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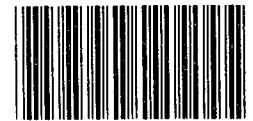
REPORT BY THE U.S.

General Accounting Office

GSA Needs To Strengthen Its Inspection And Testing To Make Sure The Government Gets The Quality It Pays For

The General Services Administration's (GSA's) quality control program provides little assurance that goods purchased for use by Government agencies meet contract specifications or user needs

To improve the program, GAO recommends that GSA (1) emphasize testing the quality of goods at destination, (2) provide better supervision and training for quality assurance inspectors, and (3) improve the present customer complaint system



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SEPTEMBER 21, 1979



UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D C 20548

PROCUREMENT AND SYSTEMS
ACQUISITION DIVISION

B-164113

The Honorable R. G. Freeman III
Administrator of General Services

Dear Mr. Freeman:

This report discusses the General Services Administration's quality assurance program and how it determines that goods purchased are of the quality required.

This report contains recommendations to you on pages 21 and 22. As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the House Committee on Government Operations and the Senate Committee on Governmental Affairs not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to the Director, Office of Management and Budget, and to the chairmen, House Committee on Government Operations; Senate Committee on Governmental Affairs; and the House and Senate Committees on Appropriations.

Sincerely yours,

A handwritten signature in cursive script that reads "J. H. Stolarow".

J. H. Stolarow
Director

GENERAL ACCOUNTING OFFICE
REPORT TO THE ADMINISTRATOR
OF GENERAL SERVICES

GSA NEEDS TO STRENGTHEN
ITS INSPECTION AND
TESTING TO MAKE SURE
THE GOVERNMENT GETS THE
QUALITY IT PAYS FOR

D I G E S T

The General Services Administration (GSA) acquires common use items for Federal agencies. During fiscal year 1978, GSA inspected and accepted \$1.3 billion of common use items. Historically, the quality of items provided by GSA has been subjected to much debate. Many agencies complain that defective or low quality merchandise is often provided.

Although the full extent of poor quality merchandise is unknown, GAO noted many instances where deficient merchandise was discovered only after being received and accepted at a depot or after shipment to a user agency. Examples included:

- Cans of paint which were not full.
- Torque wrenches which did not meet specifications.
- Packages of plastic bags which had short counts.
- Plywood which was too thin.

To find out whether items met contractual specifications and user needs, GAO reviewed the procedures used by GSA to maintain quality. GAO found that:

- GSA has delegated much of the inspection program to contractors through its Quality Approved Manufacturers Program which permits suppliers to ship goods without GSA inspection. In fiscal year 1978, over \$900 million of supplies were shipped under this program. (See pp. 8 to 11.)

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- ✓--GSA quality inspectors do not usually have any formal training and only receive infrequent supervision when conducting quality inspections at contractors' plants. (See pp. 7 and 15.)
- ✗--Origin inspections conducted by GSA quality assurance inspectors were not properly conducted and provide little assurance that the Government gets the quality it pays for. (See pp. 6 to 8.)
- ✗--Items that are subject to origin inspection or provided under the Quality Approved Manufacturers Program are not inspected for quality when they are received by a GSA depot or user agency.
- ✓--The GSA Quality Assurance System lacks controls to prevent or detect collusion between quality control personnel and contractors. (See ch. 3.)
- ✓--The customer complaint system which GSA relies on to detect defective products does not effectively identify product defects or satisfy user agencies. (See ch. 4.)

CONCLUSIONS AND RECOMMENDATIONS

GSA's quality assurance activities provide little assurance that items meet specification and user needs. Most goods provided are not inspected by GSA, and inspections conducted provide little assurance that the Government gets the quality it pays for.

GAO believes that GSA resources to assure quality control could be more effectively used. Accordingly, GAO recommends that the Administrator of the General Services Administration take the following actions:

- (1) --Provide better supervision and a formal training program for quality assurance inspectors.
- (2) --Provide for systematic inspection and testing of items received, on a sampling basis, even

when the supplier is certified under the Quality Approved Manufacturers Program./ Testing at destination is necessary because tests at contractors' plants are not properly conducted and the complaint system is not working. The amount of testing should be limited to that needed to assure that the contractor's quality assurance program is effective.

- (3) --Require quality assurance inspectors to submit conflict of interest statements and consider periodic rotation of field inspectors to reduce the possibility of collusion between GSA inspectors and contractors.
- (4) --Establish a complaint system that promptly resolves legitimate complaints and provide the results of customer complaints to contracting officers for consideration when making future procurements.
- (5) --Emphasize testing the quality of goods at destination until inspections conducted in contractors' plants are improved and the complaint system is effectively identifying poor quality products.

