation of its national office supply contract with Boise, we reviewed the acquisition planning, contract formation, and contract administration documentation, including market research results, the solicitation, and the contract. Total office supply spending was identified using information from the Postal Service purchasing and materials data warehouse. We determined office supply spending for fiscal years 1999 through 2001 by using the same account codes that the Postal Service used to conduct its market research to justify the national office supply contract. We reviewed the Postal Service's total office supply spending details for all contract, purchase card, money order, and cash transactions. We did not independently verify the accuracy of the reported spending. We interviewed and obtained information from the Postal Service's contracting officer and contract administrator. In addition, we interviewed and obtained information from three area offices and three district offices based on data that indicated these locations were not using the national office supply contract. We interviewed purchasing specialists, administrative services managers, financial system coordinators, and administrative personnel with office supply purchasing responsibility. We also held discussions with and acquired information from Boise's federal business manager.

To determine Boise's achievement of its SMW subcontracting plan, we reviewed the contract's subcontracting plan and Boise's quarterly

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reports on its SMW achievements. We interviewed and obtained information from the Postal Service's contracting officer, area finance officials, and district finance and purchasing officials. We also held discussions with and acquired information from Boise's federal business manager, its minority- and woman-owned business development and supplier diversity manager, and two minority-owned subcontractors.

To assess the extent to which the Postal Service is buying office supplies directly from SMW businesses, we reviewed Postal Service supplier diversity policy and guidance. We examined the Postal Service's reported socioeconomic statistics, including the dollar amount and type of vendor for fiscal years 1999 through 2001. We interviewed and obtained information from Postal Service officials in the offices of supplier development and diversity, purchasing and materials, and the Postal Service Inspector General. We determined that the reported purchase card data were unreliable; however, we did not attempt to correct the errors in the data provided.

Additionally, we met with representatives from the National Office Products Association and a small, woman-owned business to gain a better understanding of their views with regard to the national contract.

We conducted our review from March 2002 to November 2002 in accordance with generally accepted government auditing standards.

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We are sending copies of this report to other interested congressional committees; the Postmaster General of the United States; and the Senior Vice President and Federal Business Manager, Boise Office Solutions. We will also make copies available to others upon request. In addition, the report will be available at no charge on the GAO Web site at <http://www.gao.gov>.

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Please contact me at (202) 512-4841 or Michele Mackin at (202) 512-4309 if you have any questions regarding this report. Other major contributors to this report were Penny Berrier, Art L. James Jr., Judy T. Lasley, Sylvia Schatz, and Tatiana Winger.

A handwritten signature in black ink that reads "David E. Cooper". The signature is written in a cursive style with a large, prominent "D" and "C".

David E. Cooper  
Director, Acquisition and  
Sourcing Management

# Appendix I: Comments from the U.S. Postal Service

KEITH STRANGE  
VICE PRESIDENT, SUPPLY MANAGEMENT



December 13, 2002

Mr. David E. Cooper  
Director, Acquisition and Sourcing Management  
United States General Accounting Office  
Washington, DC 20548-0001

Dear Mr. Cooper:

Thank you for providing the Postal Service with the opportunity to review and comment on the draft report entitled, Contract Management: Postal Service's National Office Supply Contract Has Not Been Effectively Implemented. The report raises and confirms issues that we are also concerned about and are working to address.

Strategic sourcing is universally recognized by industry and academia as both a cornerstone of effective supply chain management and a cost effective business strategy. The Postal Service's national contract for office supplies was one of our first efforts to employ these business strategies, and we believe we have achieved some real success, especially considering the fact that office supplies had been purchased on a local and regional basis for decades. While we agree the extent of that success could be larger, it is always a challenge to change the business practices of an organization the size of the Postal Service. The business benefits of supply chain management and strategic sourcing hold much promise for organizations like the Postal Service which face continuing financial and competitive pressures. That is why we continue to institutionalize them as our operating philosophy.

