



January 2014

# STRATEGIC SOURCING

Selected Agencies  
Should Develop  
Performance  
Measures on  
Inclusion of Small  
Businesses and OMB  
Should Improve  
Monitoring

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### Selected Agencies Should Develop Performance Measures on Inclusion of Small Businesses and OMB Should Improve Monitoring

#### Why GAO Did This Study

Since 2005, OMB has emphasized using strategic sourcing to improve efficiency in federal procurement. Strategic sourcing is a process that moves an organization away from numerous individual procurements toward a broader aggregate approach. GAO was asked to review how strategic sourcing affects small businesses, including small disadvantaged businesses. This report discusses (1) how OMB, GSA, and selected agencies have considered small businesses in their strategic sourcing efforts and (2) the extent to which data and performance measures are available on the inclusion of small businesses in strategic sourcing initiatives. GAO reviewed guidance and documentation from OMB, GSA, and five other agencies selected based on factors such as dollars awarded to small businesses. GAO also reviewed GSA data as of 2013, DHS data from fiscal year 2005 through the first quarter of fiscal year 2013, and agency reports from fiscal years 2005 to 2012.

#### What GAO Recommends

GAO makes recommendations to GSA, selected agencies, and OMB to improve data collection and performance measures related to the inclusion of small businesses in strategic sourcing. DOD, DHS, GSA, HUD, and OMB agreed with GAO's recommendation. Interior partially agreed, suggesting that a more effective approach would be to work with OMB and other agencies to develop common approaches. NASA disagreed, stating it already tracks related spending for the agency. GAO believes its recommendations remain valid as discussed in the report.

View [GAO-14-126](#). For more information, contact William B. Shear at (202) 512-8678 or [shearw@gao.gov](mailto:shearw@gao.gov).

#### What GAO Found

The Office of Management and Budget (OMB), the General Services Administration (GSA), and selected agencies have taken steps to consider small businesses, including small disadvantaged businesses, in their strategic sourcing efforts. (Small disadvantaged businesses are those unconditionally owned and controlled by socially and economically disadvantaged individuals.) OMB and GSA have developed guidance on strategic sourcing that stresses the importance of including small businesses. GAO's review of documentation for three ongoing government-wide strategic sourcing initiatives showed that GSA considered the inclusion of small businesses in the strategic sourcing process. For example, when developing strategic sourcing initiatives for office supplies and print management, GSA identified the current market share of small businesses with these products and also set aside specific contracts for various categories of small businesses, such as service-disabled veteran-owned small businesses. In addition, GAO's review of agency-wide strategic sourcing initiatives at each of five agencies—Departments of Defense (DOD), specifically Army and the Defense Logistics Agency; Homeland Security (DHS); Housing and Urban Development (HUD); and the Interior and the National Aeronautics and Space Administration (NASA)—showed that the agencies generally considered the inclusion of small businesses.

Data and performance measures that would provide a more precise understanding of the inclusion of small and disadvantaged businesses in strategic sourcing initiatives are limited. Although GSA has collected baseline data on proposed government-wide initiatives, it has not developed a performance measure to determine changes in small business participation going forward. Further, DHS has collected some data on contracts awarded to small businesses under strategic sourcing initiatives, but it and the other agencies in GAO's review generally did not have baseline data and performance measures to determine how small businesses were affected by strategic sourcing. OMB guidance requires agencies to establish baselines for small business participation prior to implementing strategic sourcing and set goals for small business participation. In addition, federal internal control standards state that information is needed to determine whether the agency is achieving its compliance requirements under various laws and regulations. Without baseline data and performance measures, the effect of strategic sourcing initiatives on small businesses will be difficult to determine. Moreover, OMB has not monitored agencies' compliance in reporting baseline data and performance measures on the inclusion of small businesses in government-wide and agency-wide strategic sourcing initiatives. OMB required agencies to submit annual reports on the implementation of strategic sourcing from fiscal years 2005 through 2007 and prepare information for acquisition status sessions from fiscal years 2010 through 2012. (No reporting was in place for fiscal years 2008 or 2009.) However, virtually none of this information included baseline data or measures of the effect of strategic sourcing on small businesses. Federal internal control standards state that effective monitoring should assess the quality of performance over time. Without effective monitoring, it will be difficult for OMB to help ensure that agencies are tracking the impact of strategic sourcing on small businesses.

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### **Abbreviations**

DHS	Department of Homeland Security
DLA	Defense Logistics Agency
DOD	Department of Defense
FPDS-NG	Federal Procurement Data System-Next Generation
FSSI	Federal Strategic Sourcing Initiative
GSA	General Services Administration
HUBZone	Historically Underutilized Business Zone
HUD	Department of Housing and Urban Development
NASA	National Aeronautics and Space Administration
OMB	Office of Management and Budget
OSDBU	Office of Small and Disadvantaged Business Utilization
SBA	Small Business Administration

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January 23, 2014

The Honorable Mary L. Landrieu  
Chair  
Committee on Small Business and Entrepreneurship  
United States Senate

The Honorable Bennie G. Thompson  
Ranking Member  
Committee on Homeland Security  
House of Representatives

In fiscal year 2012, the federal government obligated approximately \$517 billion for products and services, approximately \$100 billion of which was obligated to small businesses. Since 2005, the Office of Management and Budget (OMB) has put increased emphasis on making federal procurement more efficient and achieving greater cost savings for the taxpayer through strategic sourcing. Strategic sourcing is a process—sometimes led by a central procurement organization—that moves an organization away from numerous individual procurements for the same or similar products or services toward a broader aggregate approach. The benefits of strategic sourcing can include cost savings and less duplication of effort. However, because strategic sourcing can reduce the number of available contracting opportunities, some members of the small business community are concerned that small businesses may be negatively affected.

Given these views, you requested that we review how strategic sourcing has affected small businesses. This report discusses (1) the ways in which OMB and the General Services Administration (GSA) have considered small businesses in their strategic sourcing guidance and GSA and selected agencies have considered small businesses in their strategic sourcing initiatives and (2) the extent to which data and performance measures are available on the inclusion of small businesses in government-wide and selected agencies' internal strategic sourcing initiatives. Small businesses include those unconditionally owned and controlled by socially and economically disadvantaged individuals (small disadvantaged businesses).

To describe the ways in which OMB, GSA, and selected agencies have considered various categories of small businesses in their strategic sourcing guidance and efforts, we reviewed OMB and GSA guidance on

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strategic sourcing.<sup>1</sup> We also reviewed documentation on three government-wide strategic sourcing initiatives managed by GSA (domestic delivery services, office supplies, and print management) to determine steps taken to consider small businesses.<sup>2</sup> At selected agencies, we reviewed guidance on strategic sourcing and documentation on a sample of specific initiatives to determine how small businesses were considered in the strategic sourcing process.<sup>3</sup> The selected agencies included in our review were the Departments of Defense (DOD), specifically the Department of the Army (Army) and the Defense Logistics Agency (DLA); Homeland Security (DHS); Housing and Urban Development (HUD); and the Interior (Interior) and the National Aeronautics and Space Administration (NASA). We selected these agencies to ensure a range of agencies based on the dollars they awarded to small businesses in fiscal year 2012, the extent to which they had adopted strategic sourcing, scores on the Small Business Administration's (SBA) procurement scorecards in fiscal years 2010 and 2011, and membership in the Strategic Sourcing Leadership Council.<sup>4</sup> Finally, we interviewed officials from OMB, GSA, SBA, and selected agency procurement offices and Offices of Small and Disadvantaged

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<sup>1</sup>We included OMB in our scope because it includes the Office of Federal Procurement Policy and is the agency responsible for issuing guidance on strategic sourcing and approving government-wide strategic sourcing initiatives. We included GSA because it is the lead agency for most government-wide strategic sourcing initiatives.

