



U.S. ENVIRONMENTAL PROTECTION AGENCY

OFFICE OF INSPECTOR GENERAL



Increased Emphasis on Strategic Sourcing Can Result in Substantial Cost Savings for EPA

Report No. 14-P-0338

August 26, 2014



Scan this mobile code to learn more about the EPA OIG.

Report Contributors:

Janet Kasper
Michael Petscavage
Richard Valliere
David Penman

Abbreviations

BPA	Blanket Purchase Agreement
EPA	U.S. Environmental Protection Agency
FSSI	Federal Strategic Sourcing Initiative
FY	Fiscal Year
GSA	General Services Administration
OAM	Office of Acquisition Management
OARM	Office of Acquisition and Resources Management
OIG	Office of Inspector General
OMB	Office of Management and Budget

Are you aware of fraud, waste or abuse in an EPA program?

EPA Inspector General Hotline

1200 Pennsylvania Avenue, NW (2431T)
Washington, DC 20460
(888) 546-8740
(202) 566-2599 (fax)

OIG_Hotline@epa.gov

More information at www.epa.gov/oig/hotline.html.

EPA Office of Inspector General

1200 Pennsylvania Avenue, NW (2410T)
Washington, DC 20460
(202) 566-2391
www.epa.gov/oig

Subscribe to our [Email Updates](#)
Follow us on Twitter [@EPAoig](#)
Send us your [Project Suggestions](#)



At a Glance

Why We Did This Review

The federal government spends approximately \$500 billion on goods and services each year to support its mission. Given the increasing fiscal pressures facing the United States, there has been a renewed focus on maximizing efficiencies in the procurement process to achieve cost savings. One such initiative is the use of strategic sourcing as outlined in the Federal Strategic Sourcing Initiative (FSSI).

The purpose of this review was to determine whether the U.S. Environmental Protection Agency's (EPA's) strategic sourcing program is gaining efficiencies from existing federal initiatives under the FSSI mandate and the EPA was identifying and taking advantage of strategic sourcing opportunities outside of FSSI.

This report addresses the following EPA goal or cross-agency strategy:

- *Embracing EPA as a high-performing organization.*

For further information, contact our public affairs office at (202) 566-2391.

The full report is at:
www.epa.gov/oig/reports/2014/20140826-14-P-0338.pdf

Increased Emphasis on Strategic Sourcing Can Result in Substantial Cost Savings for EPA

What We Found

Although the Office of Management and Budget issued a policy memorandum on strategic sourcing in 2005 expressing the need for agencies to leverage strategic sourcing to the maximum extent possible, the EPA has been slow in implementing such efforts. Crucial aspects, such as conducting spend analyses and developing controls to ensure maximum agency participation, were either not developed or conducted timely. The Office of Management and Budget also encouraged agencies to participate in governmentwide solutions, known as FSSI, and advised agencies to consider those being offered for commonly procured commodities first when contemplating acquisitions. Of the four solutions offered (print management, wireless services, office supplies and domestic delivery), the EPA only participated in the office supplies and domestic delivery solutions. The agency has been slow in implementing strategic sourcing due to a lack of commitment in the initial stages of the initiative and by proceeding cautiously as experience was gained. As a result, the EPA has been missing out in cost saving opportunities and improved efficiencies in its procurement processes.

The EPA could save \$30 to \$60 million annually by fully implementing its strategic sourcing program.

Recommendations and Planned Corrective Actions

We recommend that the EPA develop a plan of action to strategically source wireless services and print management. If the EPA's plan is to source these commodities internally because it is not practicable under the FSSI initiative, we recommend that a price comparison analysis be performed to ensure the best possible pricing is negotiated. We also recommend that the EPA develop and implement policies and procedures to ensure that controls are in place so that all strategically sourced vehicles are utilized unless a valid exception is approved. The EPA agreed with our recommendations and provided a corrective action plan with dates for each recommendation.

Noteworthy Achievements

The EPA conducted a study of the agency's acquisition function to realize cost savings and increase the efficiency and effectiveness of the acquisition function within the EPA. The study, known as the Centers of Expertise in Contracting, details the challenges facing the EPA. The report identifies the value of strategic sourcing and estimates that, with a fully staffed strategic sourcing office, it can achieve potential cost savings of \$30 to \$60 million on an annual basis. The report provides recommendations on how to achieve a more efficient and effective acquisition process, and the EPA is currently evaluating these recommendations.