AGENCY COMMENTS

GAO discussed the audit with GSA officials, and they generally concurred with the findings in this report. They commented that they had initiated some actions--increased quality audits--to verify the quality of goods received. GAO believes additional actions are necessary to better assure that goods purchased meet specifications, user needs are effectively met, and controls are instituted to prevent possible collusion between inspectors and GSA suppliers.

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ABBREVIATIONS

FSS Federal Supply Service
GAO General Accounting Office
GSA General Services Administration
QAMP Quality Approved Manufacturers Program

CHAPTER 1

INTRODUCTION

The Congress, through the Federal Property and Administrative Services Act of 1949, created the General Services Administration (GSA). The act provided, in part, that GSA should develop an efficient and economical system for procuring and supplying personal property and nonpersonal services for most Government agencies. In response to this requirement, GSA established its Federal Supply Service (FSS). FSS makes common use items available to Federal agencies through three basic buying programs: (1) stores, (2) nonstores, and (3) Federal Supply Schedules. These programs accounted for nearly \$3.5 billion in Government procurements in fiscal year 1978, of which about \$1.3 billion GSA inspected and accepted. The purpose of this review was to evaluate GSA's effectiveness in assuring that items procured by FSS meet contractual specifications and user needs.

PURCHASING PROGRAMS

Under the stores program, FSS purchases approximately 22,000 common use items and stocks them in regional distribution facilities, consisting of 20 supply depots and 75 self-service stores. Agencies order from the Federal Supply Catalog or directly purchase these items from GSA self-service stores.

The nonstores program involves items not available through the stores program, such as motor vehicles, helicopters, forklift trucks, and various major appliances. These items are generally procured under definite quantity contracts that provide for delivery directly from suppliers to users.

Under the Federal Supply Schedules, FSS contracts with commercial firms to provide supplies and services at firm prices for a stated period of time. User agencies place orders directly with the contractor, which ship and bill directly to the ordering agencies.

QUALITY CONTROL ACTIVITIES

The Federal Procurement Regulations generally require that supplies purchased by or for Government agencies be inspected for conformance before acceptance, either at origin or destination. For the stores and nonstores programs, FSS has generally performed origin inspections, either with a lot-by-lot inspection at a supplier's facility or during

the process of reviewing and approving suppliers' quality control systems. Inspection of supplies from Federal Supply Schedules is normally made at destination by the consignee. On multiple award schedules, most items are not covered by Federal or Government specifications, and it is up to the ordering agency to insure that the item will meet its requirements. Most items on single award schedules, however, are manufactured according to Federal specifications and may provide for mandatory GSA source inspection before shipment.

FSS quality control activities are performed primarily by the Office of Quality Assurance and Reliability at the headquarters level and by Quality Assurance Divisions at 10 regional offices, consisting of 10 Quality Control Branches and 6 Research and Testing Laboratories. These organizations carry out the following quality control activities:

- Perform origin inspections at contractors' facilities to ensure that merchandise meets Government specifications before shipment.
- Evaluate manufacturers to determine eligibility for the Quality Approved Manufacturers Program (QAMP) and perform periodic surveillance to assure their continued eligibility (authorized suppliers under this program may ship materials without Government inspection).
- Conduct preaward (plant facility) evaluations of contractors.
- Inspect stock items received at GSA supply distribution facilities and perform depot quality control surveillance of stock items.
- Investigate quality complaints and conduct quality audits of material procured by FSS.

Based on information provided by GSA, the following table shows the type of quality control inspections GSA performed on each sales program during fiscal year 1978 and the value of materials inspected.

<u>GSA sales program</u>	Total goods subject to GSA inspection FY 1978	<u>Type of inspection</u>		
		<u>Source</u>		<u>Destination</u>
		<u>Lot-by-lot</u>	<u>QAMP</u>	<u>inspection at GSA depot</u>
----- (millions) -----				
Federal Supply Schedules	a/\$ 95.1	\$ 23.3	\$ 71.8	-
Stores (depot)	745.0	181.9	527.7	\$35.4
Nonstores	<u>488.4</u>	<u>178.1</u>	<u>310.3</u>	<u>-</u>
Total	<u>\$1,328.5</u>	<u>\$383.3</u>	<u>\$909.8</u>	<u>\$35.4</u>
Percent	100	28.8	68.5	2.7

a/Total procurement from the Federal Supply Schedules exceeded \$2.0 billion in FY 1978, but most items were required to be inspected only by the purchasing agency.

RELATED ACTIVITIES

Other GSA activities which can directly or indirectly affect the quality of items received include contracting, developing specifications, complaint investigations, and depot receiving and surveillance.