<sup>2</sup>We selected the three initiatives that had been implemented by fiscal year 2012 and that were ongoing at the time of our review. The domestic delivery services initiative offers delivery service for small packages. The office supplies initiative offers a catalogue of consumable office supplies. The print management initiative reduces equipment needed for printing, copying, scanning, and faxing. GSA has implemented multiple versions of some of these initiatives. For the purposes of this report, we generally focused on the second generations of the domestic delivery services and office supplies initiatives and functional areas I and II of the print management initiative because these were the versions ongoing at the time of our review. We did not select the telecommunications expense management services initiative, which involved wireless rate plans, because it expired in July 2013. We do not discuss GSA's current wireless initiative because it was awarded in May 2013.

<sup>3</sup>We chose a purposive, nonrandom sample of strategic sourcing initiatives based on factors such as timing of the initiative, inclusion of small businesses, and commodity type.

<sup>4</sup>As discussed later in this report, the Strategic Sourcing Leadership Council was created in December 2012 and consists of the seven largest procurement agencies and SBA. The council was charged with leading the government's efforts to increase the use of strategic sourcing.

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Business Utilization about the extent to which the agencies have considered small businesses in the implementation of strategic sourcing.

To evaluate the extent to which data and performance measures were available on the inclusion of small businesses in government-wide and selected agencies' internal strategic sourcing initiatives, we reviewed the data elements in the Federal Procurement Data System-Next Generation (FPDS-NG) to determine if there were data on strategic sourcing. In addition, we analyzed GSA data as of 2013 on government-wide strategic sourcing initiatives. We also determined whether GSA had taken steps to track the effect of recently proposed strategic sourcing initiatives on small businesses by reviewing relevant documentation on these initiatives. In addition, we reviewed documentation at the selected agencies to identify any data and performance measures that track the inclusion of small businesses. This documentation included a strategic sourcing dashboard from DHS that contained data on its initiatives from fiscal year 2005 through the first quarter of fiscal year 2013. We assessed the reliability of data from FPDS-NG, GSA, and DHS by interviewing knowledgeable officials, reviewing documents about the sources of the data, and comparing selected data to other sources and determined they were sufficiently reliable for the purpose of reporting government-wide and agency strategic sourcing spending. We compared available data and performance measures to OMB's guidance and federal internal control standards.<sup>5</sup> Further, we interviewed OMB, GSA, SBA, and selected agency officials about current and planned efforts to collect data and track performance measures on strategic sourcing and the inclusion of small businesses. Appendix I contains additional information on our scope and methodology.

We conducted this performance audit from February 2013 to January 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.

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<sup>5</sup>GAO, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: November 1999).

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## Background

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### Small Business

The federal government has a long-standing policy of maximizing procurement opportunities for small businesses, including small disadvantaged businesses. To encourage the award of federal contracts to small businesses, Congress has set an annual government-wide goal of awarding not less than 23 percent of prime contract dollars to small businesses. SBA negotiates specific goals with each agency to help ensure that the federal government collectively meets this statutory goal. In addition, Congress has established statutory goals for various socioeconomic categories of small businesses. The current goals are

- 5 percent of prime contract and subcontract dollars are to be awarded to women-owned small businesses,
- 5 percent of prime contract and subcontract dollars are to be awarded to small disadvantaged businesses,<sup>6</sup>
- 3 percent of prime contracts and subcontract dollars are to be awarded to service-disabled veteran-owned small businesses, and
- 3 percent of prime contract and subcontract dollars are to be awarded to small businesses in Historically Underutilized Business Zones (HUBZone).<sup>7</sup>

To increase small businesses' visibility within federal agencies, in 1978 Congress amended the Small Business Act to require that all federal agencies with procurement powers establish an Office of Small and Disadvantaged Business Utilization (OSDBU), which would advocate for

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<sup>6</sup>SBA defines a small disadvantaged business as a firm that is 51 percent or more unconditionally owned and controlled by one or more disadvantaged persons. The disadvantaged person or persons must be both socially and economically disadvantaged.

<sup>7</sup>SBA's HUBZone program helps small businesses located in designated urban and rural communities gain preferential access to federal procurement opportunities.



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small businesses within the agencies.<sup>8</sup> The OSDBU is managed by a director who is responsible for implementing and executing the agency's functions and duties related to the award of contracts and subcontracts to small and disadvantaged businesses. The Small Business Act lists a number of functions that OSDBU directors are responsible for carrying out, including making recommendations to contracting officers as to whether particular contract requirements should be set aside for small businesses.<sup>9</sup> Procurement staff in most agencies also include small business specialists, who are responsible for working with OSDBUs and agency contracting officers to advocate for small businesses.

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## Strategic Sourcing

In general, a strategic sourcing effort begins with an opportunity assessment—an analysis of spending (spend analysis) and the identification of products and services for which strategic sourcing should be implemented. Spend analysis provides knowledge about how much is being spent for which products and services, who the buyers are, who the suppliers are, and where the opportunities are for leveraged buying and other tactics to save money and improve performance. Data on spending are analyzed on a continual basis to support decisions on strategic sourcing and procurement management in areas such as cutting costs and streamlining operations. Based on this analysis, organizations evaluate and prioritize commodities to create a list of top products or services to target for strategic sourcing. This list typically includes the products or services on which most of the organization's spending is focused. In addition to spending, criteria such as potential savings and relative ease of implementation are considered. Once a product or service is selected for strategic sourcing, a general process is followed that includes steps such as developing, implementing, and managing the sourcing strategy for that product or service. A strategic sourcing initiative can involve multiple contracts.

Recognizing the benefits of strategic sourcing, OMB issued a memorandum in 2005 that directed federal agencies to develop and

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<sup>8</sup>Pub. L. No. 95-507, § 221, 92 Stat. 1757, 1770 (1978). Several agencies in our review do not use the term OSDBU. For example, DOD refers to its OSDBU as the Office of Small Business Programs. For simplicity, we use the term OSDBU for all agencies in our study. Some components within DOD, such as the Army and DLA, have their own OSDBU.

<sup>9</sup>The purpose of small business set-asides is to award certain acquisitions (either total or partial acquisitions) exclusively to small businesses. A small business set-aside may be open to all small businesses or to a particular socioeconomic category.

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implement a strategic sourcing effort to help control spending. This memorandum defined strategic sourcing 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.” According to the memorandum, the process helps agencies optimize performance, minimize price, increase achievement of socioeconomic acquisition goals, evaluate total life-cycle management costs, improve vendor access to business opportunities, and otherwise increase the value of each dollar. The memorandum also stated that any strategic sourcing plan must be balanced with goals for small businesses. Finally, the memorandum required agencies to identify at least three commodities that could be strategically sourced and develop agency-wide strategic sourcing plans to implement their strategic sourcing programs.

In subsequent memorandums, OMB offered further guidance on implementing strategic sourcing. Most recently, in December 2012 OMB issued a memorandum reiterating the importance of strategic sourcing and emphasizing that to the extent practicable, all strategic sourcing opportunities should seek to increase participation by small businesses. In addition, the guidance created a new Strategic Sourcing Leadership Council consisting of the seven largest procurement agencies and SBA.<sup>10</sup> The council was charged with leading the government’s efforts to increase the use of strategic sourcing. OMB’s guidance related to strategic sourcing and small businesses is discussed in greater detail in the next section of this report.

In addition to individual agency efforts, a government-wide strategic sourcing program known as the Federal Strategic Sourcing Initiative (FSSI) was established in 2005 as a direct result of the OMB memorandum. FSSI was created to address government-wide opportunities to strategically source commonly purchased products and services and eliminate duplication of efforts across agencies. The Office of Federal Procurement Policy—the office within OMB assigned to

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<sup>10</sup>The seven largest procurement agencies included in the Strategic Sourcing Leadership Council are the Departments of Defense, Energy, Health and Human Services, Homeland Security, and Veterans Affairs; GSA; and NASA. The predecessor to the council was the Strategic Sourcing Working Group chartered by the Chief Acquisition Officers Council to serve as a working group to facilitate collaboration on strategic sourcing across the federal government to drive savings and process improvements and achieve increased participation by small businesses, including those in various socioeconomic categories.

