



United States
General Accounting Office
Washington, D.C. 20548

National Security and
International Affairs Division

B-277166

June 10, 1997

The Honorable Madeleine K. Albright
The Secretary of State

Subject: State Department: Provision of Residential Furniture Inconsistent
With Best Practices

Dear Madam Secretary:

We are reviewing the State Department's process for relocating employees overseas, using the "best practices" of the private sector and of other government organizations as a benchmark. During the course of our review we observed that State is negotiating a residential furniture contract for its overseas employees that may not be beneficial to the Department or the U.S. taxpayer. The purpose of this letter is to bring this matter to your attention and obtain your views on the Department's current approach.

BACKGROUND

State purchases residential furniture for the housing it owns or leases under a contract between the General Services Administration (GSA) and a U.S. company. The furniture is manufactured in the United States, shipped overseas, and stored in warehouses until needed. The GSA contract, awarded in fiscal year 1992 and initially extended through fiscal year 1996, is an indefinite quantity, indefinite delivery, fixed price requirements contract. With minor exceptions, all Department of State requirements for residential furniture must be purchased through this contract.¹ State extended the contract through fiscal

¹These exceptions include rattan and tropical furniture requirements, and furniture requirements purchased (1) with funds appropriated under the Foreign Buildings Act of 1926, (2) pursuant to the Balance of Payments Program and the Trade Agreements Act of 1979 (18 U.S.C. 2510-2582), and (3) for the Marine Security Guard.

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year 1997, pending the award of a new contract. According to a State official, GSA and State representatives are now evaluating bids and plan to award a contract by late June or early July. Purchases under the contract totalled about \$46.5 million from fiscal years 1992 through 1996.

In the past few years, State has undertaken initiatives to reengineer its processes for procuring goods and services overseas, but not residential furniture. In 1997, its Logistics Reengineering Project team (LRP)² designed a new system that encourages the overseas posts to obtain goods and services through direct local purchase, where feasible. State is implementing pilot programs at several overseas posts to test the local purchase option.

SUMMARY

Our preliminary work indicates that State may be missing an opportunity to develop a more cost effective and efficient approach to purchasing furniture for its overseas employees. The current process is inefficient because of its long cycle times, several handoffs, and substantial inventories. State's LRP team reported similar problems with the procurement of other goods and services for use overseas. Although the team is conducting a pilot test on the feasibility of purchasing goods and services locally as part of its efforts to reengineer its procurement processes, State has no specific plans to include the process for purchasing furniture in the test. In fact, State plans to enter into another contract with similar terms restricting the posts from purchasing goods locally.

Adoption of a local purchase option, where feasible, could streamline the process, substantially decrease the time it takes to receive an order, increase customer satisfaction, and reduce costs. During our review, we benchmarked State's process for purchasing furniture to practices used by six private sector companies and the World Bank. None of these organizations purchased residential furniture in their home country for use overseas and none maintained warehouses at each location to store furniture; instead they shipped the employees' personal household effects or purchased furniture locally or regionally. In addition, representatives of the LRP team consider residential furniture to be a good candidate for local purchase at some posts. Also some post officials expressed interest in having the option of purchasing furniture locally.

²In 1995, State established this team, consisting of Civil and Foreign Service logistics managers from various functions to reengineer State's process for obtaining goods and services.

INEFFICIENCIES IN STATE'S SYSTEM FOR
PROCURING GOODS FOR USE OVERSEAS

State's system for obtaining materials and services to carry out its mission worldwide is cumbersome, inefficient, and uneconomical. In October 1996, State's LRP team reported that the system is characterized by long cycle times, high overhead costs, redundancy, and substantial inventory. The team found that the average cycle time for international delivery was 6 to 12 months compared to best-in-class cycle times of 4 to 10 days. Moreover, the team reported that State's average cost of doing business dramatically increased the cost of the commodity by 50 percent. To illustrate these problems, the LRP team cited the example of an item State purchased from a vendor in the United States. The item cost \$1,100, but the administrative overhead to process, transport, and issue payment added \$1,625 to the cost of the commodity.