Contracting

FSS contract officers are responsible for entering into or administering contracts and other related activities in procuring personal property and nonpersonal services. Federal Procurement Regulation 1-1.1202 states that purchases shall be made only from, and contracts awarded only to, " * * * responsible prospective contractors." A responsible prospective contractor is one that (1) has adequate financial resources, (2) is able to meet delivery or performance schedules, (3) has a satisfactory record of performance, (4) has a satisfactory record of integrity and business ethics, (5) if a small business, has a certificate of competency and/or a determination of eligibility from the Small Business Administration, and (6) is otherwise qualified and eligible to be awarded a contract.

Developing specifications

The Office of Quality Assurance and Reliability is responsible for developing and managing specifications and standards within GSA. As of 1977, about 4,550 specifications and 1,550 standards were cataloged by GSA.

GSA believes that quality control personnel, being close to production and quality control problems, can offer well-founded recommendations for improvements. When a quality assurance inspector discovers an apparent deficiency in a specification or other contractual document referenced in an active contract, he must immediately inform the Regional Director, Quality Assurance Division, and request instructions.

Complaint system

Responsibility within FSS for processing, investigating, and settling customer complaints is shared by various organizational entities. Except for automotive vehicles and components, complaints are handled by the inquiry and adjustment activity serving the geographic area in which the material is located. If the complaint concerns the quality of an item, it is referred to the regional Quality Assurance Division.

Depot receiving and surveillance

When shipments are received at distribution facilities, they are examined for correct type, quantity, and condition. For items specifying origin inspection, receiving personnel examine and accept the material when it is accompanied by a GSA Form 308 (Notice of Inspection), Department of Defense Form 250 (Material Inspection and Receiving Report), or a QAMP certificate. For items specifying destination inspection, quality inspection specialists generally perform the inspection.

Inspections are also performed on items already in stock (1) to ensure that items have not deteriorated while in storage, (2) in response to quality complaints and other requests from procurement or quality control activities, and (3) to evaluate storage or stocking procedures.

INTERNAL AUDITS AND REVIEWS OF THE QUALITY CONTROL PROGRAM

The GSA Office of Audits and Investigations is responsible for conducting limited examinations of regional office quality assurance programs. However, some regional quality assurance programs have not been reviewed for at least 10 years. Office of Audit officials in one region stated that the small number of quality complaints was one reason quality assurance operations were not given audit coverage. Also, the FSS Quality Assurance Division performs management assistance reviews of regional quality assurance operations.

Some studies and internal reviews identified weaknesses similar to those we found. A 1974 Office of Audit review in one region noted that quality assurance inspectors did not always record or report the results of their inspection activities, sample items were not selected in accordance with sampling criteria, and required tests were not always performed. A 1978 FSS management assistance review in another region noted a need for increased training and supervision of quality assurance inspectors.

SCOPE OF REVIEW

We observed inspections done by GSA staff at selected contractor plants and GSA depots in four GSA regions and discussed quality control practices with responsible officials.

We also did the following:

- Contacted 38 user agencies to identify problems they had with goods obtained from GSA.
- Reviewed GSA documents, such as inspection reports, complaint investigations, contract files, and GSA operating manuals.
- Performed a limited review of GSA procurement practices to determine how product quality information is incorporated into purchasing practices.

This review was conducted at the GSA Federal Supply Service, Arlington, Virginia, and the following GSA regional offices:

- Region 2, New York, New York.
- Region 4, Atlanta, Georgia.
- Region 7, Fort Worth, Texas.
- Region 10, Auburn, Washington.

CHAPTER 2

GSA LACKS ASSURANCE THAT PRODUCTS

ARE OF THE REQUIRED QUALITY

GSA inspection and quality control procedures do not adequately assure that products delivered by contractors meet specifications. Defective items have been shipped to GSA depots and/or to user agencies in spite of lot-by-lot inspection by quality assurance inspectors or certification by QAMP manufacturers that items meet contractual requirements. Weaknesses in GSA quality control inspection procedures include (1) improper sampling procedures, (2) lack of training of inspectors, (3) lack of assurance that items shipped are the same as those actually inspected, and (4) few attempts to verify inspector and contractor performance and testing procedures. We found that QAMP places too much reliance upon suppliers to enforce quality standards. Also, quality control resources could be more efficiently used if greater emphasis were placed on quality audits and destination inspections rather than lot-by-lot inspections and QAMP surveillance procedures.

WEAKNESSES EXIST IN LOT-BY-LOT INSPECTION PROCEDURES

The Quality Assurance Division personnel servicing the area in which the material is manufactured are responsible for accomplishing required source inspections. Other than for QAMP manufacturers, the Quality Assurance Division determines that products offered for delivery comply with contract quality, packaging, and marking requirements. From lots of material, the quality assurance inspector selects samples and arranges for chemical analyses, physical tests, and tests of functional operation.

