



G A O

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United States Government Accountability Office
Washington, DC 20548

February 6, 2009

The Honorable Mary L. Landrieu
Chair
The Honorable Olympia J. Snowe
Ranking Member
Committee on Small Business and Entrepreneurship
United States Senate

The Honorable John F. Kerry
United States Senate

Subject: GSA Global Supply's Direct Vendor Delivery Proposal Addresses Declining Office Product Sales, but Annual Reviews May Be Needed to Monitor Impact on Small Business Participation

In fiscal year 2007, the General Services Administration (GSA) purchased \$853 million in supplies from businesses—large and small—for its Global Supply system for subsequent resale to federal agencies. Of this amount, \$194 million was for office products sold through the Global Supply Stock Program (Stock Program). The Stock Program allows federal customers to purchase thousands of products, ranging from office supplies to firefighting equipment, from two GSA distribution centers. In an effort to reduce delivery times and cut costs, GSA has worked for several years to develop a new business model for the Stock Program. In November 2008, GSA issued a solicitation for proposals that would remove one-third, or about 550, of its office supply products from the Stock Program and require businesses to ship these office products directly to GSA customers. Under the proposed Direct Vendor Delivery (DVD) Program, blanket purchase agreements (BPA) would be put in place between GSA and vendors, with the aim of allowing customers to receive additional price discounts, save time, and reduce paperwork.¹

Small businesses and others have raised concerns about the impact of the proposed shift to DVD on small businesses' participation in office product sales. In fiscal year 2007, GSA purchased \$76 million in office products from small businesses, or about 39 percent of the total purchases of office products under the Stock Program. In response to your request, this report addresses three questions: (1) What are the

¹A BPA is a simplified method of filling anticipated repetitive needs for supplies or services by establishing an account with a qualified source of supply.

factors behind GSA's proposal to migrate some office products from its Stock Program to DVD? (2) How will small businesses likely be affected by GSA's proposal to migrate some office products from its Stock Program to DVD? (3) How will GSA's removal of some office products from the Stock Program affect the ability of agencies to meet their needs during emergencies or disasters?

To assess the factors behind GSA's DVD Program proposal, we reviewed data from GSA's Federal Supply Service Automated Supply System (FSS-19) on total Stock Program office product sales for fiscal years 1996 through 2007 and a study that GSA used in developing its DVD Program proposal. Additionally, we reviewed documents related to the development of the proposal and conducted interviews with GSA officials. We also conducted interviews with federal agency officials regarding other federal office product procurement alternatives. We conducted a site visit to one of GSA's two distribution centers, the eastern distribution center in Burlington, New Jersey, and interviewed distribution center officials to learn about stocking, inventory, and shipping processes. We selected this facility because it is the larger of the two distribution centers. To assess how small businesses will likely be affected by GSA's DVD proposal, we reviewed FSS-19 data on small businesses' participation in the Stock Program during fiscal years 2005 through 2007. We also interviewed GSA and Small Business Administration (SBA) officials regarding the solicitation for proposals and small business participation; reviewed documentation on the DVD Program proposal, the DVD Program solicitation for contract proposals, laws related to small business participation in federal procurement, and comments that small businesses submitted to GSA; and interviewed six small business vendors with various levels of office product sales to the Stock Program during fiscal year 2007. To assess how GSA's proposal will affect the ability of agencies to meet their needs during emergencies or disasters, we reviewed documents and conducted interviews with agency officials at GSA and the Federal Emergency Management Agency (FEMA). We also analyzed data from two recent disasters to determine whether the products that GSA provided were on the proposed list of products to be removed from the Stock Program. We assessed the reliability of the FSS-19 data through electronic and manual testing (e.g., examining data for inconsistencies) and interviews with GSA officials and found the data to be sufficiently reliable for the purposes of this report. We conducted this performance audit from July 2008 to February 2009, in accordance with generally accepted government auditing standards. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Results in Brief

