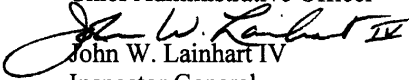


John W. Lainhart IV
Inspector General

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

MEMORANDUM

TO: James M. Eagen III
Chief Administrative Officer

FROM: 
John W. Lainhart IV
Inspector General

DATE: December 9, 1998

SUBJECT: Audit Report - Reengineering Office Supply Service Purchasing Practices Could Save the House Over \$500,000 Annually (Report No. 98-CAO-14)

This is our final report on the operations of the Office Supply Service (OSS). The objective of this audit was to determine the efficiency and effectiveness of the OSS operations. In this report, we identified inefficiencies in the purchasing practices within OSS and made specific recommendations for corrective actions.

In response to our June 8, 1998 draft report, your office concurred with our findings and recommendations. The August 27, 1998 management response 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. Further, the milestone dates provided for implementing corrective actions appear reasonable.

We appreciate the courtesy and cooperation extended to us by your staff. If you have any questions or require additional information regarding this report, please call me or Robert B. Frey III 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

REENGINEERING OFFICE SUPPLY SERVICE PURCHASING PRACTICES COULD SAVE THE HOUSE OVER \$500,000 ANNUALLY

*Report No. 98-CAO-14
December 9, 1998*

RESULTS IN BRIEF

CONCLUSIONS

Office Supply Service (OSS) does not take advantage of the economies and efficiencies that can be realized from consolidating orders when purchasing office supplies. This is due to OSS issuing individual purchase orders for each request and not establishing Blanket Purchase Agreements (BPAs) with principal vendors. As a result, OSS is losing quantity discounts and charging Members, Committees, and Officers higher prices than necessary for office supplies. In addition, even greater savings could be realized if the Chief Administrative Officer (CAO) would contract with primary vendors to provide office supplies to the House.

Additionally, OSS has not updated its purchasing methods to reflect current trends for purchasing toner cartridges, copier paper, and business cards. This occurs because OSS adheres to outdated purchasing methods in purchasing office supplies. As a result, the House could miss the opportunity to save nearly \$500,000 annually if OSS does not modify its methods for procuring toner cartridges, copier paper, and business cards.

RECOMMENDATIONS

We recommend that the CAO: (1) reengineer Office Supply Service business processes to achieve more effective office supply procurements for the House; (2) immediately develop a Request for Proposal to establish BPAs with primary vendor(s) of office supplies to meet the needs of the House; (3) immediately consolidate all purchases, both replenishment and special orders, daily and process one order for all the supplies ordered through the Supply Store; (4) implement an active toner recycle program; (5) competitively contract for all the paper needs of the House and inform the Members of the quality, price, cost savings, and availability that will save the Members' Representational Allowance funds; and (6) perform an analysis of annual business card purchases, the results of which should be used in the upcoming contract re-competition for business card vendors to ensure that all available quantity discounts are obtained.

MANAGEMENT RESPONSE

On August 27, 1998, the CAO concurred with the findings and recommendations in this report. According to the response, the CAO agreed to: (1) establish a team to conduct a business reengineering process review of OSS's procurement, delivery, and inventory management practices; (2) analyze and, as appropriate, develop BPAs with primary vendors for frequently ordered stock items; (3) consolidate purchases, both replenishment and special orders, daily for all supplies ordered through the OSS; (4) expand the recycled toner cartridge program to include cartridges for additional models; (5) analyze and develop appropriate acquisition vehicles with large paper suppliers to provide copier paper for the House; and (6) conduct an analysis of annual business card purchases to identify any potential quantity discounts that may be available and solicit additional vendors that offer quantity discount opportunities.

OFFICE OF INSPECTOR GENERAL COMMENTS

The actions taken or planned by the CAO are responsive to the issues identified and, when fully implemented, should satisfy the intent of these recommendations. The milestone dates provided for the actions appear reasonable.

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I. INTRODUCTION

Background

Office Supply Service (OSS) serves the U.S. House of Representatives (House) by providing office supplies and related services to the Members, House Officers, and staff. OSS operates a retail supply store that provides a convenient walk-in source for office supplies necessary to support all House offices' official duties. In addition, OSS processes special requests, receives supplies from vendors, and provides delivery service directly to the individual offices.

The House funds OSS from two sources: (1) the House Stationery Revolving Fund and (2) appropriated funds. The self-sustaining revolving fund was established in 1947 by 2 USC Section 46b-1. OSS maintains the fund balance from its sales receipts and is not required to return the balance at year-end to the Treasury. The House Stationery Revolving Fund enables OSS to purchase items for sale. The appropriated funds enable OSS to pay salaries, benefits, and other operating expenses such as utilities.

Members, Committees, and House Officers are provided an account card to purchase supplies. This account card and proper identification, i.e., a House identification badge, authorizes individuals to purchase items for official use at OSS's cost. Members and staff may also purchase personal use items by paying an additional 10 percent service charge.

Objective, Scope, and Methodology

The objective of this audit was to determine the efficiency and effectiveness of the OSS operations. This audit was conducted in accordance with the *Government Auditing Standards* issued by the Comptroller General of the United States and included such tests as we considered necessary under the circumstances. We assessed the adequacy of management controls over OSS sales, purchasing processes, inventory management, and customer satisfaction. In addition, we reviewed pertinent policies and procedures, observed operations, reviewed management reports, and evaluated transactions. Our audit was conducted at OSS and other offices as deemed appropriate. The initial audit period was Fiscal Year (FY) 1997. However, due to the inability of the computer system to provide the required data, we focused our efforts on the second quarter of FY 1998, January 1998 through March 1998. The Gift Shop was not included in the review, as a September 1994 House decision separated this operation from OSS.

During November 1997, we sent out 610 OSS customer satisfaction surveys to all Members, Committees, Subcommittees/Task Forces, and other major House offices. The objective of this survey was to determine the level of customer satisfaction with the operations of OSS. The survey was completed in January 1998, and the results indicate that customers are generally satisfied with the OSS services provided. (See *Results Of The Office Supply Service Satisfaction Survey*, Report No. 98-CAO-15, dated December 9, 1998.)

Internal Controls

During this review, we evaluated OSS's internal controls pertaining to its operations. We found the internal controls of OSS to be adequate.

Prior Audit Coverage

The OIG previously issued two audit reports related to OSS operations. *Changes in Operating Practices Could Save Office Supply Store and Gift Shop \$1.3 Million Annually* (Report No. 95-CAO-07, dated July 18, 1995) recommended OSS be closed and replaced with a contractor operated just-in-time inventory system. *Improvements Are Needed In The Management And Operations Of The Office Chief Administrative Officer* (Report No. 96-CAO-15, dated December 31, 1996) recommended, among other things, OSS cover all costs of the store. The CAO has completed actions on all of the recommendations addressed in these reports. (The Exhibit at the end of this report provides a summary of the implementation status of each of the recommendations.)

