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CONTRACT MANAGEMENT

Restructuring GSA's Federal Supply Service and Federal Technology Service

Statement of William T. Woods, Director
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Highlights of [GAO-04-132T](#), a testimony before the Committee on Government Reform, House of Representatives

Why GAO Did This Study

The General Services Administration's (GSA) Federal Supply Service (FSS) and Federal Technology Service (FTS) play an important role in assisting agencies procure a wide range of products and services.

Over the past several years, FSS and FTS purchases have significantly increased, with IT products and services being the primary source of this growth. In April 2002, we identified overlap in FSS' and FTS' IT procurement programs. A management consultant similarly found overlaps in FTS' and FSS' IT sales and marketing functions and contract offerings. To enhance FSS and FTS operational efficiency and effectiveness—in both its IT and non-IT business lines—GSA has undertaken a performance improvement initiative.

This testimony focuses on GSA's actions to implement its initiative. It also discusses the importance of enhancing GSA's ability to help agencies strategically purchase products and services.

What GAO Recommends

We recommend that as it moves forward with its current performance initiative, GSA develop the capability to provide its customer agencies with information and analyses they need to leverage their buying power to reduce procurement costs.

www.gao.gov/cgi-bin/getrpt?GAO-04-132T.

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CONTRACT MANAGEMENT

Restructuring GSA's Federal Supply Service and Federal Technology Service

What GAO Found

In response to the management consultant's recommendations, GSA took a number of actions to improve FSS and FTS efficiency.

- First, GSA realigned its marketing, sales, customer account planning, and management functions. FSS now has primary responsibility for market research and marketing of all GSA products and services, including IT, while FTS has primary responsibility for sales and customer account planning and management. In addition, GSA transferred FTS contract development and maintenance responsibilities to FSS. Through this realignment, GSA hopes to eliminate inefficiencies due to overlaps and redundancies, provide best value to more federal customers, and improve customer relations.
- Second, GSA created a Contract Vehicle Review Board to ensure its existing contracts are rationalized and to evaluate the need for new contracts. The Board recently completed its review of IT contracts and found that for several of these contracts, the business case was not adequate to recompute them in the future.
- Finally, GSA created a new FTS Office of Professional Services to offer assisted procurement services beyond IT and telecommunications. By opening its assisted procurement offerings to new areas, GSA aims to expand its business base to new customers and enhance customer service. In its first 4 months, the Office of Professional Services had placed 146 task orders valued at \$45 million. GSA expects to achieve \$430 million in revenue by 2004.

While these actions should help reduce certain inefficiencies in the federal procurement process, we believe GSA needs to take a more active role in helping federal agencies reduce the overall cost of their FSS and FTS purchases. Because agencies' processes for establishing requirements for FSS and FTS products and services are generally decentralized and uncoordinated, agencies lack knowledge of the extent to which purchases overlap and buying power is diluted. GSA is in a unique position to help agencies analyze their spending agencywide and identify opportunities to coordinate their requirements. By using a more strategic approach to FSS and FTS procurement, agencies can leverage their buying power for volume discounts and thereby reduce overall purchasing costs. A few federal agencies have begun to analyze their spending patterns and successfully use a strategic purchasing approach for selected categories of products, including IT, to leverage their buying power and save money. For example, the Air Force saved an estimated \$3 million using a strategic purchasing approach to buy more than 13,000 desktop and notebook computers required for multiple units that previously bought such products separately.

Mr. Chairman, Ranking Member Waxman, and Members of the Committee:

Thank you for inviting me here today to discuss the General Services Administration's (GSA) ongoing efforts to improve the efficiency and effectiveness of its Federal Supply Service (FSS) and Federal Technology Service (FTS). In fiscal year 2002, FSS and FTS helped federal agencies buy more than \$34 billion of products and services ranging from everyday supplies, equipment, and motor vehicles to information technology (IT), telecommunications, and travel services. Over the past several years, FSS and FTS purchases have increased significantly, with IT products and services being the primary source of this growth.