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oversee the FSSI program—is ultimately responsible for providing oversight and guidance, as well as ensuring the overall effectiveness of FSSI. In addition, there is an FSSI Program Management Office located within GSA. The mission of the FSSI program is to encourage agencies to aggregate contract requirements, streamline processes, and coordinate purchases of like products and services to leverage spending to the maximum extent possible. Four government-wide initiatives had been implemented as of fiscal year 2012: office supplies, print management, telecommunications expense management services, and domestic delivery services.<sup>11</sup> Office supplies offers a catalogue of consumable office supplies; print management reduces equipment needed for printing, copying, scanning, and faxing; telecommunications expense management services works to optimize wireless telecommunications expenses and plan selection; and domestic delivery services offers delivery service for small packages.

We have previously reported on strategic sourcing. For example, we found in September 2012 that the agencies we reviewed—DOD, DHS, and the Departments of Veterans Affairs and Energy—leveraged only a fraction of their buying power through strategic sourcing and achieved limited savings.<sup>12</sup> We made a number of recommendations, including that DOD and the Department of Veterans Affairs evaluate the best ways to strategically source their highest spending categories. These agencies agreed with the recommendation and have since told us that they are analyzing spending data. However, they had not completed this analysis as of August 2013. We also found that a few agencies had experienced challenges in meeting requirements unique to government procurements, such as meeting small business goals. However, while acknowledging that reducing the number of vendors providing a product or service means that some vendors will be unable to participate, agency officials reported finding ways to conduct strategic sourcing efforts that allow for maximum feasible small business participation.

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<sup>11</sup>We do not discuss the telecommunications expense management services initiative in this report because it expired in July 2013.

<sup>12</sup>GAO, *Strategic Sourcing: Improved and Expanded Use Could Save Billions in Annual Procurement Costs*, [GAO-12-919](#) (Washington, D.C.: Sept. 20, 2012). At DOD, the review included four components: Air Force, Army, DLA, and Navy.

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## OMB, GSA, and Selected Agencies Have Taken Steps to Consider Small Businesses in Their Strategic Sourcing Efforts

OMB and GSA have developed guidance on strategic sourcing that emphasizes the importance of including small businesses and small disadvantaged businesses. In addition, our review of documentation for three ongoing government-wide strategic sourcing initiatives showed that GSA considered the inclusion of small and disadvantaged businesses in the strategic sourcing process. Our review of agency-wide strategic sourcing initiatives at each of five agencies showed that the agencies also generally considered the inclusion of small and disadvantaged businesses.

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## OMB and GSA Have Issued Guidance on Strategic Sourcing That Addresses the Importance of Including Small Businesses

Both OMB and GSA have issued guidance on strategic sourcing that discusses the importance of including small businesses and small disadvantaged businesses. Since 2005, OMB's Office of Federal Procurement Policy has issued five memorandums on carrying out strategic sourcing:

- *2005 memorandum*: This memorandum laid out the general framework for establishing and implementing agency-wide strategic sourcing programs. The memorandum called for the creation of a strategic sourcing governance structure, goals (including small business goals), and performance measures, among other things. It also indicated that agencies should develop baseline data on such factors as small business spending and report annually on changes in relation to the baseline.
- *2007 memorandum*: This memorandum listed some accomplishments or "best practices" from selected agencies' strategic sourcing initiatives, including some involving small businesses. For example, the memorandum noted that DOD reported in fiscal year 2006 that 41 percent of \$4.3 billion awarded through strategic sourcing went to small businesses. The memorandum also strongly encouraged agencies to participate in government-wide initiatives, such as the office supplies initiative.
- *December 2006 and March 2008 memorandums*: These memorandums provided guidance on the information that should be included in annual strategic sourcing reports for fiscal years 2006 and 2007, respectively. The memorandums asked agencies to provide, among other things, goals and performance measures used to assess the agencies' strategic sourcing activity and the methodologies used

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to calculate them. The goals and measures generally were to include the impact on small business.

- *2012 memorandum*: This memorandum established the Strategic Sourcing Leadership Council to lead the government's efforts to increase the use of government-wide strategic sourcing of goods and services. SBA was included in the council because of the role small businesses play in federal procurement. The memorandum required the designation of a Strategic Sourcing Accountable Official at 24 agencies to coordinate agencies' internal strategic sourcing activities.<sup>13</sup> It also placed added responsibilities on GSA to promulgate requirements, regulations, and best practices for acquiring and using strategic sourcing initiatives, among other things. In addition, the memorandum stated that to the maximum extent practicable, all strategic sourcing opportunities should seek to increase participation by small businesses and that all proposed agreements must establish a baseline for small business use under current strategies and set goals to meet or exceed that baseline under the new vehicles.

GSA issued guidance (an FSSI Concept of Operations) in May 2008 on the structure, management, and operations of government-wide strategic sourcing initiatives. For example, the guidance suggested that in the governance of strategic sourcing initiatives, a small business representative, such as an OSDBU official or small business specialist, be involved early to ensure that small businesses' concerns are addressed throughout the process. GSA's guidance sets out four core goals for government-wide strategic sourcing initiatives. One of the goals is to establish mechanisms to increase savings, value, and socioeconomic participation. More specifically, the goal is to minimize the total cost for the federal government while ensuring the utilization of small businesses and the fulfillment of socioeconomic goals by matching small business capabilities to the government's requirements. The guidance calls for a performance measure that measures the total small business

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<sup>13</sup>These 24 agencies are those subject to the Chief Financial Officers Act of 1990. Pub. L. No. 101-576, 104 Stat. 2838 (1990). The 24 agencies are DOD; DHS; HUD; the Departments of Agriculture, Commerce, Education, Energy, Health and Human Services, the Interior, Justice, Labor, State, Transportation, the Treasury, and Veterans Affairs; the Environmental Protection Agency; NASA; the Agency for International Development; GSA; the National Science Foundation; the Nuclear Regulatory Commission; the Office of Personnel Management; SBA; and the Social Security Administration.

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and socioeconomic spending for commodities being strategically sourced versus baseline spending levels.

In addition to OMB's and GSA's guidance, some agencies have issued their own guidance on strategic sourcing. DOD, DHS, and NASA have guidance on implementing strategic sourcing within their agencies that mentions small businesses. For example, similar to GSA's guidance, DOD's June 2013 guidance calls for a performance measure to identify the change in small business and socioeconomic utilization as a result of strategic sourcing. DHS's strategic sourcing guidance states that one of the goals of its strategic sourcing program is to improve the agency's ability to meet its overall small business goals. NASA's guidance notes that an OSDBU representative is a member of the agency's strategic sourcing team. At the time of our review, Interior and HUD did not have specific guidance related to developing or implementing internal strategic sourcing initiatives.<sup>14</sup> However, Interior and HUD, as well as Army, DLA, and DHS, have issued memorandums mandating the use of the office supplies II government-wide initiative. HUD and DLA's memorandums also require their contracting officers to purchase office supplies from the 13 small business contractors in the initiative before purchasing from the 2 large business contractors.

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<sup>14</sup>In its comments on a draft of this report, HUD noted that it had issued guidance on strategic sourcing on December 17, 2013. This is discussed later in this report.