FINDINGS AND RECOMMENDATIONS

Finding A: The House Could Realize Economies by Reengineering Office Supply Purchasing Practices

OSS does not take advantage of the economies and efficiencies that can be realized from consolidating orders when purchasing office supplies. This is due to OSS issuing individual purchase orders for each request and not establishing Blanket Purchase Agreements (BPAs) with principal vendors. As a result, OSS is losing quantity discounts and charging Members, Committees, and Officers higher prices than necessary for office supplies. In addition, even greater savings could be realized if the CAO would contract with a private vendor to provide office supplies to the House.

Discussion

OSS is the source for office supplies for all House offices, stocking an assortment of items necessary to meet the office's everyday needs. OSS provides an on-line text catalog via the House Intranet that provides a description of the supplies commonly available. The text catalog displays the OSS item number, description, and current price. However, the OSS catalog contains poor, inaccurate, and sometimes indecipherable descriptions of available supplies which can confuse and mislead the buyer. For example, the description for Magic Tape stated "Tape, magic, 3/4" x 1296' #810" which indicates the roll is 1296 feet long when it actually is 1296 inches long. All House offices can use the catalog if the item description is known, using a standard OSS requisition form, to order supplies. In addition, OSS maintains a retail operation with the commonly stocked items that can be purchased directly. However, if a customer needs supplies other than those stocked, such as computer software, address labels, and binder clips, OSS will process a special order to fill this request. In these cases, OSS contacts vendors, receives the merchandise, and delivers the item to the customer.

In addition to filling special item requests from customers, OSS issues individual purchase orders to replenish stock. These replenishment orders are issued when commonly stocked items meet a predetermined reorder level. At the end of each day, the computer system generates a replenishment list used by procurement specialists to reorder supplies the following morning. During Calendar Year 1997, OSS processed approximately 11,000 purchase orders for replenishment and special orders.

According to House Procurement Guidelines, purchase orders under \$2,500 do not require multiple price quotations. However, when the purchase request exceeds \$2,500, three quotes must be obtained before a purchase order can be awarded. We analyzed the purchases, both replenishment and special, for the first 20 days of calendar year 1998, to determine the vendors, items, and quantity of each item purchased during the period.

Analysis of Purchase Orders Processed

We determined there were 553 separate purchase orders issued to 82 different vendors during the first 20 calendar days of 1998. We found the majority of these purchase orders were under \$2,500 and, therefore, did not require multiple quotes. Our review of purchase order registers

revealed multiple purchase orders were issued to the same vendors daily. If consolidated, fewer purchase orders and less processing time could be realized. Of the 553 purchase orders reviewed, 255 separate purchase orders were awarded to 9 principal vendors, ranging in price from a low of \$3.82, to a high of \$41,600. Our review showed that OSS placed 4 or more purchase orders, on the same day, with the same vendor, 29 percent of the time. In nearly 40 percent of these cases, the orders included multiple replenishment item requests. For example, on January 7, 1998, OSS issued nine separate purchase orders for replenishment supplies with one vendor. Other examples include special orders issued for four to ten items on eight separate occasions to the same vendor on the same day. In all cases, one purchase order should have been processed, saving processing time, and avoiding duplicative efforts.

We also determined OSS processed 31 sequential orders totaling more than \$16,350 for special software requests to the same vendor on one day. With the exception of one order over \$5,700, requiring three price quotations, all purchases were for less than \$2,500. Orders of this magnitude to one vendor should be consolidated and competed to obtain the best possible price for all House offices. In addition, consolidation of orders promotes competition, lowers costs, and should result in far less time expended for the administration and processing of purchasing orders.

OSS Not Getting the Best Prices

During our discussions with OSS officials we learned that OSS is not taking advantage of quantity discounts. We were told that OSS orders only small quantities; therefore, discounts are not available. However, we determined that during the first 20 days of 1998, OSS issued 255 purchase orders with a value of over \$217,000 in office supplies to nine prominent vendors. Annualized, this amounts to over \$3.9 million in purchases from the prominent vendors.¹ Based on this annual volume of purchases, OSS should be able to obtain quantity discounts from vendors.

Our analysis revealed that OSS could obtain lower prices when they ordered greater quantities of some items. For example, during a 9 day period, OSS purchased toner from a vendor 3 separate times--paying \$32 for 12 items, \$34 for 5 items, and \$37 for 2 items. Additionally, OSS purchased toner from another vendor for \$157.90 for 1 item and 9 days later purchased 4 of the same item for a unit price of \$121.08. These two examples clearly demonstrate that quantity discounts are available. To ensure that such price discounts are obtained, BPAs could be negotiated with House vendors.

OSS's purchasing practices need to be improved to save processing time, obtain more competitive prices, and reduce the costs of office supplies. In an effort to identify alternatives for OSS's operations, we determined that the current trend, in both the government and the private sector, for obtaining office supplies is to eliminate in-house supply rooms and to migrate to just-in-time/desktop delivery² contracts with office supply vendors.

¹ This does not include all vendors, or flags purchased and subsequently flown over the Capitol.

²Just-in-time/desktop delivery is a system where supplies are ordered and delivered when needed at the desk of the individual ordering the supplies.

Alternative Methods to Operate OSS

During our research into alternate and innovative methods to more efficiently and effectively operate OSS, we found that in 1996, GSA signed contracts with six major vendors to provide similar supply services.³ The GSA contract authorizes the use by all Federal agencies and activities in the legislative, executive, and judicial branches. These vendors are required to provide requested office supplies on a just-in-time/desktop delivery basis. Vendors were selected via a competitive award, based on both technical and cost proposals. Vendors were asked to provide item pricing based on the Moore Retail Pricer,⁴ less a percentage discount. The percentage discounts were to remain fixed and constant for one year. Vendors were required to deliver supplies to a customer's desktop by the next business day to at least ninety-percent of the Federal installations within the contiguous United States. In addition, the contractor authorizes agencies to use blanket purchase arrangements, or similar arrangements, to allow ordering by account and provide customized billing. Also, contractors were required to provide a return policy equal to or better than that given to commercial customers.

We also contacted the National Aeronautics & Space Administration (NASA) and the Comptroller of the Currency, two agencies that have contracted with office supply vendors for just-in-time/desktop delivery of office supplies. Both agencies conducted extensive initial research and deliberations before awarding the contracts. They found the price, convenience, service, and selection of items to be exceptional. In each instance, the costs of items were based on projected sales volume of known common items, such as folders, binders, toner cartridges, and pens and pencils. When an order was placed prior to a contractually established cut-off time, vendors provided next day delivery for over ninety percent of all orders. As for convenience, both organizations felt the contractors provided items needed, when asked, and resolved any problems quickly and efficiently. In addition, users were provided catalogs with descriptions, color pictures and product applications, which made ordering easier and more efficient.

Comparison of Prices Obtained by Other Agencies. We compared existing contract prices of these two agencies using the just-in-time/desktop delivery to the OSS prices for a representative sample of 16 common items used during the first three months of 1998. The sample included printer and fax machine toner cartridges, binders, labels, file folders, and floppy disks. It should be noted that the prices we compared are based on the dollar volume of the two agencies, which is far less than OSS's volume. The annual dollar volume for NASA was \$1.9 million while the Controller of the Currency totaled \$.9 million. OSS's annual dollar volume was over \$5 million in 1997. Figure 1 illustrates the results of our analysis.

