OIG
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Audit of Department of State Strategic Sourcing Efforts

FINANCIAL MANAGEMENT DIVISION

OIG HIGHLIGHTS

AUD-FM-16-47

Audit of Department of State Strategic Sourcing Efforts

What Was Audited

According to the Government Accountability Office, Federal agencies have historically acquired goods and services in a decentralized manner, resulting in missed opportunities to leverage the government's aggregate buying power. The Office of Management and Budget (OMB) tasked Federal agencies with using "strategic sourcing"—a collaborative and structured process of critically analyzing an organization's spending patterns to leverage purchasing power, reduce costs, and improve overall performance, which enables agencies to maximize the value of each dollar spent.

The objective of this audit was to determine the extent to which the Department of State (Department) had developed and implemented a strategic sourcing program that addresses Federal strategic sourcing guidance and goals. An independent certified public accounting firm, Kearney & Company, P.C. (Kearney), acting on behalf of the Office of Inspector General (OIG), performed this audit.

What OIG Recommends

OIG made 11 recommendations to the Department to improve its strategic sourcing efforts, including the establishment of a Department-wide Strategic Sourcing Council to collaborate effectively to implement and administer strategic sourcing initiatives that are identified.

The Bureau of Administration agreed with all of the recommendations. OIG considers all recommendations resolved, pending further action. Bureau of Administration comments are reprinted in their entirety as Appendix C.

What Was Found

Kearney found that the Bureau of Administration took some steps to develop a strategic sourcing program that aligned with Federal guidance and goals; however, these efforts have not been fully implemented or utilized. Specifically, the Bureau of Administration complied with OMB guidance to identify a Strategic Sourcing Accountable Official, analyze procurement patterns, identify goods or services for which strategic sourcing should be implemented (known as a "spend analysis"), and consider using Federal Strategic Sourcing Initiative programs. However, the Department did not fulfill the OMB goal for strategic sourcing, which required agencies to reduce the costs of acquiring common products and services by strategic sourcing of at least two new commodities or services in both 2013 and 2014 that yielded at least a 10 percent savings. Further, although the Bureau of Administration identified 17 categories for potential strategic sourcing, only 3 initiatives that were in effect prior to the spend analysis were fully implemented; 4 other initiatives were started but not fully implemented; and no action was taken on the remaining 10 initiatives. In addition, the Department has not taken significant steps to consider strategic sourcing opportunities overseas and has not performed specific analyses to determine whether strategic sourcing overseas would be cost beneficial. Further, for the strategic sourcing initiatives in place, domestic bureaus and offices did not always purchase goods and services through the required programs.

The Department's strategic sourcing program is not effective, in part, because the Bureau of Administration has not developed a comprehensive Department-wide strategic sourcing program plan that includes a governance structure, goals and objectives, performance measures, and a communication plan. Further, the Bureau of Administration does not sufficiently monitor strategic sourcing activities to ensure that bureaus and offices are using the initiatives that are in place.

As a result, the Department's ability to fully achieve the cost benefits of strategic sourcing is limited. Further, the Department will not be positioned to realize these potential cost savings until the Bureau of Administration places greater emphasis on maximizing strategic sourcing solutions.

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KEARNEY & COMPANY

Audit of Department of State Strategic Sourcing Efforts

Office of Inspector General
U.S. Department of State
Washington, D.C.

Kearney & Company, P.C. (Kearney), has performed an audit of Department of State Strategic Sourcing Efforts. This performance audit, performed under Contract No. SAQMMA14A0050, was designed to meet the objective identified in the report section titled "Objective" and further defined in Appendix A, "Scope and Methodology," of the report.

Kearney conducted this performance audit from (July 2015 through July 2016) in accordance with *Government Auditing Standards*, 2011 Revision, issued by the Comptroller General of the United States. The purpose of this report is to communicate the results of Kearney's performance audit.

Kearney appreciates the cooperation provided by personnel in Department offices during the audit.

Kearney & Company

Kearney & Company, P.C.
Alexandria, Virginia
August 19, 2016

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OBJECTIVE

The objective of this audit was to determine the extent to which the Department of State (Department) had developed and implemented a strategic sourcing[1] program that addresses Federal strategic sourcing guidance and goals. See Appendix A for the purpose, scope, and methodology of this audit.

BACKGROUND

According to the Office of Management and Budget (OMB), Federal agencies spend more than $500 billion annually to buy goods and services in support of their varied missions.[2] The Government Accountability Office (GAO) reported that Federal agencies have historically acquired goods and services in a decentralized manner, resulting in missed opportunities to leverage the government's aggregate buying power.[3] OMB has tasked Federal agencies with maximizing the value of each dollar spent by being prudent in what is purchased, how it is purchased, and how the goods and services are used.[4] Specifically, over the past 11 years, OMB has encouraged Federal agencies to practice strategic sourcing to consolidate their spending, either by centralizing their contracting decisions or by using government-wide contracts to lower prices and reduce duplication of administration efforts. For example, by utilizing government-wide contracts available through the General Services Administration (GSA), agencies can acquire office supplies in a more cost effective manner. According to GSA, the office supplies strategic sourcing initiative "cuts costs, reduces price variability, and increases efficiencies by buying everyday supplies such as pens, paper, and printing items from a list of contractors with negotiated lower prices."GSA estimated that the Federal government would save more than $90 million in 2015 through the office supplies initiative.[5] Despite the savings that can be achieved through strategic sourcing, according to GAO, only a small part of the government's procurement-related spending is managed strategically.[6]

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[1] According to the U.S. General Services Administration (GSA), strategic sourcing is the structured and collaborative process of critically analyzing an organization's spending patterns to better leverage its purchasing power, reduce costs, and improve overall performance.

[2] OMB Memorandum M-13-02, "Improving Acquisition through Strategic Sourcing," December 5, 2012.

[3] GAO, *Strategic Sourcing: Improved and Expanded Use Could Save Billions in Annual Procurement Costs* (GAO-12-919, September 2012).

[4] OMB Memorandum, "Implementing Strategic Sourcing," May 20, 2005.

[5] GSA, "FSSI OS3 IDIQ: We Make it Easy for You to Buy Right," April 2015.

[6] GAO, *Strategic Sourcing: Improved and Expanded Use Could Provide Significant Procurement Savings* (GAO-13-765T, July 2013).

Government-wide Strategic Sourcing Guidance

Beginning in FY 2005, OMB issued several guidance memoranda[7] directing agencies to implement strategic sourcing, including specific steps agencies needed to take to achieve desired strategic sourcing results. Following initial OMB guidance, GSA, in partnership with the Department of the Treasury, launched the Federal Strategic Sourcing Initiative (FSSI) in November 2005.[8] FSSI provides strategic sourcing solutions for the government that leverage buying power and reduce the cost of procuring common goods and services. Table 1 lists GSA FSSI programs available as of June 2016.

Table 1: Federal Strategic Sourcing Initiative Programs

Program	Launch Date	GSA Description of Services Provided
Domestic Delivery Services	2006	Meets the government's shipping needs with negotiated rates for domestic delivery on both air and ground shipments between the continental United States and the District of Columbia and from the continental United States to Alaska, Hawaii, and Puerto Rico.
Office Supplies	2007	Facilitates discounts on office supplies, paper, and toner cartridges.
Print Management	2011	Allows Federal agencies to acquire printing, copying, scanning, and faxing commodities more efficiently.
SmartBUY	2012[a]	Leverages the government's buying power to reduce the cost of commercial off-the-shelf software and services.
Information Services	2013	Optimizes and streamlines the acquisition of information products and services—such as subscriptions, books, maps, and newspapers through the Federal Library and Information Network[b]—on behalf of Federal agencies that opt into the program. The initial effort targets legal information and science, technology, engineering, and medical content.
Wireless	2013	Improves the procurement and management of wireless services across government. Agencies are able to implement cellular service plans and devices more effectively and efficiently through unified acquisition, improved information management, and best practices.
Maintenance, Repair and Operations Supplies	2014	Offers a streamlined process to buy supplies in the categories of hardware, tools and tool cabinets, and paints, sealants, and adhesives.

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[7] See Appendix B: Office of Management and Budget Strategic Sourcing Guidance, for additional details on the OMB memoranda related to strategic sourcing.

[8] GSA, "FSSI History," <https://strategicsourcing.gov/fssi-history>, accessed on January 14, 2016.

Program	Launch Date	GSA Description of Services Provided
Janitorial and Sanitation Supplies	2014	Simplifies the process to buy supplies in the categories of cleaning compounds and related dispensers, non-motorized cleaning equipment and trash receptacles, paper goods and related dispensers, and motorized floor cleaning equipment and accessories.

ª According to GAO-12-919, the Strategic Sourcing Working Group formally accepted SmartBUY as an FSSI Initiative in June 2012. SmartBUY was an existing Federal procurement program that began in 2003.
ᵇ According to the Library of Congress, the Federal Library and Information Network is an organization of Federal agencies that work together to optimize use of the resources and facilities of Federal libraries and information centers by promoting common services, coordinating and sharing available resources, and providing continuing professional education for Federal library and information staff.
Source: GSA, "Federal Strategic Sourcing Initiative (FSSI)," <http://www.gsa.gov/portal/content/105156>, accessed on March 9, 2016; GSA, "SmartBUY Software," <http://www.gsa.gov/portal/content/105119>, accessed on March 9, 2016; and GAO-12-919.