GSA officials identified declining office product sales to federal agencies, increased competition from other procurement alternatives, and the need to update its Global Supply business model as the key factors behind its decision to develop its DVD Program proposal. Stock Program office product sales to federal agencies dropped

from about \$488 million in fiscal year 1996 to about \$162 million in fiscal year 2007, in constant fiscal year 2007 dollars. A GSA-commissioned study of Global Supply found that Stock Program items (including office supplies) had the highest markups of any products sold through the Global Supply system. The study also found that these items were often priced considerably higher than the same items in the commercial marketplace. GSA officials explained that these high price markups, as well as slow delivery times, made the Stock Program a less attractive procurement alternative for potential federal customers than other options. GSA officials told us, for example, that office product procurement alternatives, such as BPAs and purchase cards, had increased competition for office product sales to federal agencies. Although purchasing supplies from GSA had previously been required, since 1988, federal agencies have been able to procure supplies from other sources. GSA officials told us that its Stock Program was based on an outdated business model for procuring office products and should be modernized in order to provide products at more competitive prices with faster delivery. In addition, the commissioned study of Global Supply's operations suggested that GSA update its Stock Program business model to reduce the costs of stocking products. As such, GSA officials told us that the proposed DVD Program would reduce the inventory held in the Stock Program, in an attempt to lower GSA's costs; improve delivery time; and encourage federal agencies to procure office products through Global Supply.

While the precise effect is currently unclear, GSA's proposed DVD Program would likely decrease the number of small businesses selling office supplies under Global Supply. The Small Business Act requires federal agencies to take steps to ensure that small businesses are provided with opportunities to compete for and receive federal government contracts. Accordingly, the solicitation for the DVD Program BPAs stated that (1) GSA is committed to assuring that the maximum practicable opportunity is provided to small businesses to participate in the BPAs and (2) the greatest preference will be to award to small prime vendors. During fiscal year 2007, about 60 small businesses sold to Global Supply the office products proposed to transition to the proposed DVD Program. In comparison, GSA officials told us that, going forward, they expect to award a limited number of BPAs in order to take advantage of quantity discounts offered by vendors. SBA officials with whom we spoke indicated that they had concerns regarding potentially limited small business participation opportunities for the proposed DVD Program and, as of mid-December 2008, GSA and SBA officials were engaged in ongoing discussions regarding SBA's concerns on the DVD solicitation. Our analysis of comments submitted by small business representatives during an opportunity to comment on the proposal, and from interviews we conducted with six small businesses regarding the proposed DVD program, identified four primary concerns—(1) increases in their shipping costs, (2) shortened delivery times, (3) a lack of minimum order amounts, and (4) implementation costs of the proposed DVD Program. GSA officials told us that they had taken steps to address these concerns. For example, to address small businesses' concern about the shortened delivery times, GSA increased the required delivery time by vendors to locations within the continental United States from 3 days to 4 days. In its solicitation, GSA indicated that it planned to perform annual performance reviews of the proposed DVD Program to determine if additional companies should be awarded

BPA. While GSA officials stated that they expect the overall dollar value for purchases from small businesses to remain the same or increase under the proposed DVD Program, the agency has not developed a specific plan for monitoring the impact of the DVD Program on the current level of small business sales of office supplies to Global Supply. To address this concern about small business participation levels, we are recommending that GSA establish a monitoring process for small business participation in the proposed DVD Program and report the findings to Congress for the first three full fiscal years of the program.

GSA's proposal to shift hundreds of office products from its Stock Program to the proposed DVD Program would likely not affect the ability of federal agencies to respond to emergencies or disasters. GSA's proposed DVD Program does not include any products the agency considers emergency or "insurance" items, such as fire suppression items and tool kits. GSA officials also stated that they currently do not have plans to migrate any items the agency considers to be emergency or insurance items to the proposed DVD Program. Finally, a GSA review of products purchased from Global Supply for the federal response to Hurricanes Ike and Gustav, compared with those products proposed to be transitioned to direct vendor delivery, found that the items purchased were not on the list of products transitioning to the proposed DVD Program.