In April 2002, we testified on the roles of FSS and FTS in federal purchasing and identified overlap in their IT procurement programs.¹ While FSS and FTS had reoriented their purchasing programs to provide better service to agencies, concerns about overlapping IT acquisition programs remained, prompting GSA to hire a management consultant to study how effectively the two were operating. The study confirmed that while customers and industry partners generally valued GSA, there were inefficiencies in FTS' and FSS' overlapping IT sales and marketing functions and contract offerings. In response to the study's recommendations, GSA announced implementation of a performance improvement initiative to enhance FSS and FTS operational efficiency and effectiveness—in both IT and non-IT business lines.

My statement today will focus on the actions GSA has taken to implement its performance improvement initiative. I will also discuss the importance of enhancing GSA's ability to promote strategic purchasing practices—by analyzing agencies' purchasing patterns to help identify opportunities that could better leverage agency buying power and thereby cut overall purchasing costs. This approach is based on our findings of how leading companies and other federal agencies have followed strategic purchasing practices that clearly paid off in terms of dollar savings.

In summary, GSA has taken a number of actions to implement its performance improvement initiative, but these actions alone will not provide the best value for government purchasing. GSA has consolidated

¹ U.S. General Accounting Office, *Contract Management: Roles and Responsibilities of the Federal Supply Service and Federal Technology Service*, [GAO-02-560T](#) (Washington, D.C., April 11, 2002).

and streamlined overlapping operations by restructuring FSS and FTS marketing, sales and contracting functions, and evaluated selected contracts to identify opportunities to eliminate duplication. If successfully implemented, these actions should, over time, help reduce inefficiencies in agency operations, but we believe GSA needs to do more. To achieve greater savings, GSA needs to help agencies take a more strategic approach to coordinating their procurement requirements to better leverage their buying power and obtain the most advantageous terms and conditions for their purchases.

Background

GSA plays an important role in assisting agencies in procuring supplies and services. FSS and FTS, in particular, facilitate a wide variety of purchases. FSS assists federal agencies in acquiring a full range of products—including over 4 million commonly used commercial items, ranging from furniture, computers, tools, equipment, and motor vehicles. FSS also assists agencies in acquiring services, such as professional consulting, travel, transportation, and property management. FTS provides customers with telecommunications products and services—voice, data, and video—and a full range of IT products and services. Over the past several years, FSS and FTS purchases have increased significantly. In fiscal year 2002, FSS' business volume was more than \$27 billion, and is projected to grow to almost \$32 billion by fiscal year 2004. Between fiscal years 1995 and 2002, total revenues for FTS purchasing programs more than quadrupled from \$1.5 billion to \$7.1 billion. Sales of IT products and services are the primary source of GSA sales growth.

Historically, FSS and FTS have taken different approaches to filling agency requirements. FSS has followed a self-service business model, using contracts that are designed to be flexible, simple to use, and consistent with commercial buying practices. FSS negotiates master contracts with vendors, seeking discounts off commercial list prices that are at least as favorable as the discounts offered to their most favored customers. FTS has followed a full-service business model, providing assisted procurement services to help agencies define and fill their IT and telecommunications requirements. FTS is a major user of the FSS schedule contracts as well as a range of contract vehicles FTS and other federal agencies have awarded—commonly known as governmentwide acquisition contracts.

While their business models differ, FSS and FTS provide similar IT goods and services and provide customers access to many of the same vendors. Concerns were raised about potential inefficiencies that may result from

this overlap—particularly the additional administrative costs incurred by vendors to prepare separate proposals for FSS and FTS, and by GSA to evaluate and select vendors and administer the contracts. To address these concerns, GSA commissioned a management consulting firm to conduct a study of the structure and efficiency of FSS and FTS and the services they provide to agency customers. The consultant found several areas where GSA could realize efficiencies in its operations and made several recommendations, including:

- Combine and realign certain functions—such as marketing and sales, contract development and maintenance, and customer support—as they relate to IT and telecommunications.
- Rationalize overlapping IT contracts currently offered—that is, review existing IT contracts to identify redundancies and eliminate those that do not clearly have a distinct value to GSA’s customers.
- Expand FTS’ assisted procurement services to GSA business lines other than IT and telecommunications.