It is important to understand that, due to such factors as requirements for Postal Service-unique items, we never intended for Boise Cascade to fulfill all of the Postal Service's office supply requirements. In addition, the data analyzed in the report is very broad, and includes items that we do not categorize as office supplies (such as medical supplies) and other office supply items (such as rubber bands and envelopes) that may continue to be more effectively purchased under separate contracts. These exceptions may skew perceptions as to the overall effectiveness of the Boise Cascade contract. On the other hand, we agree that the contract has been a significant contributor to ensuring the Postal Service meets its obligations under the Javits-Wagner-O'Day Act (JWOD). There are over 800 JWOD items included under this contract.

This contract was one of the earliest efforts to reap the benefits of supply chain management, and has proven to be a valuable learning experience. We have found the success of a contract of this scope is as much an educational process as an operational one. Additionally, your report reinforces that the success of this sort of contract requires continuous management. This understanding was one of the motivations for our recent restructuring of the Purchasing and Materials organization into a new Supply Management organization. The new organization is centered on dedicated and specialized category management teams, including the *Office Products and Equipment Category Team*. The team will be using the GAO report and its recommendations to determine why the contract is not being used as fully as anticipated and to develop and enforce policies aimed at improving performance under the contract.

475 L'ENFANT PLAZA SW  
WASHINGTON DC 20260-6200  
202-268-4040  
FAX: 202-268-2755

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We appreciate GAO's efforts to quantify the extent of "maverick" (off-contract) buying. We knew from our research on private sector strategic sourcing that moving all category buying to the resultant contracts was a continual challenge. In fact, research indicates that leakage at 30% or even higher is typical. We certainly agree that contract compliance can be improved, and we will continue to seek to find cost effective ways to expand our oversight efforts. With the first nine months primarily spent on implementation issues, the contract was not considered fully rolled out until January 2001. Part of the plan to improve contract compliance was to make our web based purchasing system, eBuy, the central ordering process. eBuy has only been in place since July 2001 with an implementation that is just now reaching a point where it can be used by offices nationally. We anticipate that new restrictions being placed on the use of credit cards and other payment modes for items carried under this contract and the mandate to use eBuy, will combine to improve compliance in this area.

We agree that the cost effectiveness of this contract should be continuously monitored and measures for tracking savings can be improved. The initial \$28 million savings estimate included in your report was based on market research and awarding a contract with \$50 million in annual spend. Previously we could only rely on market research and internal estimates for savings calculations; however, through this contract, we can now establish baseline measurements on which to improve our performance. Even though the report estimates that the contract has provided \$1 million in savings realized through rebates and price reductions, our internal analysis has validated \$5.3 million in cost reductions during fiscal year 2002 alone. Significant additional administrative costs have also been avoided due to orders being processed through eBuy versus more traditional and expensive ordering processes, such as purchase orders.

Regarding our small, minority and woman owned business subcontracting goals, we agree that there were some ambiguities in the contract wording and these have been corrected. The Postal Service and Boise Cascade realized from the start that the subcontracting goal would not be easily attained. We did make an effort to work with Boise Cascade to move subcontracting results closer to the original goal before accepting that the goals needed to be re-established. The report recognizes our efforts and changed circumstances in this area, and as recommended, we will be working with Boise to establish more realistic goals for subcontracting with small, minority and women owned suppliers.

We appreciate the efforts and professionalism of your review team and their report will help us to better capture the benefits of strategically sourced volume leveraged contracts. If you or your staff would like to discuss any of these comments further, I am available at your convenience.