³ Vendors include Boise Cascade Office Products, BT Office Products International, Corporate Express, Innovative Sales Brokers, Office Depot, and Staples National Advantage.

⁴The Moore Retail Pricer, produced by the Trade Service Corporation, contains office product descriptions and manufacturer's suggested retail pricing information.

Comparison of Selected Office Supplies

Item Description	Units Thru 31 Mar	OSS		NASA		Controller of the Currency	
		Unit Cost	Total Cost	Unit Cost	Total Cost	Unit Cost	Total Cost
Canon, EP-E, Toner Cartridge Compatible HPIISI/IVSI	576	\$90.32	\$52,024.32	\$100.20	\$57,715.20	\$90.65	\$52,214.40
Label, ADD Laser, 1x3 Avery, 120/bx	126	\$18.90	\$2,381.40	\$20.80	\$2,620.80	\$20.48	\$2,580.48
Canon FX-2 Cartridge	344	\$60.00	\$20,640.00	\$69.00	\$23,736.00	\$71.50	\$24,596.00
Cartridge, Toner, HP, 5SI, C3909A	234	\$137.48	\$32,170.32	\$149.50	\$34,983.00	\$132.11	\$30,913.74
Folder, file	1514	\$5.99	\$9,068.86	\$7.99	\$12,096.86	\$5.71	\$8,644.94
Envelope, TYV, Exp, 12x16 (100/ctn)	7226	\$0.66	\$4,769.16	\$0.71	\$5,130.46	\$0.87	\$6,286.62
Label, Add. Laser, 4x1.3, Avery	186	\$20.49	\$3,811.14	\$20.80	\$3,868.80	\$20.48	\$3,809.28
Binder, Overlay, 2", white	1069	\$2.20	\$2,351.80	\$2.49	\$2,661.81	\$2.50	\$2,672.50
7041 Toner Cartridge	120	\$50.00	\$6,000.00	\$44.40	\$5,328.00	\$35.20	\$4,224.00
Canon FX-1 Cartridge	216	\$70.68	\$15,266.88	\$92.10	\$19,893.60	\$82.50	\$17,820.00
Maxell, 4mm, 4.0G, 120mm, cartridge	418	\$10.90	\$4,556.20	\$9.80	\$4,096.40	\$11.31	\$4,727.58
Verbatim, 3.5, DS/HD Dos	671	\$4.73	\$3,173.83	\$4.30	\$2,885.30	\$4.29	\$2,878.59
BM/40/95A/IBM Series II/III Cartridge	17	\$56.97	\$968.49	\$60.00	\$1,020.00	\$60.32	\$1,025.44
legal, open top folder	9869	\$0.54	\$5,329.26	\$0.38	\$3,750.22	\$0.54	\$5,329.26
Tape, magic, 810, ¾"x1296"	4973	\$1.42	\$7,061.66	\$1.50	\$7,459.50	\$1.52	\$7,558.96
Canon EP-E, Toner Cartridge Compatible HP4/5	412	\$76.45	\$31,497.40	\$81.90	\$33,742.80	\$72.38	\$29,820.56
Totals			\$201,070.72		\$220,988.75		\$205,102.35

Figure 1

At first glance it would seem using an outside source to operate an office supply service is more costly than the current situation. However, during discussions with the vendors, both stated that based on the annual volume purchased by OSS, the prices would more closely represent the existing prices, if not less. Furthermore, the price paid does not equate to the total savings gained from using an outside contractor.

Additional Savings From Outsourcing. The costs that are not addressed by the costs of the individual office supply items include the appropriated funds associated with the salaries of the OSS staff, and OSS's cost of maintaining an inventory. According to a personnel roster provided by the CAO, annual salaries for the 28 personnel employed by OSS, as of September 1997, amounted to \$901,336 exclusive of benefits. Using a benefit rate of 30 percent, the funds annually appropriated for salaries and benefits to operate OSS--including both the supply store and the Gift Shop--are approximately \$1.2 million. (The OSS staff is used interchangeably to support Supply Store and Gift Shop operations.) Based on a prior OIG recommendation, the proposal to contract out the operation of the Gift Shop is currently under review by the Committee on House Oversight. If this recommendation is adopted, the salaries associated with the Gift Shop would be eliminated once the Gift Shop contract is signed. If the CAO contracts out both the Supply Store and the Gift Shop, personnel resources could be eliminated entirely or made available to fill other opportunities within the CAO, or the CAO could reduce his budget.

In addition to salary costs, the OSS Director stated OSS maintains an inventory of 1,200 items, valued at approximately \$1.1 million. This includes items currently displayed and warehoused by OSS. Under just-in-time/desktop delivery, the total inventory cost is borne by the vendor.

Therefore, the CAO not only saves the funds associated with maintaining an inventory for OSS, the House Stationery Revolving Fund could be closed and the funds returned to the U.S. Treasury. Further, the costs associated with processing and paying vendors' invoices would also be reduced substantially. OSS processes approximately 11,000 purchase orders annually for both replenishment and special orders. Beyond the individuals employed by OSS, there are numerous personnel involved in processing, approving, and paying this voluminous number of purchase orders.

Vendors stated they have developed and implemented systems similar to OSS's at numerous other customers, therefore they can tailor a system to meet any of the House's requirements. Each vendor's office supply system offers on-line, fax, or phone orders, and complete customized billing systems. The vendors are capable of providing statements for each Member's office, Committee, or administrative office, under the umbrella of one invoice, and billing cycles can be structured to meet any requirement. Therefore, with the exception of the Office of Finance (Finance) processing the vendor invoice, the vendor does all the other processing. Also, they can provide a myriad of reports including monthly, quarterly, and annual purchases by Member or office. Under the just-in-time/desktop delivery, the vendors deliver the orders from the prior day to the individual offices by a designated time the next day. Therefore, OSS personnel currently receiving and delivering the office supplies would no longer be required. The vendors guarantee at least 90 percent next day delivery success rate. Both NASA and the Comptroller of the Currency stated that the on-time rate was closer to 95 percent next day. For those items not included in a predetermined list of common items, or not stocked in the local warehouses, it may take 2 days. However, because the vendors have more than one location, and alternate suppliers, the delivery time is shortened. Therefore, many items that are processed as special order by OSS, could be delivered the next day based on the larger inventory and availability of items. We asked about servicing the Members' district offices, including the offices located in the sparsely populated states. Both vendors offered the same service to those locations. Each individual office can order supplies via computer from any location using predetermined passwords and controls, just as if they were located in Washington, DC. The vendors stated delivery is made within 48 hours, and in many instances next day delivery is available since they maintain distribution networks throughout the contiguous United States.⁵ Hence, the Members' offices would eliminate the time, effort, and costs associated with purchasing supplies from OSS and subsequently mailing the supplies to District offices. These contractors can handle the total system for office supplies, from the initial order to receipt of the vendor's invoice, and provide Finance sufficient information to bill individual offices.