Quality assurance inspectors are also responsible for reviewing a supplier's inspection or quality control system throughout the life of the contract. GSA procedures state that appropriate tests should be conducted and witnessed in the supplier's plant and other quality control activities should be performed as needed to give complete assurance that only products meeting contract requirements are accepted. Inspection procedures provide that the quality assurance inspector shall:

- Review suppliers' inspection and test reports to determine that all inspection and test requirements have been completed by the supplier or a lab acceptable to GSA.

--Select a sample of material and (1) make a visual inspection of each item to determine that it meets requirements for appearance, color, workmanship, marking, and packaging, (2) determine that the items meet size requirements, (3) perform operational tests to determine if the items function as required, and (4) determine whether the weight shown on filled shipping containers is correct.

We accompanied quality assurance inspectors on lot-by-lot source inspections to observe the quality control procedures used. We found the following deficiencies and believe they contributed to the acceptance of products not meeting contract requirements.

--Inspectors did not properly select or safeguard samples. There were instances where the contractor was allowed to select the sample or the sample was left in the contractor's care. For example, one inspector selected a sample of brushes for testing by a GSA laboratory, but left the items with the contractor to pack and mail to the GSA laboratory. In other instances, sample items were not randomly selected, or the sample size selected was not in accordance with GSA's statistical sampling requirements.

--Inspectors used improper or questionable inspection techniques. For example, inspectors only "eyeballed" certain required measurements and did not perform all required tests or observations. Also, inspectors did not always prepare required documentation of their inspection visits, such as filling out Quality Control Inspection Records.

--Some inspectors lacked the training and expertise necessary to assess the quality of items. GSA quality assurance inspectors receive on-the-job training, but formal training is not provided. GSA officials acknowledged that additional formal training is needed. Inspectors are assigned to inspect purchases from all suppliers in a designated geographic area; hence, they assess the quality of a wide variety of goods and are often unable to develop expertise in determining the quality of all classes or categories of goods.

--Generally, few controls existed to assure that inspected lots were shipped to GSA or direct to users. Some inspectors were not stamping or otherwise marking inspected lots as required by the Quality Control

Operating Handbook. The quality assurance inspectors in one region agreed that it would be possible for the supplier to ship lots that had not been inspected. Items are generally not inspected at depots or by user agencies to assure that items of lower quality are not substituted for inspected items.

Although we could not determine which one or more of the above weaknesses was the cause, we noted the following cases of defective supplies and equipment being inspected and accepted by FSS personnel.

--One agency complained to GSA that it had received five dump trucks (costing \$43,000 each) which were delivered in a deplorable condition and required extensive effort and expense to make them roadworthy. The complaint noted that one

"* * * truck was delivered without any pins in the rear dump body hinge and when the dump was raised, the dump body fell completely off the back end of the truck."

Additional deficiencies cited included vehicles received without fan belts, spare wheels, engine mounting brackets, alternators, and air cleaners. The agency attributed these deficiencies to a "total lack of inspection and quality control" even though the vehicles were reportedly inspected and were accepted by GSA before the vehicles left the factory.

--Another agency notified GSA that it had received 117 refuse containers which were unacceptable for use, and extensive modification would be required to place the units in serviceable condition. The GSA complaint investigation report pointed out that even though these units were accepted by a quality assurance inspector, they obviously did not meet contract specifications. A regional procurement official said that because the units had been inspected and accepted, the only recourse against the supplier would be to show that the vendor and the inspector were involved in a conspiracy to commit fraud.

QAMP DOES NOT ADEQUATELY ASSURE
RECEIPT OF QUALITY ITEMS

Under QAMP, suppliers are authorized to ship materials without an inspection by a Government quality assurance inspector. In such cases, FSS accepts shipments based upon

certification by the contractor of the quality of its products. To participate in this program, a manufacturer must (1) have an acceptable performance record, (2) document his quality control system, and (3) maintain quality control over incoming purchased materials and his manufacturing and assembly processes. As noted on page 3, over \$900 million of supplies--68.5 percent of all items designated for GSA inspection--were shipped under QAMP in fiscal year 1978 with little further GSA testing and verification.

We believe that QAMP has not been effective in preventing defective supplies and equipment from entering the supply system. Once a supplier is placed on QAMP, GSA does not adequately verify his continued acceptable performance.

Examples of deficient items
obtained under QAMP

Deficiencies in the program are demonstrated by the defective QAMP items shipped to a depot or user agency. For example:

- A quality audit of torque wrenches received from a QAMP supplier was initiated by FSS. The investigation revealed that the torque wrenches did not meet specifications.
- A spot check showed that many cans of paint received from QAMP suppliers contained less than the required amount. After being notified of this check, the Director of the Quality Assurance Division, Central Office, directed six regions to initiate a similar check. Results from one region showed that of 31 lots tested from one supplier, 29 contained less paint than required. GSA paid this supplier for at least 210 gallons of paint not received. Of four lots from another supplier, three contained less than the amount required. GSA paid this supplier for at least 326 gallons of paint not received. Of 16 lots from a third supplier, 14 were less than 100-percent filled. As a result of this quality review, GSA made claims against paint suppliers for \$146,719 and had received \$89,224 as of May 18, 1979.
- A check of packages of plastic bags showed that 75 percent contained less than the required 100 per package (one sample averaged only 67). Of the 1,000 packages (100,000 plastic bags) listed on the receipt and manufacturer's QAMP certificate, GSA projected a shortage of 7,650 bags.