According to data available on GSA's FSSI dashboard websites,[9] the FSSI program for office supplies garnered government-wide savings of more than $184 million between FY 2010 and FY 2015.[10] Federal agencies are able to obtain FSSI-discounted goods through multiple methods, including directly from GSA's GSAAdvantage!® website.[11]

Following the steps taken by OMB and GSA, Congress enacted the GPRA [Government Performance and Results Act] Modernization Act of 2010,[12] which required OMB to coordinate with agencies to establish priority goals to improve the performance and management of the Federal government. These priority goals are now known as Cross-Agency Priority (CAP) goals. OMB initially identified strategic sourcing as a CAP goal during the submission of the FY 2013 budget.[13] Table 2 shows the CAP goals related to strategic sourcing.

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[9] GSA, "Second Generation Office Supplies Savings and Small Business Dashboard," <http://public.tableau.com/views/OfficeSupplies2ndGenerationsOS2FSSI/SecondGenerationOfficeSuppliesOS2FSSISavingsSmallBusinessSuccess?amp;:embed=y&:display_count=no?:showVizHome=no#1>, accessed on April 21, 2016, and GSA, "FSSI OS3 Spend and Savings Dashboard," <https://public.tableau.com/views/PublicOS3PerformanceDashboard/OS3PerformanceDashboard?amp;:embed=y&:display_count=no?:showVizHome=no#>, accessed on April 21, 2016.

[10] Data for savings in other FSSI programs was not available on GSA's website.

[11] GSAAdvantage!®, <https://www.gsaadvantage.gov/>, is an online ordering system offering a streamlined approach to ordering from GSA catalogs and Federal supply schedules.

[12] Pub. L. No. 111-352, 124 Stat. 3866, January 4, 2011.

[13] GAO, *Managing for Results: OMB Should Strengthen Reviews of Cross-Agency Goals* (GAO-14-526, June 2014).

Table 2: Strategic Sourcing Cross-Agency Priority Goals

Fiscal Years	Goal*
2013-2014	Strategic Sourcing: Reduce the costs of acquiring common products and services by agencies' strategic sourcing of at least two new commodities or services in both 2013 and 2014 that yield at least a 10 percent savings.
2015	Strategic Sourcing: Expand the use of strategic sourcing across the government to save money and improve the management of goods and services. (No specific targets were included.)

*During the fourth quarter of FY 2015, the strategic sourcing CAP Goal was changed from "strategic sourcing" to "category management." According to the FY 2016 Quarter 2, Quarterly Progress Update for the CAP goal for category management, "there is a critical need for a new paradigm for purchasing that moves from managing purchases and price individually across thousands of procurement units to managing entire categories of common spend and total cost through category management." OMB established baselines for category management during the fourth quarter of FY 2015 and indicated that measuring implementation of the new category would be reported as of the end of 2015. Because this audit focuses on strategic sourcing, Kearney is including the strategic sourcing goal that was in place for the first three quarters of FY 2015.
Source: Kearney prepared based on CAP goal statements and CAP Goal Quarterly Progress Updates.

Department Spending on Goods and Services

As shown in Figure 1, from FY 2013–FY 2015, the Department spent approximately $41 billion[14] to buy goods and services that may be subject to strategic sourcing.

Figure 1: FY 2013 – FY 2015 Expenditures That May Be Subject to Strategic Sourcing ($ billions)
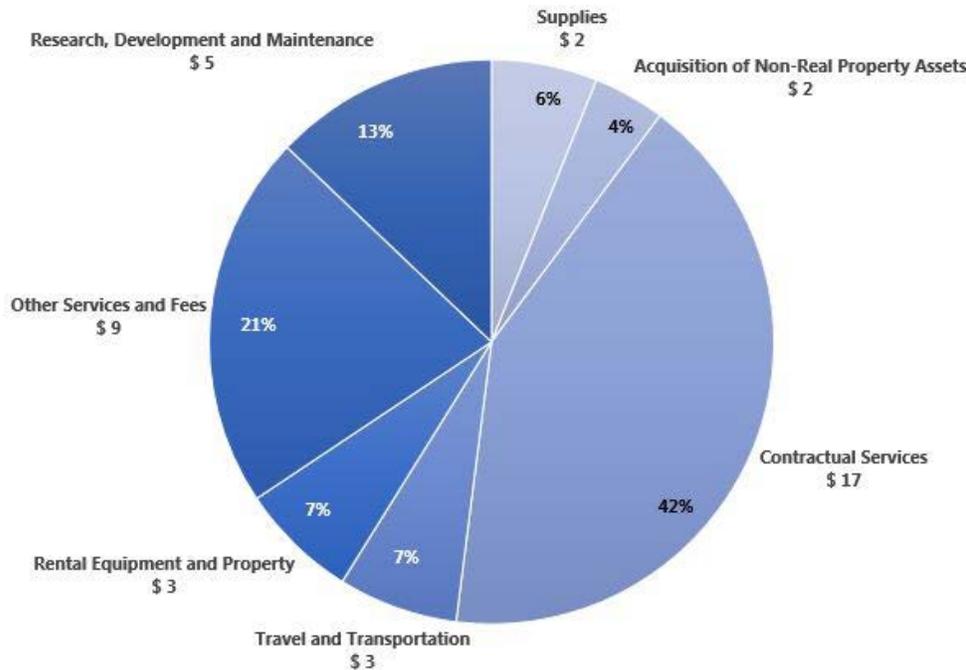
Source: Kearney generated from Department Global Financial Management System expenditure data.

AUDIT RESULTS

Finding A: The Bureau of Administration Took Some Steps to Develop a Strategic Sourcing Program That Addresses Federal Guidance and Goals, But the Program Is Not Fully Implemented or Utilized

Kearney & Company, P. C. (Kearney) found that the Bureau of Administration took some steps to develop a strategic sourcing program that aligned with Federal guidance and goals; however, these efforts have not been fully implemented or utilized. Specifically, the Bureau of Administration complied with OMB guidance to identify a Strategic Sourcing Accountable

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[14] To calculate the amount of expenditures that may be subject to strategic sourcing, Kearney grouped expenditures based on budget object classification codes reported in the Department's accounting system. Budget object classification codes are used to categorize financial transactions according to the nature of the items or services purchased. Kearney excluded categories that were clearly not subject to strategic sourcing (totaling approximately $71 billion), such as grants and fixed charges, salaries and benefits, real property and utilities, and other miscellaneous expenses. However, because Kearney did not validate the information reported for each budget object classification code, additional expenses that are not subject to strategic sourcing may not have been excluded.

Official (SSAO),[15] analyze procurement patterns through a process known as a "spend analysis," identify commodities for which strategic sourcing should be implemented,[16] and consider using FSSI programs.[17] However, the Department did not fulfill the OMB goal for strategic sourcing, which asked agencies to strategically source two new commodities or services in both FY 2013 and FY 2014. Furthermore, although the Bureau of Administration identified 17 categories for potential strategic sourcing, initiatives in only 3 of those categories were fully implemented before the spend analysis; initiatives in 4 categories were started but not fully completed;[18] and no action was taken to implement initiatives in the remaining 10 categories. In addition, the Department has not taken significant steps to consider strategic sourcing opportunities overseas, and has not performed specific analyses to determine whether strategic sourcing overseas would be cost beneficial. Further, for the strategic sourcing initiatives that were in place, domestic bureaus and offices did not always purchase goods and services through the required programs.

The Department's strategic sourcing program is not effective, in part, because the Bureau of Administration, Office of Logistics Management (A/LM) has not developed a comprehensive Department-wide strategic sourcing program plan that includes a governance structure, goals and objectives, performance measures, and a communication plan to make bureaus and offices aware of the strategic sourcing guidance. Further, the Bureau of Administration does not sufficiently monitor strategic sourcing activities to ensure that bureaus and offices are utilizing the Department's strategic sourcing initiatives that are in place. As a result, the Department's ability to fully achieve the cost benefits of strategic sourcing is limited. Further, the Department will not be positioned to realize these potential cost savings until the Bureau of Administration places greater emphasis on maximizing strategic sourcing solutions.

Compliance With Office of Management and Budget Guidance

OMB required the head of each Chief Financial Officer Act agency[19] to identify an SSAO who has the authority to coordinate the agency's internal strategic sourcing activities by January 15, 2013.[20] On January 15, 2013, the Bureau of Administration, Office of the Procurement Executive complied with the requirement by designating the Deputy Assistant Secretary of the Bureau of Administration, Office of Logistics Management as the SSAO responsible for the Department's strategic sourcing program.

OMB stated that the overall development and implementation of an agency's strategic sourcing effort begins with a spend analysis and identification of commodities for which strategic

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[15] OMB Memorandum M-13-02, "Improving Acquisition through Strategic Sourcing," December 5, 2012.

