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Report to Congressional Requesters

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FEDERAL PRISON INDUSTRIES

Delivery Performance Is Improving But Problems Remain

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

This report responds to your July 8, 1997, request for information on whether Federal Prison Industries (FPI) delivers its products and services in a timely manner. Our objectives were to (1) develop and assess statistics on FPI delivery performance and (2) obtain the views of selected customer agencies' procurement officials on FPI delivery practices. As agreed with your offices, our work for the first objective involved developing information on how often FPI met delivery due dates during fiscal years 1996 and 1997, including an analysis by customer agency and product category. As part of this work, we considered FPI's efforts to track delivery performance and its practices with regard to setting due dates. Our work for the second objective primarily involved holding discussions with selected customer agency officials—from the Defense Logistics Agency (DLA), General Services Administration's Federal Supply Service (FSS), Social Security Administration (SSA), and Department of Veterans Affairs (VA)—about their experiences with FPI delivery performance, the due-date setting process, their efforts to monitor FPI delivery performance, and available remedies for late deliveries. You requested this work because of concerns you had about FPI's ability to meet customers' due dates and its lack of incentive to do so. Because of its status as a mandatory source supplier, agencies are required to buy FPI products.

Background

FPI is a wholly owned government corporation managed by the Department of Justice's (DOJ) Bureau of Prisons (BOP). FPI was created by Congress in 1934 and serves as a means for managing, training, and rehabilitating inmates. Under the trade name UNICOR, FPI markets about 150 types of products and services to federal agencies. Products include furniture, textiles, and electronic components. Services include data entry, engine repair, and furniture refinishing. In fiscal years 1996 and 1997, FPI had net sales of about $496 and $513 million, respectively, in products and services. In addition to buying products directly from FPI, agencies buy FPI products from central supply agencies like FSS or, in the case of the military, from DLA. FSS and DLA stock some FPI products for sale to customers; FPI delivers other products directly to customers when orders are placed with FSS or DLA. According to FPI, agencies generally deal

directly with FPI when procuring services. When making orders for FPI products and services, agencies typically send FPI a hard copy order; transmit the order electronically, including through the Internet; or place the order by telephone.

To attain certain public policy objectives, federal law provides for certain exceptions to the full and open competition requirement that governs most acquisitions. One of these exceptions is set forth in 18 U.S.C. 4124, which provides that federal agencies are generally required to purchase FPI products if they meet the buying agency's requirements, and the prices charged do not exceed current market prices. Subpart 8.6 of the Federal Acquisition Regulation (FAR) implements this statutory provision. If FPI cannot meet the buying agency's requirements, the FAR allows agencies to seek waivers from FPI.[1] FPI's mandatory source status for products does not apply to the services that it offers to its federal customers.

Over the years, supporters and critics of FPI have debated FPI's mandatory source status and whether FPI provides quality goods, at a reasonable price, and on a timely basis. Both sides recognize that FPI has a social objective to manage, train, and rehabilitate inmates through work programs. However, some critics have questioned whether FPI's products and services have satisfied federal customers in terms of timeliness, as well as quality and price, and whether FPI's mandatory status results in unfair competition with the private sector. In recent years, FPI has placed increased emphasis on timeliness as a performance indicator, as well as on overall customer satisfaction.[2] In its fiscal year 1996 operating plan, one of FPI's eight long-term strategic goals was to "promote total customer satisfaction by being competitive in marketplace price, quality, customer service, and delivery standards." One of its corporate objectives for fiscal year 1996 was to "meet or exceed all customer requirements for price, quality, delivery, and service." Beginning with its fiscal year 1997 operating plan, FPI established a specific goal for on-time delivery performance, stating that it would publicly recognize factories that reached 90 percent.

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

[2]In March 1998, we reported that FPI did not have a systematic or structured process for collecting and analyzing customer satisfaction data so that conclusions can be drawn about customer satisfaction. See Federal Prison Industries: Limited Data Available on Customer Satisfaction (GAO/GGD-98-50, Mar. 16, 1998).

For fiscal year 1998, FPI increased its on-time performance goal to 98 percent. FPI officials viewed these goals as ambitious; however, they said that setting them represented an important step toward focusing on the need to improve delivery performance.

Results in Brief

FPI delivery performance is improving—our work showed an upward trend in the latter part of fiscal year 1997. In fact, our analysis showed that 8 of the 12 months in fiscal year 1997 had better on-time delivery performance than the same months in fiscal year 1996. In addition, FPI had data to track timeliness and an approach for evaluating results that showed improvements in fiscal year 1998. However, our work also showed that FPI fell short of meeting its goal of 90 percent in fiscal year 1997. Also, there was a wide variation in FPI performance by customer agency and some variation by product category. Specifically, our analysis showed that FPI shipped 72 and 76 percent of customer orders on or before the due date in fiscal years 1996 and 1997, respectively. In 1997, on-time performance ranged from 47 percent for VA to 92 percent for the federal judiciary. In the same year, factories producing systems furniture were the most timely at 85 percent, and factories producing electronics were the least timely at 73 percent.

The results of our analysis and FPI's own timeliness evaluations should be viewed with two caveats in mind. First, they both likely overstate timeliness because they did not account for shipping time for orders with due dates specified as the day the order should arrive at its destination. Due dates specified by customers can be origin—meaning that the orders should be shipped by the due date—or destination, meaning that the orders should arrive at the customer's location by the due date. FPI did not have data or a workable approach that would allow us to account for shipping time for orders with destination due dates. As a result, our analysis, as well as FPI's own evaluations of timeliness, considered all shipments to be on time if FPI data showed that they left the factory on or before the due date. Accounting for shipping time for orders with destination due dates would have improved the accuracy of the timeliness evaluations and provided a better picture of performance.

Second, our review of 109 randomly selected orders showed that over one-half of them had due dates in FPI's system that were later than what customers had originally requested. Arriving at mutually agreeable due dates may involve negotiation and compromise between the supplier and the customer, whether the supplier is FPI or a commercial vendor, because

customer-requested due dates cannot always be met. In addition, FPI's Chief Operating Officer said that one reason due dates in FPI's system could have been later than what customers originally requested was that FPI may have determined that the customers' due dates were inconsistent with FPI production capabilities at the time the order was placed, not accepted the customer-requested due dates, and revised them to reflect production lead times. However, because of limited documentation, we could not always determine the reasons due dates were different, including whether FPI had not accepted them, or whether customers were notified of the reasons for changes and approved of the revised due dates. Although the results for these 109 orders were not projectable to the universe of FPI orders, they raised questions about which due dates should be used to measure timeliness, especially from the customer's perspective. FPI officials said that they could do a better job of documenting the reasons due dates that customers request cannot be met and whether the customers were notified of the reasons for changes and approved of the new due dates.

Just as our analysis by customer agency showed wide variation in FPI delivery performance, customer agency officials within DLA, FSS, SSA, and VA had mixed views on FPI's delivery performance, despite FPI's goal to promote total customer satisfaction. For example, these views ranged from officials at FSS' National Furniture Center and VA saying that FPI's performance was very poor and that FPI was very difficult to deal with; to DLA officials, who said they were generally pleased with FPI delivery performance. Although we sought the views of only selected customers, several of the key procurement officials within these agencies were clearly dissatisfied with FPI's delivery performance and practices. In addition, we noted during our review that FPI does not currently develop delivery performance data by customer agency. Without these data, FPI was not in a good position to easily detect individual agencies' problems with its performance and to improve overall customer relations.

Scope and Methodology

To meet our first objective, we obtained and analyzed computerized files from FPI's customer order entry database (COED) for fiscal years 1996 and 1997, involving over 140,000 agency orders. FPI uses COED, which is maintained at its Customer Service Center in Lexington, KY, to track and record information on agency orders for products and services. Agency orders can contain one to several hundred line items. Each line item identifies a specific product and quantity and has a distinct due date. Large orders with many line items can have multiple products and due dates.

Because agency orders can vary tremendously, we generally followed the same approach that FPI uses to define orders when it evaluates timeliness. Specifically, we defined an order as a shipment of products or provision of services expected by a customer for a given order on a given day. We used the COED data to determine whether orders, defined as such, were shown as being shipped in full by their respective due dates.

We also examined how FPI accounts for shipping time for those orders for which the due date is when deliveries should arrive at the customer's location, not the date by which they should be shipped. To perform a limited reliability assessment of the COED data, we obtained hard copies of, and other available documentation for, 109 randomly selected agency orders and compared various data items in the orders with data in COED. We also obtained and analyzed the results of FPI's evaluations of timeliness for fiscal year 1997 and the first half of 1998. We compared FPI's 1997 results with ours and reconciled any differences. We did not independently verify FPI's analysis for fiscal year 1998. In doing our work, we held many interviews and discussions about FPI delivery practices with FPI staff at the Customer Service Center in Lexington, KY, and at FPI headquarters in Washington, D.C. We did not determine the reasons individual agency orders were delivered late or assess the effect of individual late deliveries on federal agencies.