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
WASHINGTON, D.C. 20460

THE INSPECTOR GENERAL

August 26, 2014

MEMORANDUM

SUBJECT: Increased Emphasis on Strategic Sourcing Can Result in
Substantial Cost Savings for EPA
Report No. 14-P-0338

FROM: Arthur A. Elkins Jr.

A handwritten signature in black ink, appearing to read "Arthur A. Elkins Jr.", is written over the printed name.

TO: Craig Hooks, Assistant Administrator
Office of Administration and Resources Management

This is our report on the subject audit conducted by the Office of Inspector General (OIG) of the U.S. Environmental Protection Agency (EPA). This report contains findings that describe the problems the OIG has identified and corrective actions the OIG recommends. This report represents the opinion of the OIG and does not necessarily represent the final EPA position. Final determinations on matters in this report will be made by EPA managers in accordance with established audit resolution procedures.

The office responsible for implementing the recommendations is the Office of Acquisition Management, within the Office of Administration and Resources Management.

Action Required

In accordance with EPA Manual 2750, your office provided acceptable and complete planned corrective actions in response to OIG recommendations. All recommendations are resolved and no final response to this report is required.

We will post this report to our website at <http://www.epa.gov/oig>.

Table of Contents

Chapters

1	Introduction	1
	Purpose	1
	Background.....	1
	Noteworthy Achievements	3
	Scope and Methodology	4
2	EPA Not Participating in FSSI to the Greatest Extent Possible.....	6
	Policy Highlights the Importance of Leveraged Buying.....	6
	EPA Participation in FSSI Initiative Limited	6
	Fiscal Year 2011 FSSI Spend on Commodities Not a Total Representation of Actual Spend	7
	EPA Missing Out on FSSI Savings	8
	Recommendations	8
	Agency Response and OIG Evaluation.....	9
3	EPA Slow to Implement Strategic Sourcing	10
	Policy Issued on Implementing Strategic Sourcing.....	10
	EPA Slow in Implementing Strategic Sourcing	10
	Lack of Early Commitment to Strategic Sourcing Delayed Progress	11
	EPA Not Realizing Full Benefits of Strategic Sourcing	12
	Recommendations	12
	Agency Response and OIG Evaluation	13
	Status of Recommendations and Potential Monetary Benefits	14

Appendices

A	Agency Response to Draft Report.....	15
B	Distribution	19

Chapter 1

Introduction

Purpose

Given the increasing fiscal pressures facing the United States government, there has been a renewed focus on maximizing efficiencies in the procurement process to achieve cost savings. One such initiative is the use of strategic sourcing as outlined in the Federal Strategic Sourcing Initiative (FSSI).

The U.S. Environmental Protection Agency's (EPA's) Office of Inspector General (OIG) conducted this audit to determine whether the EPA is gaining efficiencies from federal strategic sourcing initiatives and if the EPA is identifying and taking advantage of opportunities to increase strategic sourcing in areas not covered by federal initiatives.

Background

Strategic sourcing is defined in the FSSI as “the collaborative and structured process of critically analyzing an organization’s spending and using this information to make business decisions about acquiring commodities and services more effectively and efficiently.” Because the federal government spends billions of dollars on goods and services, the Office of Management and Budget (OMB) issued a memorandum in May 2005 on implementing strategic sourcing. The memorandum explained the need to leverage spending to the maximum extent possible through strategic sourcing. OMB noted that strategic sourcing helps agencies optimize performance, minimize price, increase achievement of socio-economic acquisition goals, evaluate total life cycle management costs, improve vendor access to business opportunities, and otherwise increase the value of each dollar spent.

OMB required agencies to develop a spend analysis and to identify no fewer than three commodities (goods and services) that could be purchased more effectively and efficiently through the application of strategic sourcing. Each agency was required to develop a strategic sourcing plan. The memorandum also noted that, beginning in January 2006, the Chief Acquisition Officer shall report annually to OMB regarding, at a minimum: reductions in the prices of goods and services; reductions in the cost of doing business; improvements in performance; and changes in achievement of socio-economic acquisition goals at the prime contract and, if possible, subcontract level.

In response to OMB’s memorandum, the General Services Administration (GSA) issued multiple governmentwide procurement vehicles for commonly purchased commodities (GSA refers to these as solutions) so that agencies could place

orders against them. This initiative was referred to as FSSI. The common commodities were:

- Express and ground domestic delivery services.
- Office supplies.
- Telecommunications expense management services.¹
- Print management.

In 2007, OMB issued a follow-on memorandum encouraging agencies to focus on governmentwide solutions first. The memorandum advised agencies that when contemplating acquisitions for express and ground domestic delivery services, office supplies, telecommunications expense management, or printers and copiers, the GSA FSSI solutions should be used first.