Background

GSA's Global Supply system provides federal agencies with the ability to order office and computer products, tools, firefighting equipment, and other items through a variety of delivery programs—Stock Program, Special Order, and Expanded Direct Delivery. In fiscal year 2007, Global Supply purchased \$853 million in products from businesses, of which \$194 million was for office products provided through the Stock Program. For Stock Program items, Global Supply obtains products from its contracted vendors and later ships the products from GSA's distribution centers in New Jersey and California.² For Special Order and Expanded Direct Delivery orders, GSA receives the agencies' requests for products and places the orders directly with vendors, rather than keeping the products in the distribution centers and issuing the products from that inventory.³ Agencies can also purchase Global Supply products from customer supply stores located worldwide.⁴

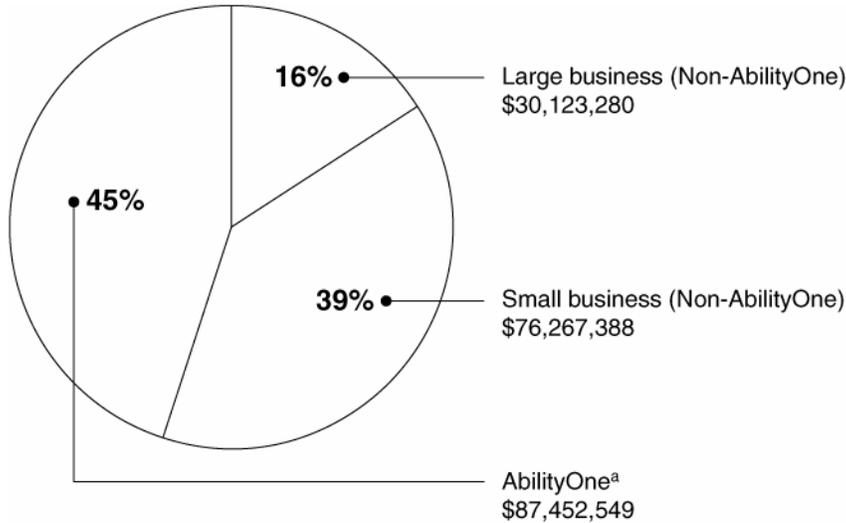
²When a single order quantity exceeds a predetermined threshold for Stock Program products, the items are delivered directly from the vendor through Stock Direct Delivery.

³The Special Order and Expanded Direct Delivery Programs both deliver items directly to customers. The Expanded Direct Delivery Program is an arrangement that utilizes more recent advances in electronic commerce transaction methods which provide faster processing and delivery for the vendor's commercial, largely part-numbered catalog. The Expanded Direct Delivery Program is a forerunner of the proposed DVD Program.

⁴In addition to domestic locations, GSA maintains customer supply centers in international locations such as Japan, Korea, Germany, Belgium, the Netherlands, and Djibouti.

Vendors typically have contracts with GSA to provide inventory for the Stock Program. Small business vendors accounted for almost 40 percent of office product sales to the Stock Program during fiscal year 2007 (see fig. 1).

Figure 1: Sources and Costs of Stock Program Office Product Purchases, Fiscal Year 2007



Source: GAO analysis of GSA data.

^aAbilityOne, previously known as the Javits-Wagner-O'Day (JWOD) Program, provides employment opportunities for people who are blind or have other severe disabilities in the manufacture and delivery of products and services to the federal government. Federal agencies are required to purchase certain supplies and services from designated nonprofit agencies serving people with disabilities.

GSA's proposed DVD Program would remove from the Stock Program about 550 office supply products (or about one-third of the office products) that are considered to be readily available commercially such as pens, copier paper, and tape. Under the proposal, GSA would contract with vendors using BPAs to deliver these products directly to federal agencies. In order to be eligible to participate, vendors must already have a multiple award schedule contract.⁵ According to the DVD solicitation issued on November 7, 2008, BPA winners would be required to (1) offer nearly all of the 550 items that would no longer be stocked in the distribution centers, as well as an array of products from the vendor's catalog; (2) package, label, and ship items according to GSA specifications; (3) provide electronic order tracking information; (4) deliver items to continental United States customers within 4 business days of receiving the order; and (5) offer a discount from its multiple award schedule contract prices for items purchased under the BPA.