[16] May 20, 2005, OMB Memorandum.

[17] OMB Memorandum, "Strategic Sourcing Progress," May 22, 2007.

[18] The Department also implemented one strategic sourcing initiative that was not identified during the spend analysis.

[19] Chief Financial Officers Act of 1990, 31 U.S.C. 901(b)(1). The Department is one of 24 agencies identified in the Act.

[20] OMB Memorandum M-13-02, "Improving Acquisition through Strategic Sourcing," December 5, 2012.

sourcing should be implemented.[21] In August 2014, the Department's Strategic Sourcing Program Manager[22] in the Bureau of Administration, Office of Logistics Management, Office of Acquisition Management, Business Operations Division (A/LM/AQM/BD) prepared a spend analysis to assess the Department's FY 2013 procurements to identify possible Department-specific strategic sourcing opportunities, as required by OMB.

The Strategic Sourcing Program Manager manually prepared the spend analysis based on procurement data from numerous sources including: the Integrated Logistics Management System (ILMS)-Ariba,[23] the Federal Procurement Data System,[24] and vendor sales reports.[25] An A/LM/AQM/BD official indicated that the Department could not perform an automated spend analysis from any one source due to the lack of available relevant data within the Department's systems. For example, the data available related to IT purchases included the names of vendors[26] that sell the IT software but does not include the software name, limiting A/LM/AQM/BD's ability to group these products into categories of similar items. Therefore, the Strategic Sourcing Program Manager reviewed the list of vendors and judgmentally categorized the spending by A/LM/AQM/BD's understanding of the software that the Department purchases from particular vendors.

The spend analysis identified 17 categories of goods and services (commodities) for which strategic sourcing initiatives should be implemented, as required by OMB. The Strategic Sourcing Program Manager assessed each potential initiative for ease of implementation and estimated savings to the Department, and then grouped the 17 potential initiatives into 3 tiers based on the ease of implementing the initiatives, as shown in Table 3.

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[21] May 20, 2005, OMB Memorandum.

[22] The Strategic Sourcing Program Manager is responsible for implementing and overseeing strategic sourcing initiatives in the Department.

[23] ILMS-Ariba is an information technology system that allows purchase card holders to submit electronic requests for supplies and services, create a purchase card order, and obtain electronic approvals.

[24] The Federal Procurement Data System is a single source for government-wide procurement data. Government agencies are responsible for collecting and reporting data on Federal procurements in this system.

[25] Vendor sales reports are vendor-provided listings of all products purchased by the Department from the vendor.

[26] Based on discussions with the Strategic Sourcing Program Manager, Kearney learned that the Department does not purchase directly from the IT software manufacturers, and instead purchases the products from non-manufacturer vendors known as "resellers."

Table 3: Potential Strategic Sourcing Initiatives by Tier

Tier	Title of Initiative	Ease of Implementation
One	IT Hardware IT Software Telecommunication and Wireless Office Supplies Vehicle Parts and Automobile Parts Small Package Delivery/Domestic Delivery Services	High
Two	Residential Furniture Medical Supplies Maintenance Repair and Operations Supplies Clothing Weapons Ammunition	
Three	IT Services Temporary Labor Translation Services Health Insurance Facilities Equipment-Generators	Low

Source: Kearney prepared based on A/LM/AQM/BD spend analysis results.

According to OMB,[27] if agencies are considering any significant acquisitions for express ground domestic delivery services, office supplies, telecommunications expense management, printers, or copiers, they should consider the FSSI solution first. Kearney found that the Bureau of Administration complied with OMB's guidance. Specifically, A/LM required that domestic bureaus and offices purchase office supplies and domestic delivery services through FSSI. In addition, the Bureau of Administration, Office of Global Information Services, Office of Global Publishing Solutions (A/GIS/GPS) used the FSSI print management program to lease new multi-function[28] devices domestically. According to the Strategic Sourcing Program Manager, the Department considered the FSSI telecommunication solution but concluded that the FSSI initiative did not meet the Department's needs.

Federal Strategic Sourcing Initiative Office Supplies Program

Beginning in August 2009, A/LM required, through Department Notices,[29] that domestic bureaus and offices purchase office supplies from specific vendors that participated in the FSSI

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[27] May 22, 2007, OMB Memorandum.

[28] Multi-function devices commonly offer copy, scan, and print capabilities through the use of software embedded within a printer or copier.

[29] The Department issued three notices: Department Notice, "Mandated Use of FSSI Vendors for all Department of State Domestic Office Supply Orders," August 21, 2009; Department Notice, "Mandatory Use of FSSI Vendors for the Purchase of All Department of State Domestic Office Supplies," December 28, 2012; and Department Notice,

office supplies program. All Department domestic purchase card holders were required to purchase office supplies that are at or below the micro-purchase threshold[30] from FSSI vendors through the Department's ILMS-Ariba office supply catalog unless a waiver is obtained from the ILMS support desk for items not found in the catalog.[31] Purchases above the micro-purchase threshold are subject to competition requirements in the Federal Acquisition Regulation and the Department of State Acquisition Regulation. For purchases above the micro-purchase threshold, the FSSI discount is available if an FSSI vendor is selected as a result of the competitive process.

Federal Strategic Sourcing Initiative Domestic Delivery Services Program

In August 2009, GSA awarded the FSSI domestic delivery services contract to United Parcel Service (UPS). In April 2014, GSA awarded new FSSI contracts to UPS and Federal Express Corporation (FedEx). However, since September 2010, the Bureau of Administration, Office of the Procurement Executive has required[32] that bureaus and offices use only the FSSI contract with UPS for domestic delivery services.[33] The requirement was also reiterated in the June 2011 Department SmartPay2 Worldwide Purchase Card Program Manual, and remained the same through FY 2015, which was the end of the audit scope period.

Federal Strategic Sourcing Initiative Print Management Program

The Foreign Affairs Manual provides guidance on the procurement and replacement of all copiers within the Department's domestic facilities. The Foreign Affairs Manual[34] states that the A/GIS/GPS Copier Management Program will supply copiers from a limited number of manufacturers to reduce costs and service time. If a bureau wishes to obtain a copier outside the Copier Management Program, the bureau must first obtain an exception from A/GIS/GPS. Although there is no Department mandate specifically for the use of the FSSI print management program, nor is it included as one of the 17 potential strategic sourcing initiatives A/LM/AQM/BD identified, A/GIS/GPS began using the FSSI print management program to lease new multi-function devices from Xerox Corporation in September 2014.

"Mandatory Use of Federal Strategic Sourcing Initiative (FSSI) Vendors for the Purchase of All Department of State Domestic Office Supplies," July 21, 2015.

[30] During FY 2013 – FY 2015 (the scope period of the audit), the micro-purchase threshold, as defined by the Federal Acquisition Regulation, section 2.101, was $3,000 for supplies. The threshold increased to $3,500 effective October 1, 2015, per 80 Fed. Reg. 38293 (July 2, 2015).

[31] Department of State SmartPay2 Worldwide Purchase Card Program Manual, June 2011.

[32] Department Notice, "Purchase/Payment Cardholder Guidelines for Transitioning to United Parcel Service (UPS) for Express Delivery Services," September 28, 2010.

[33] The Department's requirement to use the FSSI domestic delivery services program is not applicable to overseas posts.

[34] 5 Foreign Affairs Manual 1322, "Procurement and Replacement."

The Department Did Not Meet Office of Management and Budget Cross-Agency Priority Goal

Under the initial CAP goal for strategic sourcing, Federal agencies were directed to reduce costs by at least 10 percent through strategic sourcing for at least two new commodities or services in 2013 and 2014. OMB stated that agencies could meet this goal by leading their own agency-wide strategic sourcing efforts, establishing a new inter-agency strategic sourcing vehicle, or participating in another solution that leverages the Government's purchasing power. Kearney found that A/LM did not strategically source two new goods or services in FY 2013 and FY 2014. The directive also stated that agencies should increase their use of the Federal Strategic Sourcing Initiative by at least 10 percent in both FYs 2013 and 2014 unless they could show that their current procurement strategy for obtaining products and services is more cost effective.[35] A/LM was unable to demonstrate that the use of FSSI vehicles increased by at least 10 percent in both FY 2013 and FY 2014 or that its procurement strategy for obtaining products and services was more cost effective than the FSSI vehicles.

According to GSA information, the Department's use of the FSSI office supplies program increased by 15.8 percent from FY 2012 to FY 2013, but decreased by more than 46 percent from FY 2013 to FY 2014. According to GSA information provided by the Department,[36] the Department's FSSI domestic delivery services usage increased approximately 6 percent from FY 2013 to FY 2014. Tables 4 and 5 show the GSA-reported percentage increase in purchases and the amount of cost savings from the Department's use of the FSSI office supply and domestic delivery services[37] programs, respectively, for FY 2013–FY 2015.

