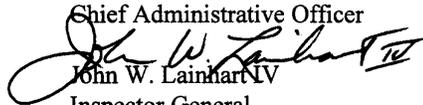


**Office of Inspector General**  
**U.S. House of Representatives**  
Washington, DC 20515-9990

**MEMORANDUM**

TO: Scot M. Faulkner  
Chief Administrative Officer

FROM:   
John W. Lainhart IV  
Inspector General

DATE: July 18, 1995

SUBJECT: Audit Report - Standardized Processes Are Needed To Create An Efficient And Effective Procurement System (Report No. 95-CAO-11)

This is our final report on the procurement processes within the House. The objective of the audit was to assess opportunities to improve efficiency and service delivery in procurement. In this report, we identified problems associated with the operational practices of the procurement system and made recommendations for corrective actions.

In response to our June 23, 1995 draft report, your office fully concurred with our findings and recommendations. The July 5, 1995 formal management response provided by the Director of Internal Controls and Continuous Improvement is incorporated in this final report and included in its entirety as an appendix. The corrective actions taken and planned by your office are appropriate and, when fully implemented, should adequately respond to the recommendations.

We appreciate your office's positive response and concurrence with the recommendations, and the courtesy extended to us by your staff. If you have any questions or require additional information regarding this report, please call me or Craig W. Silverthorne at (202) 226-1250.

cc: Speaker of the House  
Majority Leader of the House  
Minority Leader of the House  
Chairman, Committee on House Oversight  
Ranking Minority Member, Committee on House Oversight  
Members, Committee on House Oversight

# STANDARDIZED PROCESSES ARE NEEDED TO CREATE AN EFFICIENT AND EFFECTIVE PROCUREMENT SYSTEM

*Report No. 95-CAO-11  
July 18, 1995*

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## RESULTS IN BRIEF

### CONCLUSIONS

The House has taken significant steps recently to improve the management of the procurement process. For example, on May 10, 1995, the Committee on House Oversight adopted the "Guidelines for Procurement of Goods and Services for the House of Representatives" (Procurement Guidelines) which should strengthen procurement planning and budgeting, small purchase procedures, competitive proposal and bidding procedures, controls over sole source purchases, enforcement of vendor performance, and accountability over administrative support offices for adhering to established guidelines.

In addition, the Committee adopted "Guidelines for the Purchase of Equipment, Software and Related Services by Offices of the U.S. House of Representatives" (Equipment Guidelines). These guidelines specified the development of a vendor certification program which should provide a mechanism for identifying qualified vendors with reasonable prices. Offices will be encouraged, but not required, to purchase from certified vendors. Certain equipment purchased by offices will need to meet minimum technical standards.

However, the House needs to ensure that these actions result in improvements in the procurement process to correct the inefficient and ineffective procurement processes we identified. We found that the House did not have an efficient and effective procurement process. Specifically, we found that the House: (1) had no central procurement office to monitor procurement activities; (2) performed limited procurement planning and procurement efforts were not coordinated among offices; (3) did not adequately monitor or control sole source procurements; and (4) did not monitor or enforce vendor performance.

As a result, the House was subjected to the following risks:

- Administrative offices followed inconsistent procurement policies and procedures.
- Sound procurement decisions may have been inhibited.
- Cost reductions associated with a centralized procurement approach, monitored by an oversight entity, may not have been obtained.
- Full and open competition for procured items may not have been achieved.
- Items may have been purchased in excess of market or competitive prices.

- Purchases may not have been made at arm's length.
- Goods and services may have been procured that were below expectations set forth in specifications or vendor agreements.

These deficiencies were due to the lack of a systematic procurement planning process; standardized procurement procedures; and a standardized vendor selection and monitoring process. Additionally, procurement personnel did not have the capability to evaluate vendor's past performance prior to awarding a new contract. Further, administrative offices did not incorporate performance criteria into all contracts and purchase order agreements.

Moreover, the House's labor intensive and paper driven accounts payable process resulted in excessive cycle time, manual routings, lost vendor discounts, and an inability to provide vendors immediate information. Administrative offices did not have access to the Office of Finance's financial management system to pay accounts efficiently.

In addition, the food service Request for Proposal (RFP) and the resulting contract held by Marriott/Thompson contained an error in labor rates. Marriott/Thompson was bound by the contract to pay more in labor costs than they anticipated when responding to the RFP and requested relief from the increased labor costs. The conclusion of this issue remains unresolved. Insufficient planning, preparation, and review during the RFP process created this situation.

## **RECOMMENDATIONS**

We recommend the Chief Administrative Officer develop proposals, for approval by the Committee on House Oversight, to: (1) designate the Office of Procurement and Purchasing as the central office to coordinate, control and monitor procurement activities; (2) implement a coordinated procurement planning process; (3) include definitional requirements for the information needed to integrate a procurement budgeting and planing process in new financial management system specifications; (4) implement standardized procurement procedures; (5) implement a standardized vendor selection and monitoring process and a computerized vendor database to provide vendor specific performance information; (6) incorporate performance criteria into all contract and purchase order agreements; (7) include procurement information and remote access to administrative office users in new financial management system specifications; and (8) resolve the labor costs dispute associated with the Marriott/Thompson food services contract.

## **MANAGEMENT RESPONSE**

On July 5, 1995, the Director of Internal Controls and Continuous Improvement on behalf of the CAO fully concurred with the findings, conclusions, and recommendations in this report. According to his response, they plan to improve efficiency and service delivery in procurement by developing: (1) proposals to designate the Office of Procurement and Purchasing as the central office with the responsibility and authority to institute and maintain an effective and economical program for purchasing; (2) proposals to implement a systematic and coordinated planning process for procurement activities by December 31, 1995; (3) requirements for the information needed to integrate a procurement budgeting and planning process in a new financial system by October 1, 1995; and (4) proposals to implement standardized procurement procedures and incorporate performance criteria into all contracts and purchase order agreements by December 31, 1995.