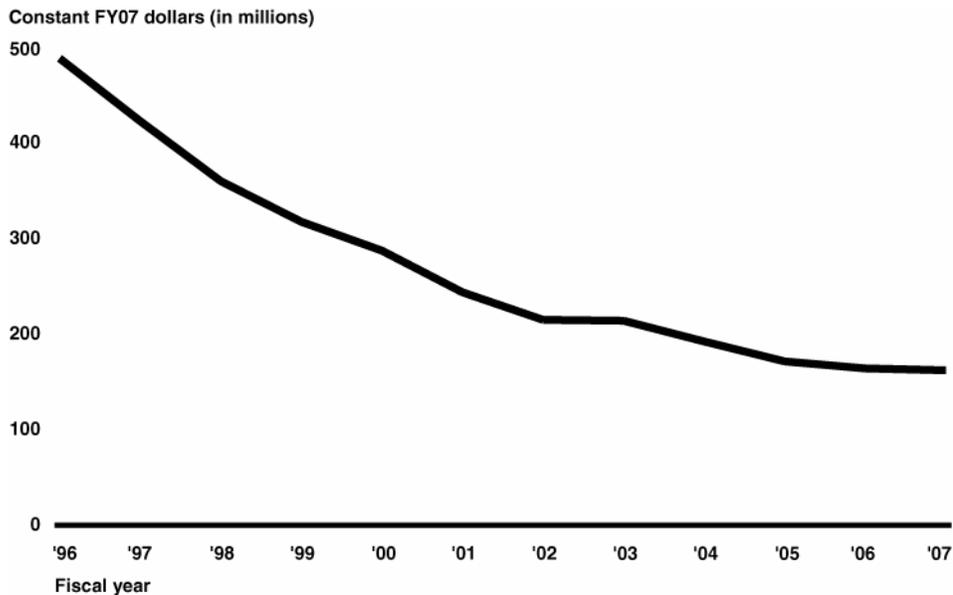
⁵Under the GSA Multiple Award Schedule Program, GSA establishes long-term governmentwide contracts with businesses to provide access to over 11 million commercial supplies (products) and services that can be ordered directly from GSA Schedule contractors. GSA Schedule 75 offers federal agencies access to purchase a wide array of office products (such as pens, pencils, markers, shredders, and printer paper). Vendors may offer their entire commercial catalog or a limited line of products.

GSA Developed the Proposed DVD Program in Response to Declining Sales, Market Competition, and an Outdated Business Model

GSA developed its DVD Program proposal to respond to declining office product sales to federal agencies, competition from other procurement alternatives, and the need to update its business model. Stock Program office product sales to federal agencies have declined in recent years, in part because of high product markups and slow delivery times, relative to other procurement alternatives. According to GSA data, office product sales through the Stock Program dropped from about \$488 million in fiscal year 1996 to about \$162 million in fiscal year 2007, in terms of the cost of merchandise sold to customers (cost of goods sold) in constant fiscal year 2007 dollars (see fig. 2). Over the same period, sales of other Global Supply product lines (general products and hardware) did not encounter a similar drop in sales. Similarly, a GSA-commissioned study of Global Supply's operations found that although the Stock Program (which includes office supplies) was the largest contributor to Global Supply sales, it had high operating costs in comparison with other delivery alternatives.⁶ The study further found that markups on products were applied across the Stock Program to help cover operating costs and attempt to break even on sales. As a result, products in the Stock Program had the highest markups of the products sold by Global Supply and were often priced considerably higher than in the commercial marketplace. According to GSA, the markups for office products were in the range of 45 to 48 percent. In addition, delivery of Stock Program items from the distribution centers to the customer generally took about 7 to 10 business days, which is longer than other procurement alternatives available to potential federal customers, according to GSA officials.

⁶Deloitte Consulting LLP, *General Services Administration, Office of Global Supply: New Business Models and Business Case Analysis* (Washington, D.C.: Nov. 9, 2006).

Figure 2: Stock Program Office Product Sales to Federal Agencies (in Cost of Goods Sold), Fiscal Years 1996 through 2007



Source: GSA data.