EPA's Strategic Sourcing Program and Organizational Structure

The Assistant Administrator for the Office of Administration and Resources Management (OARM) formally initiated the EPA's strategic sourcing program on May 28, 2013. OARM provides national leadership, policy and management of many essential support functions for the agency, including acquisition activities. OARM's Office of Acquisition Management (OAM) is charged with overseeing EPA acquisitions.

OAM is responsible for planning, awarding and administering contracts for the agency, including issuing and interpreting acquisition regulations; administering training for contracting and program acquisition personnel; providing advice and oversight to regional procurement offices; and providing information technology improvements for acquisition. Under OAM, the Business Analysis and Strategic Sourcing service center was formed in 2011 and administers the strategic sourcing program. The purpose of the EPA's strategic sourcing program is to ensure improved efficiencies and economies in the agency's acquisition programs, and to ensure that acquisition programs deliver the best value for American taxpayers and the EPA. The long-term objective of the strategic sourcing program is to transform the EPA's acquisition process from a tactical and reactive function to a strategically driven function that ensures maximum value for every acquisition dollar spent. The plan has five objectives but has not yet been formally finalized. Those five objectives are:

- Reduce the total cost of ownership for acquired goods and services.
- Optimally leverage small and disadvantaged business participation.
- Standardize and streamline acquisition business processes.
- Improve visibility about acquired goods and services.
- Establish collaborative participation and support for strategic sourcing within the EPA.

¹ The telecommunications expense management services solution expired in July 2013.

Process Involved for Strategically Sourcing Commodities

Strategic sourcing can use differing strategies to acquire commodities more effectively and efficiently. Strategies include leveraged buying, demand analysis for altering buying behavior, and achieving efficiencies through standardized acquisition processes. The first step, however, begins with an opportunity assessment.

An opportunity assessment is an analysis of spending (spend analysis) and the identification of products and services for which strategic sourcing should be implemented. The process involves collecting, classifying and analyzing expenditure data to reduce procurement costs and improve efficiency. Typically, a spend analysis is conducted on a continual basis, and based on the results commodities are prioritized for future sourcing efforts. The prioritization factors in the amounts spent on commodities, potential savings that can be realized by strategically sourcing the commodity, and the degree of difficulty in sourcing the commodity. Once a commodity is identified and targeted for strategic sourcing, additional steps are taken during the process and extend past contract award. The figure below depicts the process of strategic sourcing at the EPA.



Source: The EPA's Draft Strategic Sourcing Plan, September 2013.

Noteworthy Achievements

OAM was tasked to conduct a study of the EPA's acquisition function with the objectives of realizing cost savings and increasing the efficiency and effectiveness of the acquisition function for all of EPA. The study, known as the Centers of Expertise in Contracting, details the challenges facing the EPA. The report identifies the value of strategic sourcing and estimates that, with a fully staffed strategic sourcing office of six to 10 staff, the EPA can achieve potential cost savings of \$30 to \$60 million each year. The report acknowledges the importance

of a collaborative approach and provides recommendations on how to achieve a more efficient and effective acquisition process. Currently, OAM is in the process of evaluating these recommendations for a path forward. Additionally, based on its fiscal year (FY) 2013 spend analysis, the EPA has identified seven commodities to potentially strategically source and is actively assessing each commodity for future strategic sourcing. Of those commodities, the EPA plans to continue using GSA's FSSI solution for office supplies. The seven commodities identified are:

- Remedial Actions.
- Student Services.
- Lab Supplies.
- Facilities Operations.
- Wireless Services.
- Conference Support Services.
- Office Supplies.

Scope and Methodology

We conducted this performance audit from December 2013 through June 2014 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

To gain an understanding of the federal initiative for strategic sourcing, we reviewed OMB strategic sourcing memorandums dating from 2005 to the most recent one issued on December 5, 2012. We then reviewed the EPA's strategic sourcing plan, internal guidance, and applicable subparts of the Federal Acquisition Regulation. Other documents that we reviewed were:

- Annual progress submissions to OMB detailing strategic sourcing activities.
- Reported savings based on usage of GSA's FSSI vehicles.
- Reported savings for the EPA strategically sourced vehicles, including the methods used in calculating the internal savings.
- EPA's FY 2011 spend analysis.
- All strategically sourced EPA Blanket Purchase Agreements (BPAs).