Another alternative to initiating just-in-time/desktop delivery is a combination of other procurement methods. As stated earlier, vendors are capable of designing a system to conform to the user's requirements. Therefore, if a blanket purchase agreement is developed, it can include the desirable characteristics of just-in-time/desktop delivery, individual billings, and an enhanced office supply catalog (both web-based and hard copy). For example, vendors could develop a system that uses the existing OSS account numbers as system passwords for ordering supplies from the vendors catalog and provide individual bills when presenting Finance with a

⁵ Delivery time varies for locations outside the contiguous United States. Hawaii receives next day delivery service and Alaskan deliveries take between two and three days. Deliveries to United States territories, such as Guam, are sent via the most expeditious means available.

House-wide invoice on a monthly basis. This alternative allows offices the choice of either ordering office supplies directly from the vendor or through the existing Supply Store.

In summary, \$1.2 million in staff savings could be realized by the House if OSS was eliminated and its services contracted out. By contracting with a national supplier of office supplies, the House would have just-in-time/desktop delivery of office supplies, advantageous pricing for both Washington, D.C. and district offices, and a vast increase in the selection of office supplies. Furthermore, the CAO would be able to redirect personnel resources to other areas in need of additional staffing or reduce his budget. However, if these services are not contracted out, lesser savings should still be realized through the use of blanket purchasing agreements and consolidated ordering practices.

Recommendations

We recommend the Chief Administrative Officer:

1. Reengineer Office Supply Service business processes to achieve more effective office supply procurements for the House. At a minimum this reengineering should consider current commercial practices in the procurement, delivery, and inventory management of office supplies.
2. Immediately develop a Request for Proposal to establish BPAs with primary vendor(s) of office supplies to meet the needs of the House. The BPAs should include, but not be limited to the following items:
 - a. Most favorable pricing based on the total annual sales and a list of the most frequently ordered items.
 - b. Provide on-line ordering capabilities for individual offices including user friendly web-based and hard copy office supply catalogs.
 - c. Next day delivery of supplies to all offices including District offices if ordered via the Internet.
 - d. Cost center billing for all offices within the House.
3. Immediately consolidate all purchases, both replenishment and special orders, daily and process one order for all the supplies ordered through the Supply Store.

Management Response

The CAO concurred with the recommendations in this finding. The CAO has established a cross-functional team of seven CAO employees to conduct a business process reengineering of OSS's procurement, delivery, and inventory management practices. The work plan and project schedule will be completed in September 1998, and the total project will be completed by February 1999.

Also, the CAO has started a process to analyze and, as appropriate, develop BPAs with primary vendors for frequently ordered stock items. Through the remainder of 1998, BPAs will be issued for paper and toner cartridges. The solicitations will be released in September for paper and November for toner cartridges. Furthermore, OSS, Office of Procurement and Purchasing (OPP), and Finance will develop a Statement of Work (SOW) and solicitation to provide offices

the option to directly order general office supplies, via online capability, from primary vendors of office supplies. The SOW and solicitation will be prepared by OSS, OPP, and Finance staff by March 1999, and will be forwarded to the Committee on House Oversight. The award will require next day delivery of supplies to all Member offices, including the District offices if ordered through the Internet. As part of the on-line ordering requirement, OPP and Finance will work with vendors to determine the most feasible billing option and ensure that billing statements can contain a detailed description of the appropriate transactions.

In addition, the CAO is now consolidating purchases for stock replenishment on a daily basis. Special orders will be consolidated once the current Multiple Computer Business Applications (MCBA) system is replaced or upgraded. OSS will ensure that the consolidation requirements are included in the Needs Analysis that is being conducted for the MCBA system replacement or upgrade.

Office of Inspector General Comments

The actions taken or planned are responsive to the issues identified and, when fully implemented, should satisfy the intent of these recommendations.

Finding B: Updating Purchasing Methods Could Save the House \$500,000 Annually

OSS has not updated its purchasing methods to reflect current trends for purchasing toner cartridges, copier paper, and business cards. This occurs because OSS adheres to outdated purchasing methods in purchasing office supplies. As a result, the House could miss the opportunity to save nearly \$500,000 annually if it does not modify its methods for procuring toner cartridges, copier paper, and business cards.

Remanufactured Toner Cartridges

OSS has not updated its purchasing concepts to reflect current trends such as utilizing readily available toner cartridge recycling programs. In order to determine the dollar impact of OSS's limited use of remanufactured toner cartridges, we compared the unit price and performance capabilities of remanufactured toner cartridges with new cartridges. Specifically, we contacted the General Services Administration (GSA) and two independent vendors (henceforth known as Vendor A and Vendor B). Each vendor reutilizes used toner cartridges and sells the remanufactured cartridges at a discount. These recycling programs offer an environmentally friendly and economical alternative to buying new toner cartridges.

Printer Toner Cartridges

One common concern over using remanufactured cartridges is the perceived mandatory requirement to return used cartridges on a "one-for-one" basis when re-ordering. This requirement fluctuates between vendors. For example, certain vendors require this for newer printer models, such as the Hewlett Packard (HP) 5SI, because of the scarcity of used toner cartridges. However, as older equipment is retired and replaced with newer models, used cartridges become less scarce, thus, making the "one-for-one" requirement less stringent. In addition, many vendors do not make this stipulation with older cartridge models, such as the Hewlett Packard III D, because used cartridges are plentiful. This is not an absolute rule, but merely a vendor-specific preference.

Another concern is that the use of remanufactured cartridges will negate the manufacturer's warranty. This is not true, since the manufacturer must still honor its warranty even if a remanufactured toner cartridge is used. The only exception to this is if the remanufactured cartridge is the direct reason for a mechanical problem. In this instance, each of the three vendors backed their product. These issues, however, should be clearly addressed in any ensuing contract that may be established with a remanufactured toner cartridge vendor.

Another point to consider is that original equipment manufacturers often include recycled parts in their "new" toner cartridges. For example, Canon states on their new toner cartridge boxes, "This cartridge may contain reconditioned parts and remolded materials from cartridges returned in the Canon Clean Earth Campaign." However, these cartridges are marketed as new and are sold at full price. Additionally, the original equipment manufacturer contends that there is no detriment to quality as a result of using reconditioned or remanufactured parts.

OSS Printer Toner Cartridge Sales

During the first quarter of 1998, OSS sold 1,918 printer toner cartridges, valued at nearly \$143,000. Out of the 1,918 cartridges sold by OSS, GSA carries 48 percent, Vendor A carries 81.7 percent, and Vendor B carries 98.3 percent compatible recycled toner cartridges in their respective product lines. Our analyses compared remanufactured toner cartridges, produced by GSA and the two independent vendors, and the cost currently expended by OSS to procure un-recycled toner cartridges. Figure 2 shows data for all OSS sales and vendor compatibility for printer toner cartridge sales that occurred during the first quarter of 1998.