Procurement alternatives, including federal strategic sourcing initiatives, have increased Global Supply’s competition for office product sales to federal agencies. Previously, GSA was a mandatory source of supply but, since 1988, federal agencies have been able to procure supplies from other sources. A 2005 memorandum from the Office of Management and Budget’s (OMB) Office of Federal Procurement Policy required agencies to analyze their spending and identify commodities that could be purchased more efficiently through strategic sourcing.⁷ As a result, GSA began the Federal Strategic Sourcing Initiative (FSSI) in November 2005 and established 13 FSSI BPAs for office supply procurements under the initiative in 2007.⁸ Although GSA awarded the FSSI BPAs for use by other federal agencies, these BPAs are separate from the BPAs that would be awarded as part of the proposed DVD Program. Since the FSSI BPAs were awarded before GSA had moved forward with its proposed DVD Program, a Global Supply official said that the FSSI BPAs established under the initiative represented competition for Global Supply. Office product sales under the FSSI BPAs have increased, accounting for \$3.2 million between October 2007 and March 2008, and a total of \$4.1 million between April 2008 and June 2008. Additionally, some federal agencies have established their own purchasing

⁷OMB, *Implementing Strategic Sourcing* (Washington, D.C.: May 20, 2005). This memorandum defined strategic sourcing as the collaborative and structured process of critically analyzing an organization’s spending and using the resulting information to make business decisions about acquiring commodities and services more effectively and efficiently.

⁸Twelve federal agencies met regularly with GSA to develop the BPA solicitation and signed a formal project charter agreeing to participate in the FSSI. The 12 agencies are not required to use the BPAs, and other agencies may use them. The BPAs provide additional discounts to the negotiated prices already available through the GSA Schedule Program due to the expected increase in the volume of sales to the business receiving the BPA.

arrangements directly with businesses providing office products. An official representing one of these agencies told us that it established its own BPAs because such contracts would lower the cost of the office products that its employees typically needed. Other procurement alternatives available to federal agencies include in-person and online purchasing using government purchase cards and the Department of Defense's DOD E-Mall—an Internet ordering site for military and other federal customers to order various parts and supplies.

Global Supply officials told us that the proposed DVD Program is designed to replace the Stock Program business model for certain office products, in order to improve prices and delivery times for federal customers. A GSA memorandum stated that the business model for supplying certain products through their distribution centers was outdated and needed to be changed in order for GSA to stay competitive in the office products marketplace. The memorandum also stated that the proposed DVD Program would allow Global Supply to rely on more efficient channels to provide certain products. Similarly, the GSA-commissioned study of Global Supply suggested that the agency update its business model to reduce costs of stocking products and to respond to customer expectations for competitive prices and faster delivery. It suggested that the Stock Program should continue to store and deliver items that are not readily available in the commercial marketplace, such as government forms and items with military insignia, but shift to direct delivery from the vendor for items that are easy to ship and readily available commercially.

According to GSA officials, many office products have these characteristics and should be transitioned to the proposed DVD Program. GSA officials stated that the cost savings they have identified through the proposed DVD Program will allow the agency to reduce office product markups to approximately 17 percent. GSA officials stated that this reduction in costs and markups will make the prices of Stock Program office products more competitive.

GSA's Proposed DVD Program Would Likely Decrease the Number of Small Businesses Selling Office Supplies to Global Supply, but GSA has Taken Some Steps to Address Small Businesses' Concerns

While the precise effect is currently unclear, GSA's proposed DVD Program would likely result in fewer small businesses selling office products through GSA's Global Supply system. During fiscal years 2005 through 2007, about 100 small businesses sold to Global Supply the office products that would transition from the Stock Program to the proposed DVD Program.⁹ For fiscal year 2007, specifically, about 60 small businesses sold these products to GSA. Small businesses accounted for between 47 and 56 percent of the annual sales for these products during these three fiscal years (see fig. 3).

⁹The total number of small businesses reflects the number that sold the transitioning office products during any of the three fiscal years (2005, 2006, and 2007). The total number of small businesses selling these products in each of those years was less than 100. Some small businesses participated only for 1 or 2 years.

Figure 3: Vendor Sales, by Business Size, for Office Products Proposed to Transition to the DVD Program, Fiscal Years 2005 through 2007

Fiscal year	Dollars in millions				
	Small business		Large business	Total	
2005	\$22.7	47 %	53 %	\$25.8	\$48.6
2006	26.0	56	44	20.7	46.7
2007	23.6	52	48	21.8	45.3

Source: GSA data.

Note: The rounding for fiscal years 2005 and 2007 sales caused the total to be different than the sum of the dollar values for small and large businesses.