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## GSA Has Taken Steps to Consider Small Businesses in Selected Government-wide Strategic Sourcing Initiatives

Our review of documentation for three ongoing government-wide strategic sourcing initiatives—office supplies II, print management functional areas I and II, and domestic delivery services—showed that GSA considered the inclusion of small businesses and small disadvantaged businesses in the strategic sourcing process.<sup>15</sup> For example, when developing the office supplies II and print management initiatives, GSA identified the current market share for small businesses and specific opportunities that could be set aside for socioeconomic categories, such as service-disabled veteran-owned businesses. In addition, GSA held presolicitation meetings with potential vendors in which small businesses discussed barriers to their participation. According to GSA officials, the agency then made changes to the contract requirements for the office supplies initiative—such as increasing the required delivery time from 3 days to 4 days and the minimum order requirement from \$50 to \$100—that allowed small businesses to be more competitive. In the domestic delivery services initiative, GSA identified that the market did not include many small businesses, but looked for opportunities in the contract to include small businesses as subcontractors. In addition, GSA OSDBU officials explained they take additional steps on government-wide strategic sourcing initiatives to ensure the consideration of small businesses. Specifically, they get involved earlier in the acquisition process by reviewing the business cases for the initiatives, and they involve more people in the review of the contracting process for these initiatives. We discuss more detailed information collected by GSA on the inclusion of small businesses in strategic sourcing later in this report.

In addition to these ongoing initiatives, GSA is the lead agency for three initiatives proposed in fiscal year 2013: janitorial and sanitation supplies; maintenance, repair, and operations; and print management functional

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<sup>15</sup>For each initiative, we reviewed documents such as the market research, acquisition plan, request for proposals or quotations, and contract excerpts. We also reviewed some presolicitation meeting documentation. Print management functional area I consisted of conducting a vendor-neutral fleet assessment analysis to determine if the number of print devices an agency owned matched the number needed. Print management functional area II focused on procuring new print devices and related maintenance. The phases of the strategic sourcing process include commodity selection, acquisition strategy, implementation, and commodity management.

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areas III and IV.<sup>16</sup> Our review of documentation for these three government-wide strategic initiatives found that GSA considered the inclusion of small businesses. For example, market research conducted on janitorial and sanitation supplies indicated that about 90 percent of the approximately 200 contractors capable of meeting the requirements of the janitorial and sanitation supply categories were small businesses. In addition, GSA held a small business partnership session on the janitorial and sanitation supplies and maintenance, repair, and operations initiatives in order to obtain input on these two planned initiatives. According to minutes from the meeting, officials stated that if GSA could not be assured that the small business market share would be increased, the initiatives would not go forward. For print management functional areas III and IV, GSA's research revealed that small businesses typically had the ability to provide service to printer-based equipment but that copier-based equipment typically was dominated by large businesses. In addition to small business language in business cases, acquisition plans, and requests for quotation, GSA created small business set-asides in these three initiatives.

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### Selected Agencies Have Generally Considered Small Businesses in Their Agency-wide Strategic Sourcing Initiatives

Our review of documentation on agency-wide strategic sourcing initiatives at each of the five selected agencies showed that the agencies generally considered the inclusion of small businesses and small disadvantaged businesses.<sup>17</sup> In general, agencies that included small businesses in their agency-wide strategic sourcing initiatives did so by using small business set-asides. Examples include the following initiatives:

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<sup>16</sup>The janitorial and sanitation supplies initiatives include items such as bleach, trash bags, and mops. The maintenance, repair, and operations initiative includes items such as ladders, power drills, and extension cords. Print management functional areas III and IV include printer-based and copier-based managed services conducted by both large and small businesses. As of October 2013, a fourth initiative to be led by GSA had not been announced publicly.

<sup>17</sup>For each initiative examined, we reviewed documents such as the market research, acquisition plan, request for proposals or quotations, small business review form, and contract excerpts. We selected a total of 12 strategic sourcing initiatives. More specifically, from each of the selected agencies (DOD, specifically Army and DLA; DHS; HUD; Interior; and NASA), we chose two initiatives that were undertaken between fiscal year 2005 and fiscal year 2012, generally one that included only large businesses and one that also included small businesses. At DHS, HUD, and Interior, we had to request replacement initiatives due to a lack of information on the initial initiative(s) we selected. At DLA, both of the initiatives we examined involved only large businesses. HUD and Interior were able to provide information on one initiative involving only large businesses. As a result, our final sample consisted of 10 initiatives.



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- For NASA's Solutions for Enterprise-Wide Procurement IV contract for information technology awarded in November 2005, the agency considered small businesses in multiple stages of the contracting process by setting a goal of 30 percent small business participation in its acquisition strategy documentation and setting aside part of the contract for small businesses.
  - DHS's FirstSource II contract for information technology products awarded in September 2012 included set-asides for all five categories of small businesses (small businesses in general and more specifically for 8(a) firms, service-disabled veteran-owned, women-owned, and HUBZone small businesses).<sup>18</sup>
  - Army's Expedited Professional and Engineering Support Services program awarded contracts to small businesses, including small disadvantaged businesses, 8(a) small businesses, and woman-owned small businesses.<sup>19</sup> Since the program started in January 2005, 42 percent of obligations have gone to small businesses.

For agency-wide strategic sourcing initiatives that did not include contract awards to small businesses, in general the agencies showed consideration of small businesses through subcontracting requirements or by including small business officials in the approval process. For example, NASA and Army determined that small businesses might be unable to provide the services needed for their Enterprise Application Service Technology and Next Generation Wireless initiatives, respectively. However, small businesses were identified as being able to provide specialty services, and large businesses were encouraged to partner with small businesses. In addition, for NASA, the robustness of subcontracting plans was part of its evaluation of proposals received by potential applicants. For initiatives involving a weapons system and gun parts, DLA required the subcontracting plans to include small businesses.

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<sup>18</sup>SBA's 8(a) Business Development Program is the government's primary means of developing small businesses owned by socially and economically disadvantaged individuals, including firms owned by Alaska Native Corporations and Indian tribes.

<sup>19</sup>The Expedited Professional and Engineering Support Services program is a group of 27 blanket purchase agreements divided into four domains (business and analytical, logistics, programmatic, and technical) that provide a full array of advisory and assistance services to the Army. Agencies use blanket purchase agreements to award contracts to multiple vendors for commercial goods and services. Under such agreements, funds are obligated when orders are placed.

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DHS and HUD determined that initiatives for vaccines for a pandemic outbreak and multifunctional printing devices, respectively, did not have opportunities for small businesses, but an OSDBU representative was included in the planning for the contract and approved documents such as the acquisition plan or contract award. For an initiative involving printer devices, Interior documented on a small business form its determination that small businesses could not provide the services needed.

The role of the OSDBU in strategic sourcing initiatives varied among the agencies we reviewed. DOD, HUD, Interior, and NASA officials noted that the role of the OSDBU in strategic sourcing was the same as its role in traditional procurement. At DHS, the OSDBU has a role in determining whether to implement a strategic sourcing initiative and signs the business case for initiatives. It also coordinates with the department's strategic sourcing program office and working group. Further, some agencies—such as DOD (including Army and DLA), NASA, and Interior—had strategic sourcing committees or councils in place that included the OSDBU.

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## Agency Data and Measures on Inclusion of Small Businesses in Strategic Sourcing Are Limited, and OMB Has Not Monitored Agencies' Efforts

While our review of agency documentation indicates that agencies do generally consider small businesses and small disadvantaged businesses in their strategic sourcing initiatives, agency data and performance measures that would provide a more precise understanding of the inclusion of small businesses in strategic sourcing are limited. FPDS-NG—the federal government's current system for tracking information on contracting actions—cannot be used to track the extent of strategic sourcing across the federal government and its effects on small businesses because there is no strategic sourcing category or designation in the system.<sup>20</sup> As a result, each individual agency must maintain data on its own strategic sourcing initiatives if it wants to track them. Although GSA has collected baseline data on proposed government-wide initiatives, it has not developed a performance measure to determine changes in small business participation going forward. Further, DHS has collected some data on contracts awarded to small businesses under strategic sourcing initiatives, but it and the other

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<sup>20</sup>Although FPDS-NG does not have a separate field that designates strategic sourcing initiatives, OMB staff told us that the agency asked Chief Acquisition Officers in January 2013 to include information in the description field identifying the contract as part of a government-wide strategic sourcing initiative. However, such information, if provided, would not help to identify agency-specific initiatives.

agencies in our review generally did not have baseline data and performance measures to determine how small businesses were affected by strategic sourcing.