GSA Has Taken Actions to Streamline FSS and FTS Operations

In response to the consultant’s study, the GSA Administrator announced in December 2002 that GSA planned to combine and realign some functions of FSS and FTS in order to improve efficiencies and to expand FTS-assisted procurement services for customer agencies.

First, GSA realigned its market research, marketing, customer account planning and management, and sales functions previously carried out separately by FSS and FTS. FSS now has primary responsibility for market research and marketing of all GSA products and services, including IT, while FTS has primary responsibility for sales and customer account planning and management. Through this realignment, GSA hopes to (1) eliminate inefficiencies due to overlaps and redundancies, (2) provide best value to more federal customers by expanding its market share in IT and other product and services areas, and (3) improve customer relations. In addition, GSA transferred FTS contract development and maintenance responsibilities to FSS.

Second, GSA created a Contract Vehicle Review Board—with representatives from FSS, FTS, GSA’s Office of Governmentwide Policy, and its regional offices to ensure its existing contracts are rationalized and to evaluate the need for new contracts. The Board recently completed its review of FTS IT contracts. The Board found that for a select number of these contracts the business case was not adequate to recompetete them in the future. However, the Board recommended against terminating these

contracts before their scheduled expiration. Therefore, the potential efficiencies to be gained from GSA's efforts to eliminate redundant contracts will not be realized for several years, after these contracts expire.

Finally, GSA created a new FTS Office of Professional Services to offer assisted procurement services beyond IT and telecommunications in three new areas: management organization and business improvement, worldwide logistics, and professional engineering. By opening its assisted procurement offerings to new areas, GSA aims to expand its business base to new customers and enhance customer service by providing consulting and management support in a wider range of categories. In its first 4 months, the Office of Professional Services had placed 146 task orders valued at \$45 million. GSA expects to achieve \$430 million in revenue by 2004.

Improved Knowledge of FSS and FTS Purchasing Could Reveal Significant Savings for Federal Agencies

While GSA's recent actions should help improve the management of federal procurement, these actions focus on achieving administrative and process efficiencies, not on leveraging the government's buying power to reduce the cost of government purchasing. Because processes for establishing requirements for products and services at many agencies are generally decentralized and uncoordinated, we believe GSA needs to take a more active role in helping federal agencies to coordinate their purchases and improve their ability to leverage their buying power and obtain the most advantageous terms and conditions. A number of leading companies and federal agencies that we have highlighted in our recent work have used a strategic procurement approach to achieve significant savings.

A strategic procurement approach begins with a "spend analysis" to see who is buying what from whom. Through such an analysis, an agency can identify similar goods and services that are being bought from numerous suppliers, often at varying prices. With this knowledge, agencies can coordinate their purchases to leverage their buying power and rationalize their supplier base.

A few federal agencies have begun to successfully use a strategic purchasing approach for selected categories of products to leverage their buying power and save money. For example, in 2001, we reported that the

Department of Veterans Affairs (VA) and the Department of Defense (DOD) saved over \$170 million annually by jointly procuring pharmaceuticals.² VA and DOD achieved those savings by agreeing on particular high-dollar, high-volume drugs that their facilities would purchase and then contracting with the manufacturers of these drugs for discounts based on their combined larger volume. The discounts VA and DOD obtained were, on average, 33 percent lower than FSS prices.