Several actions are expected to be completed during 1996. They plan to develop criteria for incorporation into all contracts and purchase order agreements and implement an automated acquisition system no later than October 1, 1996. By December 31, 1996, they expect to develop and implement: (1) a vendor certification and monitoring process that includes procedures to systematically gather and use ongoing performance information on vendors; and (2) a computerized vendor database system to manage a vendor's list and provide specific performance information. Actions to be completed by March 1, 1996 include performing a system life cycle analysis of long term financial systems needs, developing financial system specifications to integrate procurement information in accordance with JFMIP guidance, and providing remote access to administrative office users.

In addition, the CAO intends to prepare a proposal, for approval by the Committee on House Oversight, to resolve the labor costs dispute associated with the Marriott/Thompson food services contract by August 1, 1995.

## **OFFICE OF INSPECTOR GENERAL COMMENTS**

The CAO's actions are responsive and should, when fully implemented, satisfy the intent of our recommendations.

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**I. INTRODUCTION****Background**

Contract administration and accounts payable encompasses the entire procurement process for obtaining goods and services. This includes all activities from planning, preparation, and processing of a requisition; through source selection, solicitation, evaluation, award and contract formulation; to receipt and acceptance of delivery, and payment.

During the audit period, purchasing decisions were decentralized and procurement was done by individual administrative offices reporting to the Director of Non-legislative and Financial Services, Doorkeeper, Clerk of the House, Sergeant at Arms, and Committee on House Administration. The majority of purchasing activities occurred in five administrative offices that included Office Supply Service (OSS), Office Systems Management (OSM), Office Furnishings (OF), House Information Systems (HIS) and the Office of Telecommunications (OT). Figure 1 lists the types of items procured, the total number of purchases, and the estimated total procurement dollars spent during the audit period for these offices with the largest procurement volume.

<b>Administrative Office</b>	<b>Procured Items<sup>1</sup></b>	<b>Purchase Orders</b>	<b>Total Dollars</b>
<b>OSS<sup>2</sup></b>	Office supplies and related items sold by the Supply Store and Gift Shop.	9,295	\$ 9,408,406
<b>OSM</b>	Office equipment items include computers, printers, modems, scanners, facsimiles, televisions, copy machines, and maintenance contracts. Also, furnishings for district offices only.	3,347	17,962,757
<b>OF</b>	Furniture and furnishing items include desks, chairs, leather for upholstery, drapery materials, filing cabinets, carpets, and ergonomic chairs for House office buildings.	1,929	3,803,419
<b>HIS</b>	Computer hardware, software, and supplies.	1,248	8,874,799
<b>OT</b>	Telecommunications equipment and services.	585	2,132,123
<b>TOTAL</b>		16,404	\$42,181,504

<sup>1</sup>Dollar amounts do not include payments to vendors for maintenance.

<sup>2</sup>Purchase order data was not available for November and December 1993. Therefore, the above numbers include estimated volumes and dollars for these months.

**Figure 1 - Summary of Purchase Orders**

Purchasing activities were also conducted by the House Restaurant System (snacks foods and cigarettes), Office of Photography, Recording Studio, Office of Printing Services, Postal Operations, and Publications and Distribution Services. However, disbursements from these offices only represented 3 percent of the estimated \$43.5 million in total disbursements.

On May 10, 1995, the Committee on House Oversight adopted the "Guidelines for Procurement of Goods and Services for the House of Representatives" (Procurement Guidelines) which should strengthen procurement planning and budgeting, small purchase procedures, competitive proposal and bidding procedures, controls over sole source purchases, enforcement of vendor performance, and accountability over administrative support offices for adhering to established guidelines.

The Committee also adopted "Guidelines for the Purchase of Equipment, Software and Related Services by Offices of the U.S. House of Representatives" (Equipment Guidelines) on May 10, 1995. These guidelines specified the development of a vendor certification program which should provide a mechanism for identifying qualified vendors with reasonable prices. Offices will be encouraged, but not required, to purchase from certified vendors. Certain equipment purchased by offices will need to meet minimum technical standards.

In addition, during the 104th Congress, the Office of Procurement and Purchasing was established. This office is primarily responsible for policy direction of procurement activities conducted by the administrative offices.

### **Objectives, Scope, and Methodology**

Our objectives were to evaluate the adequacy and effectiveness of:

- procurement planning;
- procurement processes;
- vendor selection;
- contract administration; and
- procurement system capability.

The audit program covered contract administration and accounts payable practices from October 1, 1993 through December 31, 1994. We conducted our audit during the period of March through May 1995.

We interviewed House management and staff, collected relevant policy and procedure documents, tested procurement transactions, and benchmarked other government procurement

practices. The audit focused on OSS, OSM, OF, OT, and HIS. In addition, we included a review of the House Restaurant Services (HRS) contract because of the significant value of the contract and the problem we noted resulting from the bid solicitation process. Other administrative offices were not reviewed due to the limited procurement activities conducted.

We conducted our review in accordance with *Government Auditing Standards*, issued by the Comptroller of the United States. We evaluated the contract administration and accounts payable activities of the House and the ability of the relevant offices to achieve stated goals. To accomplish our objectives we performed the following steps:

- Reviewed practices for all offices performing procurement activities to determine the extent to which offices adhered to policies and procedures. We focused on the five administrative offices with the largest procurement volume.
- Reviewed personnel procurement responsibilities to assess appropriate segregation of tasks related to procurement, receiving, and payment approval.
- Reviewed practices for all offices performing procurement activities to determine the extent to which offices plan for procurement in relation to their inventory needs and budget formulation.
- Determined how vendors were solicited and retained to assess whether the practices used promote competition and fair pricing.
- Assessed practices for monitoring vendor performance to determine the extent to which vendors fulfill contractual obligations.
- Examined the vendor payment process, in association with the Accounts Payable/Disbursement Audit Program, to assess conformance with sound procurement practices.