Sincerely,



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# Appendix II: Comments from Boise Office Solutions

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## **BOISE**

Office Solutions  
6745 Business Parkway  
Elkridge, Maryland 21075-6340

January 9, 2003

General Accounting Office  
ATN: Ms. Michele Mackin  
Room 4915  
441 G St., NW  
Washington, DC 20548

### **Boise's Response To GAO's Analysis Of the USPS National Office Supply Contract**

First, Boise wishes to recognize GAO's attention to the issue of federal subcontracting (second tier) involving small, minority and woman-owned (SMW) businesses. The lack of policy attention in Congress and the executive branch to second tier partnering with SMW businesses is a chronic deficiency and deprives the government of an efficient job-creation mechanism. Specifically, Boise believes that second-tier approaches allow federal contractors to mentor SMW manufacturers and provide access to efficient distribution channels. In over 25 years as a mentor of SMW manufacturers, Boise has witnessed many of these SMW businesses providing meaningful jobs in distressed communities. Given the advancements in federal procurement regulations (e.g., the Federal Acquisition Streamlining Act) and enabling technology such as Internet ordering systems, it is critically important that second-tier contracting be developed as a vital link in new paradigms (e.g., JIT delivery) involving supply chain management. This requires that the government rethink its focus on small businesses as prime (first-tier) vendors as the only approach. It seems possible – if not probable – that mentoring SMW manufacturers will provide more jobs in local communities than first-tier contractors who can qualify as a federal prime through pass-through orders to federal agencies from wholesalers.

In the current environment, all first-tier sales to the federal government from SMW distributors “count” toward federal small business goals even if the items purchased by the government are produced by large businesses. On the other hand, second tier sales only “count” if the items are manufactured by SMW businesses. This makes it much more difficult to achieve numerical goals. But are numerical goals the appropriate focus? Isn't the creation of jobs and other economic opportunities through federal dollars the real purpose of SMW goals?

Boise, as well as many other federal contractors, believe so and offer the following points for consideration:

- 1) focus on rewarding agencies for subcontracting approaches that **reward job creation** rather than the pursuit of pass-through dollar approaches that may not have a demonstrable impact on job-creation beyond the principal owner of the small distribution business. Job creation has been utilized for decades by federal agencies to measure success (e.g., JTPA, CEETA, EDA) so acceptable methodologies are available. So why not use these tools with first and second tier contracting? Not only would the results connect directly with job creation and other public policy goals, but it would also allow first- and second-tier approaches to be evaluated on an equal basis, i.e., job creation.
- 2) determine the appropriate role of the government in managing the small business subcontracting process. The GAO analysis of the USPS national office supply contract mentions that USPS **does not mandate** employees to purchase SMW-produced items that are easily (and very visibly) available from Boise. In fact, the federal government, as a whole, **does not mandate** employees to purchase SMW-produced items in a second-tier context.

This has several implications. First, the lack of a mandate indicates that the federal government's stance on SMW second-tier purchases is **proscriptive** in nature. In the case of the USPS office supplies contract, a proscriptive approach implies that the vendor should strive to achieve the highest level possible of SMW second-tier purchases. It was in this context that Boise agreed to a "stretch" goal. Boise has a highly developed second-tier program with catalog participation, active mentoring and joint marketing available to all customers, including the government. So, it is consistent with our culture to support "stretch" goals as a way to support our SMW manufacturers, as well as to develop and grow internally.

Second, while the government will not mandate these purchases, the government will at times become **prescriptive** in assigning responsibility to vendors for achieving numerical goals with the possibility of penalties should a shortfall occur. Now the vendor, performing in a proscriptive environment in which the government will not mandate purchases, is evaluated based on prescriptive, numerical performance without the benefit of a government mandate.

Third, the gap between proscriptive and prescriptive approaches is further exacerbated by other socioeconomic programs, such as the Javits Wagner O'Day Act, which mandates purchases of NIB/NISH items. In practice, this means that SMW items deemed equivalent to NIB/NISH items must be blocked from purchase. So, not only will the government not mandate purchase of SMW items that are second tier, but also these items must be blocked from purchase entirely if an equivalent NIB/NISH item is identified.

These inconsistencies in policy in terms of first versus second tier, and SMW versus NIB/NISH, discourage participation of SMW manufacturers in the federal government arena. As a result, many opportunities to market SMW items are missed along with opportunities to create more jobs in local communities.