OSS Printer Toner Cartridge Sales and Recycle Availability

January 1 through March 31, 1998

Toner Cartridges	Units Sold		Dollar Value Of Sales		GSA Availability	Vendor A Cartridge Availability	Vendor B Cartridge Availability
	Qtr 1	Unit Price	Qtr 1				
HP Laser Jet III SI	576	\$90.32	\$52,024		X	X	X
HP Laser Jet 5 SI	234	\$137.48	\$32,170			X	X
HP Laser Jet Series 4	412	\$76.50	\$31,518			X	X
Canon EP-S	328	\$55.00	\$18,040		X	X	X
HP DeskJet 51626A	239	\$22.56	\$5,392				X
Lexmark Series II	17	\$56.97	\$969		X	X	X
HP DeskJet 51640A	30	\$20.43	\$613				X
HP DeskJet Magenta	17	\$23.84	\$405				X
HP DeskJet Yellow	17	\$23.84	\$405				X
HP DeskJet Cyan	16	\$23.84	\$381				X
HP Color LaserJet Cyan	9	\$28.29	\$255				
HP Color LaserJet Yellow	8	\$29.08	\$233				
HP Color LaserJet Magenta	7	\$29.19	\$204				
HP Color LaserJet Black	24	\$6.14	\$147				
IBM 1380200	1	\$144.72	\$145				
Total	1,918		\$142,901		921 units	1,567 units	1,886 units

Figure 2

General Services Administration. GSA, which currently sells office supplies to OSS, offers three remanufactured toner cartridges. The remanufactured toner cartridges adhere to strict standards and are tested for proper operation and print quality. The cartridges come with installation instructions and a prepaid United States Postal Service envelope to return used cartridges. GSA guarantees that the remanufactured toner cartridges will produce at least the number of copies provided by the equivalent original equipment manufacturer cartridges and that the toner cartridges will function properly. The GSA Office Supplies and Paper Products Commodity Center stated that remanufactured toner cartridges are a high demand item and rate high in customer satisfaction. Currently, GSA is researching the feasibility of adding other popular toner cartridge models to their recycling program.

Figure 3 illustrates first quarter of 1998 OSS sales of toner cartridges that are compatible with the GSA remanufactured toner cartridges.

Toner Cartridge Price Comparison Between OSS and GSA

January 1 through March 31, 1998

Toner Cartridges	Units Sold Qtr 1	OSS Unit Price	GSA 1-3 day Delivery	Qtr 1 Savings	Projected Annual Savings	GSA 7-14 day Delivery	Qtr 1 Savings	Projected Annual Savings
HP Laser Jet III SI	576	\$90.32	\$54.86	\$20,425	\$81,700	\$48.98	\$23,812	\$95,248
Canon EP-S	328	\$55.00	\$36.64	\$6,022	\$24,088	\$32.71	\$7,311	\$29,244
Lexmark Series II	17	\$56.97	\$36.64	\$346	\$1,384	\$32.71	\$412	\$1,648
Total	921			\$26,793	\$107,172		\$31,535	\$126,140

Figure 3

Based on first quarter sales, OSS would have saved, depending on delivery time, between \$26,000 and \$31,000 if they had bought remanufactured toner cartridges from GSA. Using first quarter sales to project sales for the remaining three quarters, OSS could save as much as \$126,000 annually if they begin to purchase remanufactured toner cartridges from GSA in lieu of new toner cartridges.

Vendor A. Vendor A already supplies the Departments of Justice, Transportation, Veterans Affairs, and the Environmental Protection Agency with toner cartridges. Vendor A guarantees the quality of its remanufactured cartridge to equal or surpass the quality of the original equipment manufacturer. In addition, an independent consumer laboratory tests and certifies the quality of Vendor A's remanufactured toner cartridges. Vendor A guarantees same-day or next-day delivery, depending on the time of order. The remanufactured toner cartridges come with a warranty that states that if the remanufactured toner cartridge damages the printer or fax machine, Vendor A will fix or replace the affected piece of office equipment. Figure 4 lists the various toner cartridge models that Vendor A offers and compares the price currently paid by OSS for printer toner cartridges and the unit price for an equivalent remanufactured toner cartridge produced by Vendor A. Additionally, using OSS sales figures for the first quarter of 1998, Figure 4 illustrates the savings that could have been attained if OSS had purchased toner cartridges from Vendor A.

Toner Cartridge Price Comparison Between OSS and Vendor A

OSS Sales, January 1 through March 31, 1998

Toner Cartridges	Units Sold Qtr 1	OSS Unit Price	Vendor A Unit Price	Qtr 1 Savings	Projected Annual Savings
HP Laser Jet 5 SI	234	\$137.48	\$119.00	\$4,324	\$17,296
HP Laser Jet Series 4	412	\$76.45	\$45.00	\$12,957	\$51,828
HP Laser Jet III SI	576	\$90.32	\$54.86	\$20,425	\$81,700
Canon EP-S	328	\$55.00	\$36.64	\$6,022	\$24,088
Lexmark Series II	17	\$56.97	\$36.64	\$346	\$1,384
Total	1,567			\$44,074	\$176,296

Figure 4

Figure 4 illustrates that OSS would have saved over \$44,000, during the first quarter of 1998, if they had purchased remanufactured toner cartridges from Vendor A. If usage remains constant for the next three-quarters, projected annual savings are over \$176,000. However, Vendor A's

prices are based on ordering one cartridge at a time and are negotiable based on volume of demand. Therefore, savings potentially could be significantly greater than current projections.

Vendor B. Vendor B offers an on-line, user-friendly catalog, accessible through their Internet web site. It instructs the consumer to highlight the brand name of their printer or fax machine and the respective model number. Vendor B's on-line catalog then searches for and locates the compatible cartridge in their extensive product line. As with Vendor A and GSA, Vendor B offers a discounted price for their recycled toner cartridges. Furthermore, like Vendor A and GSA, Vendor B offers a 100 percent money back guarantee if the user is not satisfied with the quality of the remanufactured cartridge and will repair equipment that is damaged as a result of using their recycled cartridge. Additionally, Vendor B provides free United Parcel Service pick-up and delivery of cartridges for orders valued over \$150--taking between one and two days for delivery. Using OSS sales figures for the first quarter of 1998, Figure 5 illustrates the savings that could have been attained if OSS had purchased toner cartridges from Vendor B. Like Vendor A, Vendor B's prices are based on ordering one cartridge at a time and are negotiable based on volume of demand. Therefore, savings potentially could be significantly greater than current projections.