### **Internal Controls**

This review evaluated internal controls related to procurement functions. We found significant weaknesses in controls in the procurement process and vendor monitoring as described in Finding A. We did not evaluate any other internal controls because they were already covered by the financial statement audit.

### **Prior Audit Coverage**

The Office of Inspector General reviewed OF operations and issued a management advisory memorandum on October 6, 1994. Our recommendations with regard to procurement were as follows:

- review and update access privileges to ensure segregation of duties;
- require the individual preparing and signing the payment voucher to be different from the individual initiating the purchase order;
- ensure that the Chief has adequate information to determine that (1) goods and services have been received, (2) procurement personnel followed established requirements for competitive bids, and (3) the items were ordered by the applicable shop; and
- eliminate duplication of effort in future procurement systems development efforts.

The OF outlined its response to the Inspector General's recommendations in its December 12, 1994 memorandum as follows:

- review and update access privileges by February 28, 1995;
- strengthen segregation of duties by January 1, 1995; and
- improve procurement systems processing at the time of the next procurement system upgrade.

## II. FINDINGS AND RECOMMENDATIONS

### **Finding A: Lack Of Standardized Procurement Policy Resulted In Inefficient And Ineffective System**

The House did not have an efficient and effective procurement process. Specifically, the House: (1) had no central procurement office to monitor procurement activities; (2) performed limited procurement planning and procurement efforts were not coordinated among offices; (3) did not adequately monitor or control sole source procurements; and (4) did not monitor or enforce vendor performance.

As a result, the House was subjected to the following risks:

- Administrative offices followed inconsistent procurement policies and procedures.
- Sound procurement decisions may have been inhibited.
- Cost reductions associated with a centralized procurement approach, monitored by an oversight entity, may not have been obtained.
- Full and open competition for procured items may not have been achieved.
- Items may have been purchased in excess of market or competitive prices.
- Purchases may not have been made at arm's length.
- Goods and services may have been procured that were below expectations set forth in specifications or vendor agreements.

These deficiencies were due to the lack of a systematic procurement planning process; standardized procurement procedures; and a standardized vendor selection and monitoring process. Additionally, procurement personnel did not have the capability to evaluate vendor's past performance prior to awarding a new contract. Further, administrative offices did not incorporate performance criteria into all contracts and purchase order agreements.

### **Decentralized procurement process created inconsistent practices throughout administrative offices**

Many organizations designate a central procurement office with the responsibility and authority to institute and maintain an effective and economical program for purchasing. These central procurement offices establish and oversee the implementation of formal policies and procedures, which provide controls for procurement activities and typically contain guidance on how to deal

equitably with vendors, coordinate requirements of organizational subunits, provide quality service on time, and protect the public interest.

A National Institute of Government Purchasing (NIGP) survey shows that 58 percent of Federal, state, and local respondents report centralized procurement responsibility, 40 percent have partially centralized responsibilities and only 2 percent have decentralized responsibilities. The National Association of State Purchasing Officials (NASPO) recommends that a Chief Procurement Official be designated to develop policy and monitor procurement activities. The official is responsible for ensuring all policies and procedures are implemented and followed, procurement staff are trained in their duties and responsibilities, policies and procedures manuals are developed and distributed to all affected offices, and procurements are made in a fair and competitive environment.

The House had no central procurement office to coordinate, control, or oversee procurement activities. Purchasing decisions were decentralized and not coordinated among the administrative offices. OSS, OSM, HIS and OF each procured computer software independently. OSM bought furniture for district offices, yet OF bought furniture for House offices in the Capitol and other House office buildings. OF also procured office supplies for Members' offices similar to items procured by OSS such as supplies, stationery, and subscriptions to periodicals.

As a result, the House lacked a standardized procurement policy for all administrative offices to use. The *Congressional Handbook* provided guidance to Members and staff on how to obtain supplies and equipment from the appropriate administrative office. However, the *Handbook* was not intended to provide guidance to the administrative offices on how to procure those items from vendors.

In addition, the five administrative offices, with the largest procurement volume, used different procurement guidelines as follows:

- **OSS** used the "Sequence of Events Leading to Awarding Contracts on Bid Items" and "Procurement" guidelines.
- **OSM** used the "Guidelines for Purchase of Furniture, Carpets, Equipment, Materials, and Supplies with Regard to the Operations of the Director of Non-Legislative and Financial Services."
- **OF** used the "Guidelines for Purchase of Furniture, Carpets, Equipment, Materials, and Supplies with Regard to the Operations of the Director of Non-Legislative and Financial Services."

- **OT** used the "Procurement Practices" policy.
- **HIS** used the "Supplies and Equipment Procurement Policy."

These offices were also inconsistent in their establishment of procedures for small purchases, requirements for multiple quotes, dollar thresholds for putting purchases out to bid, or an established bid specification process. (See Figure 2.)

	OSS	OSM	OF	HIS	OT
Is there a small purchase policy?	No	N/A	Items under \$2,500	No	Items under \$25,000
When are multiple quotes required?	Always	N/A	Items between \$2,500 & \$25,000	Non-stationery supplies and equipment	Items under \$25,000
When are purchases put out for competitive bid?	No policy	N/A	Items over \$25,000	No policy	Items under \$25,000
Does the office have a bid specification process?	Yes	N/A	Yes	No	Yes
Does the office have sole source policies?	No	No	No	No	No

Note: N/A indicates policies are not applicable because OSM processed requests for procurement from the House Approved List.