In conclusion, if the government intends to pursue a prescriptive approach to evaluating vendor performance, then it is incumbent upon the government to become involved in procurement policy that extends beyond first tier set asides. Second tier offers synergies with supply chain management and also offers effective job creation potential. The infrastructure already exists to pursue this option more fully.

**Analysis of GAO Audit Specifics**

In terms of responding to more specific points raised by the GAO analysis, Boise offers the following clarifications:

- 1) The small business plan for the USPS office supplies contract identifies goals as “separate dollar and percentage goals for small, minority and woman-owned business.” This format of separate dollar and percentage goals is consistent with the language contained in the USPS office supplies solicitation.

Boise agreed to a plan based on a contract amount of \$11 million. At that contract amount, Boise agreed to 30% subcontracting with small business and a \$3,300,000 dollar goal. However, actual annual sales have far exceeded the expected \$11 million contract amount (which may suggest that the implementation has been effective). If the contract amount had been \$50 million (the approximate actual sales), the percentage goal would not have been 30% even as a stretch goal. Because there are many more non-SMW items in the catalog than SMW items, if both groups of items grow at the same rate, the **overall percentage** of sales of SMW items will decline. In fact, the SMW items have grown consistently through the period focused upon by the GAO audit:

	<u>Minority</u>	<u>Woman</u>	<u>Small</u>	<u>JWOD</u>
October 98 – September 99	\$104,367	\$225,991	\$327,071	\$795,527
October 99 – September 00	\$191,894	\$327,739	\$485,101	\$1,913,529
October 00 – September 01	\$345,556	\$899,625	\$1,181,891	\$5,255,665
Percent Sales Change	+231%	+298%	+261%	+561%

However, despite the significant percentage of sales growth over the three-year period above, the actual percentage of total sales declined:

	<u>Minority</u>	<u>Woman</u>	<u>Small</u>	<u>JWOD</u>
October 98 – September 99	2.0%	4.3%	6.2%	15.1%
October 99 – September 00	1.3%	2.3%	3.3%	13.1%
October 00 – September 01	.7%	1.9%	2.5%	11.1%

Thus, it is important to maintain tracking of the total amount of the contract, dollar goods and percentage goals. In this case, the total contract amount far exceeded the plan, which strongly influenced the sales ratios between totals and SWM, as shown in the above examples. In fact, actual dollar sales for fiscal year 2001 achieved 74% of the dollar goal. If JWOD sales were counted (a decision under consideration at certain agencies), the dollar achievement is more than double the dollar goal in the plan.

- 2) GAO indicates that the subcontracting (second-tier) plan was “carelessly constructed.” Boise agrees that greater involvement and structure on the part of the government in developing subcontracting plan methodologies would be helpful. This is particularly the case if the government elects to take a hands-on prescriptive approach in the evaluation stage.

In the case of the USPS contract, Boise utilized a Federal Acquisition Regulation based format because it is a generally accepted standard. The USPS agreed to this format. There were a few instances in the boilerplate where the term “small disadvantaged” was used in place of “minority.” However, the correct terminology is utilized in the headings and other instances throughout. Boise understands that the use of “minority business” “counts” large minority business whereas “small disadvantaged business” would not “count” a large minority business.

Again, the use of economic measures such as job creation would alleviate conflicts about size standards and counting methodologies. Boise has worked with USPS to correct inconsistencies in the formatting and we thank GAO for pointing this out.