For ongoing government-wide strategic sourcing initiatives, GSA was able to provide us with data on the total number of vendors, the number of small business vendors, and small business spending (see table 1). GSA also had some data on two of its planned initiatives for fiscal year 2013. For example, the agency expected to award 16 of 23 contracts under the maintenance, repair, and operations initiative to small businesses. In addition, it expected 17 of 21 contracts awarded under the janitorial and sanitation supplies initiative to go to small businesses.<sup>21</sup> Because all three initiatives planned for fiscal year 2013 are in the beginning phases, GSA has not yet started to collect data on small business spending.

**Table 1: Data on Three of GSA's Ongoing Government-wide Strategic Sourcing Initiatives, 2013**

	Total number of vendors	Number of small business vendors	Cumulative small business spend <sup>a</sup> (percentage)
Domestic delivery services	1	0	0%
Office supplies II	15	13	76
Print management (functional area I)	5	5	100
Print management (functional area II)	9	3	11

Source: GSA documents and data systems.

<sup>a</sup>Spend data on domestic delivery services are as of February 2013; office supplies spend data are as of April 2013; and print management data are as of March 2013.

Most of the selected agencies in our review collect only limited information on their agency-wide strategic sourcing initiatives. DHS, the one exception, collects information on its strategic sourcing initiatives in a quarterly strategic sourcing dashboard, which includes information on small business participation. The dashboard data show that from fiscal

<sup>21</sup>GSA officials stated that as of October 2013, they had not yet determined how many contracts would be awarded under the print management functional areas III and IV initiative and to what types of businesses.

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year 2005 through the first quarter of fiscal year 2013, DHS implemented 72 strategic sourcing initiatives, and 43 percent of the spending went to small businesses. In addition, DHS was able to produce a report that broke down spending to small businesses by socioeconomic categories such as women-owned and HUBZone small businesses. Army, DLA, NASA, Interior, and HUD were able to provide lists of their strategic sourcing initiatives at our request, but were not able to provide data on small business spending through all of the initiatives.

We also found that GSA could provide some baseline data, but had not developed performance measures to determine the extent to which small businesses had been affected by strategic sourcing initiatives. Our review of three current government-wide strategic sourcing initiatives showed that GSA did not include the baseline information on small business participation in key documents used in developing and tracking the initiatives. However, in a congressional testimony on GSA's initiatives, OMB stated that total dollars going to small businesses for one of the initiatives, office supplies, increased from a baseline of 67 percent prior to the strategic sourcing initiative to 76 percent after strategic sourcing.<sup>22</sup> Our review of documentation for three proposed government-wide initiatives showed that GSA had developed baselines for small business use prior to strategic sourcing. For instance, with the janitorial and sanitation supplies initiative, the baseline for small business participation was 26 percent of the spending in fiscal year 2011. For the maintenance, repair, and operations initiative, the baseline for small business participation was 55 percent of the spending in fiscal year 2012. For print management functional areas III and IV, the baseline for small business participation was 5 percent. However, GSA had not yet developed the performance measure it plans to use to determine changes in small business participation going forward, as outlined in its 2008 guidance and OMB's December 2012 memorandum. GSA officials stated one of GSA's goals was to improve how it measures small business participation.

Moreover, our review of selected agencies' documentation, including strategic sourcing reports provided to OMB and information prepared for OMB's acquisition status sessions, found that the agencies generally did

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<sup>22</sup>Joseph G. Jordan, Administrator for Federal Procurement Policy, OMB, *Putting the Strategy in Sourcing: Challenge and Opportunities for Small Business Contractors*, testimony before the House Subcommittee on Contracting and Workforce, Committee on Small Business, 113th Cong., 1st sess., June 13, 2013.

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not include baseline data or performance measures on changes in the use of small businesses.<sup>23</sup> DHS's dashboard does not include such information. The agencies' strategic sourcing reports generally provided a broad overview of their strategic sourcing programs, but did not provide specific baseline data on the inclusion of small businesses prior to strategic sourcing or performance measures for the inclusion of small businesses going forward.<sup>24</sup> Similarly, the information prepared for acquisition status sessions contained a section on strategic sourcing that did not include such baseline data and performance measures. In a previous report on strategic sourcing, we found that DOD and the Department of Veterans Affairs were challenged to produce utilization rates and other metrics—such as spending through strategic sourcing contracts and savings achieved—that could be used to monitor progress.<sup>25</sup> Therefore, we recommended that these agencies set goals and establish metrics to monitor and track progress towards strategic sourcing goals. Both agencies agreed with the recommendation and have since told us they are working to develop goals and metrics. However, the agencies had not completed their efforts as of August 2013. Similarly, we found in this review that agencies lacked baseline data and performance measures on the inclusion of small businesses in strategic sourcing.

As previously discussed, OMB's 2005 memorandum requires agencies to develop baseline data, such as data on small business spending, and report annually on changes in relation to the baseline. Also, its 2012 memorandum states that all proposed strategic sourcing agreements must establish a baseline for small business use under current strategies

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<sup>23</sup>OMB first required agencies to report on strategic sourcing in annual strategic sourcing reports. OMB now asks agencies to prepare information on strategic sourcing for their acquisition status sessions. These sessions are periodic briefings that agencies provide to OMB to assess agencies' progress in acquisition practices and results. The briefings include information on general contract spending, use of strategic sourcing, the acquisition workforce, and opportunities for small businesses.

<sup>24</sup>In its section of DOD's 2006 report, DLA provided baseline data on small business spending for one large initiative. However, the DOD reports we reviewed for fiscal years 2005 and 2007 did not include such information. In addition to the information included in the strategic sourcing reports, DOD provided data for some of Air Force's strategic sourcing initiatives that included small business spending prior to (baseline) and after strategic sourcing. However, Army and DLA—the components that were the focus of our review—could not provide such data.

<sup>25</sup>[GAO-12-919](#). The four agencies included in this review were DOD, DHS, and the Departments of Veterans Affairs and Energy.

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and set goals to meet or exceed that baseline under the new vehicles. In addition, federal internal control standards state that operating information is needed to, among other things, determine whether the agency is achieving its compliance requirements under various laws and regulations.<sup>26</sup> Although our review indicates that GSA has collected baseline data on proposed government-wide initiatives, it has not developed a performance measure to determine changes in small business participation going forward. Further, we found that the data and measures maintained by the other agencies in our review do not meet the OMB reporting requirements. Officials at most of these agencies told us that they generally limit their tracking of strategic sourcing initiatives to what OMB specifically requested for the acquisition status sessions. Officials at two agencies also cited the fact that their total small business spending had increased since they started implementing strategic sourcing as an indication that small businesses had not been negatively impacted. However, the OMB memorandums require baseline data and a measure of the change in small business spending for each individual initiative. The absence of such data and measures makes it difficult to determine the effect of strategic sourcing initiatives on small businesses.

In addition, although OMB's memorandums state that agencies should report baseline data and performance measures on the inclusion of small businesses in strategic sourcing, OMB has not monitored agencies' compliance in reporting baseline data and performance measures. OMB has monitored the implementation of strategic sourcing by having agencies submit annual strategic sourcing reports from fiscal year 2005 to fiscal year 2007 and prepare information for acquisition status sessions from fiscal year 2010 to fiscal year 2012. (There was no reporting in place for fiscal years 2008 or 2009.) Virtually none of this information included baseline data or measures of the effect of strategic sourcing on small businesses. According to OMB staff, the most recent acquisition status sessions were held prior to issuance of the December 2012 memorandum. They stated that they plan to modify the information required to collect information on strategic sourcing and small businesses.<sup>27</sup> However, the current template does not link strategic sourcing with small business. Federal internal control standards state that

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<sup>26</sup>GAO/AIMD-00-21.3.1.