**Figure 2** - Procurement policies in the House administrative offices

### **Inconsistent policies for small purchases**

In the aggregate, small purchases can constitute a substantial portion of total transactions. Many government organizations have developed policies that delegate purchasing authority to users in order to streamline the small purchase process. Congress has recognized Federal agencies' need for a simple, low-cost process for making small purchases. Under the Federal Acquisition Regulation's (FAR), small purchase and other simplified purchase procedures, competitive purchases can be made simply by obtaining quotations from contractors by telephone, mail, or in some cases electronically. Simplified purchase procedures expedite the procurement process. A survey done by the NIGP found that 68 percent of the Federal, state, and local respondents have statutory or administratively defined small purchase policies.

In the House, only two administrative offices developed small purchase policies to streamline the procurement and approval process. These two offices had inconsistent maximums for small purchases: OF considered anything less than \$2,500 a small purchase, whereas OT allowed purchases less than \$25,000. In the absence of clear guidelines, the offices may have spent as much time on a competitive bid process for small purchases as large purchases resulting in inefficient uses of resources.

### **Inconsistent policies for formal competitive bids**

Competitive sealed bidding is the standard method for acquiring goods and services in government. All 542 government entities included in the NIGP survey stipulated a threshold for formal competitive bids. Twenty-seven percent reported their threshold to range from \$0 - \$5,000; 65 percent reported a threshold from \$5,001 to \$24,999; and 9 percent reported a threshold of \$25,000 or more. In the House, only two of the five administrative offices had such a policy. OF and OT put purchases over \$25,000 out for competitive bid. Without clear guidelines for formal competition, the House might not have achieved full and open competition.

### **Inconsistent procedures for bid specifications**

Sound management practices require central control to ensure completeness, competitiveness, and suitability of bid specifications. According to the NASPO, 60 percent of the states are assigned statutory responsibility for central control over procurement specifications. NASPO recommends that specification policies and procedures provide for uniform formats to prevent unclear, confusing, and restrictive specifications.

OSS and OF policies included Request For Proposal (RFP) procedures relating to the administrative aspects of this form of procurement. For example, their procedures provided guidance on advertising the bid, recording bids receipt, public opening of bids at a pre-determined time and place, evaluating bids, and awarding the contract. However, their procedures lacked specific instructions on the development of the RFP document including bid specifications. Only OT's procedures provided guidance on how the RFP document should be constructed and standard language for general bid specifications.

During the audit period, HIS used a RFP process when it solicited bids for a mainframe computer. However, due to the lack of standard procedures for bid specifications, HIS wrote the RFP document with no assurance that all significant terms and conditions were included. It is important to note, that the RFP document and the ensuing purchase order lacked staff security clearance requirements, physical access instructions, and other security measures. Considering the highly sensitive information processed by the House, security measures should have been included in the specifications.

### **Procurement offices were not held accountable for compliance with their own internal policies**

In some instances, the offices failed to comply with their own policies. For example, OSS and HIS policies required three quotes for all purchases. However, the procurement transactions we tested showed that 72 percent of OSS and 100 percent of HIS equipment and software purchases were made without the benefit of three quotes.

Furthermore, the House may not have received the cost-reduction benefits of open competition usually available to large organizations. Cost-reduction opportunities could be achieved through a consolidated approach to procurement that would be outlined in standardized policies and monitored by an oversight review entity. For instance, administrative offices or an individual could have:

- Ordered an item from a vendor without requisition authorization;
- Procured items as sole source when the item was widely available;
- Divided quantities of items into smaller amounts to bring them below the dollar threshold required for competitive quotations or formal competition.

These could have potentially occurred because no oversight entity monitored or enforced the procurement policies and procedures.

### **Lack of planning procedures inhibits sound procurement decisions**

Procurement planning involves systematic decision-making to determine effective and economical methods of purchasing. The planning process enables an organization to forecast future needs, schedule purchases to accommodate workloads, and develop appropriate acquisition strategies. Effective procurement planning depends on timely and thorough information that is typically integrated with a financial management system. Types of procurement information the financial management system should capture and report include:

- Types of products/services and quantities required;
- Usage patterns;
- Current and future market conditions;
- Inventory levels;
- Warehouse capacities;

- Cumulative reports on purchase orders processed;
- Details of purchases according to product/service; and
- Vendor files, including discount information.

Each administrative office developed its own internal procurement tracking system and did its own limited planning activities. Without a coordinated planning process or adequate systems capabilities, the House lacked a centralized mechanism to determine in the aggregate what has been bought, in what quantities, how often, and from which vendors. For instance, the House was unable to evaluate the costs of individual versus consolidated procurements, savings from eliminating repetitive bids and quotations, or the overall costs of procurements made through informal quotations. Thus, sound procurement decisions may have been inhibited.

During the audit period, no coordinating mechanism existed to monitor purchases across these organizations to secure price advantages from volume buying. In addition, administrative offices did not have access to data needed for procurement planning. With the exception of payments to vendors, the House's financial management system, known as FMS, did not capture information on historical activity or future estimates of purchasing needs.

#### **No policies or procedures existed for documenting sole source procurements**

Most government entities document a purchase any time it is done without benefit of adequate competition. It is rare when only one vendor supplies a given product. If, however, competitive bidding is waived, it is common practice to document why this is done, and to take steps to provide some assurance that the price is reasonable. For example, it is common practice to compare sole source prices to those for similar goods and services.

Transaction testing in the procurement offices indicated that sole source procurements occurred without sufficient documentation. For instance:

- OF's policy specifies open bid competition for purchases over \$25,000. However, the Office incurred a \$722,000 purchase for 950,000 calendars from the U.S. Capitol Historical Society without benefit of competitive bidding (i.e., sole source procurement). The purchase from this particular vendor was requested by the former Clerk of the House. The request letter and associated purchase order were the only documentation retained in OF's files.
- In OSS, 36 of the 54 transactions tested were specialty gift items and were sole sourced. These items are detailed in the Exhibit. OSS personnel indicated these items were either

brand name specific or items that were American made. However, no documentation was available on file to justify the sole source purchase of these items.