We interviewed pertinent headquarters contracting staff in OAM to determine how the EPA's strategic sourcing program is being implemented and overseen. We interviewed contracting staff at the regional levels to obtain a regional perspective of the EPA's strategic sourcing program. We interviewed the national

purchase card program manager, and several other staff involved with government purchase cards to evaluate the controls and policies in place for ordering strategically sourced items using a government purchase card. Additionally, we interviewed GSA officials to determine how the EPA is utilizing GSA's governmentwide FSSI vehicles, how savings are calculated when an order is placed, and any future initiatives that may impact the EPA.

There were no prior audits impacting the objectives of this assignment. Therefore, follow-up on past recommendations was not conducted.

Chapter 2

EPA Not Participating in FSSI to the Greatest Extent Possible

The EPA has only participated in two of the four FSSI solutions offered. Of the four solutions available—domestic delivery, office supplies, print management and wireless services solutions—the agency only participated in the office supplies and domestic delivery solutions. While the EPA’s FY 2012 report to OMB indicates substantial use of two FSSI solutions, the data did not include purchase card transactions from non-FSSI vendors. In 2007, OMB issued a policy memorandum stating that strategic business solutions that leverage the vast buying power of the federal government is a top priority of the acquisition community and to focus on governmentwide solutions first. It advised agencies that when contemplating acquisitions they should first consider those being offered under the FSSI initiative. The EPA stated it has not participated in all solutions because they either were not practicable or the agency already had existing contracts in place for those services. By not fully participating in the initiative, the EPA is not receiving the benefits of savings through volume discounts afforded under strategically sourced vehicles. The lack of participation also diminishes the total collective volume for a given solution that otherwise would benefit all agencies.

Policy Highlights the Importance of Leveraged Buying

OMB issued its initial strategic sourcing memorandum in May 2005. The memorandum explained the need to leverage spending to the maximum extent possible through strategic sourcing. It also stated that federal agencies are responsible for maximizing the value of each dollar and emphasized the need to purchase more effectively and efficiently through the application of strategic sourcing. In May 2007, OMB issued a follow-on memorandum stating that strategic business solutions that leverage the vast buying power of the federal government is a top priority for the acquisition community. The memorandum encouraged agencies to focus on governmentwide solutions and, when contemplating acquisitions, those offered under the FSSI initiative should be considered first.

EPA Participation in FSSI Initiative Limited

At the time our audit was conducted, we determined that the EPA had been participating in the office supplies and domestic delivery solutions since the 2007 memorandum, and was not participating in the print management and wireless

services solutions available governmentwide through the FSSI initiative.² Table 1 summarizes FY 2011 expenditures associated with the two solutions with which the EPA participated.

Table 1: EPA’s participation in FSSI solutions

Commodity description	FY 2011 total spending on commodity	FY 2011 amount spent through FSSI	FY 2011 % of total spending on commodity going through FSSI
FSSI Domestic Delivery 2	\$762,874	\$762,874	100%
FSSI Office Supplies	\$2,413,627	\$2,413,627	100%

Source: The EPA’s FY 2012 Acquisition Status Review Report.

The EPA did not participate in the FSSI solution for print management because it had end user service agreements in place for equipment that it already owned, and until recently the FSSI solution for print management did not have services for existing equipment. As a result, the EPA has been using internally placed contracts for these services. Additionally, the EPA stated that it has been negotiating lower pricing under its existing contract for print management and expects to finalize the modification to incorporate the new pricing in the near future.³

For wireless services, the EPA did not participate in this solution because it was not offered under the FSSI initiative until May 2013. Based on the Centers of Expertise in Contracting report—a study conducted from April 2012 to March 2013—the EPA had 48 contracts in place for wireless services. In reviewing its wireless service plans, the EPA stated it identified approximately 700 lines with zero usage and either disconnected or suspended those lines, for what it considers to be a potential cost savings of between \$400,000 and \$600,000 annually. The EPA is also developing plans to strategically place its own wireless contracts, once the existing ones expire, at what it says is better pricing than what the newly awarded FSSI solution is offering.

Fiscal Year 2011 FSSI Spend on Commodities Not a Total Representation of Actual Spend

While the information submitted to OMB for FY 2011 makes it appear that the EPA is fully utilizing the FSSI solutions for office supplies and domestic delivery, that is not actually the case. The EPA reported the amounts calculated and provided by GSA. However, that information only includes transactions ordered under the FSSI initiative—it does not include transactions the EPA made outside of the FSSI initiative, such as transactions made using the government purchase

² At the time of our audit there were four active FSSI solutions. The telecommunications management solution ended in 2013, while the wireless services solution began in 2013.