Other examples of deficient QAMP shipments included plywood which was too thin, paint brushes which lost their bristles when used, and carpet tiles which were not square.

Weaknesses in QAMP inspection procedures

According to GSA, a QAMP agreement does not relieve the regional Quality Assurance Division of its responsibility for the quality and delivery performance of the manufacturer. Inspectors are responsible for making quality surveillance visits, generally on a quarterly basis. However, if the volume of business is so small that a quarterly visit would not be justified, a longer period may be designated. A regional quality control official stated that the frequency of quality surveillance visits is left to the discretion of inspectors, because they are believed to be the most knowledgeable of the manufacturer's operations.

Under present conditions, GSA cannot be assured of the quality of the items it receives from QAMP contractors. For example, at a brokerage/warehouse distribution firm supplying plywood to GSA, at least 25 consecutive QAMP surveillance visits indicating the firm should be continued on QAMP were made during a 15-month period. Only five of these quality reviews specifically mentioned that material had been inspected. Seven reports indicated that no material was available to inspect or that no GSA orders were being processed. The other 13 reports generally indicated that the firm's quality control records were adequate and/or summarized the number of orders shipped or delinquent. However, after nonconforming material was found in a GSA depot, but not as part of any routine GSA quality control procedures, the regional Quality Assurance Division instituted lot-by-lot inspection procedures. During the subsequent 6-week period, four lots were rejected because of excess defective material.

Generally, GSA does not inspect QAMP items at depots or at user agencies, even on a test basis, to verify the quality of goods received. Even though QAMP agreements contain a 6-month warranty clause, GSA relies mainly upon complaints to identify defective merchandise. By the time defective merchandise is identified by a user agency, the warranty period may have already expired.

Despite receipt of defective items, FSS has emphasized QAMP because they believe it to be cost effective since it significantly reduced source lot-by-lot inspection costs. Through memorandums, audit reports, and the Quality Control Operating Handbook, regions have been encouraged to certify

more suppliers on QAMP and, as recently as December 1977, were given a target number of QAMP suppliers to attain by the end of the fiscal year. This policy may have lowered the standards for qualifying suppliers so that the goal could be reached.

GSA Headquarters officials agree that weaknesses exist in QAMP and that the program requires corrective action. One official stated that Government inspection costs can only be reduced at a higher risk of item quality. Some regional officials regarded QAMP as a "license to steal" and others agreed that deficiencies existed in the program. Further, an FSS central office memorandum stated that "* * * more frequent and more thorough surveillance is required under this program." A revision to GSA's Quality Control Handbook was proposed by the FSS Central Office emphasizing the need for tightened controls on the program. However, these revisions appear to encourage increased use of existing controls which have not proven effective, such as increased surveillance visits. We believe that GSA needs to conduct independent tests at its depots of items received under QAMP. This will strengthen GSA's control over the quality of items it procures and will provide feedback on contractors who need to improve their quality assurance procedures.

MORE EFFECTIVE USE COULD BE MADE
OF QUALITY CONTROL RESOURCES

GSA quality inspectors continue to spend much of their time on matters indirectly related to assuring the quality of items purchased for Government users. These duties include contract administration, such as making plant facility reports, monitoring delivery dates, and issuing warning letters to delinquent suppliers.

A 1974 consultant's study of FSS stated that:

"The quality assurance inspector is assigned too many differing responsibilities to handle them all effectively.

* * * * *

"* * * the majority of his time is taken up by in-plant, lot-by-lot inspection duties and contract administration chores.

* * * * *

"* * * As a result, the FSS quality control programs are, in many cases, poorly administered,

leading to delivery of substandard merchandise, poorly administered contracts and dissatisfied customers."

Travel to and from contractors' plants to perform quality control and contract administration duties also consumes a significant portion of inspectors' job time. GSA statistical reports showed that annual travel hours per inspector ranged from 112 to 524 in the 10 regional offices.

Although GSA has other procedures, such as quality audits that could allow it to verify/evaluate quality assurance programs and laboratory testing, only minimal use has been made of these programs. Quality audits are investigations of items selected because of potential quality problems. The Director of the FSS Quality Assurance Division is responsible for initiating and defining the scope, time frame, and plan for quality audits. FSS's criteria for initiating quality audits include such factors as poor quality history of a manufacturer, contracts awarded despite an unsatisfactory preaward plant facility survey, requests from specification managers or regional offices, or items received where there have been specification changes or manufacturing difficulties. However, an FSS Headquarters official noted that historically, FSS has only initiated quality audits on specific products when complaints were received. The problem with this approach is that user agencies frequently do not make complaints with GSA even when the products it received are defective. (See ch. 4.)