GSA plans to award a limited number of BPAs for the office products that would be sold under the proposed DVD Program and expects prices to be discounted because a smaller number of vendors would be supplying larger quantities.¹⁰ GSA officials told us that the specific number of BPAs to be awarded was unknown because the agency would need to evaluate received bids, but the purpose of BPAs is to leverage the federal government’s buying power by establishing an agreement with fewer vendors for multiple products in order to obtain quantity discounts.

The Small Business Act of 1958 requires federal agencies to take steps to insure that small businesses are provided with opportunities to compete for and receive federal government contracts.¹¹ GSA’s solicitation for proposals for the DVD Program’s BPAs stated that GSA is committed to assuring that the maximum practicable opportunity is provided to small businesses to participate in the BPAs and that evaluation for the awards would be made on four factors, in order of importance: socioeconomic status, technical and price (with technical and price being equal in importance), and past performance. The solicitation further stated that business size would be an evaluation factor for consideration of award, and that "[t]he greatest preference will be to award to small prime vendors." However, GSA officials told us that the agency plans to award a limited number of DVD Program BPAs. While the precise outcome remains unclear, it is likely that fewer small businesses would be able to sell office products to GSA under the proposed DVD Program than under the current Stock Program.

SBA officials with whom we spoke stated that since the number of small businesses selling office products to the proposed DVD Program would likely be smaller than the number currently participating in the Stock Program, fewer small businesses would have opportunities to sell these products to GSA. They added that small businesses already compete for a multiple award schedule contract to sell these office products through Global Supply and that the proposed DVD Program would represent an impediment to these small businesses’ efforts to continue selling these products since they would have to compete for a BPA. SBA officials told us that they had communicated these concerns verbally to GSA before it issued its DVD solicitation

¹⁰The BPA would be for one base year, with the possibility of four 1-year options, for a total of 5 years. At the end of the base period and for each option period, GSA may consider awarding additional BPAs.

¹¹Pub. L. No. 85-536, § 2(a), 72 Stat. 384 (1958), *codified at* 15 U.S.C. § 631(a).

but had not provided formal written comments. As of mid-December 2008, GSA and SBA officials were engaged in ongoing discussions regarding SBA's concerns on the DVD solicitation.

Similarly, representatives of small businesses raised concerns when GSA provided an opportunity to comment on the proposed DVD Program before the solicitation was issued. Our analysis of those comments and the interviews we conducted with small business representatives identified the following four primary concerns:

- *Increased shipping costs.* Small businesses' representatives stated that the proposed DVD Program would require vendors to ship office products to various locations instead of the two distribution centers that they currently ship to under the Stock Program. The representatives raised concerns that shipping to various locations would be more costly, particularly since vendors are less likely to be able to consolidate shipping to one location.
- *Increased costs to meet shorter delivery times.* They further stated that the requirement to have shorter delivery times for products ordered through the proposed DVD Program would lead to the vendor incurring additional costs for faster shipping. Initially, GSA planned to require that vendors deliver items procured through the proposed DVD Program within 3 days to customers within the continental United States. For vendors, this would be a decrease from their delivery times to the GSA distribution centers under the current Stock Program, where according to GSA officials, GSA monitors the stock levels and places orders (replenishments) against contracts far enough in advance to allow for ample delivery time of the products to the distribution centers. The most common time frame for vendors to deliver products to the distribution centers is generally around 30 days.
- *Lack of a minimum order size.* Small businesses' representatives commented that, without a minimum order requirement, a vendor could lose money on low-volume orders since shipping could cost more than the revenue generated from the sale of the products. Some also suggested that they would incur further costs because they would need to maintain larger inventories in order to offer the required 95 percent of the office products available from the Stock Program and deliver them directly to the customer. While small businesses can partner with a wholesaler of office supplies to obtain products quickly to meet delivery time requirements and avoid maintaining larger inventories, small business representatives told us that this can be costly to the vendor. They explained that wholesalers' prices are typically higher than manufacturers' prices, and they would have to offer these products to GSA at higher prices (than under the Stock Program) in order to account for the increased cost of obtaining them. According to GSA officials, however, the majority of office product vendors with a multiple award schedule contract currently utilize wholesalers as a source for the office products they sell.