- In HIS, 5 of 23 equipment and software purchase transactions tested had insufficient documentation to justify sole sourcing of add-on items. An additional seven transactions were sole sourced without justification documentation. HIS' internal policy specified multiple quotations on all purchases. It is reasonable that the House purchased the equipment from the same vendor to ensure quality, however, it was not documented.

In the absence of documentation, we were unable to determine why items were obtained by sole source procurement, and if the purchases were arm's length transactions. In addition, offices may have been purchasing items that were in excess of market or competitive prices.

During the audit period, written policies and procedures did not exist regarding sole source procurement and appropriate documentation requirements for this type of procurement. Additionally, no central office mandated or monitored justifications for sole source procurement. Individual procurement offices were not held accountable for documenting sole source purchases.

#### **No formal process exists to monitor or enforce vendor performance**

The National Association of Purchasing Officers recommends that the solicitation document and the contract specify monitoring points and benchmarks against which the progress and acceptability of the work can be evaluated. This monitoring, together with an overall performance evaluation on completion of the contract, should be part of the vendor's file.

In addition, evaluation of past vendor performance plays a crucial role in future vendor selection in the private sector. In the Executive Branch agencies, the FAR requires contracting officers to consider vendor performance as part of their evaluation of proposals submitted. A powerful incentive for better vendor performance is to communicate to vendors that past performance plays an important role in ultimate vendor selection. This would encourage vendors who value the House as a customer, to provide high-quality products or services on time and at a reasonable price.

The House had no formal process to monitor or enforce vendor performance. Vendor service responsibilities were identified in vendor agreements signed by the vendor and the Clerk of the House. These responsibilities included maintaining equipment in good working condition and meeting standards for response time. If the vendor was unable to fix the equipment in one working day, the vendor was supposed to issue a credit against the monthly maintenance rate. OSM, which maintained the vendor files, did not have purchase, lease, or maintenance

agreements for 34 vendors on the House Approved List (Approved List). Therefore, the House had no contractual basis to enforce service responsibilities by the vendor. Further, no formal policies were in place to remove vendors from the list due to non-performance. OSM relied on a complaint log to monitor performance issues.

Three of the five offices (OSS, OT, and HIS) we reviewed, compiled and maintained their own vendor list in different ways. Interviews with representatives from the offices indicated that the lists were informally maintained and vendors could simply request to be included. With the exception of the Computer Center of HIS, on-going monitoring of vendor performance was not done and was not factored into placement or removal from the list. However, the Computer Center requested that vendors do an annual self-evaluation and submit the results to the Manager of the Computer Center for review. By themselves, self-evaluations are not an impartial assessment of performance. As such, these are not a reliable means of determining whether contractual requirements were appropriately met or the quality of the goods or services received.

During the audit period, no on-going mechanism existed to monitor vendor performance. The procurement offices were dependent upon complaints received from Members or staff to detect performance problems. As a result, the House may have received goods and services below the expectations set forth in the vendors' specification agreements. Further, in the absence of performance information, offices were unable to take into account past performance in on-going source selection.

### **Granting exceptions to the Approved List defeated its purpose for efficient and economical procurement**

The Approved List was designed to provide a more efficient and economical means of procuring equipment. However, the Committee on House Administration (CHA) readily granted exceptions for purchases from non-approved vendors. Additional staff time was required to process the exception requests and corresponding purchase orders. If exception requests specified a particular vendor, the potential existed that purchases were not made at arm's length. In summary, with exceptions granted readily by the CHA, the utility of a qualified vendors list was circumvented.

Interviews with OSM personnel and former CHA staff indicated that the Approved List was designed to provide benefits to Members and staff. If structured and maintained appropriately, the Approved List would have:

- Ensured reasonable prices since prices would have been pre-negotiated with qualified, approved vendors.

- Reduced staff time to obtain multiple quotes or submit to the formal, advertised solicitation process.
- Prevented purchases that were not procured by arm's length transactions, since the *Congressional Handbook* instructed Members to buy equipment from the Approved List unless an exception was approved by the CHA.

Vendors that wanted to be considered for the Approved List would file a formal written request for approval to the Chairman of the CHA. The CHA did not do on-going advertising to notify potential vendors of the opportunity to qualify for inclusion on the list.

In 1988, on a one-time only basis, the CHA issued a request for information (RFI) to select a limited number of Correspondence Management System (CMS) vendors. The CHA did not, however, provide any other solicitations for computer or non-computer related equipment. Once a vendor was placed on the Approved List, no formal monitoring of vendor performance occurred. OSM or the CHA were notified only when Members complained about a vendor. In addition, interviews indicated no formal policy existed to remove vendors from the Approved List for poor performance.

In practice, exceptions to purchases from the Approved List were routinely granted by the CHA. In the 103rd Congress, the CHA received 1,026 requests for exceptions and denied only 3 percent of the requests. These exceptions represented a large proportion of the total dollars procured. For example, OSM maintained monthly purchase order reports that listed exceptions approved by the CHA in excess of \$2,500. During the audit period, there were 234 exceptions for purchases greater than \$2,500 that totaled \$5.6 million and equated to 31 percent of the \$18 million in total purchase orders processed by OSM.

The Approved List was not maintained or monitored effectively to attain the desired benefits. There was no planned, systematic process to seek a full range of competition and attract responsible suppliers to bid on the House's business. Except for the one-time RFI, only vendors that approached the CHA were considered for inclusion on the Approved List. Additional staff time was required to process the exception requests and corresponding purchase orders. If exception requests specified a particular vendor, the potential existed that purchases were not made at arm's length. In summary, with exceptions granted readily by the CHA, the utility of a qualified vendors list was defeated.

On May 10, 1995, the Committee on House Oversight adopted "Guidelines for the Purchase of Equipment, Software and Related Services by Offices of the U.S. House of Representatives (Equipment Guidelines). The Equipment Guidelines eliminated the House Approved List and created a vendor certification program to be developed by the Chief Administrative Officer

(CAO) and a Supported Software List to be developed and maintained by HIS. This new policy should allow the flexibility the House desires and eliminate the need for exceptions.