<sup>27</sup>OMB staff also noted that they have discussions beyond the acquisition status sessions that present opportunities for further consideration of strategic sourcing.

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monitoring should assess the quality of performance over time.<sup>28</sup> Without effective monitoring, it will be difficult for OMB to help ensure that agencies are tracking the impact of strategic sourcing on small businesses.

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## Conclusions

Since 2005, OMB has encouraged federal agencies to implement strategic sourcing in order to increase cost savings and to consider the effects of strategic sourcing on goals for small businesses. As recently as December 2012, OMB reiterated the importance of strategic sourcing and stated that agencies should seek to increase participation by small businesses. In addition, OMB guidance states that agencies must develop the baseline data and performance measures necessary to determine how strategic sourcing initiatives have affected small businesses. Despite this guidance and federal internal control standards stating that information is necessary to determine whether agencies are in compliance with requirements under various laws and regulations, the agencies in our review generally did not have baseline data and performance measures to determine how small businesses had been affected by strategic sourcing. GSA had collected baseline data on proposed government-wide initiatives, but had not developed a performance measure to track the change in small business participation going forward. DHS had collected some data on contracts awarded to small businesses under strategic sourcing initiatives, but it and the other agencies in our review generally did not have baseline data and performance measures to determine how small businesses were affected by strategic sourcing. Without such data and measures, it is difficult to determine the effect of strategic sourcing initiatives on small businesses. Moreover, OMB has not monitored agencies' compliance with its requirements to report baseline data and performance measures on the inclusion of small businesses. Without effective monitoring, it will be difficult for OMB to help ensure that agencies are tracking the impact of strategic sourcing on small businesses. Such tracking will be increasingly important as the use of strategic sourcing in future federal procurement grows.

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<sup>28</sup> [GAO/AIMD-00-21.3.1](#).

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## Recommendations for Executive Action

Consistent with OMB guidance and to track the effect of strategic sourcing on small businesses, we recommend that (1) the Administrator of GSA establish performance measures on the inclusion of small businesses in strategic sourcing initiatives and (2) the Secretaries of DOD, DHS, HUD, and the Interior, and the Administrator of NASA collect baseline data and establish performance measures on the inclusion of small businesses in strategic sourcing initiatives.

To help ensure that agencies are tracking the effect of strategic sourcing on small businesses, we recommend that OMB's Administrator for Federal Procurement Policy monitor agencies' compliance with the requirement to maintain baseline data and performance measures on small business participation in strategic sourcing initiatives.

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## Agency Comments and Our Evaluation

We sent a draft of this report to eight agencies for their review and comment. DOD, DHS, HUD, GSA, NASA, and SBA provided written comments, which are reproduced in appendixes II through VII. Interior and OMB provided comments by e-mail. DHS, DLA (a component within DOD), and OMB also provided technical comments, which have been incorporated as appropriate. DOD, DHS, HUD, GSA, and OMB agreed with our conclusions and recommendations. Interior partially agreed, and NASA disagreed. Although we did not make a recommendation to SBA, it agreed with our observations. The agencies' specific comments and our responses are summarized below.

- DOD agreed with our recommendation to collect baseline data and establish performance measures on the inclusion of small businesses in strategic sourcing initiatives and acknowledged the lack of complete baseline data on strategic sourcing initiatives and small business utilization. The agency also mentioned examples of strategic sourcing initiatives that have included 100 percent set-asides for small businesses. To address our recommendation, DOD stated that strategic sourcing teams will be required to begin building baseline data for future initiatives to provide metrics on small business participation. In one of its technical comments, DLA disagreed with our statement that it could not provide data on small business spending through its strategic sourcing initiatives, noting that it had provided data on total small business spending over time. However, as we noted in the report, the OMB memorandums require baseline data and a measure of the change in small business spending for each individual initiative. Therefore, we made no change to the report.



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- DHS agreed with our recommendation to collect baseline data and establish performance measures on the inclusion of small businesses in strategic sourcing initiatives and stated that in addition to its current collection of small business spend data and analysis performed on strategic sourcing initiatives, the agency plans to review how it collects baseline data and establishes performance measures and intends to make changes to more clearly meet OMB's requirements. DHS stated that it intends to complete this effort by March 31, 2014. DHS also stated many of its strategic sourcing vehicles are set-aside 100 percent for small business or include substantial small business tracks. As we noted in the report, from fiscal year 2005 through the first quarter of fiscal year 2013, DHS implemented 72 strategic sourcing initiatives, and 43 percent of the spending went to small businesses.
  - HUD agreed with our recommendation to collect baseline data and establish performance measures on the inclusion of small businesses in strategic sourcing initiatives and issued guidance on December 17, 2013, to document the process for collecting baseline data and establishing metrics on small business participation in strategic sourcing initiatives going forward. Implementing and following through on this guidance should help in tracking the effects of HUD's strategic sourcing initiatives on small businesses.
  - GSA agreed with our findings and recommendation to establish performance measures on the inclusion of small businesses in strategic sourcing initiatives and commented that it would coordinate internally to collect small business participation metrics against baseline data for its government-wide strategic sourcing initiatives and provide the results to OMB in order for OMB to monitor compliance with its requirements.
  - In an e-mail received on December 24, 2013, OMB staff stated that OMB agreed with the recommendation to monitor agencies' compliance with the requirement to maintain baseline data and performance measures on small business participation in strategic sourcing initiatives.
  - In an e-mail received on December 18, 2013, the audit liaison for the Department of the Interior stated that Interior partially agreed with the recommendation to collect baseline data and establish performance measures on the inclusion of small businesses in strategic sourcing initiatives. The agency acknowledged it does not currently collect data that specifically track the impact of strategic sourcing on small

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businesses and agreed with the need for effective planning and monitoring of strategic sourcing initiatives, including establishing performance measures and small business goals. Interior suggested that a more effective approach would be to work with OMB and other agencies similar to Interior to develop common approaches for collecting baseline data and setting performance measures. We believe such action would be consistent with the intent of the recommendation.

- NASA disagreed with our recommendation to collect baseline data and establish performance measures on the inclusion of small businesses in strategic sourcing initiatives and stated it already tracks small business spending for the entire agency. In addition, NASA cited specific regulations that it follows in the Federal Acquisition Regulation that are related to small business and stated that its acquisition process allows for all contracting, including strategic sourcing, to set small business goals. However, as we noted in the report, the OMB memorandums require baseline data and a measure of the change in small business spending for each individual initiative. In addition, we concluded that such tracking will be increasingly important as the use of strategic sourcing grows. Therefore, we continue to believe that our recommendation is valid and should be implemented.
- SBA noted that agencies have generally considered small business participation as a percentage of total contract dollars and stated that it has been an advocate for establishing a baseline of small business performance, with triggers requiring small business participation where agencies fall below those baselines. SBA also noted that although strategic sourcing may result in savings for the federal government, strategic sourcing generally reduces the number of participating suppliers and vendors, including small businesses, and the impact on small businesses has not been quantified.

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As agreed with your offices, unless you publically announce the contents of this report earlier, we plan no further distribution until 30 days from the report date. At that time, we will send copies to the Director of OMB; the Secretaries of DOD, DHS, HUD, and the Interior; the Administrators of GSA, NASA, and SBA; and other interested parties. This report will also be available at no charge on GAO's website at <http://www.gao.gov>.

If you or your staff have any questions about this report or need additional information, please contact me at (202) 512-8678 or [shearw@gao.gov](mailto:shearw@gao.gov).

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Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Staff acknowledgements are provided in appendix VIII.

A handwritten signature in black ink that reads "William B. Shear". The script is cursive and fluid, with the first name "William" being the most prominent part of the signature.