Regional FSS officials noted that until recently, very few quality audits had been requested by the Central Office. Although destination inspections and quality audits would appear to be effective forms of quality control because (1) contractors could not switch goods after inspection and (2) chances for collusion would be reduced because GSA inspectors would have less direct contact with contractors, neither procedure is a major part of GSA's quality control program.

In commenting on our review findings, FSS Central Office officials stated they had increased the number of quality audits and plan to continue this effort to verify the quality of selected products already in the supply system. The frequency or selection of items to be examined in their special quality audits has not yet been scheduled on a systematic basis.

This change in emphasis on place of inspection would be consistent with our 1974 report on the Defense Logistics

Agency, 1/ which found that inspectors spent considerable time inspecting commercial-type items at source. The report concluded that many of these inspections would have been made more economically at destination with an equal degree of quality assurance. Subjecting QAMP items to systematic investigation when goods are received at depots would strengthen QAMP.

1/"Better Use of Manpower Possible by Reducing Source Inspections of Simple Low-Cost, Commercial-Type Items" (B-166920, Oct. 3, 1974).

CHAPTER 3

THE GSA QUALITY ASSURANCE SYSTEM

LACKS CONTROLS TO PREVENT OR DETECT

COLLUSION BETWEEN GSA INSPECTORS AND SUPPLIERS

GSA quality assurance inspectors are important in determining how profitable a Government contract may be to a supplier. Quality assurance inspectors perform (1) plant facility evaluations in which they recommend whether a supplier be awarded a contract, (2) inspections where they recommend whether a supplier's shipments of goods should be subject to GSA inspections (QAMP certification), and (3) material inspections, during which they accept or reject products. However, in our opinion, GSA has no effective system to verify or check on quality assurance inspectors' activities. The inspectors work out of their residences, generally visit the same contractor repeatedly, arrange their own itinerary, select the samples, receive sample test results at their residences, and receive little independent monitoring. Recent revelations concerning collusion between GSA personnel and Government contractors dictate that GSA take steps to assure that quality assurance inspectors perform satisfactorily.

AREAS OF POTENTIAL COLLUSION/FRAUD

GSA officials acknowledged that a dishonest quality assurance inspector could profit in collusion with a dishonest contractor and identified areas in which this could happen. These areas included:

- Failing to require laboratory tests and accepting goods based on contractors' unvalidated results.
- Overriding negative laboratory test reports.
- Not issuing 10-day warning letters on delinquent contractors, thereby allowing contractors to escape financial penalty for late delivery.
- Not reporting contractor deficiencies in scheduling, production, and quality control.
- Accepting test samples selected by the contractor.
- Falsifying plant facility evaluations.

Although we did not discover any collusion between GSA quality assurance inspectors and contractors, we did find instances of some of the problem areas listed above. For example, we found cases where inspectors (1) failed to require laboratory tests, (2) accepted goods based on suppliers unvalidated test results, (3) overrode negative laboratory test results, and (4) accepted test samples selected by contractors.

LIMITED SUPERVISION OF INSPECTORS

Most quality assurance inspectors operate independently, with only limited supervision. In most instances, they maintain files in their cars and submit required reports to their GSA regional office by mail. During our review, GSA directed that a supervisor accompany each inspector at least once each month. Regional quality control officials said that such visits would not detect collusion even if it existed. We also noted that surprise visits were generally not made to check on the inspectors' work.

As an illustration of the physical problems encountered in trying to supervise inspectors, the 16 quality assurance inspectors in GSA region 4, Atlanta, Georgia, conducted their GSA inspections at the following locations:

<u>Duty station</u>	<u>Inspection area</u>
Raleigh, North Carolina	Northeast North Carolina
High Point, North Carolina	Central North Carolina
Savannah, Georgia	Charleston, North Carolina
	Savannah, Georgia
Charlotte, North Carolina	Southeast North Carolina
Asheville, North Carolina	West North Carolina
	Northeast South Carolina
	East Tennessee
Columbia, South Carolina	South Carolina
Murfreesboro, Tennessee	Tennessee
Atlanta, Georgia	Atlanta, Georgia
	Greensboro, North Carolina
Jackson, Mississippi	Mississippi
Louisville, Kentucky	Kentucky
Atlanta, Georgia	North Georgia
Montgomery, Alabama	Alabama
Memphis, Tennessee	North Mississippi
	North Alabama
Atlanta, Georgia	Central Georgia
Orlando, Florida	North Florida
Miami, Florida	South Florida

Quality control officials in other regions acknowledged similar problems in supervising geographically dispersed quality assurance inspectors and questioned the effectiveness of supervisory visits to detect improper dealings between contractors and GSA inspectors. Increased verification of product quality upon receipt at GSA depots and reports of defective material from user agencies could be used as a check of the validity of the work of widely dispersed field inspectors.