³ Since the modification has not been finalized, we were not able to conduct a price comparison analysis between the newly negotiated EPA rates or the rates contained in the newly awarded FSSI BPA.

card with non-FSSI vendors. For example, using the EPA's FY 2011 spend analysis, we identified approximately 38,000 transactions totaling more than \$5 million that were potentially related to office supplies. Conversely, the EPA reported \$2.4 million in its submission to OMB with all expenditures ordered directly against a strategically placed vehicle.

The EPA did not report all purchases for office supplies and domestic delivery services because it does not have the capability to link government purchase card transactions to specific BPAs in its systems. Currently, the only way to cross-reference purchase card transactions to specific BPAs is through logs maintained by each individual purchase card holder (for FY 2012, there were 1,370 active purchase card holders). These logs are held independently of each other and are not linked to a database. Given the large number of card holders, cross-referencing each transaction in this manner to ensure that an acquired commodity received the correct pricing is a daunting task.

EPA Missing Out on FSSI Savings

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

Additionally, the EPA does not have reasonable assurance that it is receiving the negotiated pricing established in the FSSI vehicles when government purchase cards are the method of payment. Until a system or method is developed to link these transactions, the EPA will not be able to perform in-depth analyses on spending, which could diminish its negotiating stance for future awards.

Recommendations

We recommend that the Assistant Administrator for Administration and Resources Management:

1. Develop a plan of action to strategically source wireless services and print management. If the plan is to source these commodities internally because it is not practicable under the FSSI initiative, perform a price comparison with established pricing under the FSSI solution(s) to ensure the best possible pricing is negotiated.
2. Develop a system or method to link purchase card transactions to BPAs.

Agency Response and OIG Evaluation

OARM agreed to take corrective action in response to recommendations 1 and 2 and provided completion dates of November 2014 and October 2014, respectively. We believe that the proposed corrective actions, along with the planned completion dates, meet the intent of the recommendations. These recommendations will remain open pending completion of the proposed corrective actions. The complete agency response to the draft audit report is in appendix A.

Chapter 3

EPA Slow to Implement Strategic Sourcing

Although OMB issued a policy memorandum on strategic sourcing in 2005 expressing the need for agencies to leverage strategic sourcing to the maximum extent possible, the EPA has been slow in implementing strategic sourcing. Crucial aspects, such as conducting spend analyses and developing controls to ensure maximum agency participation, were either not developed or not conducted timely. Additionally, to date the EPA has only strategically sourced one commodity. In OMB's 2005 memorandum, it explained the need to leverage spending to the maximum extent possible through strategic sourcing. The memorandum noted that strategic sourcing helps agencies optimize performance, minimize price, and otherwise increase the value of each dollar spent. Due to a lack of commitment in the initial stages of the initiative and by electing to proceed cautiously, the EPA has been missing out in cost saving opportunities and improved efficiencies in its procurement processes. According to the EPA, it could save \$30 to \$60 million annually by fully implementing its strategic sourcing program.

Policy Issued on Implementing Strategic Sourcing

OMB issued its initial strategic sourcing policy memorandum in May 2005. The memorandum explained the need to leverage spending to the maximum extent possible through strategic sourcing. OMB also noted that strategic sourcing helps agencies optimize performance, minimize price, increase achievement of socio-economic acquisition goals, evaluate total life cycle management costs, improve vendor access to business opportunities, and otherwise increase the value of each dollar spent. The memorandum required agencies to develop a spend analysis and to identify no fewer than three commodities that could be purchased more effectively and efficiently through the application of strategic sourcing. It also required that each agency develop a strategic sourcing plan with the following elements: (1) strategic sourcing governance, (2) goals and objectives, (3) performance measures, (4) communication strategy, and (5) training strategy.

EPA Slow in Implementing Strategic Sourcing

Although OMB issued a memorandum on strategic sourcing in 2005 requiring federal agencies to enhance strategic sourcing efforts, the EPA has been slow in implementing a program. The approach taken in implementing its efforts was cautious—to act as experience was gained. This tactic was communicated in the EPA's 2006 Annual Strategic Sourcing Progress Report, which stated:

The EPA's vision is to proceed cautiously and learn from these initial endeavors. As experience is gained and successes are

achieved, the agency will expand the program to include additional commodities. The EPA's strategic sourcing team will continue to conduct opportunity analyses for the next phase of strategically sourcing commodities. Additionally, the agency will closely follow the FSSI efforts related to copiers, cell phone service, domestic delivery services and IT hardware.