To meet the second objective, we interviewed key procurement officials from four agencies that are among FPI's largest buyers: the General Services Administration's (GSA) Federal Supply Service (FSS) in Arlington, VA; the Defense Logistics Agency (DLA) in Ft. Belvoir, VA; the Social Security Administration (SSA) in Baltimore, MD; and the Department of Veterans Affairs (VA) in Washington, D.C. Collectively, these agencies accounted for over one-quarter of FPI's 1996 sales of $496 million. DLA was the second largest buying component within the Department of Defense (DOD) next to the Army. The other three agencies were among the top four civilian agencies that buy from FPI.

In addition to contacting headquarters procurement officials at these agencies, we also contacted one of GSA's nationwide commodity centers, FSS' National Furniture Center (NFC), and three of DLA's nationwide supply centers: the Defense Supply Center Philadelphia (DSCP) in Philadelphia, PA; the Defense Supply Center Columbus (DSCC) in Columbus, OH; and the Defense Supply Center Richmond (DSCR) in Richmond, VA. Within SSA, we spoke with officials from the two buying components that purchase products from FPI: the Office of Property Management (SSA/PM) and the

Office of Operations, Contracts, and Grants (SSA/OCG). Within VA, we spoke with officials from the Office of Administration and the Office of Acquisition and Materiel Management, as well as officials with the Veterans Health Administration (VHA) from the offices of Patient Care Services and Environmental Management Services.

We obtained information and views from these officials on several topics related to timeliness, including how FPI performed in meeting due dates, how due dates were set, whether due dates were driven by FPI production capabilities or mission needs, what processes were used to monitor FPI delivery performance and that of private vendors, and what remedies were available in the event of a late delivery from FPI and private vendors. Using FPI's waiver database, we also determined the extent to which FPI granted customers waivers from buying FPI products for reasons related to timeliness.

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

Timeliness Statistics and Their Limitations

Our analysis using FPI data and its general approach for measuring timeliness showed that FPI shipped 72 and 76 percent of customer orders on or before the due date in fiscal years 1996 and 1997, respectively. It also showed a wide variation in FPI performance by customer agency and some variation by product category. FPI did not meet its 90 percent on-time delivery goal in any of the months in 1997 or in any of the product categories for the year as a whole. However, FPI's performance improved toward the end of 1997, reaching 87 percent for the month of July, and its own data showed that timeliness reached 89 percent in March 1998. In addition, our work showed that the average amount of time it took FPI to ship products in all but one of the product categories decreased from 1996 to 1997.

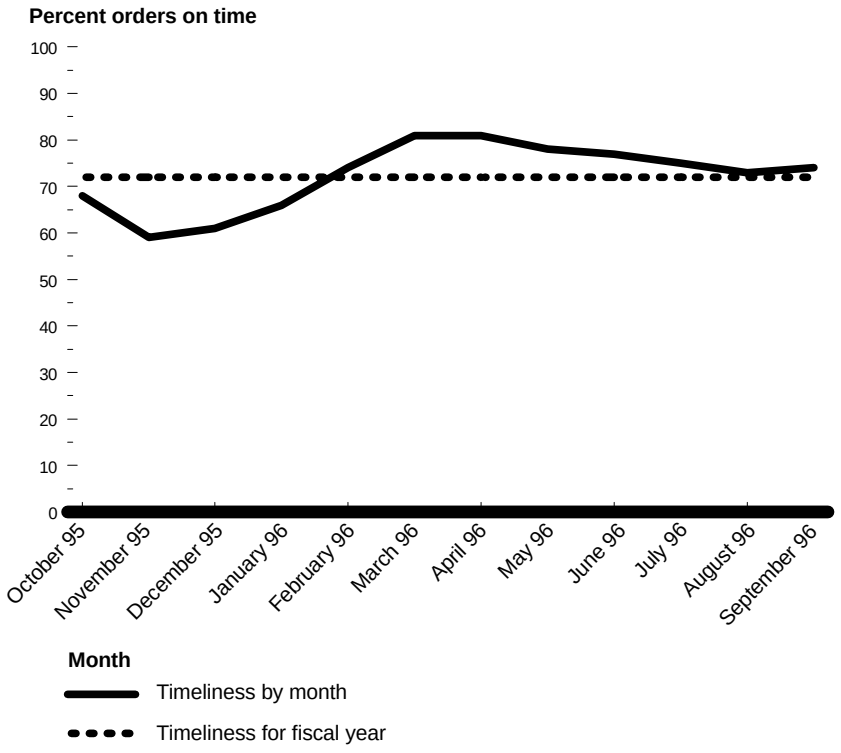
These statistics provide insights into FPI delivery performance, such as the variation by product category and customer agency. However, it is important to recognize that they likely overstate timeliness because they

did not account for shipping time for orders with due dates specified as the day the order should arrive at its destination and not the day by which the order should be shipped. As a result, our analysis, as well as FPI's evaluations of timeliness, considered all shipments to be on time if they left the factory on or before the due date. In addition, our review of 109 randomly selected orders showed that over one-half of them had due dates in FPI's system that were later than what customers had originally requested. Because of limited documentation, we could not always determine the reasons due dates had changed or whether customers were notified of the reasons for the changes and approved of them. Furthermore, although the results for these 109 orders were not projectable to the universe of FPI orders, they raised questions about which due dates should be used to measure timeliness, especially from the customer's perspective. If customers are not satisfied with due dates or if this limitation is not reflected in the analysis, the usefulness of any timeliness evaluations that rely on them comes into question.

Statistics on Timeliness

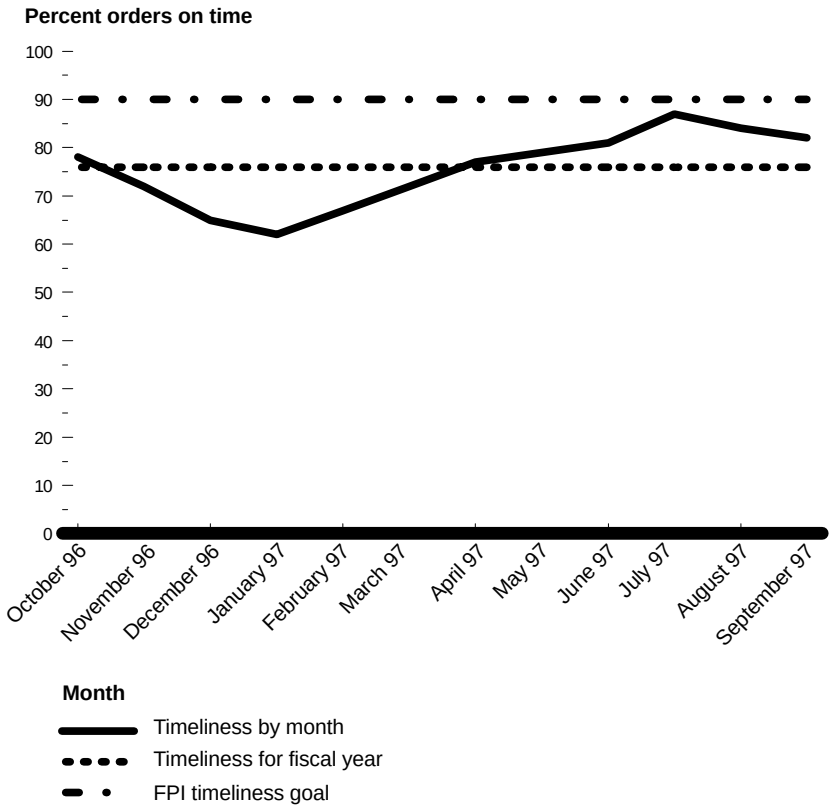
FPI shipped 72 and 76 percent of customer orders on or before their due dates in fiscal years 1996 and 1997, respectively. FPI improved its performance in the latter months of fiscal year 1997, reaching 87 percent for July 1997. In fact, our analysis showed that 8 of the 12 months in fiscal year 1997 had better on-time delivery performance than the same months in fiscal year 1996. It should be noted, however, that timeliness did decrease to 84 and 82 percent, respectively, for August and September of 1997, and FPI did not meet its 90 percent on-time delivery goal in any of the months in 1997. For the 2-year period, timeliness ranged from a low of 59 percent in November 1995 to a high of 87 percent in July 1997. On average, 6,663 orders were due in each month of 1996 and 1997, ranging from 5,057 in February 1996 to 8,227 in September 1997. These orders covered the range of products FPI manufactures, as well as services, such as engine repair, data entry, and furniture refinishing. Figures 1 and 2 and tables I.1 and I.2 in appendix I show the results of our analysis by month for fiscal years 1996 and 1997.

Figure 1: FPI Timeliness for Fiscal Year 1996



Source: GAO analysis of FPI data.

Figure 2: FPI Timeliness for Fiscal Year 1997



Source: GAO analysis of FPI data.

FPI's six major product categories—data graphics,[3] electronics, furniture, metals, systems furniture, and textiles—showed some variation in delivery performance. Our analysis showed that factories producing metals—which include metal shelving, lockers, and storage cabinets—were the most timely in 1996 at 86 percent. Factories producing furniture—which includes desks, bookcases, and ergonomic chairs—were the least timely in 1996 at 66 percent. In 1997, factories producing systems furniture were the most timely at 85 percent, and factories producing electronics—which include cables, connecters, and circuit assemblies—were the least timely

[3]The data graphics category includes signage, printing, and data entry, as well as some other miscellaneous products and services, such as optics, brushes, and laundry services.

at 73 percent. Median production times in 1996 ranged from 23 days for data graphics factories to 102 days for factories producing furniture. In 1997, production times ranged from 14 days for data graphics factories to 89 days for factories producing furniture. For 1997 as a whole, none of the averages for the six product categories met FPI's 90-percent goal. However, timeliness in four of the six product categories improved from 1996 to 1997; and production time decreased in every product category except metals, where it increased slightly. Table I.3 in appendix I shows the results of our analysis by product category for 1996 and 1997, as well as some examples of the types of products under each category.