Our initial observations on the process to obtain residential furniture for use overseas parallel the LRP team's findings on the procurement of other goods and services. This process, as described by officials in State's Office of Acquisitions, involves long cycle times, a number of handoffs, and high inventories. Orders pass through a consolidator and dispatch agency before they are shipped overseas. According to an Office of Acquisitions official, this process takes 4 months or longer. However, a post official told us it could take from 9 to 12 months for shipments to reach some African posts. When the furniture finally arrives at the posts, it may be stored for several months, resulting in substantial inventories. State does not have an integrated worldwide inventory record system, but an official of its Property Management Branch estimated that overseas furniture inventories could exceed \$100 million.

THE PURCHASE OF FURNITURE
NOT INCLUDED IN INITIATIVES TO
IMPROVE PROCUREMENT PROCESS

To address the inefficiencies in State's procurement process, the LRP team designed a new system that offers customers three choices for obtaining goods and services. Direct local purchase, where feasible, is the preferred option. State's newly formed Office of Logistics Management is sponsoring pilot programs in several Latin American posts to test the local purchase option. The pilot posts are Belize City, Belize; Bogota, Columbia; Lima, Peru; Managua, Nicaragua; Panama City, Panama; Quito, Ecuador; San José, Costa Rica; and San Salvador, El Salvador. These posts will be given lists of commodities that may be purchased locally with no restrictions, commodities that require prior approval, and commodities the posts are restricted from purchasing. Furniture purchases are not included in the pilot because the terms of the current

contract, which will also be included in the new contract, require State to purchase all residential furniture from the U.S. contractor.

Some State officials expressed an interest in having the option of purchasing furniture from alternative sources. For example, several officials in the Bureau of East Asian and Pacific Affairs said there are plentiful sources of furniture in Asia, particularly in Hong Kong, Taiwan, Bangkok, Thailand; and Kuala Lumpur, Malaysia. Also, according to an official of State's Regional Procurement Office in Singapore, regional procurement of furniture in Asia should reduce ordering and delivery times for posts in Asia, and it may also lower purchase prices and vendor costs.

Members of the LRP team also believe there are opportunities to purchase furniture locally. They pointed out that U.S. furniture is not always suitable because of the small size of some accommodations overseas. The LRP team does not have definitive plans for addressing the furniture issue, according to one of the team members. The team may recommend that subsequent contracts be modified to include the local purchase option.

PRACTICES OF OTHER ORGANIZATIONS

State's practice of purchasing furniture in the United States, shipping it overseas, and storing it in warehouses, runs counter to private sector practices. During our review we benchmarked with six private sector companies that transfer employees overseas and the World Bank to identify best practices that may be applicable to State and other U.S. agencies operating abroad. None of the six private sector organizations purchase furniture in their home country for use overseas. Most of these organizations we visited ship their employees' personal household effects overseas. A few of them give their employees an allowance to purchase furniture at their assigned duty station, particularly in Asian locations. They also encourage the employees to rent furnished quarters where available. The World Bank purchases furniture locally or regionally in countries where it provides housing. None of the organizations we benchmarked with operate large systems of warehouses for residential furniture at the overseas locations.

QUESTION

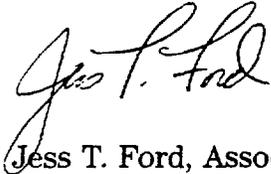
In light of the options offered by the LRP team to streamline and reduce the costs of the procurement process and in light of the fact that State's approach runs counter to "best practices", we are requesting that you answer the following question by June 20, 1997:

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- Why is State planning to enter into a requirements contract that prevents overseas posts from exercising the option of purchasing furniture locally when it may be more cost effective and efficient to do so?

If you have any questions, please contact me on (202) 512-4268 or Diana Glod, Assistant Director, on (202) 647-1588.

Sincerely yours,



Jess T. Ford, Associate Director
International Relations and Trade Issues

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