While the 2006 annual progress report stated that EPA would expand the program, it was not until May 28, 2013, that the program was formally initiated. While the EPA developed a draft strategic plan and has been following the draft in the interim, as of May 2014 the strategic plan had not been finalized or approved. Furthermore, the EPA did not conduct its first comprehensive spend analysis until June 2012 and it was not until March 2014 that the EPA completed its next spend analysis for FYs 2012 and 2013.

Since OMB's 2005 memorandum, the EPA has only strategically sourced one commodity. On March 12, 2008, the EPA awarded two BPAs for laboratory supplies. However, those BPAs were allowed to expire in March 2013 without follow-on vehicles being issued. As a result, as of June 2014, the EPA did not have the ability to leverage its buying power with regard to laboratory supplies.

Additionally, the strategically sourced BPAs were not used for the majority of laboratory supply purchases. In 2012, the EPA reported to OMB that a total of \$24,665,889 had been expended for laboratory supplies in FY 2011. Of that, the EPA reported that 37 percent, or \$9,126,379, was expended through strategically sourced vehicles. In analyzing the two strategically sourced BPAs, we determined that neither BPA had an obligation history associated with it in the EPA's financial system. After obtaining and reviewing the calculations the EPA submitted for its reporting purposes, we could not substantiate the total expenditures or the expenditures reported through the use of a strategically sourced vehicle because the transactions were made via government purchase cards. As discussed in chapter 2, government purchase card transactions cannot be linked to a particular BPA in EPA systems. As such, the EPA does not have reasonable assurance that it ever received the negotiated pricing contained in the two BPAs.

Lack of Early Commitment to Strategic Sourcing Delayed Progress

The EPA has been slow in implementing strategic sourcing due to a lack of commitment in the initial stages of the initiative and by electing to proceed cautiously as experience is gained. Prior to 2011, no specific office or service center was tasked with implementing strategic sourcing, which contributed to the EPA's lack of a unified, cohesive effort in implementing its program agencywide.

In addition, the EPA has provided limited direction to and communication with regional contracting and program offices. Although the EPA's strategic sourcing

plan has a communications strategy, the EPA's dissemination of information in this area has been inadequate. In meeting with staff from one EPA region, we were told that the communication on strategic sourcing is not at the levels needed to ensure an effective program, and when communication was provided it was usually repetitive in nature. Since virtually all aspects of strategic sourcing are centered in headquarters and because there are no regional points of contact, the program may be unable to fully develop and accommodate regional needs.

The EPA did not have controls, such as purchase card restrictions, in place to monitor the usage of its strategically placed laboratory supplies BPAs. Consequently, as reported in EPA's annual progress report, those BPAs accounted for just 37 percent of all laboratory supplies that EPA purchased in FY 2011.

Another contributing factor impeding the program is a lack of resources. Despite the fact that the EPA's Centers of Expertise in Contracting report indicated that six to 10 staff members were needed to fully operate the program, there are currently only two full-time staff members assigned to carry out the day-to-day operations of strategic sourcing. Due to minimal staff, critical aspects—such as conducting spend analyses and developing controls for vehicle usage—were not developed or conducted in a timely manner.

EPA Not Realizing Full Benefits of Strategic Sourcing

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. By not fully developing its strategic sourcing program in the initial stages of the initiative, the EPA has been missing out in cost saving opportunities and improved efficiencies in its procurement processes. The EPA's Centers of Expertise in Contracting Study estimated that the EPA could save \$30 to \$60 million annually by fully implementing its strategic sourcing program. However, the EPA will not realize these potential cost savings unless a greater emphasis is placed on strategic sourcing. We believe these are funds that could be put to better use if strategic sourcing were fully implemented.

Recommendations

We recommend that the Assistant Administrator for Administration and Resources Management, to achieve the estimated \$30 to \$60 million in annual cost savings:

3. Develop and implement policies and procedures to ensure that controls are in place so that all strategically sourced vehicles are utilized unless a valid exception is justified.

4. Develop a collaborative approach to strategic sourcing to best ensure ideas from all contracting and program offices are considered agencywide and strategic sourcing activities are implemented in a uniform manner.
5. Evaluate OAM priorities and determine whether resources can be allocated from lower priority work to the strategic sourcing program.
6. Increase awareness of the strategic sourcing program by:
 - a. Developing and assigning regional points of contact.
 - b. Developing informational packets to be disseminated to headquarters and regional offices to ensure that all acquisition personnel, including purchase card holders and approvers, are adequately informed on the strategic sourcing requirements and initiatives.
7. Approve and finalize a strategic sourcing plan, by the Chief Acquisition Officer, that will be administered agencywide.