Our analysis by customer agency showed wide variations in performance. To examine the data by agency, we focused on the top buyers of FPI products according to FPI's fiscal year 1996 sales report. Orders shipped on or before the due dates to different customer agencies ranged from a low of 47 percent for VA orders to a high of 88 percent for federal judiciary orders in 1996. In 1997, VA and the federal judiciary were again the lowest and highest at 47 and 92 percent, respectively. Table I.4 in appendix I shows the results of our analysis by customer agency for 1996 and 1997.

In addition, we analyzed products from FPI's "quickship" program. FPI guarantees that it will ship products in this program within 30 days of receipt of agencies' orders. Products in FPI's quickship catalogue include certain types of ergonomic chairs and other furniture, linens, clothing, targets, and traffic signs. Despite FPI's guarantee that it will ship these products within 30 days, we found that only 75 and 70 percent of quickship items were shipped within 30 days or less in fiscal years 1996 and 1997, respectively. Our analysis also showed that only 79 and 63 percent of the due dates for quickship products that were in FPI's system for fiscal years 1996 and 1997, respectively, were within the 30-day time frame.

As mentioned before and explained in detail in appendix II, we generally followed the approach FPI uses to define orders when evaluating timeliness, because agency orders vary tremendously, often involving multiple products and due dates. On-time delivery was one of several performance indicators—which include sales and earnings, inventories, and inmate staffing—that FPI updated on a regular basis. FPI monitored on-time delivery performance on a monthly basis and by product category and factory. However, we noted during our review that in evaluating timeliness, FPI did not track performance by customer agency. The monthly trend shown in our analysis for 1997 (fig. 2) generally matched FPI's results. However, FPI's results were slightly higher—by an average of

just over 2 percent for the months in 1997. On the basis of discussions with FPI staff, we determined that this was likely due to two minor differences between our analysis and FPI's.

First, as is discussed in appendix II, we did not group the orders, as we defined them, by factory as FPI does for its evaluations, because we were not assessing the performance of individual factories from month to month. The effect of this added grouping was that the base number of orders FPI used was higher, and slightly more of these additional orders were counted as being on time rather than late. This accounted for most of the difference between the two analyses. Second, FPI's analysis included blanket orders, which have regular shipments over an extended period of time. These orders make up about 3 percent of the orders, but they involve a large volume of data. Early in our review, we decided to request data only on regular orders, excluding the blanket orders, to minimize the amount of data we were requesting, which ultimately included over 600,000 line items.

For the first half of fiscal year 1998, FPI's timeliness statistics showed that about 85 percent of the orders were on time in October and November. In December and January, the percentages went down to 79 and then 78 percent and then increased to 83 and 89 percent in February and March, respectively. According to FPI officials, timeliness reached 90 percent in April 1998. As mentioned before, FPI set a goal of reaching 98 percent on-time delivery in fiscal year 1998.

Statistics Did Not Account for Shipping Time

A limitation of our analysis and FPI's timeliness evaluations is that they did not account for shipping time for due dates specified by customers as the day the order should arrive at its destination. Due dates specified by customers can be origin—meaning that the orders should be shipped by the due date—or destination, meaning that the orders should arrive at the customer's location by the due date. FPI had data on estimated shipping times for only 18 of its 96 factories that we could have used in our analysis, and we found that several of the other factories received orders with destination due dates. Estimated shipping times for the 18 factories ranged from 3 to 10 days. In addition, FPI staff who wrote FPI's computer program for evaluating timeliness said they had problems developing a workable approach for accounting for shipping time where appropriate. In the absence of data or a workable approach for incorporating shipping time, our analysis, as well as FPI's timeliness evaluation, considered all

shipments to be on time if FPI's data showed that they left the factory on or before the due date.

The FPI official who compiled the performance indicators acknowledged that the inability to account for shipping lead times was a fault in FPI's system. This official said that FPI's efforts to measure timeliness have always been hampered by the fact that FPI never knows exactly when the customer receives the products. The official said that subsequent FPI efforts to estimate shipping time have been unsuccessful. The official indicated that ideally, orders with destination due dates could be flagged as they come in, and a standard process could be used to estimate shipping time for incorporation into the due date, depending on the type of order.

Because we could not account for shipping time for orders with destination due dates, our analysis and FPI's timeliness evaluations likely overstate timeliness because they treated every due date as an origin date. Although we could not determine how much our statistics on timeliness would decrease if we could account for shipping time where appropriate, our work indicated that accounting for shipping time would have some impact. First, although our data were not projectable, we found that 53 of the 109 orders we randomly selected to assess the data in FPI's system had due dates that customers had specified as destination. Second, as mentioned before, available data for 18 of the factories showed that estimated shipping times ranged from 3 to 10 days; and about 16 percent of the 428,000 line items that were on time in orders due in 1996 and 1997 were shipped on 1 of the 2 days prior to the due date or on the due date itself. In these cases, if the line items had destination due dates, they likely would have been late given the minimum estimate of 3 days for shipping time.

Original Customer-Requested Due Dates Were Being Changed

Our review of 109 randomly selected orders showed that 84 of them had due dates in FPI's order entry system that were different from what customers had originally requested. Specifically, 63 of the orders had due dates that were later than what customers originally requested, and 16 had due dates that were earlier. Five orders involved a combination of due dates for different line items that were both later and earlier than what customers originally requested. Differences between originally requested due dates and the later due dates in FPI's system ranged from 2 to 333 days, and differences for due dates that were earlier ranged from 1 to 58 days.

Only 25 of the 109 orders had due dates in FPI's system that reflected what the customers had originally requested.

Of the 68 orders with due dates that were later than what customers requested—the 63 with dates that were later plus the 5 with a combination of later and earlier due dates—available documentation and information in FPI's system showed that 7 due date changes were initiated or caused by the customer. Nineteen had due dates that were later than what the customer had originally requested, because FPI's production capacity was overloaded at the time the order was placed, or FPI determined that the lead time the customer specified was insufficient. In the remaining 42 cases, the documentation FPI provided for the orders and information in its system did not explain the reasons the due dates were later than what the customers had originally requested. FPI researched the 42 orders and provided an explanation for most of the differences. These explanations included customers specifying insufficient lead times for production, FPI's production capacity being overloaded at the time the order was placed, and factory or project managers changing due dates for no specified reasons. The officials indicated that in the orders for which due dates were made earlier than the customer requested, FPI most likely was able to provide the product sooner than the customer anticipated.

FPI's Chief Operating Officer said that one reason due dates in FPI's system could have been later than what customers originally requested was that FPI may have determined that the customers' due dates were inconsistent with production lead times at the time the order was placed, not accepted the customer-requested due dates, and revised them to reflect production lead times. In these instances, the Chief Operating Officer said that FPI considered the revised due dates to be the original due dates, not the customer-requested due dates that were not accepted. In contrast, he said that a true due date change, from FPI's perspective, would involve FPI accepting a customer order and its accompanying due dates and then revising them after acceptance. However, he pointed out that in such instances, the original due dates should remain unchanged in FPI's system unless the customer initiated the due date revision.

Officials at the Customer Service Center in Lexington, KY, pointed out that FPI's production lead times and capabilities can vary throughout the year. For example, in a peak time such as the end of the fiscal year, production lead times for some product groups can increase from 90 to 150 days. These officials said they made every effort to meet customers' needs through negotiating due dates, offering alternative products and discounts,

and offering waivers from buying FPI products if necessary. Furthermore, they said that in many cases, they maintained close working relationships with customers; and for large orders, field representatives from the individual factories were often in contact with customers regularly.

Our review also showed that there was limited documentation or information in FPI's system showing that customers had been notified that the due dates they requested could not be met, the reasons for the changes, and that customers approved of the changes. FPI officials told us that it is their policy to notify the customer and request approval if customer-requested due dates cannot be met, although they added that if they received no response from the customer, they assumed that the new dates they developed were acceptable. As mentioned before, 68 orders had due dates that were later than what customers requested—available information showed that changes for 7 of these were initiated by or caused by the customer. Of the 61 remaining orders, 23 had available documentation or information in FPI's system showing that customers were notified that the due dates they requested could not be met and the reason for the changes.

In another 24 cases, FPI provided us with order acknowledgement letters they said were sent to customers. These acknowledgement letters identified the new due dates FPI had developed on the basis of its production lead times and capabilities at the time the order was placed. However, the acknowledgement letters did not provide the customers with the reasons the due dates they requested could not be met or ask for the customers' approval of the changes. In addition, these acknowledgement letters gave no indication that FPI did not accept the customers' requested due dates or that the dates were inconsistent with FPI's production lead times. For the other 14 orders, FPI had no documentation or information in its system showing that customers were notified that the due dates they requested could not be met. For the 61 orders, documentation or information in FPI's system showing that the customers had approved of the date changes was available in only 11 of these cases.