William B. Shear  
Director, Financial Markets and  
Community Investment

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# Appendix I: Objectives, Scope, and Methodology

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Our objectives for this report were to discuss (1) the ways in which the Office of Management and Budget (OMB) and the General Services Administration (GSA) have considered small businesses in their strategic sourcing guidance and GSA and selected agencies have considered small businesses in their strategic sourcing initiatives and (2) the extent to which data and performance measures are available on the inclusion of small businesses in government-wide and selected agencies' internal strategic sourcing initiatives. Small businesses include those unconditionally owned and controlled by socially and economically disadvantaged individuals (small disadvantaged businesses).

To describe the ways in which OMB, GSA, and selected agencies have considered various categories of small businesses in their strategic sourcing guidance and efforts, we reviewed OMB and GSA guidance on strategic sourcing.<sup>1</sup> These documents included OMB memorandums and GSA's Concept of Operations for government-wide strategic sourcing efforts. We also reviewed documentation on three ongoing government-wide strategic sourcing initiatives managed by GSA (domestic delivery services, office supplies, and print management) to determine steps taken to consider small businesses.<sup>2</sup> In addition, we reviewed documentation on three proposed initiatives managed by GSA (janitorial and sanitation supplies; maintenance, repair, and operations; and print management functional areas III and IV). At selected agencies, we reviewed any guidance on strategic sourcing and documentation on a sample of specific agency-wide initiatives to determine how small businesses were

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<sup>1</sup>We included OMB in our scope because it includes the Office of Federal Procurement Policy and is the agency responsible for issuing guidance on strategic sourcing and approving government-wide strategic sourcing initiatives. We included GSA because it is the lead agency for most government-wide strategic sourcing initiatives.

<sup>2</sup>We selected the three initiatives that had been implemented by fiscal year 2012 and that were ongoing at the time of our review. The domestic delivery services initiative offers delivery service for small packages. The office supplies initiative offers a catalogue of consumable office supplies. The print management initiative reduces equipment needed for printing, copying, scanning, and faxing. GSA has implemented multiple versions of some of these initiatives. For the purposes of this report, we generally focused on the second generations of the domestic delivery services and office supplies initiatives and functional areas I and II of the print management initiative because these were the versions ongoing at the time of our review. We did not select the telecommunications expense management services initiative, which involved wireless rate plans, because it expired in July 2013. We do not discuss GSA's current wireless initiative because it was awarded in May 2013.

considered in the strategic sourcing process.<sup>3</sup> The type of documentation we reviewed for GSA and our selected agencies generally included spend analyses, business case documentation, acquisition plans, requests for quotations, small business review forms, and excerpts from the awarded contracts. The selected agencies included in our review were the Departments of Defense (DOD), specifically the Department of the Army (Army) and the Defense Logistics Agency (DLA); Homeland Security (DHS); Housing and Urban Development (HUD); and the Interior (Interior) and the National Aeronautics and Space Administration (NASA). We selected these agencies to ensure a range of agencies in terms of dollars they awarded to small businesses in fiscal year 2012, the extent to which they have adopted strategic sourcing, scores on the Small Business Administration's (SBA) procurement scorecards in fiscal years 2010 and 2011, and membership in the Strategic Sourcing Leadership Council.<sup>4</sup> Finally, we interviewed OMB, GSA, SBA, and selected agency officials from procurement offices and Offices of Small and Disadvantaged Business Utilization about the extent to which the agencies have considered small businesses in the implementation of strategic sourcing.

To evaluate the extent to which data and performance measures were available on the inclusion of small businesses in government-wide and selected agencies' internal strategic sourcing initiatives, we reviewed the data elements in the Federal Procurement Data System-Next Generation (FPDS-NG) to determine if there were data on strategic sourcing. In addition, we analyzed GSA data as of 2013 on government-wide strategic

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<sup>3</sup>We chose a purposive, nonrandom sample of 12 strategic sourcing initiatives based on factors such as timing of the initiative, inclusion of small businesses, and commodity type. More specifically, from each of the selected agencies (DOD, specifically Army and DLA; DHS; HUD; Interior; and NASA), we chose two strategic sourcing initiatives that were undertaken between fiscal year 2005 and fiscal year 2012, generally one that included only large businesses and one that also included small businesses. At the Departments of Homeland Security, Housing and Urban Development, and the Interior, we had to request replacement initiatives due to a lack of information on the initial initiative(s) we selected. At DLA, both of the initiatives we examined involved only large businesses. The Departments of Housing and Urban Development and the Interior were able to provide information on one initiative involving only large businesses. As a result, our final sample consisted of 10 initiatives.

<sup>4</sup>The Strategic Sourcing Leadership Council was created in December 2012 and consists of the seven largest procurement agencies and SBA. The council was charged with leading the government's efforts to increase the use of strategic sourcing.

sourcing initiatives.<sup>5</sup> We also determined whether GSA had taken steps to track the effect of recently proposed strategic sourcing initiatives on small businesses by reviewing relevant documentation on these initiatives. In addition, we reviewed available documentation at the selected agencies, including strategic sourcing reports provided to OMB and information prepared for OMB's acquisition status sessions, to identify any data and performance measures that track the inclusion of small businesses. At DHS, we also reviewed the agency's strategic sourcing dashboard, which contained data on its initiatives from fiscal year 2005 through the first quarter of fiscal year 2013. We assessed the reliability of data from FPDS-NG, GSA, and DHS by interviewing knowledgeable officials, reviewing documents about the sources of the data, and comparing selected data to other sources and determined they were sufficiently reliable for the purpose of reporting government-wide and agency strategic sourcing spending. We also compared available data and performance measures to OMB's guidance and federal internal control standards.<sup>6</sup> Further, we interviewed OMB, GSA, SBA, and selected agency officials about current and planned efforts to collect data and track performance measures on strategic sourcing and the inclusion of small businesses.

We conducted this performance audit from February 2013 to January 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.

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<sup>5</sup>FPDS-NG does not have a separate field that designates strategic sourcing initiatives and generally does not include purchases of \$3,000 or less. GSA has developed portals to collect information on spending for its government-wide strategic sourcing initiatives, including small business spending through the initiatives. The information collected includes purchases not captured in FPDS-NG.

<sup>6</sup>GAO, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: November 1999).

# Appendix II: Comments from the Department of Defense



ACQUISITION,  
TECHNOLOGY  
AND LOGISTICS

## OFFICE OF THE UNDER SECRETARY OF DEFENSE

3000 DEFENSE PENTAGON  
WASHINGTON, DC 20301-3000

DEC 18 2013

Mr. Brian Lepore  
Director  
Defense Capabilities Management  
U.S. Government Accountability Office  
441 G Street, N.W.  
Washington, DC 20548

Dear Mr. Lepore:

This is the Department of Defense (DoD) response to the Government Accountability Office (GAO) Draft Report, GAO-14-126, "Strategic Sourcing: Selected Agencies Should Develop Performance Measures on Inclusion of Small Businesses and OMB Should Improve Monitoring," dated November 25, 2013 (GAO Code 250711). Detailed comments on the report recommendations are enclosed.

Sincerely,

A handwritten signature in cursive script, reading "Richard Ginman", is positioned above the printed name and title of the signatory.

Richard Ginman  
Director, Defense Procurement  
and Acquisition Policy

Enclosure:  
As stated

GAO Draft Report Dated November 25, 2013  
GAO-14-126 (GAO CODE 250711)

**“STRATEGIC SOURCING: SELECTED AGENCIES SHOULD DEVELOP  
PERFORMANCE MEASURES ON INCLUSION OF SMALL BUSINESSES AND OMB  
SHOULD IMPROVE MONITORING,”**

**DEPARTMENT OF DEFENSE COMMENTS  
TO THE GAO RECOMMENDATION**

**RECOMMENDATION 1:** Consistent with OMB guidance and to track the effect of strategic sourcing on small businesses, the Government Accountability Office (GAO) recommends that (1) the Administrator of General Services Administration (GSA) establish performance measures on the inclusion of small businesses in strategic sourcing initiatives and (2) the Secretaries of DoD, DHS, HUD, and the Interior, and the Administrator of NASA collect baseline data and establish performance measures on the inclusion of small businesses in strategic sourcing initiatives.