Agency Response and OIG Evaluation

OARM agreed to take corrective action in response to recommendations 3 through 7 and provided a completion date of December 2014 for recommendation 3, and a completion date of October 2014 for recommendations 4 through 7. We believe that the proposed corrective actions, along with the planned completion dates, meet the intent of the recommendations. These recommendations will remain open pending completion of the proposed corrective actions. The complete agency response to the draft audit report is in appendix A.

Status of Recommendations and Potential Monetary Benefits

RECOMMENDATIONS						POTENTIAL MONETARY BENEFITS (in \$000s)	
Rec. No.	Page No.	Subject	Status ¹	Action Official	Planned Completion Date	Claimed Amount	Agreed-To Amount
1	8	Develop a plan of action to strategically source wireless services and print management. If the plan is to source these commodities internally because it is not practicable under the FSSI initiative, perform a price comparison with established pricing under the FSSI solution(s) to ensure the best possible pricing is negotiated.	O	Assistant Administrator for Administration and Resources Management	11/30/14		
2	8	Develop a system or method to link purchase card transactions to BPAs.	O	Assistant Administrator for Administration and Resources Management	10/31/14		
3	12	Develop and implement policies and procedures to ensure that controls are in place so that all strategically sourced vehicles are utilized unless a valid exception is approved.	O	Assistant Administrator for Administration and Resources Management	12/31/14		
4	13	Develop a collaborative approach to strategic sourcing to best ensure ideas from all contracting and program offices are considered agencywide and strategic sourcing activities are implemented in a uniform manner.	O	Assistant Administrator for Administration and Resources Management	10/31/14	\$60,000	\$60,000
5	13	Evaluate OAM priorities and determine whether resources can be allocated from lower priority work to the strategic sourcing program.	O	Assistant Administrator for Administration and Resources Management	10/31/14		
6	13	Increase awareness of the strategic sourcing program by: <ul style="list-style-type: none"> a. Developing and assigning regional points of contact. b. Developing informational packets to be disseminated to headquarters and regional personnel to ensure that all acquisition personnel, including purchase card holders and approvers, are adequately informed on the strategic sourcing requirements and initiatives. 	O	Assistant Administrator for Administration and Resources Management	10/31/14		
7	13	Approve and finalize a strategic sourcing plan, by the Chief Acquisition Officer, that will be administered agencywide.	O	Assistant Administrator for Administration and Resources Management	10/31/14		

¹ O = Recommendation is open with agreed-to corrective actions pending.
C = Recommendation is closed with all agreed-to actions completed.
U = Recommendation is unresolved with resolution efforts in progress.

Agency Response to Draft Report

July 24, 2014

MEMORANDUM

SUBJECT: Response to Office of Inspector General Draft Audit Report No. OA-FY14-0070 "Increased Emphasis on Strategic Sourcing Can Result in Substantial Savings to EPA," dated June 13, 2014

FROM: Craig E. Hooks, Assistant Administrator

TO: Janet Kasper, Director
Contract and Assistant Agreement Audits
Office of the Inspector General

Thank you for the opportunity to respond to the issues and recommendations raised in the Office of Inspector General Draft Audit Report No. OA-FY14-0070 "Increased Emphasis on Strategic Sourcing Can Result in Substantial Cost Savings for EPA" dated June 13, 2014. The Office of Administration and Resources Management agrees with audit findings, and for all recommendations we have provided corrective actions and completion dates in Attachment 1 hereto.

If you have any questions regarding this response, please contact John Bashista, Director, Office of Acquisition Management at 202-564-4310 or Lisa Maass, OAM's Audit Follow-up Coordinator, at 202-564-2498.

Attachment

ATTACHMENT I-RECOMMENDATION DISCUSSION

Recommendation #1: Develop a plan of action to strategically source wireless services and print management. If the plan is to source these commodities internally because it is not practicable under the Federal Strategic Sourcing Initiative (FSSI) initiative, perform a price comparison with established pricing under the FSSO solution(s) to ensure the best possible pricing is negotiated.

OARM agrees with this recommendation. OARM began the process of strategically sourcing the agency's wireless services in FY13. Part of that process included performing a price comparison between the Federal Strategic Sourcing Initiative and the negotiated rates under EPA's existing contracts for these commodities. In the 3rd quarter of FY14, OARM finalized renegotiation of its agreements with AT&T and Verizon at rates better than those currently available through FSSI. Those changes are currently in the process of being rolled out, and should be completed by November 2014.