In doing our work, we also found that in 16 of these 61 orders, FPI was able to ship the orders by the original customer-requested due dates, despite the due date changes that occurred. However, FPI missed original customer-requested due dates in the rest of the orders, except for one where we could not make a determination because we could not identify the exact due date. In addition, FPI missed revised due dates that were in its system in 24 of these orders. The results of our work related to the 109

orders were not projectable to the universe of agency orders; however, they provided us with insights into the COED data, as well as into FPI delivery practices.

We recognize, as FPI officials pointed out, that due dates initially requested by customers may be inconsistent with production capabilities and that a number of valid reasons can exist for due date changes. In addition, FPI may encounter increases in workload and other scheduling difficulties, as any supplier would, at times when customers are under pressure to meet their agencies' mission needs. As a result, arriving at mutually agreeable due dates may involve negotiation and compromise between the supplier and the customer, whether the supplier is FPI or a commercial vendor. This is particularly so in orders placed with commercial vendors involving indefinite delivery type contracts. FAR Sections 16.501-2 through 16.504 describe these types of contracts as having delivery schedules not known at the time of contract award and deliveries to be scheduled by placing orders with the contractor. Nonetheless, the lack of documentation showing the reasons due dates in FPI's system were different from what customers requested and whether customers were notified of these reasons and approved of the changes impeded our ability to assess the appropriateness of many of the due dates for the sample of orders. Although the results for these 109 orders were not projectable to the universe of all FPI orders, they raised questions about which due dates should be used to measure timeliness, especially from the customer's perspective. FPI officials said that they could do a better job documenting why customer-requested due dates could not be met and whether the customers were notified of the reasons for changes and approved of the new due dates.

Selected Customer Agency Views on FPI Delivery Issues

Just as our analysis by customer agency showed wide variations in FPI delivery performance by customer agency, officials within DLA, FSS, SSA, and VA who were involved in buying FPI products had mixed views on FPI's performance in meeting delivery due dates, as well as on related FPI delivery practices. Headquarters officials in FSS and DLA, officials at two of the DLA supply centers, and an official in the Office of Property Management at SSA for the most part spoke positively about FPI's overall delivery performance. In contrast, officials from VA, FSS' National Furniture Center, one of the DLA supply centers, and SSA's Office of Operations, Contracts, and Grants had negative experiences. Officials from DLA, FSS, and one of the two offices we contacted in SSA said that delivery due dates were driven primarily by FPI production capabilities and not agency

mission needs—some of the officials expressed concern with this practice. VA officials said that it seemed that FPI attempted to work with them to reach mutually agreeable due dates; however, these officials said that FPI generally performed poorly in meeting those dates. The views expressed by these customer agency officials may not be representative of the views of all FPI customers. However, despite FPI's goal to promote total customer satisfaction, our work showed that certain key agency customers were clearly dissatisfied with FPI's delivery performance and practices.

These agencies—DLA, FSS, SSA, and VA—all said they monitored timeliness while administering contracts for all vendors, including FPI.[4] Although some components within these agencies had data on FPI and commercial vendor delivery performance, none of the agencies had overall data comparing FPI performance to that of commercial vendors. Nonetheless, contracting officers' leverage in resolving procurement problems was different for FPI from the leverage contracting officers had for private sector vendors, because the rules that typically govern contracts with commercial vendors do not apply to FPI. However, agencies can use performance information to seek waivers from FPI so they can buy products commercially and can seek remedies, including damages for late deliveries.

Views on FPI Delivery Performance Were Mixed

As mentioned before, our analysis showed wide variation in FPI performance by customer agency. Our discussions with selected customer agency officials we contacted from DLA, FSS, SSA, and VA also reflected this mixed FPI performance by agency. Headquarters FSS officials said that FPI's delivery performance had generally improved over the last 10 years and that overall, FPI met FSS' needs. FSS did not have overall data comparing FPI delivery performance to that of commercial vendors.[5] FSS officials did say, however, that the workload associated with addressing delinquent FPI deliveries was significant. Officials at FSS' National Furniture Center (NFC) in Arlington, VA, had more significant problems and discussed the increased workload and their general dissatisfaction with FPI delivery performance. This commodity center acts as an agent for federal

[4]In this report, we use the term "contract" to include agency agreements with FPI.

[5]We reported in March 1998 (GAO/GGD-98-50, Mar. 16, 1998) that both commercial vendors and FPI contracts were on FSS' Contractor Alert List (CAL), which identifies contractors that fail to meet some portion of their contract terms and are considered to be a higher risk to the government as future contractors. FSS officials told us that as of August 1997, 17 of FPI's 60 contracts with FSS were on the CAL because of timeliness problems. Being placed on the CAL for timeliness problems means that less than 90 percent of the orders for a contract were on time.

customers who buy furniture—FPI's largest product line—through GSA's special order and multiple award schedules programs.

FSS/NFC officials said that FPI delivery performance was a big problem for the center. They said that the additional workload caused by having to address FPI delivery problems exceeded staff resources available and that this was compounded by FPI's nonresponsiveness, such as not returning phone calls. They believed that FPI was not sensitive to the due dates it agreed to with customers nor to the needs of customers ordering furniture. They added that customers often did not want to acquire furniture from FPI because of previous experiences when FPI was unreliable. FSS/NFC staff provided us with data showing that for fiscal year 1997, FPI delivered 69 percent of the 12,688 line items of furniture the center ordered on time.

DLA headquarters officials, as well as officials at two of the three supply centers we contacted, were generally pleased with FPI delivery performance and generally thought it compared favorably with that of commercial vendors. Although these officials said that DLA did not have overall data comparing FPI performance to that of commercial vendors, they said that DLA routinely stocked extra products, and the officials did not perceive that their mission had been hampered by FPI delivery performance. Despite this, officials from the Defense Supply Center Philadelphia (DSCP) said that FPI was unable to meet the needs of the Army in Bosnia for body armor. According to FPI officials, FPI experienced difficulty in obtaining raw materials from its vendors on these contracts. DSCP's Deputy Director of Clothing and Textiles said that this example illustrated the danger of allowing a mandated supplier to be the sole provider of a product manufactured to military specifications. This official said that commercial suppliers cease manufacturing products when this happens, because they know federal agencies must buy from the mandatory source and there is an insufficient civilian market for many military products. Because of this experience, DSCP now has a back-up supplier for body armor.

Data from two of the DLA supply centers we contacted—DSCP and the Defense Supply Center Columbus (DSCC)—showed mixed FPI performance. DSCP reported that FPI's overall delinquency rates on all products were 29 and 21 percent in fiscal years 1996 and 1997, respectively. The commercial supplier rates for this center were 8 and 5 percent, respectively. DSCC provided data from electronics acquisitions that showed that FPI performed better overall in timeliness and quality combined than commercial vendors—98 out of 100 points—compared to a score of 79 out

of 100 for all commercial vendors. Defense Supply Center Richmond (DSCR) officials did not have any data on FPI performance, but they said that their experience had been generally positive.

FPI's two main buyers within SSA—the Office of Operations, Contracts, and Grants (SSA/OCG) and the Office of Property Management (SSA/PM)—had differing views of FPI performance. SSA/OCG handles small orders for furniture that are sent to FPI on an as-needed basis, and SSA/PM handles mostly systems furniture orders that are scheduled up to a year in advance. The Director of the Center for Ergonomic Property in SSA/PM said that FPI had not missed a delivery due date since 1993 and had sometimes exceeded the specified time frames. On the other hand, the Director of Operations Contracts in SSA/OCG told us that commercial vendors were much more responsive than FPI and delivered products in a shorter time period. This official indicated that although the effect of missed delivery dates was fairly negligible, SSA/OCG was generally dissatisfied with the requirement to do business with FPI because of problems with timeliness, as well as other factors.

Although VA has not developed overall data on FPI delivery performance, headquarters officials from the Office of Acquisition and Materiel Management, as well as program officials with the Veterans Health Administration (VHA), said that FPI's delivery performance had been a continuing, significant problem. Products with delivery problems have been furniture, seating, and signage for VA's major renovation of its headquarters building and other facilities, textile products for the day-to-day operating needs of VHA medical centers, and patient care requirements for prescription eyeware. For example, for the renovation of VA's headquarters building between 1992 and 1996, VA requested a waiver for the entire requirement from FPI because of past performance problems. FPI granted the waiver for the systems furniture portion of this project but denied the waiver for the case goods (such as credenzas and bookcases), seating, and signage. VA contracting officials responsible for this project said that a commercial supplier met the delivery requirements for the systems furniture; however, FPI delivery performance on the remaining requirements was poor. In addition, they said that many of the products were defective and unacceptable, and customer support was almost nonexistent.