Toner Cartridge Price Comparison Between OSS and Vendor B

OSS Sales, January 1 through March 31, 1998

Toner Cartridges	Units	OSS Unit Price	Vendor B Unit Price	Qtr 1 Savings	Projected Annual Savings
	Sold Qtr 1				
HP Laser Jet III SI	576	\$90.32	\$59.95	\$17,493	\$69,972
HP Laser Jet 5 SI	234	\$137.48	\$99.95	\$8,782	\$35,128
HP Laser Jet Series 4	412	\$76.50	\$44.95	\$12,999	\$51,996
Canon EP-S	328	\$55.00	\$34.95	\$6,576	\$26,304
HP DeskJet 51626A	239	\$22.56	\$12.00	\$2,524	\$10,096
Lexmark Series II	17	\$56.97	\$34.95	\$374	\$1,496
HP DeskJet 51640A	30	\$20.43	\$12.00	\$253	\$1,012
HP DeskJet Magenta	17	\$23.84	\$12.00	\$201	\$804
HP DeskJet Yellow	17	\$23.84	\$12.00	\$201	\$804
HP DeskJet Cyan	16	\$23.84	\$12.00	\$189	\$756
Total	1,886			\$49,592	\$198,368

Figure 5

As shown in Figure 5, OSS would have saved nearly \$50,000 during the first quarter of 1998 if they had purchased remanufactured toner cartridges from Vendor B. Additionally, using first quarter sales to project annual sales, OSS could save over \$198,000 annually if they purchase printer toner cartridges from Vendor B in lieu of new cartridges.

Facsimile Toner Cartridges

In addition to toner cartridges for printers, Vendors A and B offer remanufactured toner cartridges for facsimile (fax) machines. During the first quarter of 1998, the top four selling toner cartridges for fax machines, representing 666 cartridge sales, were all manufactured by Canon. Of these sales, 571 cartridges, or 85.7 percent, have a remanufactured counterpart.

Figure 6 compares the price currently paid by OSS for fax toner cartridges and the unit price for equivalent remanufactured toner cartridges.

Fax Toner Cartridge Price Comparison Between OSS and Vendors

January 1 through March 31, 1998

Cartridge Model	Units Sold Qtr 1	OSS Unit Price	Vendor A Unit Price	Vendor B Unit Price	Maximum Qtr 1 Savings	Maximum Projected Annual Savings
Canon FX-1	216	\$70.69	\$55	\$34.95	\$7,720	\$30,879
Canon FX-2	344	\$60.00	\$55	\$44.95	\$5,177	\$20,709
Canon FX-3	11	\$78.00	N/A	\$44.95	\$364	\$1,454
Canon FX-4	95	\$74.92	N/A	N/A		
Total	666				\$13,261	\$53,042

Figure 6

As shown in Figure 6, the House could have saved over \$13,000 in the first quarter of 1998 on their OSS purchases of the four most popular toner cartridges for fax machines. Using first quarter sales to project sales for the next three-quarters, OSS could miss the opportunity to save over \$53,000 on these purchases.

We determined that OSS charged offices \$63,000 more than was necessary for the purchasing of printer and fax toner cartridges during the first quarter of 1998. Additionally, the House could miss the opportunity to save over \$251,000 annually if OSS does not modify its methods for procuring toner cartridges.

Copier Paper

OSS has not purchased copier paper from the most economical source. As a result, OSS has paid more in its acquisition of copier paper than is necessary. This occurred because OSS, in its bulk purchases of copier paper, has almost exclusively restricted itself to Xerox brand paper purchased directly from the Xerox Corporation. Although the prices obtained by OSS for the Xerox brand copier paper have been good, obtaining the same quality generic copier paper from other sources would provide the best value to the House.

One of the larger and recurring purchases made by OSS for House offices is for xerographic paper, also referred to as copier paper. OSS has almost exclusively restricted itself to the purchase of Xerox brand paper, under the notion that it is what the Members want, and it is of such a high quality that it is required to be used in the photo copier and fax machines located throughout the House. One reason that all House offices request Xerox brand paper may be that it is the only brand which is listed on the OSS delivery request form. Another reason is that the word 'Xerox', has become assimilated into the English language to mean something other than a specific brand name. It, like "band aids" and "scotch tape", has come to represent, and is more commonly used as, a generic product rather than a specific brand name of a particular product. Therefore, when one requests a 'Xerox copy', one is most likely requesting a photographic copy

of a document to be made using any brand of photographic copying machine, and paper, which is readily available.

We had the Government Printing Office (GPO) perform an independent test of the physical properties of Xerox brand paper and six other brand name copier paper purchased by GPO in the past six months. Each of the brands were found to be equal to the Federal government's specification for copier paper, Joint Committee on Printing (JCP), JCP O-65, Plain Copier Xerographic, dated January 20, 1998. Most of the test results were similar. The exceptions were brightness and stiffness. However, these characteristics are not readily apparent to the user. The unpublished specification for Xerox copier paper includes a more stringent requirement for stiffness. According to Xerox, the difference in stiffness pertains to the quantity of paper fibers aligned with the grain as opposed to cross grain, balancing the paper for optimum performance, or fewer paper jams. However, this requirement is not found in the Government's JCP O-65 copier paper. Newer models of copier machines are manufactured to run efficiently using a wide range of paper quality. Older copier machines were more temperamental and required manual adjustment when different paper was used. However, modern copier machines no longer use mechanical rollers, instead they use a vacuum air feed mechanism which does not require manual adjustment when switching between different grades or weights of paper. Laser and desktop printers have improved upon the rollers used in the older copier machines, also making adjustment unnecessary. None of the copier manufacturers we contacted indicated that copier paper which carries their brand name, or paper containing certain specified standards, are required for proper operation of their machines. The use of copier paper produced by other than the machine manufacturer will neither void warranties, nor result in additional charges for service.

The Xerox brand copier paper carries a 99.999 percent quality assurance level that it will function properly. GPO contracts require that not more than 1 sheet of paper out of 5,000 can have a latent defect which would result in a paper jam or other paper related printing error. This computes to a 99.998 percent quality assurance level. There is virtually no difference in quality, and any difference this slight, would not likely be detected by any consumer. GPO will ensure that suppliers replace any and all defective paper. GPO will also provide technicians to determine if paper purchased from GPO caused the copier problems.

GPO purchases quality copier paper produced by major paper mills. These same mills produce identical quality paper, which is consumed by commercial entities and government agencies. The major copier manufacturers do not manufacture the paper that carries their name. They, like GPO, contract out the production to many of the same mills. Xerox does provide added on-site quality controls, however, these added controls come at a price but, as stated earlier, the difference in paper quality is virtually nonexistent. GPO issues contracts for varying grades and sizes of paper. Their contracts, include extensive specifications covering issues such as packing, moisture, stiffness, tearing strength, opacity, smoothness, curl rate, ruling and print qualities, surface quality, size, and trim to ensure the quality of the paper products being purchased. Prices charged by GPO are substantially lower than those paid by OSS for Xerox brand copier paper. As shown in Figure 7 below, savings were computed using figures obtained from OSS on actual paper usage for Calendar Year 1997, and unit cost information, for the same period, provided by GPO.