### **Recommendations**

We recommend that the Chief Administrative Officer develop proposals, for approval by the Committee on House Oversight, to:

1. Designate the Office of Procurement and Purchasing as the central office with the responsibility and authority to institute and maintain an effective and economical program for purchasing. Specific responsibilities should include the following:
  - Ensure standardized policies and procedures are implemented and followed;
  - Train procurement staff in administrative offices in their duties and responsibilities;
  - Develop policies and procedures manuals for distribution to all affected offices; and
  - Coordinate, control and monitor procurements to ensure they are conducted in a fair and competitive manner.
2. Implement a systematic and coordinated planning process for procurement activities.
3. Include definitional requirements for the information needed to integrate a procurement budgeting and planning process in new FMS specifications.
4. Implement standardized procurement procedures that include:
  - Detailed steps to conduct solicitations, standard forms for RFP documents, and standardized language for terms and conditions;
  - Standardized procurement forms including requisitions, purchase orders, contracts, and vouchers;
  - Detailed contract administration procedures, including contract monitoring and close-out procedures; and
  - Standard documentation procedures to strengthen internal controls, including the type of documents to be prepared, the authorization/approval process for these documents, and the retention period.

5. Implement: (a) a standardized vendor selection and monitoring process that includes procedures to systematically gather and use ongoing performance information on vendors; and (b) a computerized vendor database system to manage a vendors list and provide vendor specific performance information.
6. Incorporate performance criteria into all contract and purchase order agreements.

### **Management Response**

In his July 5, 1995 formal response to our draft report, the Director of Internal Controls and Continuous Improvement on behalf of the Chief Administrative Officer fully concurred with this finding and the associated recommendations (see Appendix). The CAO agreed to implement all six recommendations cited above. They further provided us with milestone dates for developing and implementing corrective actions. These dates span from October 1, 1995 to December 31, 1996. In addition, the CAO agreed to develop proposals, for approval by the Committee on House Oversight, to designate the Office of Procurement and Purchasing as the central office with the responsibility and authority to institute and maintain an effective and economical program for purchasing. This action will be completed by September 15, 1995.

### **Office of Inspector General Comments**

The CAO's actions are responsive and fully satisfy the intent of this recommendations.

**Finding B: Accounts Payable Process Is Labor Intensive And Paper Driven**

The House's labor intensive and paper driven accounts payable process resulted in excessive cycle time, manual routings, lost vendor discounts and an inability to provide vendors immediate information. In addition, administrative offices did not have access to the Office of Finance's (Finance) financial management system to pay accounts efficiently.

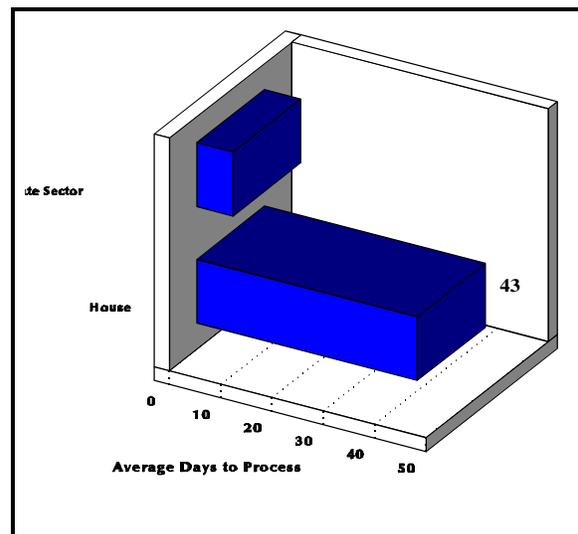
A Price Waterhouse benchmarking study of 28 companies in private industry indicates that the average cycle time from receipt of an invoice through payment is 7 days. This quick turn around time allows organizations to obtain and negotiate vendor discounts. Modern technology for the accounts payable area includes use of the paperless "requisition to check" system technologies. These technologies reduce manual effort and speed the processing cycle time by effectively integrating the purchasing area and accounts payable function to provide needed information quickly.

The administrative offices prepared vouchers that were submitted to Finance for payment to vendors for goods or services. As shown in Figure 3, the average number of days from receipt of invoice by a House office until the vendor received payment was 43 days. This was based on a sample of 67 vouchers from Finance. We defined cycle time as three days after the vendor dated the invoice (3 days mail time) to the payment date.

Because the average number of days from receipt of invoice by a House office until Finance issued payment to the vendor was 43 days, administrative offices had a hard time negotiating vendor discounts.

The accounts payable process started when the procurement office manually matched the invoice, purchase order, and receiving report to verify that goods and services ordered were actually received and to ensure that payments would be made in accordance with contract terms. Then a voucher was prepared, approved and sent to Finance with the original invoice. This manual process required report gathering, copying, and filing.

Voucher preparation included the assignment of a number to a voucher. Each office had a separate numbering scheme, making it impossible for Finance to use the number scheme of any



office. Finance, therefore, assigned each voucher a new voucher number. The new number was not communicated back to the initiating office making it hard to search for vouchers.

The number of offices and redundant processes contributed to excessive cycle time, manual routings, lost vendor discounts, exorbitant amounts of paperwork, frustration by staff, and an inability to monitor and manage workflow.

Finance's FMS did not provide the administrative offices' accounts payable areas the capabilities to run an integrated system that would perform functions to reduce the labor intensive, paper driven process. The administrative offices did not have access to FMS to effectively manage vendor requests for payment information. Offices also used individual systems to manage and track invoice, voucher, and vendor information that resulted in duplication of effort and loss of data integrity. These systems were also entirely independent of Finance, therefore the offices could not effectively handle vendor requests for payment information. The ability to check vendor payment status or track payment dates to see if vendor discounts were taken was labor intensive and untimely.