According to the VHA officials we contacted, another area with significant delivery problems was prescription eyeware for veterans. According to an official with VHA Patient Care Services, many commercial suppliers were

able to provide prescription eyeglasses in 5 to 7 days; and a Navy optical laboratory, which meets DOD's needs for eyeglasses, was able to provide them to military personnel in 4 to 6 days. An official with the American Optometric Association said that wholesale laboratories now have an average turnaround time of about 2 days for complete jobs. Under FPI's mandatory source status, VA believed it was required to purchase eyeglasses from FPI, until an opinion was issued by VA's Office of General Counsel in July 1997 concluding that FPI was not a mandatory source of supply for VA's procurement of eyeglasses. VA's experience with FPI showed that the private sector provided much more timely delivery. VA officials told us that in 1993, they requested a blanket waiver from FPI so they could buy eyeglasses commercially. FPI did not approve the blanket waiver but said that individual medical centers could request waivers, and FPI would review them on a case-by-case basis. Consequently, numerous individual hospitals tracked FPI performance and requested waivers. For example, this official said that the VHA medical center in Pittsburgh, PA, monitored FPI deliveries over a 2-month period in 1996 to support requesting a waiver from FPI and found that although FPI had promised the eyeglasses within 7 days of receiving the order, only 17 percent were delivered in that time period. In fact, he said that 32 percent of the deliveries took more than 20 days.

In light of the problems VA has had with FPI delivery performance, as well as product quality and pricing, an official with VA's Environmental Management Service said that VA had submitted a legislative proposal to the Office of Management and Budget (OMB) each year since 1988 to exempt VA from FPI's mandatory source requirement for certain products. OMB has not approved any of these proposals. In July 1997, VA's Office of General Counsel issued an opinion that FPI is not a mandatory source for VA's purchase of eyeglasses. The opinion concluded that VA could procure eyeglasses from the commercial marketplace because 38 U.S.C. 8123 allows VA to procure prosthesis devices in a manner the Secretary determines proper without regard to any other provision of law and VA has defined eyeglasses as a prosthesis device. According to FPI's Chief Operating Officer, FPI did not dispute this decision; therefore, VA may now purchase eyeglasses commercially. FPI officials said that seven VA hospitals were still buying eyeglasses from FPI and provided data indicating FPI's on-time delivery for these hospitals, using a 7-day delivery standard, ranged from 71 to 86 percent for the period October 1, 1997, through May 21, 1998.

Due Dates Often Reflected FPI Production Capabilities

As discussed earlier, FPI officials said that due dates were often driven by FPI's production lead times. Officials from DLA, FSS, and one of the two offices we contacted in SSA also said that delivery due dates were driven primarily by FPI production capabilities and not agency mission needs. Headquarters FSS officials pointed out that its General Services Administration Acquisition Regulation (GSAR) specifically states that "contracting officers shall establish delivery schedules based on the lead time required by FPI."[6] These FSS officials said that due dates were set on a case-by-case basis and usually involved working with FPI to reach a mutual agreement. They said that when contracting with FPI and developing due dates, their approach was to weigh heavily on FPI's ability to deliver. One top FSS official indicated that from a practical standpoint, it would not make sense to set due dates that FPI factories could not meet.

Although the headquarters FSS officials indicated that FSS worked with FPI within its production capabilities, FSS/NFC officials viewed the due date setting process with FPI as more problematic. FSS/NFC's officials said that for certain furniture products, FPI dictated the due dates to FSS/NFC staff. They said that agencies often came to FSS/NFC for contracting support when purchasing furniture from FPI. FSS/NFC staff tried to negotiate due dates with FPI, but the officials said that FPI's proposed due dates rather than the customers' were generally used in the contracts. They said that better prices, better quality furniture, and better delivery times were often available through commercial suppliers on FSS' schedules.

DLA headquarters officials said that the due dates were driven mostly by FPI production capabilities, but they did not view this as a problem. For the most part, these officials said that DLA planned its orders well in advance and often stocked extra levels. They said that DLA inventory managers and DLA's automated systems alerted contracting officers when it was time to make an order to FPI so that future needs would be met. These officials said that there were exceptions to this practice, such as when a critical need arose. In these cases, they negotiated due dates with FPI. Although DLA officials focused on the fact that they stock items and are able to work within FPI's production capabilities, we have reported on several best practices that have been successfully used in the private sector to reduce inventory levels and logistics costs.[7] In general, these practices provide

[6]This requirement, in GSAR at 48 C.F.R. Part 508, entitled "Required Sources of Supplies and Services," applies only to GSA. The other agencies, DLA, SSA, and VA, do not have a similar requirement in their acquisition regulations.

[7]Inventory Management: Greater Use of Best Practices Could Reduce DOD's Logistics Costs (GAO/T-NSIAD-97-214, July 24, 1997).

inventory users with a capability to order supplies as they are needed and then to deliver those items directly to the customer within hours after the order is placed. DLA has successfully used this approach in some areas. If DLA begins relying more on these practices, it would seem that the due dates it sets with its suppliers—including FPI—would take on greater importance.

The Director of the Center for Ergonomic Property in SSA/PM was the only official we contacted who said that due dates were driven by agency mission needs. This official said that the delivery schedules are set to accommodate SSA installation needs and that FPI always meets those due dates. On the other hand, the Director of Operations Contracts in SSA/OCG said that due dates were mostly dependent on FPI production capabilities and less so on the particular need of the requesting office within SSA. This official added that on the basis of past experience, SSA/OCG expected that FPI would miss the due dates that FPI itself established. For example, this official said that on August 28, 1996, SSA/OCG placed an order for 83 chairs and agreed with FPI to a due date of November 15, 1996. SSA/OCG then received a notice from FPI on September 6, 1996, indicating that it was unable to obtain the raw materials needed to produce the chairs and that the new due date was December 3, 1996, to which they agreed. FPI was then unable to ship the chairs until January 11, 1997. The SSA/OCG official added that missed due dates often involved partial shipments, in which most of the order arrived on time but some small portion was late. This official also said that FPI often would change due dates, and the procurement officer would not find out about the changes until after the requesting office did not receive the expected delivery.

VA officials did not have a view on whether due dates were primarily driven by production capabilities or agency mission needs. VA officials said that it seemed that FPI attempted to work with them to reach mutually agreeable due dates. However, they said that FPI generally performed poorly in meeting those due dates, which our analysis of FPI's data confirmed with regard to VA.

As mentioned before, we recognize that arriving at mutually agreeable due dates may involve negotiation between the supplier and the customer, whether the supplier is FPI or a private vendor. In addition, the views expressed by the agency officials we contacted about the due date setting process, as well as FPI's delivery performance overall, may not be representative of the views of all FPI customers. However, meeting agencies' due dates is important for customer satisfaction, and our work

showed that certain key agency customers were clearly dissatisfied with FPI delivery performance and practices. Also, as mentioned before, FPI monitored on-time delivery performance on a monthly basis and by product category and factory; however, it did not monitor performance by customer agency. This may have made it difficult for FPI to recognize when certain agencies or agency components were experiencing a low rate of timeliness with FPI deliveries.

Agencies' Use of Performance Information and the Waiver Process

DLA, FSS, SSA, and VA all said they monitored timeliness while administering contracts for all vendors, including FPI. Although some components within these agencies had data on FPI and commercial vendor delivery performance, none of the agencies had overall data comparing FPI performance to that of commercial vendors. Nonetheless, as we reported in March 1998, contracting officers' leverage in resolving procurement problems was different for FPI from the leverage the contracting officer had for private sector vendors, because the rules that typically govern contracts with commercial vendors do not apply to FPI.[8] Further, when agencies develop varying types of information on current and past performance of vendors, including FPI, there are major distinctions in how agencies can use this information.

Specifically, for commercial vendors, agencies can use past performance information showing timeliness problems as a factor to consider in the award of contracts. However, for FPI, agencies cannot use this information to deny awarding a contract to FPI because, under the law, FPI is a mandatory source of supply. Agencies can, however, use this information to negotiate with FPI on delivery time frames or to seek a waiver from FPI so they can buy from a commercial vendor that can better meet their delivery requirements. As with awarding contracts, agencies cannot use current performance information to cancel or terminate an existing contract with FPI unless agencies request cancellation or termination provisions during the negotiation process and FPI agrees to include them in the contract. According to FPI, agencies can, however, use current performance information to seek other remedies against FPI, including damages for late deliveries. We did not determine the extent to which agencies seek, or FPI agrees to authorize, these remedies; nor did we compare or evaluate the use of remedies by contracting officers in connection with contracts with FPI or commercial vendors.

[8]GAO/GGD-98-50, Mar. 16, 1998.

Regarding waivers for reasons related to timeliness, our analysis of FPI waiver data showed that 36 and 29 percent of the 21,900 and 24,300 line items for which FPI had granted waivers in 1996 and 1997, respectively, were because FPI could not meet customers' time frames. Inability to meet customers' time frames was the most common reason FPI granted waivers in these years. FPI also provided data showing that it approved 85 and 83 percent of the line items for which customers requested waivers for any reason in fiscal years 1996 and 1997, respectively. Our discussions with agency officials showed that they generally do not seek waivers for reasons related to timeliness, with the exception of VA. FSS officials said that their staff typically did not request waivers but instead worked with FPI to find an acceptable solution short of requesting a waiver. This may have involved extending the due dates for orders or requesting that FPI change the production point. An FSS official said that using this approach, although resource intensive, was often in the best interest of the customer, because the customer would get the product sooner than if FSS had to obtain the waiver and initiate a new procurement.