- 3) GAO indicates that “recently Boise has begun to take actions to improve results.” Again, we thank GAO for recognizing our efforts to continually improve performance. Actually, Boise conducted implementation meetings at virtually every Postal District during which the importance of purchasing SMW items was stressed. Additionally, Boise utilized its existing infrastructure in which SMW items are flagged throughout the catalog. Boise distributed a customized catalog to approximately 40,000 Postal facilities which highlighted the SMW items. During the first few months of the implementation, Boise developed a regional program to promote purchases of SMW remanufactured toners and repeatedly made this information available. Obviously, Boise intends to continually do more to grow SMW sales, but we don’t believe we treated our SMW goals as a low priority. Again, the lack of a mandate from the government to buy SMW items is a drawback, particularly in a large, decentralized entity such as USPS.
- 4) GAO also questions the USPS/Boise contention that JWOD items “crowd out” opportunities for SMW products. While the actual number of SMW items in the Boise catalog crowded out by JWOD may not appear overly extensive, the fact of the matter is that JWOD items are mandatory and SMW items are not. New JWOD items, once introduced, are evaluated against SMW items. If the JWOD and SMW items are considered “essentially the same” by the government, the SMW items must be blocked from further purchase.

As a result of blocking occurring over a period of years, many SMW manufacturers simply focus their efforts elsewhere. Using a job creation analogy, many SMW manufacturers would fall into the category of the jobless who have become discouraged and no longer actively pursue work. Thus, they are no counted if one simply inspects a current catalog as the basis for analysis.

- 5) GAO also questions the USPS-Boise contention that replacing of IRT paper rolls made by a small, woman-owned business, with paper rolls (for a replacement machine for the IRT) made by a large business, had a material impact on SMW second-tier performance. During the period in question, from 2000-2001, USPS sales nearly tripled as result. Sales of IRT items grew at less than twice the overall rate during this period. Thus, the much slower growth of IRT paper tapes did have a negative impact on SMW percentage goals because they grew more slowly than the rest of the contract which ramped up quickly during the aggressive national roll out.

We thank GAO for pointing out this opportunity, however, and are continuing to search for a small business opportunity for the new paper rolls.

- 6) GAO cites results of field visits in which USPS personnel indicated a lack of awareness regarding USPS SMW contracting goals. We believe the selection of field studies GAO is referring to was based on a listing of Postal facilities which were low users of the contract. In fact, Boise provided the list to GAO. Based on the low purchase volume in this sample, we would expect such facilities to be unaware, or least less aware. **A random sample of all Postal facilities would provide a much better perspective on the true level of awareness in the field.** Boise sales reps have, and will, contact USPS procurement contacts in nearly every Postal District regarding the SMW program.

In this regard, Boise has a Captain assigned to every district. These Captains are coordinated through a customized email and voicemail number. A dedicated National Account Manager for the USPS leads this effort. Additionally, Boise has a dedicated customer service queue to taking USPS orders and handling customer service requests. All Boise locations have National Account Coordinators available to assist postal customers locally. Through new CRM technology, all USPS end users have a specific PIN number which allows Boise to accurately follow each request of an end user. Additionally, Boise has dedicated IT resources to implement the Postal Service eBuy system, which allows all USPS end users with Internet access to place orders electronically.

These capabilities and resources provide a true supply chain for USPS, as well as its suppliers, which include SMW manufacturers. Many of the cost reductions have yet to be quantified, but do in fact, exist. For example, the ability of USPS to rely on JIT ordering rather than utilize stock rooms provides huge savings. The new eBuy system has automated the purchasing approval process which previously required a costly manual review process. End users can now place orders electronically with several vendors rather than recreating the purchasing process each time they buy. This means they

now have an order tracking process as well as a preapproved price. Additionally, the eBuy system supports socioeconomic regulatory compliance with JWOD and other procurement laws. The same could apply to SMW purchases.

Overall, with a government mandate for purchasing SMW product similar to the mandate for JWOD (NIB/NISH) items, the SMW program results would improve markedly. Boise looks forward to continuing to be part of the solution and a good corporate citizen. Again, we thank GAO for this opportunity to address a long neglected topic.

Sincerely,



Mark Heuer  
Federal Business Manager

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Automated answering system: (800) 424-5454 or (202) 512-7470

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## Public Affairs

Jeff Nelligan, managing director, [NelliganJ@gao.gov](mailto:NelliganJ@gao.gov) (202) 512-4800  
U.S. General Accounting Office, 441 G Street NW, Room 7149  
Washington, D.C. 20548