The "Framework for Federal Financial Management Systems", a document developed by the Joint Financial Management Improvement Program (JFMIP) to provide guidance on financial system needs of the Federal government, recommends integrating, among other functions, procuring and paying for goods and services. If the House had adopted these, or like system requirements, it would have been able to identify and eliminate bottle-necks in its payment process and negotiate better contracts with vendors, demonstrating prompt-payment patterns. It could also achieve economies of scale by analyzing payment patterns and changing purchasing decisions accordingly. For instance, administrative offices may frequently process payments for items that could be otherwise purchased in bulk.

### **Recommendation**

We recommend that the Chief Administrative Officer develop a proposal, for approval by the Committee on House Oversight, to include integrated procurement information specifications, in accordance with JFMIP guidance, and remote access to administrative office users in the new financial management system specifications.

### **Management Response**

In his July 5, 1995 formal response to our draft report, the Director of Internal Controls and Continuous Improvement on behalf of the Chief Administrative Officer fully concurred with this finding and the associated recommendation (see Appendix). The CAO agreed to implement the recommendation cited above. He further stated that a system life cycle analysis of long term

financial systems needs will be completed by March 31, 1996, remote access to administrative office users will be proposed by March 31, 1996, and an automated acquisition system will be operational by October 1, 1996.

**Office of Inspector General Comments**

The CAO's actions are responsive and fully satisfy the intent of this recommendation.

**Finding C: Unrealistic Deadline Caused An Error In The House Restaurant System (HRS) RFP And Resulting Contract**

The food service RFP and resulting contract held by Marriott/Thompson contained an error in labor rates. Marriott/Thompson was bound by the contract to pay more in labor costs than they anticipated when responding to the RFP. Insufficient planning, preparation, and review during the RFP process created this situation in which critical contract elements were overlooked and resulted in conflict among the parties involved.

The bid solicitation process--from development of an RFP document to award of a contract--is a time sensitive process. Early awareness of procurement schedules is of great importance to the planning and scheduling of each step. Drafting an RFP document is complex and the use of a standard RFP document, which incorporates the framework of approved general procurement terms and conditions, is a tool used by many organizations to simplify and expedite the RFP process. For example, Executive Branch agencies use standard solicitation forms as dictated by the FAR. This allows contracting officers time to concentrate on the technical specifications required for the procurement. A standard form also ensures that all approved standard specifications and requirements are included.

CHA's March 9, 1994 Resolution instructed the Director of Non-legislative and Financial Services to contract for the operation of HRS. The resolution stated that the contract "must take effect not later than 90 days after the date of the resolution." This meant a contract had to be in place by June 7, 1994. To accomplish this, the House contracted with Management Analysis Incorporated (MAI) to write the RFP. An RFP task force consisting of members from HRS, the Architect of the Capitol Procurement Officer, personnel from the General Services Administration's Food Service Contracting Headquarters, and a representative of MAI held their first meeting on March 17, 1994. The task force met again on March 23, 1994 to review the first draft of the RFP. MAI delivered the completed RFP on March 28, 1994 for CHA's review. The Director issued the RFP on April 6, 1994, leaving 62 days to receive proposals, complete evaluations, negotiate with vendors, and award the contract.

Exhibit J-10 of the RFP, Employee Wage Rates and Benefits, contained an error. This exhibit listed incorrect hourly rates for 83 of 181 employees. Due to an apparent miscommunication, MAI reduced the hourly rates for the 83 employees by \$.55. Working under extremely tight time constraints, the task force and CHA's review process did not detect the error. The successful contractor, Marriott/Thompson, relied on these erroneous rates when preparing its proposal. Contract language restricts Marriott/Thompson from changing these employees wages for the duration of the contract. The Director received a letter from Marriott/Thompson dated November 21, 1994, explaining the error in the wage rates and requesting relief from the increased labor costs. The conclusion of this issue remains unresolved.

Privatizing the HRS required a complex RFP document. It consisted of the following sections:

- A - Solicitation/Contract Form
- B - Supplies or Services and Prices
- C - Description/Specification
- D - Packaging and Marking
- E - Inspection and Acceptance
- F - Deliveries or Performance
- G - Contract Administration Data
- H - Special Contract Requirements
- I - Contract Clauses
- J - List of Documents, Exhibits, and Other Attachments (23 Exhibits)
- K - Representations and Certifications
- L - Instructions, Conditions and Notices to Offerors
- M - Evaluation Factors for Award

To illustrate the complexity of the RFP, section C, alone encompassed detailed specifications on such diverse areas as the legislative schedule, restaurant hours, service, menus, sanitation and quality, personnel and supervision, security issues, fire drills, accounting records, and responsibilities of the House in providing facilities and equipment. The entire RFP process, from the first task force meeting to the issuance of the document, spanned 15 work days or 21 calendar days. The extent of the task and the time constraints imposed by the CHA Resolution created an atmosphere where errors could occur.

### **Recommendation**

We recommend that the Chief Administrative Officer develop a proposal, for approval by the Committee on House Oversight, to resolve the labor costs dispute associated with the Marriott/Thompson food services contract.

**Management Response**

In his July 5, 1995 formal response to our draft report, the Director of Internal Controls and Continuous Improvement on behalf of the Chief Administrative Officer generally concurred with this finding and the associated recommendations (see Appendix). The CAO agreed to propose to the Committee on House Oversight a resolution to the labor costs dispute associated with the Marriott/Thompson food services contract by August 1, 1995.

**Office of Inspector General Comments**

The CAO's actions are responsive and fully satisfy the intent of this recommendation.