FSS/NFC officials explained that even though NFC experienced frequent, poor delivery performance on contracts with FPI, it typically did not seek waivers, because its staff had a large workload and the time invested attempting to get a waiver would be unproductive. They added that in many instances, FPI did not respond to FSS/NFC staff efforts to coordinate on delinquent deliveries. In these cases, FSS/NFC was left without any remedies other than to wait until FPI finally shipped the products.

DLA headquarters officials said that they typically did not seek waivers, because they planned for deliveries far in advance; they had a good working relationship with FPI that promoted reliable performance; and their procurement staff visited the factories to detect and avert delays as they developed. However, these headquarters officials and the three supply centers said that DLA had on occasion requested waivers in the past for such reasons as FPI's inability to produce an item or DLA's desire to purchase part of the requirement commercially.

Both SSA officials we contacted said that they seldom sought waivers for timeliness, but SSA/OCG used the waiver process for reasons related to price. The SSA/OCG official we spoke with estimated that waivers were requested in 10 percent of SSA's potential purchases from FPI, mostly for reasons related to price. However, FPI granted a waiver on one major systems furniture order in 1995, because arbitrators for SSA's unionized

employees required the installation of systems furniture by a certain date in 1997 that FPI could not meet.

VA officials said that they had sought waivers from buying FPI products for reasons related to timeliness, including the headquarters renovation example mentioned before. However, the VA officials we contacted said that because their agency is so decentralized, they could not comment on whether VA typically sought waivers for reasons related to timeliness. They said, however, that if they had gotten a waiver for the casegoods, seating, and signage for the headquarters renovation, they believed they would not have had nearly as many problems. They also said that the process of getting waivers was resource intensive. For example, prior to VA's legal opinion that eyeglasses were not subject to the mandatory source requirement, they said that VA's medical centers had to individually develop data and justify waivers when they wanted to purchase prescription eyeware from commercial sources because of concerns about FPI timeliness.

Conclusions

FPI officials recognize the importance of delivering products and services on time and have data used to track delivery performance and an approach for evaluating results, including on-time goals for fiscal years 1997 and 1998. Although FPI as a whole did not meet its 90 percent on-time delivery goal in any month during 1997, it improved its delivery performance and production times in that year, and FPI data showed improvements in 1998. Our statistics, as well as FPI's evaluations of timeliness, provided insights into delivery performance and identified areas needing improvement. However, it is important to recognize that the statistics likely overstate on-time delivery performance, because they did not account for shipping time for orders with destination due dates. FPI did not have data or a workable approach that would allow us to account for shipping time for such orders. Accounting for shipping time where appropriate would improve the accuracy of future evaluations of timeliness and provide a better picture of performance.

Furthermore, over one-half of 109 randomly selected orders showed that the due dates in FPI's system were later than what customers had originally requested; and FPI had limited documentation explaining the differences and whether customers were notified of the reasons for the changes and approved of the revised due dates. We recognize, as FPI officials pointed out, that due dates initially requested by customers may be inconsistent with production capabilities regardless of whether FPI or a private vendor

is the supplier, and a number of valid reasons can exist for due date changes. However, our work raised questions about which due dates should be used for measuring timeliness, especially from the customer's perspective. Better documentation could have given us, as well as FPI, greater insights into the reasons for due date changes and whether the due dates in its system were appropriate for measuring timeliness.

Just as our analysis showed a wide variation in FPI performance by customer agency, officials within DLA, FSS, SSA, and VA had mixed views on FPI's performance in meeting delivery due dates, as well as on FPI delivery practices overall. These views ranged from very negative to extremely positive. Officials from DLA, FSS, and one of the two offices we contacted in SSA said that delivery due dates were driven primarily by FPI production capabilities and not agency mission needs, and some of the officials expressed concern with this practice. We recognize that arriving at mutually agreeable due dates may involve negotiation between the supplier and the customer, whether the supplier is FPI or a private vendor. In addition, the views expressed by the agency officials we contacted about FPI's delivery performance overall, as well as the due date setting process, may not be representative of the views of all FPI customers. However, our work showed that (1) certain key agency customers were clearly dissatisfied with FPI delivery performance and, to some extent, with its practices with regard to setting due dates; (2) FPI's delivery performance varied widely by customer agency; and (3) FPI did not evaluate delivery performance by customer agency. Given this and FPI's stated commitment to total customer satisfaction, there appear to be opportunities for FPI to begin evaluating and monitoring delivery performance by customer agency and to promote better customer relations by attempting to resolve the specific concerns key customers have with delivery performance.

Recommendations

In order for FPI to have a more accurate and reliable measure of timeliness for use in evaluating its delivery performance, we recommend that the Director of BOP direct FPI's Chief Operating Officer to

- identify orders with destination due dates and account for shipping time for these orders when evaluating delivery performance;
- develop and implement an approach for documenting the reasons for due date revisions, whether customers were notified of the reasons for changes, and whether customers approved of revised due dates; and

- appropriately consider due date revisions and whether customers approved of them in evaluating timeliness.

In light of the concerns raised in this report by some of the top officials from FPI's major buying agencies and in light of FPI's stated broad commitment to total customer satisfaction, we also recommend that the Director of BOP direct FPI officials to contact these key customers to begin the process of resolving problems and improving relations. In addition, the Director of BOP should direct FPI's Chief Operating Officer to begin evaluating and monitoring delivery performance by customer agency to develop data to use in its efforts to achieve greater customer satisfaction.

Agency Comments

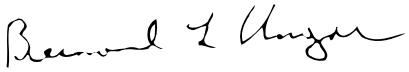
In written comments dated June 1, 1998, BOP agreed with the report's conclusion that delivery performance is improving but problems remain and said that BOP would implement the report's recommendations. In commenting on the report, BOP specifically acknowledged that FPI needs to improve its documentation and customer notification processes when customer due dates cannot be met or are changed. BOP also provided its perspective on some of the other issues raised in the report. First, BOP acknowledged the importance of on-time delivery and highlighted the actions FPI is taking to improve its performance and the progress it is making. Second, BOP said that FPI would like to know how it would compare to some of the larger vendors in delivery performance and that FPI believes that for complex projects, issues related to delivery performance are not unique to FPI. Third, FPI was encouraged that some officials in DOD—FPI's largest customer—were generally pleased with FPI's delivery performance. BOP also noted that FPI has informed DOD that FPI will no longer be the sole provider of "Go to War" items unless DOD specifically makes such a request. Appendix III contains the full text of BOP's written comments.

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

As agreed with your offices, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from its issue date. At that time, we will send copies of this report to the Attorney General, the Director of BOP, the Chief Operating Officer of FPI, the

Director of the Office of Management and Budget, the Administrator for Federal Procurement Policy, and the heads of the customer agencies we contacted. We will also make copies available to interested congressional committees, as well as others on request.

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



Bernard L. Ungar
Director, Government Business
Operations Issues

Contents

Abbreviations

BOP	Bureau of Prisons
CAL	Contractor Alert List
COED	customer order entry database
DLA	Defense Logistics Agency
DOD	Department of Defense
DOJ	Department of Justice
DSCP	Defense Supply Center Philadelphia
DSCC	Defense Supply Center Columbus
DSCR	Defense Supply Center Richmond
FAR	Federal Acquisition Regulation
FPI	Federal Prison Industries
FSS	Federal Supply Service
GSA	General Services Administration
GSAR	General Services Administration Acquisition Regulation
HHS	Department of Health and Human Services
NFC	National Furniture Center
OMB	Office of Management and Budget
SSA	Social Security Administration
SSA/OCG	SSA/Office of Operations, Contracts, and Grants
SSA/PM	SSA/Office of Property Management
VA	Department of Veterans Affairs
VHA	Veterans Health Administration

Timeliness Statistics

Table I.1: FPI Timeliness by Month for Fiscal Year 1996

Month order due	Percent of orders shipped on or before due date
October 1995	68
November 1995	59
December 1995	61
January 1996	66
February 1996	74
March 1996	81
April 1996	81
May 1996	78
June 1996	77
July 1996	75
August 1996	73
September 1996	74
Timeliness for fiscal year 1996	72

Note: These statistics do not reflect shipping time for those orders that had destination due dates. In addition, these statistics are based on due dates from the customer order entry database. The limitations associated with these factors are discussed in the report.

Source: GAO analysis of Federal Prison Industries data.

Table I.2: FPI Timeliness by Month for Fiscal Year 1997

Month order due	Percent of orders shipped on or before due date
October 1996	78
November 1996	72
December 1996	65
January 1997	62
February 1997	67
March 1997	72
April 1997	77
May 1997	79
June 1997	81
July 1997	87
August 1997	84
September 1997	82
Timeliness for fiscal year 1997	76

Note: These statistics do not reflect shipping time for those orders that had destination due dates. In addition, these statistics are based on due dates from the customer order entry database. The limitations associated with these factors are discussed in the report.

Source: GAO analysis of Federal Prison Industries data.

Table I.3: FPI Timeliness by Product Category, Fiscal Years 1996 and 1997

	1996		1997	
Product category/examples	Percent of orders shipped on or before due date	Median production time (days)	Percent of orders shipped on or before due date	Median production time (days)
Data graphics (signs, printing, optics)	75	23	76	14
Electronics (cables, connectors, circuit assemblies)	74	37	73	16
Furniture (desks, bookcases, ergonomic chairs)	66	102	78	89
Metals (shelving, lockers, casters)	86	63	75	66
Systems furniture	75	97	85	78
Textiles (clothing, linens, mailbags)	77	52	83	49

Note 1: These statistics do not reflect shipping time for those orders that had destination due dates. In addition, these statistics are based on due dates from the customer order entry database. The limitations associated with these factors are discussed in the report.