Table 4: General Services Administration-Reported Cost Savings for Office Supplies by Fiscal Year

Fiscal Year	Cost of Purchases	Savings Achieved	Full Price (Cost+Savings)	Savings (Percent)	Change in Usage (Percent)*
2013	$2,841,663	$1,043,902	$3,885,565	26.9	15.8
2014	$1,532,393	$631,595	$2,163,988	29.2	-46.1
2015	$1,482,070	$407,318	$1,889,688	21.6	-3.3

* Increase or decrease, as a percentage, in amount of FSSI purchases from the previous fiscal year.
Source: Kearney prepared based on the GSA online dashboards for the FSSI office supply program, https://interact.gsa.gov/blog/introducing-new-tool-fssi-os2-savings-and-small-business-dashboard and http://www.gsa.gov/portal/content/207247.

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[35] There was no specific target set for the strategic sourcing CAP goal that was in place for the first three quarters of FY 2015.

[36] According to A/LM/AQM/BD officials, the Department relied on GSA data to show its cost savings and use of the FSSI programs. As a result, Kearney was unable to independently verify the GSA data; however, because the Department relied on the GSA data, it is presented in this report for informational purposes. See Appendix A: Purpose, Scope, and Methodology for additional details.

[37] The data for domestic delivery services is not publicly available. A/LM/AQM/BD obtained data regarding the Department's use from GSA and provided it to Kearney.

Table 5: General Services Administration-Reported Cost Savings for Domestic Delivery Services by Fiscal Year

Fiscal Year	Cost of Purchases	Savings Achieved	Full Price (Cost+Savings)	Savings (Percent)	Change in Usage (Percent)[a]
2013	$2,098,919	$812,203	$2,911,122	27.9	Not Available[b]
2014	$2,226,137	$861,432	$3,087,569	27.9	6.1
2015	$2,404,551	$478,604	$2,883,155	16.6	8.0

[a] Increase or decrease, as a percentage, in amount of FSSI purchases from the previous fiscal year.
[b] The Department was unable to provide a GSA cost savings report for 2012.
Source: Kearney prepared based on the GSA Cost Savings Reports for UPS for FSSI obtained from A/LM/AQM/BD.

Implementation of Department Identified Strategic Sourcing Opportunities Domestically

Although the Department generally complied with OMB strategic sourcing guidance to identify commodities to strategically source, it did not effectively implement all of the strategic sourcing opportunities. Kearney found that the Department has taken some steps to implement 7 of the 17 initiatives that it identified during its spend analysis. Specifically, of those seven initiatives, three initiatives—office supplies, small package delivery/domestic delivery services, and medical supplies—were fully implemented prior to the spend analysis. In addition, the Department implemented one initiative—print management—that was not identified during the spend analysis. However, none of the four new initiatives identified by the Department's spend analysis were fully implemented as of April 2016. Table 6 lists the status of the eight initiatives that the Department has taken steps to implement.

Table 6: Status of Strategic Sourcing Initiatives

Tier	Title	Description	Status as of April 2016
One	Office Supplies	Facilitates discounts on office supplies, paper, and toner cartridges.	Fully implemented and the use of FSSI is required for domestic office supply purchases
One	Small Package Delivery/Domestic Delivery Services	Provides negotiated rates for domestic delivery on both air and ground shipments between the continental United States and the District of Columbia and from the continental United States to Alaska, Hawaii, and Puerto Rico.	Fully implemented and the use of the FSSI UPS contract is required for domestic delivery services
Two	Medical Supplies	Provides faster shipping and greater availability of medical supplies to overseas posts in remote locations.[a]	Fully implemented but use is optional based on the varying needs of each overseas post
One	IT Software	Provides multi-year enterprise license agreements for two brands of IT	Initiated but not fully implemented

Tier	Title	Description	Status as of April 2016
		software[b] and establishes a centralized contract for one other brand of IT software.	
One	Vehicle Parts and Automobile Parts	Provides automotive parts, accessories, and automotive-related supplies of the highest quality or grade for the maintenance and repair of Government-owned and leased vehicles.	Initiated but not fully implemented
Two	Residential Furniture	Changes the current single award blanket purchase agreement for residential furniture to a multi-award blanket purchase agreement to leverage the cost of furniture by allowing different vendors to compete for Department orders over $3,500.	Initiated but not fully implemented
One	Telecommunications and Wireless	Establishes new contracts, at lower costs, for mobile devices and cellular services.	Initiated but not fully implemented
Not Applicable	Print Management	Establishes a contract with Xerox Corporation in September 2014 to obtain multi-function devices through the FSSI Print Management program.	Fully implemented and the use of FSSI is required for domestic multi-function device purchases (through A/GIS/GPS)

[a] Rather than realizing cost savings, the goal of this initiative is to provide faster shipping and greater availability of medical supplies to overseas posts in remote locations.

[b] These enterprise license agreements were signed on December 29, 2015, and December 30, 2015, which was after the end of the audit scope period (FYs 2013-2015). As a result, Kearney was unable to obtain data to evaluate the Department's usage of these agreements.

Source: Kearney prepared based on A/LM/AQM/BD spend analysis results and discussions with Department officials.

Implementation of Strategic Sourcing Overseas

Kearney found that the Department has not taken significant steps to consider strategic sourcing opportunities overseas. Although the Strategic Sourcing Program Manager stated that the overall spend analysis performed by A/LM/AQM/BD included overseas procurement data (except for spending related to Iraq and Afghanistan),[38] the Department has not performed a specific analysis of its overseas spending to determine whether strategically sourcing common goods and services would be cost beneficial. An A/LM/AQM/BD official indicated that strategically sourcing goods and services overseas would generally not be cost beneficial due to factors such as shipping costs. However, the Department has not performed specific analyses to support this conclusion.

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[38] According to the Strategic Sourcing Program Manager, the costs associated with spending in Iraq and Afghanistan were identified as "non-recurring," and therefore the manager believed that including this information would skew the results of the spend analysis.

Overseas posts are not required to use any of the four strategic sourcing initiatives (relating to small package delivery, print management, office supplies, and medical supplies) that have been implemented by the Department. In fact, overseas posts *cannot* use the delivery services and print management initiatives. In discussing the delivery initiative, A/LM officials stated that the Department has not implemented contracts for overseas shipping at posts due to the varying international environments in which the Department conducts business and the unique shipping needs for each post, nor has the Department identified programs that could otherwise lower overseas delivery service costs. As to the office supplies initiative, although the requirement to use FSSI office supplies vendors does not apply to purchases made outside of the continental United States, the Department Notices on this subject stated that overseas posts *should* use FSSI vendors when purchasing office supplies from a U.S. vendor. However, an A/LM/AQM/BD official confirmed that the Department does not enforce any requirement for overseas posts to do so. A Bureau of Administration, Office of Logistics Management, Office of Program Management and Policy official stated that the majority of posts overseas purchase office supplies through GSAAdvantage!®. Unlike the ILMS-Ariba office supply catalog, GSAAdvantage!® contains a wide variety of office supply vendors and is not limited to FSSI office supply vendors that are part of the initiative.

Finally, as to the medical supplies initiative, the Department developed this program specifically for overseas posts but A/LM nonetheless does not require its use. This program makes medical supplies and medications available through a catalog within ILMS-Ariba called the Medical Store. Due to the high cost of shipping medical supplies overseas, the Bureau of Administration, Office of Logistics Management, Office of Logistics Operations, Regional Logistics Centers Division, prefers for posts to purchase medical supplies from a local vendor when available. As of September 2015, the Department had not attempted to analyze cost savings relating to purchases from the Medical Store.

Use of Implemented Strategic Sourcing Initiatives

Kearney also found that although A/LM required the use of two FSSI programs, domestic bureaus and offices did not always comply with this requirement.

Office Supplies Program Use

To help personnel comply with the Department Notices, the Department created an office supplies catalog within ILMS-Ariba that contains the selected FSSI vendors. Ordering from the vendors in the ILMS-Ariba office supplies catalog enables personnel to select items that are discounted through the selected FSSI office supplies contracts. Department guidance related to office supplies states that bureaus and offices must use the FSSI vendors for office supply

purchases unless a waiver is obtained.[39] The guidance states that waivers will be granted because the item, or an equivalent, is not available in the ILMS-Ariba office supply catalog.[40]

Kearney found that only 3 of 16 (18.8 percent) bureau executive officials interviewed reported that they "always" used the ILMS-Ariba office supply catalog for office supply purchases, while 12 of 16 (68.8 percent) bureau executive officials used the ILMS-Ariba office supply catalog "sometimes," and 1 of 16 (6.3 percent) executive officials "never" used the ILMS-Ariba office supply catalog for office supply purchases. Ten officials reported that they obtained waivers to use vendors other than the Department's required FSSI vendors. Table 7 below shows the reasons that bureau executive office officials provided for not ordering from the FSSI vendors within the ILMS-Ariba office supplies catalog.

Table 7: Reasons Officials Provided for Not Ordering Office Supplies From Federal Strategic Sourcing Initiative Vendors

Reason for Ordering Non-FSSI Office Supplies	Number of Bureau Executive Officials*	Percentage of Bureau Executive Officials*
Item was not available in the ILMS-Ariba office supplies catalog	12	75
Found a lower price outside of the ILMS-Ariba office supplies catalog	6	38
Preferred to use a different vendor	1	6
Item was available at a local store	4	25
Item was needed urgently	8	50
Unaware of the FSSI program	2	13
FSSI program is difficult to use/understand	1	6

*Bureau executive office officials provided multiple reasons for not ordering office supplies from FSSI vendors.
Source: Kearney prepared based on interviews with bureau executive office officials.