GSA DOES NOT ATTEMPT TO IDENTIFY FINANCIAL
OR OUTSIDE INTERESTS OF INSPECTORS

GSA does not attempt to identify possible conflicts of interest for staff inspectors, although such statements are required of higher graded personnel who have less direct impact on or contact with suppliers.

GSA inspectors often have the only direct liaison with suppliers and may develop long-term relationships with them, because GSA procedures do not require a periodic shifting of inspection responsibilities or areas to preclude development of such relationships.

CHAPTER 4

THE QUALITY COMPLAINT SYSTEM

DOES NOT SATISFY USER AGENCIES OR EFFECTIVELY IDENTIFY PRODUCT DEFECTS

We believe an effective customer complaint system should promptly resolve legitimate complaints and should help GSA to identify and improve products which are unsatisfactory. The existing GSA complaint system does neither. It is administratively cumbersome, often taking many months to resolve a complaint, and generally does not satisfy customer agencies. Consequently, some GSA customers seldom complain, leaving GSA unaware of many product deficiencies.

GSA relies mainly on quality complaints to detect defective products after they get into the Federal Supply System. GSA regulations state that user agencies are to report quality deficiencies to GSA if the defective item is shipped from (1) a GSA depot, (2) a vendor on a GSA purchase order, or (3) Federal Supply Schedules if the item was designated to be inspected. Quality deficiencies are to be reported to GSA "regardless of value."

GSA CUSTOMERS DO NOT USE THE COMPLAINT SYSTEM

Customers often did not file complaints even though products received did not meet their needs or were defective. GSA rules which deny credit or replacement to user agencies for items valued at less than \$25 discourage most agencies from making complaints on low-cost items.

User agencies cited the following weaknesses in the GSA complaint procedures:

- The complaint system is cumbersome. To file a product quality deficiency report (GSA Form 368), the complainant must gather a considerable amount of information, including stock number, purchase order number, lot number, supplier, GSA origin depot, cost of item, number of defective items on hand, and a description of the complaint.
- Often, GSA's handling of the complaint does not result in customer satisfaction. Although complaints are to be investigated and a site inspection made, the complainant does not always get credit or a replacement for the defective item.

--The complaint resolution process is lengthy. By the time a complaint is submitted, an investigation is made, and GSA or the contractor sends a replacement, some complainants have often obtained the item elsewhere. For example, in May 1978 a Veterans' Administration (VA) office sent GSA a complaint about two defective water dispensers. In October 1978, one GSA region completed the complaint investigation and recommended that another region have the contractor repair the dispensers. In March 1979 the contractor repaired the dispensers. This complaint took 295 days to resolve. Because VA needed the dispensers, they purchased two (\$182 each) from commercial sources while their complaint was being investigated and resolved. Examination of 15 randomly selected complaints received in one region showed that resolution required from 45 to 295 days. Most required more than 90 days. Of 38 user agencies contacted, 19 were concerned over the time required to resolve complaints and 9 stated some of their complaints had never been resolved.

--It is easier to junk the defective item and reorder. Agencies have no incentive to make formal complaints for low-cost items such as office supplies. Of 38 user agencies contacted, 29 stated they had received defective and unusable items from GSA but had not made a formal complaint. Responses from user agencies contacted during our review are summarized below.

	Number of agencies (note a)	
	<u>Yes</u>	<u>No</u>
Has your agency received defective items from GSA but not filed a complaint?	29	8
Does your agency normally file a complaint on low-value (under \$25) items?	8	26
Would a replacement policy be more desirable than the existing complaint system?	30	4

a/Not all 38 agencies contacted responded to each question.

In addition to these responses, 18 agencies stated they purchase products on the open market because of quality problems with GSA products. In a 1974 report, "Management of Federal Support Service Procurement Program Can Be Improved,"

(PSAD-79-32, Dec. 31, 1974), we estimated that agencies spent \$1.4 billion to obtain goods and services from commercial supply sources because of dissatisfaction with the quality of GSA items and delays in obtaining them. Many agencies suggested that the existing complaint system be simplified.

GSA officials said the small number of quality complaints verified that their quality assurance program was operating effectively. In our opinion, the complaint system is not a valid determinant of the effectiveness of GSA's quality assurance program because many agencies do not file complaints even though they receive deficient items.