Strategic purchasing of IT products has been particularly promising in achieving savings. For example, in 2003, following an Air Force-wide spend analysis that revealed many leverage opportunities for IT equipment, an Air Force commodity council—which includes representatives from the major commands, several functional areas, and the Air Staff—solicited competing offers from five IT vendors with blanket purchase agreements³ in place for desktop and notebook computers for multiple Air Force units that previously bought such products separately. According to an Air Force official involved in this effort, the council awarded a purchase order for about 13,000 computers to two vendors. The new purchasing approach achieved significant savings for the Air Force—an average of about \$450 per desktop computer and over \$200 for each notebook computer—for an overall estimated savings of about \$3 million. This was the first of several anticipated IT buys under the Air Force’s new strategic purchasing approach to take advantage of overall buying power to achieve mission needs.

Similarly, the Office of Management and Budget (OMB) projects saving as much as \$100 million annually on computer software licenses through its SmartBUY program, launched in June 2003. According to OMB, more than 4 million desktop, laptop, and networked computers are in use across the federal government, and federal agencies engage in thousands of software licensing agreements annually. By coordinating the approach federal agencies use to acquire common software licenses, OMB expects the government can achieve significant savings from volume discounts. GSA is managing the program for OMB through an interagency team that was established to review the baseline analysis and inventory of software

² U.S. General Accounting Office, *DOD and VA Pharmacy: Progress and Remaining Challenges in Jointly Buying and Mailing Out Drugs*, [GAO-01-588](#) (Washington, D.C.: May 25, 2001).

³ A blanket purchase agreement is a simplified method of filling anticipated repetitive needs for supplies or services by establishing “charge accounts” with qualified sources of supply.

agreements and develop a migration strategy to start replacing those separate agreements with the first round of SmartBUY governmentwide licenses by July 2004.

GSA could help other agencies achieve similar savings. We believe that because most agencies have traditionally used a decentralized approach to acquiring FSS and FTS products and services, their knowledge of the amount spent by their program units on the same or similar FSS and FTS products and services is limited, minimizing their ability to identify buying practices that dilute their purchasing power and result in unnecessary costs. GSA is in a unique position to be able to help agencies conduct spend analyses of their FSS and FTS purchases and provide them with the knowledge needed to identify opportunities to better coordinate their purchases and leverage their buying power and thereby reduce their purchasing costs. With agency purchases of FSS and FTS products and services exceeding \$34 billion in 2002, these savings could be significant.

Conclusion

In conclusion, with the federal government's critical budget challenges, it is more important than ever that GSA partner with agencies and help them get the most from every federal dollar spent. The potential for increased procurement efficiencies and effectiveness is significant. By learning more about their spending for products and services on an agencywide rather than individual customer basis, GSA can help agencies leverage their buying power, reduce purchasing costs, and better manage their suppliers.

Recommendation

We recommend that as it moves forward with its current performance initiative, GSA develop the capability to provide its customer agencies with information and analyses they need to leverage their buying power to reduce procurement costs.

Mr. Chairman, this concludes my statement. We performed our work in September 2003 in accordance with generally accepted government auditing standards.⁴ I will be happy to answer any questions you or other members of the committee may have.

⁴ This work followed on that which we performed from October 2002 through September 2003, as well as published GAO work.

Contact and Acknowledgments

For further information, please contact William T. Woods at (202) 512-4841. Individuals making key contributions to this testimony include Ralph Dawn, Carolyn Kirby, Jose Ramos, and Karen Sloan.

Related GAO Products

Contract Management: High-Level Attention Needed to Transform DOD Services Acquisition. [GAO-03-935](#). Washington, D.C.: September 10, 2003.

Best Practices: Improved Knowledge of DOD Service Contracts Could Reveal Significant Savings. [GAO-03-661](#). Washington, D.C.: June 9, 2003.

VA and Defense Health Care: Potential Exists for Savings through Joint Purchasing of Medical and Surgical Supplies. [GAO-02-872T](#). Washington, D.C.: June 26, 2002.

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DOD and VA Pharmacy: Progress and Remaining Challenges in Jointly Buying and Mailing Out Drugs. [GAO-01-588](#). Washington, D.C.: May 25, 2001.

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