- *Additional costs of implementing the proposed DVD Program.* Small businesses' representatives indicated that incorporating information system requirements, implementing packaging and shipping requirements, and restructuring facilities could also result in additional costs if they participate in the proposed DVD Program. They stated that such implementation costs could affect the ability of some small businesses to participate. Further, they noted that small businesses awarded a BPA may not be able to sustain their sales because these additional costs could affect their ability to price their products competitively or could lead to unsustainable pricing.

GSA has taken some steps to address small businesses' concerns regarding the DVD Program proposal. For example, our review of GSA documentation on the proposal showed that GSA changed the required delivery time from 3 days to 4 days, in response to small businesses' concerns about shipping costs associated with the faster delivery time. GSA officials told us that a 4-day delivery requirement continues to provide a reasonable delivery time for customers, while helping to lower shipping costs for small businesses since some shipments can be shipped by ground transportation within 4 days. To address concerns about the lack of a minimum order amount, GSA included a stipulation that it would compensate vendors incurring an average order amount of less than \$50 for the first year of the proposed DVD Program. After the first year, if a business's average order is less than \$50, GSA would pay a \$10 handling fee for each order that was less than \$50, and would make these payments up to a total of \$50,000 in handling fees. However, some small business officials with whom we spoke stated that while an extra day for required delivery could lower some shipping costs, cross-country shipments would still be costly under this time frame, and that an annual payment to offset the lack of a minimum order requirement may be too infrequent since the vendor would have to absorb any losses on small orders throughout the entire year. GSA officials also told us that the agency would assist DVD Program vendors with the costs incurred in implementing certain information system requirements. GSA also anticipates providing additional opportunities for businesses to participate in the BPAs. Specifically, the agency plans to conduct annual performance-based reviews to determine whether there is a need for allocation readjustments among BPA vendors, new BPA awards, or both. Finally, GSA officials stated that the 13 FSSI BPAs for office products previously discussed in this report had similar requirements to the DVD BPAs (for example, discounted prices and shorter delivery times), and small businesses were awarded 11 of the 13 FSSI BPAs and currently provide office products under these requirements.

The potential effects of these steps by GSA notwithstanding, the dollar amount of future sales to small businesses participating in the proposed DVD Program remains uncertain. As mentioned previously, the Small Business Act requires agencies to provide small businesses with opportunities to compete for and receive federal government contracts. GSA officials indicated that small businesses could collectively account for the same or a greater amount of office product sales (in dollars) after transitioning to the proposed DVD Program; but, the agency would award fewer BPAs for the Program, relative to the number of small businesses recently providing these products to GSA. While GSA officials indicated that they

plan to review purchases under the individual DVD Program BPAs annually to determine whether the BPAs provide a best value to the federal government, they did not have a specific plan for monitoring and reporting on the extent of small business participation in the proposed program.

The Proposed DVD Program Should Not Affect the Ability of Agencies to Obtain Necessary Products During Emergencies or Disasters

The ability of agencies to meet their readiness needs during emergencies or disasters would not likely be affected by GSA's proposed DVD program since products designated as emergency or insurance items would remain in the Stock Program at the two distribution centers. According to GSA officials, the proposed DVD Program would only include office products that GSA has identified as readily and commercially available. The officials explained that GSA designates products as emergency and insurance products (e.g., fire suppression items and specific tool kits) based on its experience and analyses of Stock Program products that are not readily available commercially. GSA officials also explained that, currently, the agency has no plans to migrate any of the items it considers to be emergency or insurance products to the proposed DVD Program in future years.

Items that agencies procured from Global Supply during two recent hurricanes were not included on the list of products transitioning to the proposed DVD Program. A GSA review of the items ordered for Hurricanes Ike and Gustav in 2008 showed that none of the items were proposed to transition to the DVD Program. Further, a FEMA official we interviewed stated that, in cases of emergencies or disasters, FEMA typically only orders office supplies when it establishes a joint field office at the disaster or emergency site location. The official added that these products, however, are typically delivered through prepositioned contracts that GSA has established with vendors and not through the Stock Program.