GSA DOES NOT TAKE ACTION TO
PREVENT CONTINUED BUYING OF
POOR QUALITY PRODUCTS

GSA should use customer complaints to identify and eliminate poor quality suppliers and to identify faulty product specifications. However, we found that complaint and investigation reports often did not get back to contracting officers responsible for awarding contracts to suppliers. Therefore, contracting officers often were unaware that a supplier's products did not meet specifications or user needs and continued to make additional contract awards to the same supplier. Also, complaint investigations indicating inadequacies in product specifications often were not forwarded to the Office of Quality Assurance and Reliability, which is responsible for revising and updating product specifications.

Even when customers complained about defective products, GSA did not take corrective action to preclude future purchases of poor quality products. For example, GSA received at least five complaints from different agencies regarding a supplier of ultrasonic cleaning equipment. These complaints stated:

"This type of contractor performance is definitely not in the best interest of the government and we request you default (this firm's) FSS contract."

* * * * *

"We have never had a dependable ultrasonic bath in the year's time we were supposed to have one. We have had a faulty or useless one, unkept promises and miserable service. I find it impossible to understand how this company could be awarded a GSA contract * * *."

* * * * *

"Out of the 11 months the ultrasonic has been here, it has been out of service about 4 months and, at this time, * * * still does not work properly."

The firm supplying these units bid for another GSA contract starting April 1, 1979, through March 31, 1980. The contracting officer asked the Quality Assurance Division to assess the supplier's quality and workmanship and stated that a favorable rating left him no choice but to renew the contract. In our opinion, GSA should give more consideration to suppliers' past performance when awarding new contracts.

CHAPTER 5

CONCLUSIONS AND RECOMMENDATIONS

CONCLUSIONS

GSA's inspection and quality assurance activities provide little assurance that items purchased meet specifications or user needs. Most goods that are made using Government specifications are supplied by contractors who are certified under QAMP. Goods supplied under this program are generally not inspected by GSA and goods of noncertified suppliers are inspected at the contractor's plant. We found that inspections conducted at contractors' plants were often not properly conducted. Supervision of inspectors was infrequent, and material requiring inspection and acceptance at contractors' plants was not controlled to insure that the goods inspected were those actually shipped.

We believe that GSA's quality control system should be modified to provide for more independent testing of items at destination and better supervision and training for inspectors.

GSA inspectors have direct liaison with contractors and frequently develop long-term relationships because GSA procedures do not require periodic rotation of field inspectors. These inspectors can affect how profitable a Government contract may be to a supplier. However, GSA does not attempt to identify possible conflicts of interest for quality assurance inspectors.

The quality complaint system does not effectively identify product defects and poor quality suppliers because the system is cumbersome and time consuming and results in many customers not registering complaints on defective products received. Even when valid complaints are filed, they often are not furnished to the contracting officers responsible for future procurement of the item involved.

We believe that GSA needs a simpler process to respond to customer complaints. Most of the 38 user agencies contacted stated that they would prefer a replacement policy to the existing complaint procedures.

RECOMMENDATIONS

To better assure that purchased goods meet contract requirements, reduce opportunities for collusion between Government contractors and GSA personnel, and more effectively use the quality control resources, we recommend that

the Administrator of the General Services Administration take the following actions:

- Provide better supervision and a formal training program for quality assurance inspectors.
- Provide for systematic inspection and testing of items received, on a sampling basis, even when the supplier is certified under QAMP. Testing at destination is necessary because tests at contractor's plants are not properly conducted and the complaint system is not working. The amount of testing should be limited to that needed to assure that the contractor's quality assurance program is effective.
- Require quality assurance inspectors to submit conflict of interest statements and consider periodic rotation of field inspectors to reduce the possibility of collusion between GSA inspectors and contractors.
- Establish a complaint system that promptly resolves legitimate complaints and provide the results of customer complaints to contracting officers for consideration when making future procurements.
- Emphasize testing the quality of goods at destination until inspections conducted in contractors' plants are improved and the complaint system is effectively identifying poor quality products.

By removing the lot-by-lot inspection function from contractors' plants, where feasible and economical, suppliers would have less contact with GSA inspectors who examine and test their product and would not know when testing is taking place. Converting to destination inspections would achieve more effective use of inspection personnel and provide better assurance of the quality of goods received.

Recent revelations concerning collusion between GSA personnel and Government contractors dictate that GSA take steps to preclude such occurrences. In our opinion, the activities of GSA quality assurance specialists make them subject to such temptations. We believe systematic spot checks of items when they are received would also serve as an independent check on plant inspection activities.

AGENCY COMMENTS

We did not solicit written comments on this report. However, we discussed the audit with GSA officials and they

generally concurred with our findings. They commented that they had initiated some actions--increased quality audits--to verify the quality of goods received. We believe additional actions are necessary to better assure that procured goods meet specifications, user needs are effectively met, and controls are instituted to prevent possible collusion between GSA suppliers and inspectors.

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