Kearney noted that many of the reasons provided by bureau and office officials did not coincide with the Department's guidance related to waivers. For example, bureau preference, item pricing, and local availability are not cited as acceptable reasons for bureaus and offices to order office supplies from sources other than the FSSI vendors in the ILMS-Ariba office supply catalog.

Domestic Delivery Services Program Use

To determine whether bureaus and offices were using the FSSI program effectively, Kearney interviewed officials from 16 bureau executive offices about their bureau's shipping habits.[41] Kearney found that 10 of 16 (62.5 percent) bureau executive officials reported that they always used UPS, which is the Department-required FSSI vendor. Specifically, Kearney found that for

[39] The Bureau of Administration's *Obtaining Waivers for Ariba Supply Catalogs* Job Aid, December 2009 and the Department of State SmartPay2 Worldwide Purchase Card Program Manual, June 2011.

[40] The Department does not maintain a list of waivers that were granted.

[41] See Appendix A: Purpose, Scope, and Methodology, for additional details.

domestic delivery during FY 2013 – FY 2015, 3 of 16 (18.8 percent) bureau executive office officials reported that they "sometimes" used UPS, and 1 of 16 (6.3 percent) bureau executive office official reported using only FedEx. The remaining 2 of 16 (12.5 percent) bureau executive office officials reported that the bureau did not ship domestically.

The bureau official that used FedEx exclusively stated that the bureau intended to continue to use FedEx for domestic delivery services because the bureau's FedEx account is still active. According to the bureau, purchase card holders had FedEx accounts before the Department required the use of UPS in September 2010.

Department Needs to Improve the Strategic Sourcing Program Plan and Monitoring Strategy

The Department's strategic sourcing efforts were not fully implemented or utilized, in part, because the Department lacks a sufficient strategic sourcing program plan. The plan, as defined by OMB,[42] should include a governance structure, goals and objectives, performance measures, and communications strategy.[43] In addition, A/LM did not monitor the Department's strategic sourcing efforts to help ensure that bureaus and offices complied with strategic sourcing guidance.

Governance Structure

According to OMB, a key part of implementing a strategic sourcing program is the establishment of an agency Strategic Sourcing Council.[44] The council should consist of key stakeholders related to the Department's strategic sourcing efforts, including the Chief Financial Officer and Chief Information Officer, among others. OMB states that the council should have a charter "outlining the members, roles, responsibilities, and operations of an agency-wide Strategic Sourcing Council and any commodity councils to be formed." [45]

A/LM has not established a Department-wide Strategic Sourcing Council. Without a formalized Department-wide governance structure, the Department is unable to collaborate effectively to implement and administer strategic sourcing initiatives that are identified. For example, the Strategic Sourcing Program Manager indicated that A/LM/AQM/BD cannot move forward on the IT Hardware initiative, identified as a "tier one" initiative in the spend analysis, because A/LM/AQM/BD had not found an "owner" in the Department to be responsible for guiding the implementation of the program. The initiative owner would be responsible for working with A/LM/AQM/BD to develop the requirements for the laptop strategic sourcing initiative.

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[42] May 20, 2005, OMB, Memorandum.

[43] The OMB guidance also states that the plan should include a training strategy. Kearney did not assess this component during the audit.

[44] May 20, 2005, OMB, Memorandum.

[45] Ibid.

Recommendation 1: OIG recommends that the Bureau of Administration establish a Strategic Sourcing Council to implement strategic sourcing program activities.

Management Response: A/LM concurred "with the overall thrust of the OIG report to enhance the Department's Strategic Sourcing program." Further, A/LM stated that it will use the recommendation as a basis for its strategic sourcing program "strategic planning and goal setting for FY2017."

OIG Reply: OIG considers this recommendation resolved. The recommendation will be closed when OIG receives and accepts documentation demonstrating that the Bureau of Administration established a Strategic Sourcing Council to implement strategic sourcing program activities.

Recommendation 2: OIG recommends that the Department of State Strategic Sourcing Council (Recommendation 1) develop a charter for the Council that identifies members, roles, responsibilities, and operations.

Management Response: A/LM concurred "with the overall thrust of the OIG report to enhance the Department's Strategic Sourcing program." Further, A/LM stated that it will use the recommendation as a basis for its strategic sourcing program "strategic planning and goal setting for FY2017."

OIG Reply: OIG considers this recommendation resolved. The recommendation will be closed when OIG receives and accepts documentation demonstrating that the Department's Strategic Sourcing Council developed a charter for the Council that identifies members, roles, responsibilities, and operations.

Goals and Objectives

Once the Council is established, OMB instructs agencies to "establish annual strategic sourcing goals and objectives, by fiscal year. These goals and objectives should include existing strategic sourcing efforts, as well as prioritizing new initiatives."[46]

A/LM has not established goals or objectives for an overall Department-wide strategic sourcing program. Further, A/LM has not established goals or objectives for individual Department strategic sourcing initiatives. This includes goals and objectives relating to initiatives that are currently in place and goals and objectives relating to the implementation of new initiatives. For example, although A/LM established implementation tiers for the 17 strategic sourcing initiatives identified during its spend analysis of the Department's procurements, A/LM did not develop a timeline for implementing each of the initiatives. Because the Department did not have clear goals and objectives, the Department was not able to track its progress towards certain goals or demonstrate achievement of cost savings related to the Department's strategic sourcing efforts.

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[46] Ibid.

Recommendation 3: OIG recommends that the Bureau of Administration, in coordination with the Strategic Sourcing Council (Recommendation 1), develop and implement a policy to establish overall Department of State-wide strategic sourcing program goals and objectives by fiscal year.

Management Response: A/LM concurred "with the overall thrust of the OIG report to enhance the Department's Strategic Sourcing program." Further, A/LM stated that it will use the recommendation as a basis for its strategic sourcing program "strategic planning and goal setting for FY2017."

OIG Reply: OIG considers this recommendation resolved. The recommendation will be closed when OIG receives and accepts documentation demonstrating that the Bureau of Administration, in coordination with the Strategic Sourcing Council, developed and implemented a policy to establish overall Department of State-wide strategic sourcing program goals and objectives by fiscal year.

Recommendation 4: OIG recommends that the Bureau of Administration, in coordination with the Strategic Sourcing Council (Recommendation 1), develop and implement procedures to establish goals and objectives for strategic sourcing initiatives that are currently in place.

Management Response: A/LM concurred "with the overall thrust of the OIG report to enhance the Department's Strategic Sourcing program." Further, A/LM stated that it will use the recommendation as a basis for its strategic sourcing program "strategic planning and goal setting for FY2017."

OIG Reply: OIG considers this recommendation resolved. The recommendation will be closed when OIG receives and accepts documentation demonstrating that the Bureau of Administration, in coordination with the Strategic Sourcing Council, developed and implemented procedures to establish goals and objectives for strategic sourcing initiatives that are currently in place.

Recommendation 5: OIG recommends that the Bureau of Administration, in coordination with the Strategic Sourcing Council (Recommendation 1), develop and implement procedures to establish goals and objectives for the implementation of the identified potential strategic sourcing initiatives that are not currently in place.

Management Response: A/LM concurred "with the overall thrust of the OIG report to enhance the Department's Strategic Sourcing program." Further, A/LM stated that it will use the recommendation as a basis for its strategic sourcing program "strategic planning and goal setting for FY2017."

OIG Reply: OIG considers this recommendation resolved. The recommendation will be closed when OIG receives and accepts documentation demonstrating that the Bureau of

Administration, in coordination with the Strategic Sourcing Council, developed and implemented procedures to establish goals and objectives for the implementation of the identified potential strategic sourcing initiatives that are not currently in place.

Performance Measures

OMB also instructed the agency Strategic Sourcing Council to "establish agency-wide performance measures and reporting requirements[47] in order to monitor and continuously improve the strategic sourcing program."[48] According to OMB, performance measures generally include, but are not limited to, the impact on price of the goods or services, cost of the transaction, socio-economic goals, performance, and information that improves management of commodities and services.[49] A/LM has not established performance measures for the Department's strategic sourcing initiatives or required the use of internal metrics and reports to assess the effectiveness of its strategic sourcing programs.

> **Recommendation 6:** OIG recommends that the Bureau of Administration, in coordination with the Strategic Sourcing Council (Recommendation 1), develop and implement a process to establish performance measures for strategic sourcing initiatives.
>
> **Management Response:** A/LM concurred "with the overall thrust of the OIG report to enhance the Department's Strategic Sourcing program." Further, A/LM stated that it will use the recommendation as a basis for its strategic sourcing program "strategic planning and goal setting for FY2017."
>
> **OIG Reply:** OIG considers this recommendation resolved. The recommendation will be closed when OIG receives and accepts documentation demonstrating that the Bureau of Administration, in coordination with the Strategic Sourcing Council, developed and implemented a process to establish performance measures for strategic sourcing initiatives.