OARM renegotiated its print contract in March 2014 to reflect industry-wide structure (black and white vs. color) and the rates are now lower than FSSI's offering. Since previously FSSI did not offer rates for agency-owned equipment, FSSI pricing was not comparable since EPA owns its equipment. As a result, EPA did not consider FSSI pricing in the past. Additionally, a memorandum to encourage changes in behavior including reduced printing, and reduced color printing, double-sided printing, and less desk-top printing will be distributed agency-wide. In August 2014, OARM anticipates establishing an agency-wide Print Commodity Team to determine the best approaches for managing both ongoing and future additional strategic sourcing printing efforts at EPA.

Recommendation #2: Develop a system or method to link purchase card transactions to BPAs.

OARM agrees with this recommendation. OARM is in the process of implementing PaymentNet agency-wide. This automated purchase card system has a robust electronic purchase log feature which includes a drop down button and comment box allowing users to note whether the transaction was made using a Blanket Purchase Agreement. If a BPA was used, the BPA number must be annotated. Conversely, if a BPA was not used and should have been, cardholders will be required to justify why in the comment section of the purchase log. This process will enable EPA to validate data already being captured via GSA FSS and other agency-wide BPAs. Additionally, PNET will provide cardholders with uniform platform for recoding justification for non-use of agency-wide strategic sourcing purchasing vehicles. The PNET system will be deployed and will be mandatory for all purchase card users effective October 2014.

Recommendation #3: Develop and implement policies and procedures to ensure that controls are in place so that all strategically sources vehicles are utilized unless a valid exception is approved.

OARM agrees with this recommendation. OARM is currently in the process of developing a policy to make strategically sourced vehicles mandatory, if appropriate, depending on the goods or services required and the sourcing strategy used. This policy will include an exception process requiring users to justify reasons for not using a strategically sourced vehicle, although in some

cases, the justification may be an exception for usage set forth in the contract vehicle. This policy document will be published agency-wide by December 2014.

Recommendation #4: Develop a collaborative approach to strategic sourcing to best ensure ideas from all contracting and program offices are considered agency-wide and strategic sourcing activities are implemented in a uniform manner.

OARM agrees with this recommendation. OARM has developed, vetted, and finalized an agency-wide Strategic Sourcing Plan which includes specific processes, roles, and responsibilities to ensure a strong collaborate approach. This Strategic Sourcing Plan will be disseminated across the agency by October 2014.

Recommendation #5: Evaluate OAM priorities and determine whether resources can be allocated from lower priority work to the strategic sourcing program.

OARM agrees with this recommendation. OARM/OAM is in the process of conducting a reorganization through which it will better align its personnel and functions to support the accomplishment of the agency's mission. As a part of this process, OARM/OAM agrees to evaluate whether resources can be allocated from lower priority work to the strategic sourcing program. The reorganization is to be completed by October 2014.

Recommendation #6: Disseminate broader awareness of the program by:

- a. Developing and assigning regional points of contact.
- b. Developing informational packets to be disseminated to regional personnel to ensure that all acquisition personnel, including purchase card holders and approvers, are adequately informed on the strategic sourcing requirements and initiatives.

OARM agrees with these recommendations. OARM is developing a communications and marketing plan for the strategic sourcing program. Formal implementation will begin by October 2014. This plan will include headquarters and regional stakeholders for each commodity, as applicable.

Recommendation #7: Approval and finalize a strategic sourcing plan, by the Chief Acquisition officer, that will be administered Agency-wide.

OARM agrees with this recommendation. OARM has developed, vetted, and finalized an agency-wide Strategic Sourcing Plan which includes specific processes, roles, and responsibilities to ensure a strong collaborate approach. The Strategic Sourcing Plan will be disseminated across the agency by October 2014.

Distribution

Office of the Administrator
Assistant Administrator for Administration and Resources Management
Agency Follow-Up Official (the CFO)
Agency Follow-Up Coordinator
General Counsel
Associate Administrator for Congressional and Intergovernmental Relations
Associate Administrator for External Affairs and Environmental Education
Principal Deputy Assistant Administrator, Office of Administration and Resources Management
Director, Office of Acquisition Management, Office of Administration and Resources
Management
Director, Office of Policy and Resource Management, Office of Administration and
Resources Management
Deputy Director, Office of Policy and Resource Management, Office of Administration and
Resources Management
Director, Office of Regional Operations
Audit Follow-Up Coordinator, Office of Administration and Resources Management