Note 2: Median production times exclude quickship items, which FPI aims to ship within 30 days. Median production times for quickship items were 21 days in both 1996 and 1997.

Source: GAO analysis of Federal Prison Industries data.

Table I.4: FPI Timeliness by Customer Agency, Fiscal Years 1996 and 1997

Agency	Percent of orders shipped on or before due date in fiscal year 1996	Percent of orders shipped on or before due date in fiscal year 1997
Agriculture	74	80
Air Force	70	77
Army	72	75
Commerce	76	78
Defense Logistics Agency	66	71
Department of Defense (miscellaneous nonservice components)	69	77
Energy	77	83
Environmental Protection Agency	54	73
General Services Administration	77	74
Health and Human Services[a]	60	73
Housing and Urban Development	76	69
Interior	71	80
Judiciary	88	92
Justice	78	79
Labor	86	86
Marine Corps	71	73
Navy	69	73
Postal Service	86	91
State	55	70
Transportation	75	78
Treasury	72	72
Veterans Affairs	47	47

Note: These statistics do not reflect shipping time for those orders that had destination due dates. In addition, these statistics are based on due dates from the customer order entry database. The limitations associated with these factors are discussed in the report.

[a]FPI's system coded Social Security Administration (SSA) orders as Health and Human Services (HHS) orders; SSA became an independent agency in the executive branch in 1995. SSA orders accounted for over one-half of the orders in fiscal year 1997 that were coded as HHS.

Source: GAO analysis of FPI data.

Objectives, Scope, and Methodology

Our objectives were to (1) develop and assess statistics on FPI delivery performance and (2) obtain the views of selected customer agencies' procurement officials on FPI delivery practices. As part of this work, we considered FPI's efforts to track delivery performance and its practices with regard to setting due dates. Our work for the second objective primarily involved holding discussions with selected customer agency officials about their experiences with FPI delivery performance, the due date setting process, their efforts to monitor FPI delivery performance, and available remedies for late deliveries.

To meet our first objective, we obtained and analyzed computerized data involving over 140,000 agency orders for over 600,000 line items of products and services from FPI's customer order entry database (COED) for fiscal years 1996 and 1997.[9] FPI uses COED, which is maintained at its Customer Service Center in Lexington, KY, to track and record information on agency orders for products and services. Agency orders can contain one to several hundred line items. Each line item identifies a specific product and quantity and has a distinct due date. Large orders with many line items can have multiple products and due dates. Because orders vary tremendously, a key factor in determining whether orders are delivered on time is how an order is defined. For its own evaluations of timeliness, FPI groups line items within orders by due date and factory. FPI defines each of these groupings—which essentially are the shipments expected for an order from a given factory on a given date—as individual orders for the purpose of measuring timeliness. This approach allows FPI to track the performance of individual factories on a weekly and monthly basis.

For our analysis, we generally followed the approach FPI uses to define orders and developed timeliness statistics by month, year, product category, and customer agency. Specifically, we grouped the line items within each order by date and compared the shipping date for each line item with its due date, as FPI does for its timeliness indicator. If one of the line items within each grouping was late, that grouping, or order, was counted as late. This approach allowed us to develop monthly data that we could use to examine trends. We also developed data showing FPI's delivery performance for each of its major customer agencies using this approach. To identify these agencies, we analyzed FPI's fiscal year 1996 sales report.

[9]Because of concerns we had about the manageability of such a large volume of data, we did not request all the variables from COED and did not request data on blanket orders, which make up about 3 percent of the orders.

For our analysis by month, year, and customer agency, we did not group the line items by factory as FPI does because we did not focus on the performance of individual factories. However, we had to use this additional grouping when isolating orders from factories that produce products and services in six product categories—data graphics, electronics, furniture, metals, systems furniture, and textiles. We also developed timeliness statistics for products in FPI's quickship program. FPI guarantees that it will ship products in this program within 30 days of receipt of agencies' orders. Products in FPI's quickship catalogue include certain types of ergonomic chairs and other furniture, linens, clothing, targets, and traffic signs.

As part of our work, we also obtained and analyzed the results of FPI's internal timeliness measure for fiscal year 1997 and the first half of 1998. We compared FPI's results with our fiscal year 1997 analysis and reconciled any differences. We did not independently verify FPI's analysis for fiscal year 1998. We also examined how FPI accounts for shipping time for those orders where the due date is when deliveries should arrive at the customer's location, not the date by which they should be shipped. Due dates specified by customers can be origin—meaning that the orders should be shipped by the due date—or destination, meaning that the orders should arrive at the customer's location by the due date. In doing our work, we did not determine the reasons individual agency orders were delivered late or assess the effect of individual late deliveries on federal agencies. In addition, we rounded the timeliness statistics presented in this report to the nearest percentage.

We performed a limited reliability and validity check of FPI's COED data by comparing a sample of hard copy customer orders with the data in the COED system. According to an FPI official knowledgeable of customer orders, FPI received more than 60 percent of its orders by hard copy in fiscal year 1997. The remainder of the orders were submitted electronically. We did not attempt to validate any electronic orders because printouts with data from these orders that FPI showed us had much less information than the hard copy orders. We selected a random sample of 240 customer orders from orders that were placed in fiscal year 1997. This sample was designed to ensure that we selected orders that had many line items as well as orders that had only a few line items. In addition, we oversampled because we knew that many of the orders probably would have been placed electronically and would not have hard copies.

FPI sent us copies of the original customer orders and related documentation that were available, such as correspondence to and from customers, for 136 of the orders. Five of FPI's six major product categories were represented in these orders. Only electronics, which accounted for less than 7 percent of orders in fiscal year 1997, was not represented. The remaining orders from the 240 we randomly selected were unavailable because either the agencies had filed their orders electronically, or the orders were not centrally located and could not be obtained in a timely manner from the individual factories. FPI officials told us that they sent us all the documentation that was readily available for the 136 orders. In addition, FPI provided us with access to its COED database in Lexington, which enabled us to review all the electronic information that was available for these orders. We reviewed the information that was available for these 136 orders and determined that 109 had due dates that customers had specified.

Our timeliness analysis used three dates from the COED system. These were the dates the orders were entered into the COED system (order date), the dates the orders were due (due date), and the dates the orders were shipped (last ship date). We could not focus on the order dates because we knew there would be a time lag between the date the order was signed and the date it was entered into the COED system. In general, we noticed that this time lag was between 2 to 3 weeks. However, we could not assess whether these time lags were due to (1) delays by the customer in mailing the order, (2) the timeliness of the mail carrier, or (3) delays by FPI in entering the orders into the COED system. We could not assess the reliability of the last ship dates, because we did not have the resources to contact the agencies directly and find out if they had records of receiving the items FPI had shipped to them. Therefore, we focused on the due dates agencies had specified in the orders.

We compared the customer-requested due dates with the due dates entered into COED. We attempted to document any instances where a due date for a line item in COED was different from the due date the agency had originally requested in its order. Using the information available for these orders, we also attempted to document the reasons for due date changes and other pertinent information, such as whether customers were notified of the reasons for due date changes and whether they approved of the revisions. We also documented whether customers had specified that the due dates in the orders were for destination or origin. For orders where we could not determine the reason for due date changes, FPI staff at the Customer Service Center in Lexington researched the orders to identify

the reason for date changes, as well as other information, such as whether the customer was notified regarding any due date changes that may have occurred and approved of them. In addition, FPI headquarters officials provided us with other documentation for these orders at the end of our review. The results of our work related to the 109 orders are not projectable to the universe of agency orders placed in 1997 because we were only able to obtain usable information on 109 of the 240 orders in our original sample, which represented a response rate of about 45 percent. This response rate was mainly due to the fact that many of the orders were placed electronically rather than through hard copy.

To meet the second objective, we interviewed key procurement officials from four agencies that we judgmentally selected who were among FPI's largest buyers: the General Services Administration's (GSA) Federal Supply Service (FSS) in Arlington, VA; the Defense Logistics Agency (DLA) in Ft. Belvoir, VA; the Social Security Administration (SSA) in Baltimore, MD; and the Department of Veterans Affairs (VA) in Washington, D.C. Collectively, these agencies accounted for over one-quarter of FPI's 1996 sales of $496 million. DLA was the second largest buying component within DOD, next to the Army. The other three agencies were in the top four buyers among civilian agencies. In addition to contacting headquarters procurement officials at these agencies, we also contacted one of GSA's nationwide commodity centers, FSS' National Furniture Center (NFC), because furniture is FPI's largest product line. We contacted three DLA supply centers: the Defense Supply Center Philadelphia (DSCP) in Philadelphia, PA; the Defense Supply Center Columbus (DSCC) in Columbus, OH; and the Defense Supply Center Richmond (DSCR) in Richmond, VA. Within SSA, we spoke with officials from the two buying components that purchase products from FPI, the Office of Property Management (SSA/PM) and the Office of Operations, Contracts, and Grants (SSA/OCG). Within VA, we spoke with officials from the Office of Administration and the Office of Acquisition and Materiel Management, as well as officials in the Veterans Health Administration (VHA) from the offices of Patient Care Services and Environmental Management Services.