Comparison of OSS and GPO Paper Prices for 1997

Paper Type	Quantity Used	OSS Unit Price	OSS Total Cost	GPO Unit Price⁶	GPO Total Cost	Potential Savings
Virgin Paper:				\$1.78	\$402,050	\$189,278
Sharp	431	\$3.40	\$1,465			
Boise Cascade	6,915	\$2.59	17,910			
Xerox	216,215	\$2.60	562,159			
Savin	2,310	\$4.24	9,794			
20% Post-consumer Content:				\$1.87	\$57,921	\$30,355
Boise Cascade	30,974	\$2.85	\$88,276			
3 Hole Drilled:				\$1.88	\$11,665	\$6,019
Xerox	6,205	\$2.85	\$17,684			
Totals	256,845		\$679,288		\$471,636	\$225,652

Figure 7

As illustrated, had OSS procured its copier paper through GPO during Calendar Year 1997, we estimate that \$225,652 savings would have been achieved. This represents savings of 32 percent on paper purchased through GPO. In addition, the House could have saved \$44,064 on the 64,360 reams of similar sized paper used through March 31, 1998, if purchased from GPO.

Business Card Purchases

OSS did not process requests for business cards in an effective manner. Purchase orders for business cards were placed individually and discounts were not requested when the number of business cards ordered exceeded the minimal quantity. As a result, Members, Committees, and House offices paid higher prices than necessary for business cards.

Recently, the CAO awarded BPAs to four vendors for printing services. All four vendors provide thermo business cards and two of these vendors also provide engraved business cards. In the past, one vendor provided the majority of the printing services.

Individuals select business cards from brochures maintained in OSS. The brochures provide examples of the different offerings, including differences in style, font, and personal touches. OSS processes the individual requests daily and issues the purchase orders to the vendors. During our analysis, we were unable to discern an appreciable difference in quality; however, we were able to determine a significant difference in price.

We found OSS issued over 110 purchase orders for printing services during the first 20 days of 1998. The purchase orders requested specialized stationary, envelopes, and business cards for various Member offices and committees. Each business card request represented an order for either 250, 500, or 1,000 cards; however, the total amount purchased was over 23,000. Most

⁶ GPO prices change on a quarterly basis. Figures shown here represent an average of the four unit prices that were in effect during the period.

business card orders were placed with two principle vendors; however, all vendors were capable of providing business cards.

Since two printers provide the majority of the business cards, we performed a comparative analysis of the vendors established prices for the different quantities. Also, we determined the estimated savings that could be obtained if the contract prices for larger quantities were applied to the total quantity of business cards ordered each day. Our comparative analysis of the two contractors revealed a price difference of \$629 for 18,000 gold seal thermo business cards ordered as individual orders during the 20-day period. However, the greatest difference occurred when orders were combined each day and the price was calculated according to the discounts available when the larger quantities of business cards were ordered. Instead of paying over \$3,200 and \$2,575, respectively from the 2 vendors for individual orders, the price decreased to \$1,050 and \$865, respectively. Therefore, the minimum savings realized for the 20-day period by combining orders could have been \$2,150. The savings would be significantly higher when applied to the annual volume of business cards purchased from either vendor.

We are not suggesting OSS use one printer, however, from the discounts available when quantities are considered, the costs are drastically lower. Therefore, the contract for printing services, as it currently exists, should be renegotiated to provide for the discounts that are available when large quantities are ordered daily, rather than a set price for each individual order.

By initiating a recycling program for toner cartridges, we project that the House could save \$251,000 annually on the purchase of toner cartridges. Also, by using copier paper from GPO an additional \$226,000 on copier paper would be saved annually. Furthermore, by renegotiating the BPAs for printing of business cards further savings could be realized. As a result of OSS's uneconomical procurements, the House paid over \$477,000 more than necessary for toner cartridges and copier paper, and an indeterminable amount for business cards.

Recommendation

We recommend the Chief Administrative Officer immediately:

1. Implement an active toner recycle program. To implement this program Office Supply Service should solicit bids from toner cartridge remanufacturers of recycled toner cartridges for all printers currently maintained in the Office Systems Management inventory.
2. Competitively contract for all the paper needs of the House; and inform the Members of the quality, price, cost savings, and availability that will save the Members' Representational Allowance funds.
3. Perform an analysis of annual business card purchases. The results of this analysis should be used in the upcoming contract re-competition for business card vendors to ensure that all available quantity discounts are obtained.

Management Response

The CAO concurred with the recommendations in this finding. OSS has had a toner-recycling program since 1994. Since that time, the largest selling toner cartridge, the HP Series II, was made available in a recycled form. OSS has recently ordered recycled cartridges for the current top selling toner cartridges, and is now carrying recycled toner cartridges for additional Hewlett Packard models. In addition, OSS is promoting the use of the recycled cartridges and making them available as an alternative to the new cartridges. OSS is highlighting the savings associated with recycled toner cartridges through notices on the OSS store shelves, information on the Intranet site, and through a mass mailing to Members and House offices.

Also, the CAO has begun the process to analyze and develop appropriate acquisition vehicles with large paper suppliers to provide copier paper for the House. The solicitation for the paper BPA will be released in September 1998. Prior to releasing the solicitation, OSS and OPP will carefully analyze paper sales in order to take full advantage of economies of scale. Finally, by establishing one or more BPAs for paper, OSS will ensure that the best possible prices for paper are identified while, at the same time, continuing to offer a variety of paper options to its customers.

Furthermore, OPP and OSS will conduct an analysis of annual business card purchases to identify any potential quantity discounts that may be available. Once the current BPAs expire on December 14, 1998, OSS and OPP will solicit additional vendors that offer quantity discount opportunities and afford them full consideration.

Office of Inspector General Comments

The actions taken or planned are responsive to the issues identified and, when fully implemented, should satisfy the intent of these recommendations.

EXHIBIT

Status Of Prior Audit Recommendations

Audit Report/Recommendations	Implementation Status	Comments on Corrective Actions Taken And/Or Planned	Scheduled Date of Completion
Audit Report No. 95-CAO-07, entitled <i>Changes in Operating Practices Could Save Office Supply Store and Gift Shop \$1.3 million Annually</i>, dated July 18, 1995:			
A. We recommend that the Chief Administrative Officer prepare a proposal, for approval by the Committee on House Oversight, for closing the Supply Store and replacing it with a contractor.	Closed	The CAO drafted a proposal to contract-out the Gift Shop but opted to retain the Office Supply Store.	Not Applicable
B. We recommend that the Chief Administrative Officer prepare a proposal, for approval by the Committee on House Oversight, to modify the pricing policy to recover the full cost of flags sold to the public.	Closed	Office Supply Service prepared a proposal in January 1998 for the Chief Administrative Officer recommending that the price of the flags sold be marked up 23 percent above the original cost. The CAO has forwarded it to the Committee on House Oversight.	Not Applicable
Audit Report No. 96-CAO-15, entitled <i>Improvements Are Needed In The Management And Operations Of The Chief Administrative Officer</i>, dated December 31, 1996:			
M.1. We recommend that the Chief Administrative Officer conduct a cost of service study for the Supply Store and develop a proposal, for approval by the Committee on House Oversight, to cover all the costs of the store.	Closed	The CAO developed and submitted a proposal, for approval by the Committee on House oversight, to cover the costs of the Supply Store and Gift Shop.	Not Applicable
M.2. We recommend that the Chief Administrative Officer expeditiously conduct the competitive procurement for the privatization of the Gift Shop.	Closed	The CAO prepared a competitive proposal and forwarded the proposal to the committee for approval.	Not Applicable

James M. Eagen III
Chief Administrative Officer

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

MEMORANDUM

To: John Lainhart
Inspector General

From: Jay Eagen
Chief Administrative Officer

Subject: CAO Response to Audit Report "Reengineering of OSS Procurement Practices"

Date: ~~AUG~~ 27 1998

Thank you for the opportunity to comment on the Draft Audit Report of "Reengineering of OSS Procurement Practices." We have carefully reviewed the recommendations in the draft report and are in general support of them. We also appreciate that your report highlights recent survey results, which indicate that "customers are generally satisfied with the Office Supply Service (OSS) services provided", and that OSS's internal controls for operations are adequate. Our specific comments and response to each recommendation are provided below:

Finding A: **The House Could Realize Economies by Reengineering Office Supply Procurement Practices**

Recommendation 1 We recommend the Chief Administrative Officer reengineer Office Supply Service business processes to achieve more effective office supply procurements for the House. At a minimum this reengineering should consider current commercial practices in the procurement, delivery, and inventory management of office supplies.