Communications Strategy

According to OMB, "the Strategic Sourcing Plan should include a communication strategy that clearly conveys senior management's commitment to the effort, describes the scope of the effort, and identifies any organizational changes. The communications strategy should also include steps to make agency employees aware of awarded strategic sourcing contracts and how they are to be used."[50] A/LM has not developed a plan to communicate, formally or informally, management's commitment to strategic sourcing. For example, A/LM has not established the strategic sourcing program in the Foreign Affairs Manual or Foreign Affairs

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[47] As of December 2010, agencies are no longer required to submit annual reports on strategic sourcing to the OMB Office of Federal Procurement Policy.

[48] May 20, 2005, OMB Memorandum.

[49] OMB Memorandum "Guidance on Agency Fiscal Year 2006 Strategic Sourcing Reports," December 19, 2006.

[50] May 20, 2005, OMB Memorandum.

Handbook, nor does A/LM have an OpenNet[51] site that contains information regarding current or future strategic sourcing initiatives. Communications regarding strategic sourcing programs have been limited to periodic Department Notices. Although these Notices are available on the Department's OpenNet, they can only be identified through a search for "strategic sourcing." When Kearney interviewed officials from 16 bureau executive offices about their bureau's purchasing habits, Kearney found that 2 of 16 (13 percent) bureau executive office officials interviewed were not aware of the Department's FSSI office supplies program and 6 of 16 (38 percent) bureau executive office officials interviewed were not aware of the FSSI domestic delivery services program. Without a communications plan, potential users of strategic sourcing may not be aware of available initiatives or the importance and benefits of the initiatives.

> **Recommendation 7:** OIG recommends that the Bureau of Administration, in coordination with the Strategic Sourcing Council (Recommendation 1), establish a communication plan for the strategic sourcing program.
>
> **Management Response:** A/LM concurred "with the overall thrust of the OIG report to enhance the Department's Strategic Sourcing program." Further, A/LM stated that it will use the recommendation as a basis for its strategic sourcing program "strategic planning and goal setting for FY2017."
>
> **OIG Reply:** OIG considers this recommendation resolved. The recommendation will be closed when OIG receives and accepts documentation demonstrating that the Bureau of Administration, in coordination with the Strategic Sourcing Council, established a communication plan for the strategic sourcing program.
>
> **Recommendation 8:** OIG recommends that the Bureau of Administration, in coordination with the Strategic Sourcing Council (Recommendation 1), formally establish the strategic sourcing program in the Foreign Affairs Manual and/or the Foreign Affairs Handbook.
>
> **Management Response:** A/LM concurred "with the overall thrust of the OIG report to enhance the Department's Strategic Sourcing program." Further, A/LM stated that it will use the recommendation as a basis for its strategic sourcing program "strategic planning and goal setting for FY2017."
>
> **OIG Reply:** OIG considers this recommendation resolved. The recommendation will be closed when OIG receives and accepts documentation demonstrating that the Bureau of Administration, in coordination with the Strategic Sourcing Council, established the strategic sourcing program in the Foreign Affairs Manual and/or the Foreign Affairs Handbook.
>
> **Recommendation 9:** OIG recommends that the Bureau of Administration, in coordination with the Strategic Sourcing Council (Recommendation 1), develop and implement an

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[51] OpenNet is the Department's Sensitive But Unclassified internal network, providing access to Department-specific web pages, email, and other resources.

OpenNet site for personnel to obtain information regarding current and future strategic sourcing initiatives.

Management Response: A/LM concurred "with the overall thrust of the OIG report to enhance the Department's Strategic Sourcing program." Further, A/LM stated that it will use the recommendation as a basis for its strategic sourcing program "strategic planning and goal setting for FY2017."

OIG Reply: OIG considers this recommendation resolved. The recommendation will be closed when OIG receives and accepts documentation demonstrating that the Bureau of Administration, in coordination with the Strategic Sourcing Council, developed and implemented an OpenNet site for personnel to obtain information regarding current and future strategic sourcing initiatives.

Monitoring

Pursuant to Title 41, United States Code, § 1702(b), Chief Acquisition Officers[52] are responsible for monitoring the performance of acquisition activities and acquisition programs of the agency, evaluating the performance of those programs on the basis of applicable performance measurements, and advising the head of the agency regarding the appropriate business strategy to achieve the agency's mission. The Bureau of Administration did not have a plan to monitor overall strategic sourcing efforts to help ensure that bureaus and offices complied with strategic sourcing guidance. For example, the Bureau of Administration did not have a process to continuously monitor bureau spending on office supplies or domestic delivery services and track bureau use of the required FSSI programs. Although A/LM has the ability to run reports in ILMS-Ariba to identify office supply purchases, the Department did not run these reports on a regular basis to track spending or savings associated with the FSSI office supply program. There are no central metrics in use to record participation or savings in the FSSI programs. Further, the Department does not perform a review to determine if bureaus and offices are using strategic sourcing initiatives to the greatest extent possible.

Further, A/LM has not developed controls to ensure that Department bureaus and offices use the required FSSI office supply vendors. For example, several bureau executive offices interviewed stated that ILMS-Ariba does not prevent domestic purchases of office supplies from vendors outside of the ILMS-Ariba catalog (that is, the required FSSI vendors). During the audit, Kearney noted that users could enter a "non-catalog" order and submit the order in ILMS-Ariba without first obtaining a waiver. Although A/LM had the ability to run compliance reports in ILMS-Ariba to determine whether purchase card holders complied with the requirement to use the Department's required vendors for office supplies purchases, unless a valid waiver is approved, A/LM did not run these reports on a regular basis. The Strategic Sourcing Program Manager stated that A/LM/AQM/BD does not conduct audits, or run reports each month as this would not be cost effective.

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[52] According to 1 Foreign Affairs Manual 211.2, "Assistant Secretary Responsibilities," the Assistant Secretary of the Bureau of Administration serves as Chief Acquisition Officer for the Department.

Recommendation 10: OIG recommends that the Bureau of Administration, in coordination with the Strategic Sourcing Council (Recommendation 1), develop and implement a process to track bureau and office compliance with Department requirements to use strategic sourcing initiatives.

Management Response: A/LM concurred "with the overall thrust of the OIG report to enhance the Department's Strategic Sourcing program." Further, A/LM stated that it will use the recommendation as a basis for its strategic sourcing program "strategic planning and goal setting for FY2017."

OIG Reply: OIG considers this recommendation resolved. The recommendation will be closed when OIG receives and accepts documentation demonstrating that the Bureau of Administration, in coordination with the Strategic Sourcing Council, developed and implemented a process to track bureau and office compliance with Department requirements to use strategic sourcing initiatives.

Recommendation 11: OIG recommends that the Bureau of Administration, in coordination with the Strategic Sourcing Council (Recommendation 1), develop and implement controls to prohibit users from ordering office supplies from vendors other than the approved Federal Strategic Sourcing Initiative office supply vendors without obtaining a valid waiver.

Management Response: A/LM concurred "with the overall thrust of the OIG report to enhance the Department's Strategic Sourcing program." A/LM also stated that it will use the recommendation as a basis for its strategic sourcing program "strategic planning and goal setting for FY2017." Further, A/LM noted that ILMS-Ariba prompts users with an error message when they attempt to order office supplies as a non-catalog item. Although the message does not prevent the users from completing the request, it does alert requestors and approvers that the office supply catalog should be used instead of a non-catalog order.

OIG Reply: OIG considers this recommendation resolved. OIG recognizes that ILMS-Ariba provides an error message when a requestor places a non-catalog office supply order; however, the order may still be placed without obtaining a valid waiver. The recommendation will be closed when OIG receives and accepts documentation demonstrating that the Bureau of Administration, in coordination with the Strategic Sourcing Council, developed and implemented controls to prohibit users from ordering office supplies from vendors other than the approved Federal Strategic Sourcing Initiative office supply vendors without obtaining a valid waiver.

The Department May Not Be Realizing Full Cost Savings

Given the increasing fiscal pressures facing all Federal agencies, there has been an increased effort to maximize efficiencies in procurement processes to achieve cost savings. Well-designed and executed strategic sourcing programs are essential for agencies to maximize the financial return on their initiatives and to achieve compliance with Federal guidance. This is especially true for agencies like the Department that have decentralized organizational structures and complex acquisition needs. Because the Department has not implemented a sufficient strategic sourcing program, it is limiting its ability to fully achieve the cost benefits of strategic sourcing. The Department will not realize these potential cost savings unless a greater emphasis is placed on strategic sourcing. The Department has also been missing out on potential efficiencies in its procurement processes because effective strategic sourcing can lead to reductions in the resources required by agencies to manage acquisitions and oversee contractors.

Further, by not fully participating in FSSI, the Department is not receiving the benefits of savings through volume discounts afforded under strategically sourced vehicles. While the Department is only one agency, the lack of participation across the Federal sector can diminish GSA's negotiating ability for future follow-on agreements. Moreover, with increased participation, all agencies can realize greater cost savings when commodities or services do not lend themselves to internal sourcing.