Conclusions

According to GSA officials, the Stock Program's outdated business model has resulted in high product markups and slower delivery times for readily available, commercial office products offered under Global Supply, when compared with other purchasing alternatives for these products. GSA has proposed transitioning some of the office products offered under the Stock Program to a direct vendor delivery model—excluding items and products that are used by federal agencies to respond to emergencies and disasters. Any changes to the Stock Program would, however, need to be made with due consideration to the Small Business Act, which requires federal agencies to provide small businesses with the opportunity to compete for and receive federal government contracts. Small businesses have raised concerns, such as shorter delivery time requirements and the lack of minimum order quantities, with GSA's DVD proposal that could impact their price competitiveness. GSA revised its solicitation before it was issued in an attempt to mitigate these concerns. GSA's solicitation for proposals for the DVD Program's BPAs stated that GSA is committed to assuring that maximum practicable opportunity is provided to small businesses to

participate in the BPAs and that the greatest preference will be to award to small prime vendors. However, GSA officials told us that the agency plans to award a limited number of DVD Program BPAs. While the precise outcome remains unclear, it is likely that fewer small businesses would be able to sell office products to GSA under the proposed DVD Program than under the current Stock Program. GSA's solicitation for the proposed DVD Program stated that GSA plans to annually review individual DVD Program BPAs, but it does not explicitly call for the monitoring and reporting of small business participation levels. The absence of these important components could result in limited transparency in terms of small businesses' participation in the proposed DVD Program.

Recommendation for Executive Action

To increase oversight and transparency, GAO recommends that the GSA Administrator monitor and report to Congress on the annual level of small business participation in the proposed DVD Program for the first three full fiscal years of the program. This action could be accomplished, for example, as part of GSA Global Supply's annual performance review of the DVD BPAs.

Agency Comments and Our Evaluation

We provided a draft of this report to GSA's Acting Administrator for review and comment. GSA provided written comments that are summarized below and reprinted in the enclosure to this report. GSA agreed with our findings and recommendation. In its response, GSA stated that it was committed to monitoring and providing reports to Congress annually on the level of actual small business participation in the DVD Program for each of the first full three fiscal years of the program.

As we agreed with your office, unless you publicly announce the contents of this report earlier, we plan no further distribution of it until 30 days from the date of this letter. The report also will be available at no charge on the GAO Web site at <http://www.gao.gov>.

If you or your staffs have any questions about this report, please contact me at (202) 512-8678 or edwardsj@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Major contributors to this report were Harry Medina, Assistant Director; Tania Calhoun; Emily Chalmers; Philip Farah; Dana Hopings; Tarek Mahmassani; Carl Ramirez; and William Woods.

A handwritten signature in black ink that reads "Jack E. Edwards". The signature is written in a cursive style with a large, stylized initial "J".

Jack E. Edwards
Acting Director, Financial Markets
and Community Investment

Enclosure

(250402)

Enclosure: Comments from the General Services Administration



GSA Administrator

February 4, 2009

The Honorable Gene L. Dodaro
Acting Comptroller General
of the United States
Government Accountability Office
Washington, DC 20548

Dear Mr. Dodaro:

The U.S. General Services Administration (GSA) appreciates the opportunity to review and comment on the draft report, "GSA Global Supply Stock Program" (GAO-09-230R). The Government Accountability Office (GAO) recommends that the GSA Administrator monitor and report to Congress on the annual level of small business participation in the proposed Direct Vendor Delivery (DVD) Program for the first three full fiscal years of the program.

We agree with the findings and recommendation. GSA commits to monitoring and providing reports to Congress annually on the level of actual small business participation in the DVD Program for each of the first full three fiscal years of the program.

I would like to take this opportunity to thank the GAO team for the professionalism, diligence and consideration shown throughout the review process.

Should you have any questions, please contact me. Staff inquiries may be directed to Mr. Joseph Jeu, Assistant Commissioner, Office of General Supplies and Services at (703) 605-5515.

Sincerely,

A handwritten signature in black ink, appearing to read "Paul F. Prouty".

Paul F. Prouty
Acting Administrator

cc: Jack Edwards, Acting Director, Financial Markets and Community Investment

U.S. General Services Administration
1800 F Street, NW
Washington, DC 20405-0002
Telephone: (202) 501-0800
Fax: (202) 219-1243
www.gsa.gov