**Exhibit****Sample of OSS Sole Source Transactions**

Vendor #	Description	Item#	Amount
Hill	Crystal Glasses	M70900	1,105.83
The E-Group	Hamilton Clock	D26301	540.00
Service Wholesale	Eaton Stationary	P52400	699.84
Fountain Pen Service	Sheaffer R.B. pen	W10031	172.50
Hill	China Clock	M52601	1,150.00
Salisbury Pewter	Tray 10" Polished	D07800	1,044.00
Pitney Bowes	Pitney Bowes Paper	E00400	8,400.00
Picture Products	Picture Frame	D18301	298.00
Tensor	Lamp, Tensor II 450	D19500	419.76
Cahill	Refill Album	B26103	270.00
Clauss	Scissors	D01500	1,944.00
Ohio	Refill B.P. pen	W14400	22.80
Hallmark	Greeting Card	C30125	34.02
Cross	Pen, B.P. Burgandy	W13601	122.50
Hill	China Clock Inaugural	M52601	1,150.00
Pikard	Bowl 7 1/2in. fluted	M91700	1,200.00
SPI	Images of America pewter cup	D08000	630.00
Frame	Picture Frame 7X9 Gold	D34900	825.00
Weens	Portfolio with Seal	D28555	1,050.00

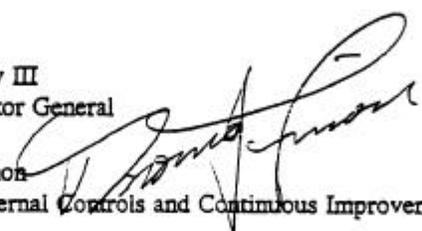
Vendor #	Description	Item#	Amount
Elco	Road Atlas	D50900	222.00
Xerox	Fuser Lubricant	E09000	242.50
Wilton	Bowl Wilton Boston	D10927	756.00
Cong C	Congressional Cookbook	D14301	15,600.00
Kodak	Film	R06300	4,840.00
Burnes	Frame, Showbox #SE-4135	C04135	242.16
Bell Atlantic	Battery Cellular phone	E21200	495.00
K+R	Cufflinks	C01401	540.00
Xerox	Xerox Dry Ink	E05200	1,164.00
Parkin	Book Ends	D36102	864.00
Cross	Cross B.P. Pen	C50200	156.78
IBM	IBM Laser Cart.	E33300	1,112.00
Beth-E	Liberty Jefferson Sheets	P00006	740.00
Picture Prod., Inc.	Picture Frame 4X6 Red	C19101	326.40
Muse	Picture Capitol Water Color	C70000	240.00
Savin	Toner Savin	E09200	3,040.00
Burnes	Picture Frame	C00957	62.88

*APPENDIX*

Office of the  
Chief Administrative Officer  
U.S. House of Representatives  
Washington, DC 20515-6860

## MEMORANDUM

TO: Robert B. Frey III  
Deputy Inspector General

FROM: Thomas J. Simon   
Director of Internal Controls and Continuous Improvement

DATE: July 5, 1995

SUBJECT: Draft Audit Report - Office Supply Store and Gift Shop

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We appreciate the opportunity to comment on your draft report. We deeply appreciate your efforts and are in general agreement with the findings and recommendations. Specific comments on each recommendation follow. If there are any questions or additional information required regarding this reply, please contact me at (202) 226-1854.

### Finding A

**Recommendation :** We agree with the findings and are implementing an alternative strategy to obtain the objective of the report. A review is being conducted of the items carried, inventories are being reduced, regular monthly financial reports are being initiated and staffing are being adjusted based on workload. Prices will be adjusted to reflect fully loaded costs. When these actions are completed, prices will be compared to private vendors and the option of contracting out will be reevaluated by March 31, 1996.

### Finding B

**Recommendation:** The price of flags will be adjusted as noted in the response to Finding A. In addition the Legislative Branch Appropriations Bill transfers responsibility for the flying and sale of flags to the Capitol Historical Society who will recover full cost. Upon implementation of the transfer, we will cease to purchase and sell flags.

described above. A review will be done of the procedures for maintaining and accounting for supplies will be completed by October 1, 1995. Performance indicators are under development.

**Recommendation 2:** The Committee on House Oversight on June 14, 1995 approved actions consistent with Option 1. The annualized savings in operating costs from these actions and those taken in response to Recommendation 1 will exceed \$325,000.

**Recommendation 3:** The CAO will develop requirements for the information needed to integrate a procurement budgeting and planning process in a new Financial System by October 1, 1995.

**Recommendation 4:** The CAO will develop proposals by December 31, 1995, to implement standardized procurement procedures that include:

- o Detailed steps to conduct solicitations, standard forms for RFP documents, and standardized language for terms and conditions;
- o Standardized procurement forms including requisitions, purchase orders, contracts, and vouchers;
- o Detailed contract administration procedures, including contract monitoring and close-out procedures; and
- o Standard documentation procedures to strengthen internal controls, including the type of documents to be prepared, the authorization/approval process for these documents, and the retention period.

All procedures will be implemented by October 1, 1996.

**Recommendation 5:** The CAO will develop and implement, by December 31, 1996, (a) a vendor certification and monitoring process that includes procedures to systematically gather and use ongoing performance information on vendors; and (b) a computerized vendor database system to manage a vendor's list and provide specific performance information.

**Recommendation 6:** The CAO will develop proposals to incorporate performance criteria into all contract and purchase order agreements by December 31, 1995. Criteria will be incorporated into all contracts and purchase order agreements by October 1, 1996.

#### **Finding B**

**Recommendation:** The CAO will propose to the Committee on House Oversight new financial management system for interim implementation at the Committee's July meeting. A system life cycle analysis of long term financial systems needs will be completed by March 31, 1996. Financial System specifications to integrate procurement information, in accordance with JFMIP guidance, and to provide remote access to administrative office users will be proposed by March 1, 1996. An automated acquisition system will be operational by October 1, 1996.

#### **Finding C**

**Recommendation:** The CAO will propose to the Committee on House Oversight a resolution to the labor costs dispute associated with the Marriott/Thompson food services contract by August 1, 1995.