We obtained information and views from these officials on several topics related to timeliness, including how FPI performed in meeting due dates; how specific due dates were set; whether due dates were driven by FPI production capabilities or mission needs; what processes were used to monitor FPI's delivery performance and that of private vendors; and what remedies were available in the event of a late delivery from FPI and private vendors, including a discussion of FPI's waiver process. Although the views

officials at these agencies expressed and the information they provided may not be representative of all FPI customers, they provided useful insights into FPI delivery practices from the customer's perspective. We did not verify data we obtained related to our discussions with agency officials. Related to our discussion with these officials about the FPI waiver process, we used FPI's waiver database to determine the extent to which FPI granted customers waivers from buying FPI products for reasons related to timeliness.

We did our work between July 1997 and May 1998 in accordance with generally accepted government auditing standards. We requested written comments on this report from the Director, Bureau of Prisons (BOP). These comments are discussed near the end of the letter and are reprinted in appendix III. FPI also provided oral technical comments, which we considered in preparing the final report. We also held exit conferences with program officials of the customer agencies we visited to verify applicable data, facts, and views presented in this report.

Comments From the Bureau of Prisons

Note: GAO comments supplementing those in the report text appear at the end of this appendix.

U.S. Department of Justice

Federal Bureau of Prisons

Office of the Director

Washington, DC 20534
June 1, 1998

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

Dear Mr. Ungar:

We appreciate the opportunity to provide the Department of Justice comment on the General Accounting Office (GAO) draft report titled, FEDERAL PRISON INDUSTRIES (FPI), Delivery Performance Is Improving But Problems Remain. We generally concur with GAO's conclusion that FPI's delivery performance is improving but problems remain. As GAO noted, FPI recognizes the importance of delivering on time and thus, places great emphasis on tracking and evaluating delivery performance. By establishing high corporate-wide on-time delivery goals (such as 98% in Fiscal Year (FY) 1998), FPI continues to focus on improving its delivery performance. In furtherance of these goals, we believe that improving our accuracy and reliability of tracking delivery performance would be beneficial and we intend to implement GAO's recommendations. There are a few areas addressed in the report which warrant further comment.

See p. 26.

We appreciate GAO's recognition of FPI's continued efforts to monitor and improve delivery performance. As GAO pointed out, FPI does maintain a data tracking system which provides detailed delivery information, updated monthly, by product group and individual factory location. The critical importance of on-time delivery has been continually reinforced at managers' conferences and through internal memoranda and newsletters. The lofty goal of "98% in 98" has truly become a rallying cry throughout the Corporation. This continued emphasis has resulted in steady improvements, reaching an all time Corporate high of 90% on-time delivery in April of this year. As of April's report, we have 32

See p. 26.

factories, representing approximately one third of our operations, delivering at 98% on time, with 11 factories having maintained this level each month of the fiscal year. By vigilantly tracking and evaluating our data system, we are confident that this progress will continue.

Although FPI continues to raise the bar in terms of setting goals related to on-time delivery (goal of 90% in FY 97 was increased to 98% in FY 98), a comparison of FPI in relation to industry standard would be beneficial to put the statistics in perspective. FPI is interested in how it compares to some of the larger vendors of its largest customers referenced in the report. Because past performance is such a critical factor in procurement, these agencies must maintain data on delivery by commercial vendors. We believe that the use of these statistics would show, as members of our Customer Advisory Group (a group, consisting of representatives of a variety of FPI's customers, formed to critique our performance) stated before a representative of GAO, that for complex projects, issues relating to delivery performance are not unique to FPI but common to most of the large vendors.

See p. 26.

Because the Department of Defense (DOD) is FPI's largest customer (it accounted for over 50% of FPI's sales dollars in FY 97), we are encouraged that officials contacted at DOD were generally pleased with FPI delivery performance and thought it compared favorably to commercial vendors. As to the reference in the report of the comment by the Deputy Director of Clothing and Textiles of the Defense Supply Center Philadelphia (DSCP) about the danger of allowing FPI to be the sole provider of a product, FPI has informed DOD that for "Go to War" items, it will not be the sole provider of that item unless DOD specifically requests so. It is important to note that because of FPI's readily available labor pool and resources, FPI is able to and has been responsive to DOD's emergency needs. In fact, FPI was recognized by the U.S. Army after Desert Storm for providing "critical war materials" in an expedient fashion.

See p. 26.

In terms of the section in the report stating that officials from some of FPI's largest customers said that delivery due dates were driven by FPI production capabilities, and not agency missions, this is not FPI's policy. As noted, the General Services Administration, not FPI, requires in its internal acquisition regulations that Contracting Officers establish delivery schedules based on the lead time required by FPI. If a customer requires delivery of a product faster than FPI can deliver, it should submit a waiver request. On the average, these requests are answered in three to four days. Further, in FY 97, FPI approved 83 percent of all waiver requests and, as referenced by GAO, approximately one third of the waivers granted

See comment 1.

in 1996 and 1997 were granted because FPI could not meet customers' time frames.

We agree with GAO that improvements are needed to our delivery performance tracking system in order to ensure its accuracy. As GAO noted, we need to account for shipping time on destination orders.

The section dealing with the 109 orders randomly selected to assess the accuracy and reliability of FPI's timeliness statistics also warrants some comments. We think it is important to note that the 109 orders were not representative of the order distribution FPI receives. That is, the random selection was based on dollar value alone as the determining factor with large orders being preferred. This led to a skewing of the information collected. For example, because the criteria utilized was preferential to large orders, a disproportionate number of Systems Furniture orders were reviewed (33% were reviewed versus 6% which represents the total amount of Systems Furniture orders for FY 98). Because large Systems Furniture orders are generally placed for refurbished space or for new construction, the delivery dates for these orders change more frequently than for other orders due to delays in the construction schedule. Additionally, because these delays are generally received via a verbal request from the customer, the documentation is limited in this area.

See comment 2.

Further, of the 61 orders that involved a delivery date later than what the customer originally requested, 23 did not involve a due date change. Rather, the dates that the customer requested were typically based on insufficient lead time and thus, had to be revised from the beginning as a condition of FPI accepting the order.

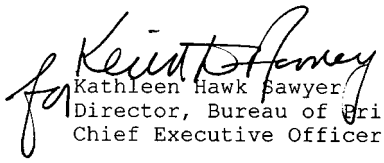
See comment 3.

Nevertheless, the analysis of the 109 orders raises a specific concern which is addressed in GAO's recommendations and which FPI plans to follow. Specifically, FPI needs to improve its documentation and customer notification concerning both changes to due dates after the initial order has been accepted and in the cases where the due date submitted in the initial customer request is not sufficient. In the latter situation, in its initial letter informing the customer of the revised delivery date, FPI plans to inform the customer of its waiver procedures and state that FPI will consider customer acceptance of the revised date unless the customer contacts FPI.

Thus, we believe our continued focus on monitoring and evaluating our delivery performance, including the adoption of GAO's recommendations, will further improve FPI's delivery performance. Thank you once again for the opportunity to

comment. If you should have any questions, or need additional information, please feel free to contact, Steve Schwalb, FPI's Chief Operating Officer.

Sincerely,



Kathleen Hawk Sawyer
Director, Bureau of Prisons
Chief Executive Officer, FPI

The following are GAO's comments on the Bureau of Prisons' letter dated June 1, 1998.

GAO Comments

1. BOP said that it is not FPI's policy that due dates be driven by production capabilities rather than agency missions. This seemed different from the statements made by FPI's Chief Operating Officer during the review that it often did not accept the due dates customers requested because they were inconsistent with FPI's production capabilities. Seeking clarity, we contacted an FPI official who was involved in preparing the written comments. This official said that the intent of the comment and the paragraph that followed was to emphasize an important point. That is, if FPI does not accept an agency-requested due date and proposes alternative dates that would impede the customer agency's mission, FPI would likely issue a waiver if the customer requested one.

2. BOP pointed out that the random sample of orders that we used to test the accuracy and reliability of the due dates that FPI used to measure timeliness was not representative of the orders FPI receives. Specifically, BOP was concerned that a disproportionate number of high-dollar value systems furniture orders led to a skewing of the information collected because these orders have more frequent due date changes. This condition however, does not affect our conclusions on this matter or the overall message of the report. As discussed in the report, we recognize that the specific results from our work related to the 109 orders cannot be projected to the universe of FPI orders. However, the results of our analysis did, as FPI agreed in its written comments, raise questions about the due dates being used to measure timeliness, especially from the customer's perspective.

3. BOP said that of the 61 orders that involved due dates that were later than the customer originally requested, 23 did not involve a change. According to BOP, the delivery dates requested by customer agencies for these orders did not provide sufficient lead time and, therefore, FPI had to revise the dates as a condition of accepting the order. BOP acknowledged in its written comments that nevertheless, FPI needs to improve its documentation and customer notification processes when customer due dates cannot be met or are changed. As we discussed in the report, the lack of documentation showing the reasons due dates in FPI's system were different from what customers requested and whether customers were notified of the reasons and approved of the changes impeded our ability to

assess the appropriateness of many of the due dates for measuring timeliness.

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