CONCUR

A cross-functional team of seven CAO employees has been tasked with the responsibility of conducting a business process reengineering of OSS's procurement, delivery, and inventory management practices. The major tasks involved in this effort will be as follows:

- A. Establish a work plan and schedule for the project;
- B. Review and analyze current processes using a variety of techniques including process flowcharts and work flow diagrams;
- C. Establish appropriate measurements for the activity to ascertain cycle time, accuracy, productivity, and savings;
- D. Review customer needs and requirements;
- E. Analyze current processes focusing primarily on value, efficiency, and effectiveness;
- F. Review methods used to provide office supplies by other select government agencies and commercial entities;
- G. Prepare an implementation schedule;
- H. Conduct an after action review of the project.

The work plan and project schedule will be completed in September 1998, and the total project will be completed by February 1999.

Recommendation 2 We recommend the Chief Administrative Officer immediately develop a Request for Proposal to establish Blanket Purchase Agreements (BPAs) with primary vendor(s) of office supplies to meet the needs of the House. The BPAs should include, but not be limited to the following items:

- a. **Most favorable pricing based on the total annual sales and a list of the most frequently ordered items.**
- b. **Provide on-line ordering capabilities for individual offices including user friendly web-based and hard copy office supply catalogs.**
- c. **Next day delivery of supplies to all offices including District offices if ordered via the Internet.**
- d. **Cost center billing for all offices within the House.**

CONCUR

The Office of the CAO has started a process to analyze and, as appropriate, develop Blanket Purchase Agreements (BPAs) with primary vendors for frequently ordered stock items. The Office of the CAO will use the following approach to implement this recommendation:

- Based on the analysis performed by the OSS and Office of Procurement and Purchasing (OPP) staff, BPAs will be developed and issued as appropriate for frequently ordered stock items. Through the remainder of this year, OPP staff will issue new BPAs in the following sequence: 1) paper (including copier, recycled, bond and mimeo) and 2) toner cartridges. The solicitation for the paper BPA will be released in September 1998. The solicitation for toner cartridges will be released in November 1998. The paper solicitation will serve as a pilot for the use of BPAs to purchase other items in the future.
- OSS, OPP, and Finance will develop a Statement of Work (SOW) and solicitation providing offices the option to directly order general office supplies, via online capability, from primary vendors of office supplies. A requirements document will be prepared by January 1999, which will identify frequently ordered items, next day delivery, on-line ordering, billing requirements, and electronic funds transfer. The SOW and solicitation will be prepared by OSS, OPP, and Finance staff by March 1999, and will be forwarded to the Committee on House Oversight. The award will require next day delivery of supplies to all Member offices, including the District offices if ordered through the Internet.
- As part of the on-line ordering requirement, OPP and the Office of Finance will work with vendors to determine the most feasible billing option and ensure that billing statements can contain a detailed description of the appropriate transactions. Additionally, a second longer-term solution that is currently being evaluated is the possibility of using a purchase card to accomplish this same purpose.

OSS has developed an on-line ordering capability for stock items through the House Intranet. This feature is now available to individual offices. Additionally, OSS currently distributes hard copy office supply catalogs twice each year. As part of the overall business reengineering effort, OSS will evaluate the number of printings that are appropriate.

Recommendation 3 We recommend the Chief Administrative Officer immediately consolidate all purchases, both replenishment and special orders, daily and process one order for all the supplies ordered through the Supply Store.

CONCUR

The Office of the CAO is now consolidating purchases for stock replenishment on a daily basis. Special orders will be consolidated once the current Multiple Computer Business Applications (MCBA) system is replaced or upgraded. OSS will ensure that the consolidation requirements

are included in the Needs Analysis that is being conducted for the MCBA system replacement or upgrade.

Finding B: **Updating Procurement Methods Could Save the House \$500,000 Annually**

Recommendation 1 We recommend the Chief Administrative Officer immediately implement an active toner recycle program. To implement this program Office Supply Service should solicit bids from toner cartridge re-manufacturers of recycled toner cartridges for all major printer models currently maintained in the Office Systems Management inventory.

CONCUR

OSS has had a toner-recycling program since 1994. Since that time, the largest selling toner cartridge, the HP Series II, was made available in a recycled form. Additionally, OSS has recently ordered recycled cartridges for the current top selling toner cartridges, and is now carrying recycled toner cartridges for the following additional models:

Hewlett Packard III SI, IIISI/ps, 4SI
Hewlett Packard 4, 4+, 4M, 4M+

OSS is also promoting the use of the recycled cartridges and making them available as an alternative to the new cartridges. The Department is highlighting the savings associated with recycled toner cartridges through notices on the OSS store shelves, information on the Intranet site, and through a mass mailing to Members and House offices. This recommendation will be closed once we have finalized the BPA for toner cartridges scheduled for solicitation by the end of November 1998.

Recommendation 2 We recommend the Chief Administrative Officer competitively contract for all the paper needs of the House; and inform the Members of the quality, price, cost savings, and availability that will save the Members' MRA funds.

CONCUR

The Office of the CAO has begun the process to analyze and develop appropriate acquisition vehicles with large paper suppliers to provide copier paper for the House. The solicitation for the paper BPA will be released in September 1998. Prior to releasing the solicitation, OSS and OPP will carefully analyze paper sales in order to take full advantage of economies of scale. Finally,

by establishing one or more BPAs for paper, OSS will ensure that we are identifying the best possible prices for paper while at the same time, continuing to offer a variety of paper options to its customers. This recommendation will be closed by October 1, 1998.

Recommendation 3 We recommend the Chief Administrative Officer perform an analysis of annual business card purchases. The results of this analysis should be used in the upcoming contract re-competition for business card vendors to ensure that all available quantity discounts are obtained.

CONCUR.

There are currently four BPAs for business cards that will expire on December 14, 1998. OPP and OSS will conduct an analysis of annual business card purchases to identify any potential quantity discounts that may be available. Once the current BPAs expire on December 14, 1998, OSS and OPP will solicit additional vendors that offer quantity discount opportunities and afford them full consideration.