RECOMMENDATIONS

Recommendation 1: OIG recommends that the Bureau of Administration establish a Strategic Sourcing Council to implement strategic sourcing program activities.

Recommendation 2: OIG recommends that the Department of State Strategic Sourcing Council (Recommendation 1) develop a charter for the Council that identifies members, roles, responsibilities, and operations.

Recommendation 3: OIG recommends that the Bureau of Administration, in coordination with the Strategic Sourcing Council (Recommendation 1), develop and implement a policy to establish overall Department of State-wide strategic sourcing program goals and objectives by fiscal year.

Recommendation 4: OIG recommends that the Bureau of Administration, in coordination with the Strategic Sourcing Council (Recommendation 1), develop and implement procedures to establish goals and objectives for strategic sourcing initiatives that are currently in place.

Recommendation 5: OIG recommends that the Bureau of Administration, in coordination with the Strategic Sourcing Council (Recommendation 1), develop and implement procedures to establish goals and objectives for the implementation of the identified potential strategic sourcing initiatives that are not currently in place.

Recommendation 6: OIG recommends that the Bureau of Administration, in coordination with the Strategic Sourcing Council (Recommendation 1), develop and implement a process to establish performance measures for strategic sourcing initiatives.

Recommendation 7: OIG recommends that the Bureau of Administration, in coordination with the Strategic Sourcing Council (Recommendation 1), establish a communication plan for the strategic sourcing program.

Recommendation 8: OIG recommends that the Bureau of Administration, in coordination with the Strategic Sourcing Council (Recommendation 1), formally establish the strategic sourcing program in the Foreign Affairs Manual and/or the Foreign Affairs Handbook.

Recommendation 9: OIG recommends that the Bureau of Administration, in coordination with the Strategic Sourcing Council (Recommendation 1), develop and implement an OpenNet site for personnel to obtain information regarding current and future strategic sourcing initiatives.

Recommendation 10: OIG recommends that the Bureau of Administration, in coordination with the Strategic Sourcing Council (Recommendation 1), develop and implement a process to track bureau and office compliance with Department requirements to use strategic sourcing initiatives.

Recommendation 11: OIG recommends that the Bureau of Administration, in coordination with the Strategic Sourcing Council (Recommendation 1), develop and implement controls to

prohibit users from ordering office supplies from vendors other than the approved Federal Strategic Sourcing Initiative office supply vendors without obtaining a valid waiver.

APPENDIX A: PURPOSE, SCOPE, AND METHODOLOGY

The objective of this audit was to determine the extent to which the Department of State (Department) had developed and implemented a strategic sourcing program that addresses Federal strategic sourcing guidance and goals. An independent certified public accounting firm, Kearney & Company, P.C. (Kearney), acting on behalf of the Office of Inspector General, performed this audit.

Kearney conducted fieldwork for this performance audit from July 2015 to May 2016 in the Washington, DC, metropolitan area. The scope of the period audited was FY 2013 through FY 2015. All audit work was performed in accordance with performance audit requirements in the Government Accountability Office's (GAO) *Government Auditing Standards*, 2011 revision. These standards require that Kearney plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objective. Kearney believes that the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit evidence.

To obtain background information, Kearney researched and reviewed the United States Code, Office of Management and Budget memoranda, information from Federal websites, the Department's Foreign Affairs Manual and Foreign Affairs Handbook, and information available on the Department's OpenNet.[1] In addition, Kearney obtained the most recent version of the Department's Worldwide Purchase Card Manual, issued June 2011, which outlines purchase card requirements related to strategic sourcing programs.

Kearney met with Bureau of Administration, Office of Logistics Management officials to gain an understanding of what the Department did to implement a strategic sourcing program, identify current and future strategic sourcing initiatives, and track spending under each of the implemented initiatives. Kearney met with officials from the Bureau of Administration, Office of Global Information Services, Office of Global Publishing Solutions, to gain an understanding of their role in the implementation of strategic sourcing programs.

To determine bureaus' awareness and usage of strategic sourcing programs, and to understand the reasons that bureaus may not have taken advantage of strategic sourcing opportunities, Kearney conducted phone surveys with executive office representatives from 16 bureaus. Kearney asked the executive office representatives a set of standard questions, and also asked follow-up questions based on the representatives' responses.

To draw conclusions regarding the extent to which bureaus took advantage of strategic sourcing opportunities that were available, Kearney attempted to obtain a complete population of all purchases that were subject to strategic sourcing. However, the Department does not have purchase data readily available at the detail level necessary for analysis; therefore, Kearney was

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[1] OpenNet is the Department's Sensitive But Unclassified internal network, providing access to Department-specific web pages, email, and other resources.

unable to identify all purchases of commonly used goods and services that could be sourced strategically, to determine the extent to which the Department utilized strategic sourcing contracting vehicles. As reported in Finding A, the Department did not monitor or track its strategic sourcing efforts.

Use of Computer-Processed Data

Throughout the audit, the team used computer-processed data from the Department and other sources such as the General Services Administration (GSA). Kearney obtained expense detail from the Global Financial Management System's Data Warehouse[2] for the period covering FY 2013 through FY 2015. Kearney relied on the work performed during the annual audit of the Department's financial statements to assess the reliability of the data. The Global Financial Management System is used to prepare the annual financial statements, which are audited. Kearney determined, based on how the data would be used in this report, and the assurances provided by the annual financial statement audit, that the data used was sufficiently reliable.

In addition, Kearney obtained data on the Department's Federal Strategic Sourcing Initiative (FSSI) office supplies spending, as well as Federal Government-wide FSSI office supplies spending from GSA's online Second Generation Office Supplies Savings and Small Business Dashboard and FSSI Third Generation Office Supplies Spend and Savings Dashboard.[3] The dashboards are online reporting systems that display the results of aggregate, as well as individual, agency use of the FSSI office supplies program. However, the Department did not maintain data that Kearney could use to corroborate the GSA-reported amounts. The GSA-reported data was presented for information purposes and Kearney did not draw conclusions based solely on the GSA-reported data. The recommendations in the report are supported by evidence other than the GSA-reported data, including interviews with A/LM officials, review of policies and procedures, and phone interviews with representatives from bureau executive offices.

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[2] Global Financial Management System's Data Warehouse is a database tool that is used to create reports from the Department's financial records. All transactions recorded in the Department's Global Financial Management System are stored in the Data Warehouse and can be accessed, queried, downloaded, and analyzed.

[3] GSA, "Second Generation Office Supplies Savings and Small Business Dashboard," <http://public.tableau.com/views/OfficeSupplies2ndGenerationsOS2FSSI/SecondGenerationOfficeSuppliesOS2FSSISav ingsSmallBusinessSuccess?amp;:embed=y&:display_count=no?:showVizHome=no#1>, accessed on April 21, 2016; and GSA, "FSSI OS3 Spend and Savings Dashboard," <https://public.tableau.com/views/PublicOS3PerformanceDashboard/OS3PerformanceDashboard?amp;:embed=y&:di splay_count=no?:showVizHome=no#>, accessed on April 21, 2016.

Work Related to Internal Controls

Kearney divided the overall audit objective into two sub-objectives:

- determine the extent to which the Department has developed and implemented a strategic sourcing program that aligns with Federal guidance and the government's cross-agency priority goal related to strategic sourcing, and
- determine the extent to which bureaus and posts took advantage of strategic sourcing opportunities that were available.

Based on the information obtained during preliminary audit procedures, Kearney performed a risk assessment that identified audit risks within each sub-objective and controls in place to address those risks.

Where key controls were identified, Kearney reviewed documentation and performed procedures to assess the design of the controls. When the controls in place were not properly designed, Kearney did not test controls. For example, although the Department developed policies to require that office supplies are purchased through select FSSI vendors unless a valid waiver is approved, Kearney noted that it was possible to purchase office supplies from non-FSSI vendors without first obtaining a waiver. As a result, Kearney determined that the controls in place were not effectively designed and determined that reviewing waivers was not necessary. Any significant internal control deficiencies noted during the audit are reported in the Audit Results section of this report.

APPENDIX B: OFFICE OF MANAGEMENT AND BUDGET STRATEGIC SOURCING GUIDANCE

The Office of Management and Budget (OMB), Office of Federal Procurement Policy issued five[1] memoranda on OMB's strategic sourcing policies. The memoranda are summarized in Table B.1.

Table B.1: Office of Management and Budget Policy Guidance on Strategic Sourcing

Title	Primary Purpose
OMB memorandum "Implementing Strategic Sourcing," May 20, 2005	Institutionalized the strategic sourcing process in Federal agencies. Designated responsibility for the overall development and implementation of their agency's strategic sourcing efforts to Federal agencies' Chief Acquisition Officer, Chief Financial Officer, and Chief Information Officer. Directed agencies to conduct an analysis of agency procurement patterns and identify goods and services for which strategic sourcing should be implemented.
OMB memorandum "Guidance on Agency Fiscal Year 2006 Strategic Sourcing Reports," December 19, 2006	Included guidance on the information that Chief Acquisition Officers were required to report to OMB in their FY 2006 strategic sourcing reports.
OMB memorandum "Strategic Sourcing Progress," May 22, 2007	Strongly encouraged agencies to consider FSSI solutions first when considering any significant acquisitions for domestic delivery services, office supplies, telecommunications expense management, and printers or copiers.
OMB memorandum "Guidance on Agency Fiscal Year 2007 Strategic Sourcing Reports," March 11, 2008	Included guidance on the information that Chief Acquisition Officers were required to report to OMB in their FY 2007 strategic sourcing reports.
OMB Memorandum M-13-02, "Improving Acquisition through Strategic Sourcing," December 5, 2012	Introduced additional responsibilities for designing and implementing government-wide strategic sourcing solutions. Required the head of each Chief Financial Officers Act agency* to designate a Strategic Sourcing Accountable Official (SSAO) who would have the authority to coordinate the agency's internal strategic sourcing activities and its participation in government-wide efforts. OMB required agencies to designate an SSAO by January 15, 2013.

* Chief Financial Officers Act of 1990. The Department is one of 24 agencies identified in the Act.
Source: Kearney prepared based on OMB memoranda.

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[1] OMB, "Office of Federal Procurement Policy Strategic Sourcing," <https://www.whitehouse.gov/omb/procurement_strategic/>, accessed on June 9, 2016.

APPENDIX C: BUREAU OF ADMINISTRATION RESPONSE

United States Department of State

Washington, D.C. 20520

August 16, 2016

MEMORANDUM

TO: OIG/AUD – Norman P. Brown

FROM: A/LM – Jennifer A. McIntyre

SUBJECT: Draft Report on *Audit of Department of State Strategic Sourcing Efforts*

Thank you for the opportunity to provide comments on the subject Strategic Sourcing draft report. The points of contact for this response are Mr. Matthew Colantonio who may be reached at 703-875-5848, and Mr. James Moore who may be reached at 703-875-6285.

Recommendation 1: OIG recommends that the Bureau of Administration establish a Strategic Sourcing Council to implement strategic sourcing program activities.

Management Response to Draft Report (08/16/2016): The Office of Logistics Management (A/LM) concurs with the overall thrust of the OIG report to enhance the Department's Strategic Sourcing program. A new Strategic Sourcing Program Manager is coming on board this month, and will use the OIG recommendations as a basis to direct our forward strategic planning and goal setting for FY2017.

Recommendation 2: OIG recommends that the Department of State Strategic Sourcing Council (Recommendation 1) develop a charter for the Council that identifies members, roles, responsibilities, and operations.

Management Response to Draft Report (08/16/2016): The Office of Logistics Management (A/LM) concurs with the overall thrust of the OIG report to enhance the Department's Strategic Sourcing program. A new Strategic Sourcing Program Manager is coming on board this month, and will use the OIG recommendations as a basis to direct our forward strategic planning and goal setting for FY2017.

Recommendation 3: OIG recommends that the Bureau of Administration, in coordination with the Strategic Sourcing Council (Recommendation 1), develop

and implement a policy to establish overall Department of State-wide strategic sourcing program goals and objectives by fiscal year.

Management Response to Draft Report (08/16/2016): The Office of Logistics Management (A/LM) concurs with the overall thrust of the OIG report to enhance the Department's Strategic Sourcing program. A new Strategic Sourcing Program Manager is coming on board this month, and will use the OIG recommendations as a basis to direct our forward strategic planning and goal setting for FY2017.

Recommendation 4: OIG recommends that the Bureau of Administration, in coordination with the Strategic Sourcing Council (Recommendation 1), develop and implement procedures to establish goals and objectives for strategic sourcing initiatives that are currently in place.

Management Response to Draft Report (08/16/2016): The Office of Logistics Management (A/LM) concurs with the overall thrust of the OIG report to enhance the Department's Strategic Sourcing program. A new Strategic Sourcing Program Manager is coming on board this month, and will use the OIG recommendations as a basis to direct our forward strategic planning and goal setting for FY2017.

Recommendation 5: OIG recommends that the Bureau of Administration, in coordination with the Strategic Sourcing Council (Recommendation 1), develop and implement procedures to establish goals and objectives for the implementation of the identified potential strategic sourcing initiatives that are not currently in place.

Management Response to Draft Report (08/16/2016): The Office of Logistics Management (A/LM) concurs with the overall thrust of the OIG report to enhance the Department's Strategic Sourcing program. A new Strategic Sourcing Program Manager is coming on board this month, and will use the OIG recommendations as a basis to direct our forward strategic planning and goal setting for FY2017.

Recommendation 6: OIG recommends that the Bureau of Administration, in coordination with the Strategic Sourcing Council (Recommendation 1), develop and implement a process to establish performance measures for strategic sourcing initiatives.

Management Response to Draft Report (08/16/2016): The Office of Logistics Management (A/LM) concurs with the overall thrust of the OIG report to enhance the Department's Strategic Sourcing program. A new Strategic Sourcing Program

Manager is coming on board this month, and will use the OIG recommendations as a basis to direct our forward strategic planning and goal setting for FY2017.

Recommendation 7: OIG recommends that the Bureau of Administration, in coordination with the Strategic Sourcing Council (Recommendation 1), establish a communication plan for the strategic sourcing program.

Management Response to Draft Report (08/16/2016): The Office of Logistics Management (A/LM) concurs with the overall thrust of the OIG report to enhance the Department's Strategic Sourcing program. A new Strategic Sourcing Program Manager is coming on board this month, and will use the OIG recommendations as a basis to direct our forward strategic planning and goal setting for FY2017.

Recommendation 8: OIG recommends that the Bureau of Administration, in coordination with the Strategic Sourcing Council (Recommendation 1), formally establish the strategic sourcing program in the Foreign Affairs Manual and/or the Foreign Affairs Handbook.

Management Response to Draft Report (08/16/2016): The Office of Logistics Management (A/LM) concurs with the overall thrust of the OIG report to enhance the Department's Strategic Sourcing program. A new Strategic Sourcing Program Manager is coming on board this month, and will use the OIG recommendations as a basis to direct our forward strategic planning and goal setting for FY2017.

Recommendation 9: OIG recommends that the Bureau of Administration, in coordination with the Strategic Sourcing Council (Recommendation 1), develop and implement an OpenNet site for personnel to obtain information regarding current and future strategic sourcing initiatives.

Management Response to Draft Report (08/16/2016): The Office of Logistics Management (A/LM) concurs with the overall thrust of the OIG report to enhance the Department's Strategic Sourcing program. A new Strategic Sourcing Program Manager is coming on board this month, and will use the OIG recommendations as a basis to direct our forward strategic planning and goal setting for FY2017.

Recommendation 10: OIG recommends that the Bureau of Administration, in coordination with the Strategic Sourcing Council (Recommendation 1), develop and implement a process to track bureau and office compliance with Department requirements to use strategic sourcing initiatives.

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Management Response to Draft Report (08/16/2016): The Office of Logistics Management (A/LM) concurs with the overall thrust of the OIG report to enhance the Department's Strategic Sourcing program. A new Strategic Sourcing Program Manager is coming on board this month, and will use the OIG recommendations as a basis to direct our forward strategic planning and goal setting for FY2017.

Recommendation 11: OIG recommends that the Bureau of Administration, in coordination with the Strategic Sourcing Council (Recommendation 1), develop and implement controls to prohibit users from ordering office supplies from vendors other than the approved Federal Strategic Sourcing Initiative office supply vendors without obtaining a valid waiver.

Management Response to Draft Report (08/16/2016): The Office of Logistics Management (A/LM) concurs with the overall thrust of the OIG report to enhance the Department's Strategic Sourcing program. A new Strategic Sourcing Program Manager is coming on board this month, and will use the OIG recommendations as a basis to direct our forward strategic planning and goal setting for FY2017.

In addition, it should be noted in 2008 A/LM implemented an enhancement to Ariba to give users a warning message when they have entered a non-catalog item and selected the "Office Supplies: 7510" commodity code. The warning message says: "*You have chosen a commodity code that corresponds to items in an on-line catalog in Ariba. If possible, please choose your item from the on-line catalog.*" This warning doesn't prevent users from completing their request, but does alert requestors and approvers that the office supply catalog should be utilized in lieu of a non-catalog solution. Further explanation of the warning is provided in the attached "Common Ariba Error Messages" job aid.

Attachment:
    "Common Ariba Error Messages" Job Aid.

ABBREVIATIONS

A/GIS/GPS	Bureau of Administration, Office of Global Information Services, Office of Global Publishing Solutions
A/LM	Bureau of Administration, Office of Logistics Management
A/LM/AQM/BD	Bureau of Administration, Office of Logistics Management, Office of Acquisition Management, Business Operations Division
CAP	Cross-Agency Priority
FedEx	Federal Express Corporation
FSSI	Federal Strategic Sourcing Initiative
GAO	Government Accountability Office
GSA	General Services Administration
ILMS	Integrated Logistics Management System
OMB	Office of Management and Budget
SSAO	Strategic Sourcing Accountable Official
UPS	United Parcel Service

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