**DoD RESPONSE:** Concur. The DoD is committed to removing any barriers that impede the optimal utilization of small businesses in performing our requirements. The DoD acknowledges the lack of complete baseline data with regards to previously executed strategic sourcing vehicles and small business utilization. Strategic Sourcing teams across the DoD have placed considerable focus on developing contract solutions with socioeconomic participation as a key area of interest. The DoD provided GAO with several examples of strategic sourcing vehicles that have set-asides for small business. The Department of Air Force Medical Commodity Council has been able to award a substantial portion of their portfolio to small businesses. The Department of Navy’s Global Business Solutions Multiple Award Contracts and the Department of Air Force’s Defensor-Fortis Load Carrying System Multiple Award Contract are other examples of small business being utilized to support 100 percent of the spend. These set-aside strategic sourcing vehicles have been very successful in meeting the warfighters requirements.

The DoD continues to emphasize the need for extensive market research in order to find those small businesses capable of satisfying requirements at a competitive cost. The Director, Defense Procurement and Acquisition Policy will work with the Office of Small Business programs to re-emphasize the need for strategic sourcing teams to consider small businesses as they conduct acquisitions. The teams will also be required to begin building the baseline data as highlighted by the GAO report in order to be able to provide clear metrics with regards to small business participation.



# Appendix III: Comments from the Department of Homeland Security

U.S. Department of Homeland Security  
Washington, D.C. 20528



**Homeland  
Security**

December 20, 2013

Bill Shear  
Director, Financial Markets and Community Investment  
U.S. Government Accountability Office  
441 G Street, NW  
Washington, DC 20548

Re: Draft Report GAO-14-126, "STRATEGIC SOURCING: Selected Agencies Should Develop Performance Measures on Inclusion of Small Businesses and OMB Should Improve Monitoring"

Dear Mr. Shear:

Thank you for the opportunity to review and comment on this draft report. The U.S. Department of Homeland Security (DHS) appreciates the U.S. Government Accountability Office's (GAO's) work in planning and conducting its review and issuing this report.

DHS is pleased to note GAO's positive acknowledgment of how the Department collects information on its agency-wide strategic sourcing initiatives. In particular, the Department appreciates GAO's recognition that of the five agencies covered in the review, DHS was the only one able to provide data on small business spending through its strategic sourcing initiatives. In illustrating this, the report highlights the quarterly strategic sourcing dashboard, which includes information on small business participation.

The draft report contained one recommendation for DHS, with which the Department concurs. Specifically, GAO recommended that the Secretary of Homeland Security:


**Recommendation:** Collect baseline data and establish performance measures on the inclusion of small businesses in strategic sourcing initiatives.

**Response:** Concur. DHS collects extensive data on "actual" prime-contracting dollars and spending percentages of small business participation for each strategic sourcing initiative in the Department's strategic sourcing database. Many of these strategic sourcing vehicles are set-aside 100 percent for small businesses, or include substantial small business tracks. This data is tracked annually for each individual strategic sourcing contract by socio-economic business category, and then grouped for each strategic sourcing initiative for reporting purposes. This data is also tracked quarterly and compared with the previous year to actively determine how small businesses are impacted by strategic sourcing throughout the year.

In addition to the analysis currently being performed, beginning with the second quarter of Fiscal Year 2014 strategic sourcing initiatives, the DHS Strategic Sourcing Program Office and DHS Office of Small and Disadvantaged Business Utilization will review how the Department collects baseline data and establishes performance measures on the inclusion of small businesses in its strategic sourcing initiatives. The Department will then make changes accordingly to more clearly address that specific Office of Management and Budget (OMB) requirement. Estimated Completion Date: March 31, 2014.

Again, thank you for the opportunity to review and comment on this draft report. Technical comments were previously submitted under separate cover. Please feel free to contact me should have you any questions. We look forward to working with you in the future.

Sincerely,



Jim H. Crumpacker  
Director  
Departmental GAO-OIG Liaison Office

# Appendix IV: Comments from the Department of Housing and Urban Development



U.S. Department of Housing and Urban Development  
Washington, D.C. 20410

CHIEF PROCUREMENT OFFICER

## Response to GAO Draft Report

**GAO Assignment Number:** 250711

**HUD Control Number:** CPO-1933

**Primary Office:** Office of the Chief Procurement Officer (OCPO)

**Date:** December 26, 2013

**Report Title:** Strategic Sourcing: Selected Agencies Should Develop Performance Measures on Inclusion of Small Businesses and OMB Should Improve Monitoring

**eCase Number:** 2013-AHFD-EXEC-04675

## Response:

HUD agrees with the draft report. In an effort to formalize a process for collecting baseline data and establishing metrics, HUD's Office of the Chief Procurement Officer recently issued a policy letter setting forth processes for strategic sourcing efforts. The policy letter specifically requires establishment of a baseline and metrics to monitor small business utilization in strategic sourcing acquisitions within the Department going forward.

Issued by:

A handwritten signature in black ink, appearing to read "J. Bryon".

Jemine A. Bryon  
Chief Procurement Officer

12/26/13  
Date

Attachment: Acquisition Instruction 14-03, Implementing Strategic Sourcing

# Appendix V: Comments from the General Services Administration



GSA Administrator

December 30, 2013

The Honorable Gene L. Dodaro  
Comptroller General of the United States  
U.S. Government Accountability Office  
Washington, DC 20548

Dear Mr. Dodaro:

The U.S. General Services Administration (GSA) appreciates the opportunity to review and comment on the draft report, "Strategic Sourcing: Selected Agencies Should Develop Performance Measures on Inclusion of Small Businesses and OMB Should Improve Monitoring" (GAO-14-126). In the report, the Government Accountability Office (GAO) recommends that the GSA Administrator establish ongoing small business performance measures for the Federal Strategic Sourcing Initiative (FSSI) solutions.

We agree with the findings and recommendation and will take appropriate action. GSA commits to establishing ongoing small business performance measures for the FSSI solutions.

Specific actions being taken in response to the recommendation appear in the enclosure. GSA is confident that these actions will satisfactorily remedy the concerns raised by the GAO.

If you have any additional questions or concerns, please do not hesitate to contact me at (202) 501-0800, or Ms. Lisa Austin, Associate Administrator, Office of Congressional and Intergovernmental Affairs, at (202) 208-1806.

Sincerely,

A handwritten signature in black ink, appearing to read "Dan Tangherlini".

Dan Tangherlini  
Administrator

Enclosure

U.S. General Services Administration  
1800 F Street, NW  
Washington, DC 20405-0002  
[www.gsa.gov](http://www.gsa.gov)

**U.S. General Services Administration**  
**Actions Planned to Address the Recommendation in the GAO Final Report,**  
**"Strategic Sourcing: Selected Agencies Should Develop Performance Measures on**  
**Inclusion of Small Businesses and OMB Should Improve Monitoring"**  
**(GAO-14-126)**

**Recommendation**

GAO recommends that the Administrator of GSA establish performance measures on the inclusion of small businesses in strategic sourcing initiatives.

**Action**

Coordinate with FSSI teams within GSA to obtain ongoing small business participation metrics against small business baselines. Provide results to the Office of Federal Procurement Policy so that it can monitor agency compliance with the requirement to maintain baseline data and performance measures on small business participation in strategic sourcing initiatives, as suggested in the report.

# Appendix VI: Comments from the National Aeronautics and Space Administration

National Aeronautics and Space Administration  
Headquarters  
Washington, DC 20546-0001



December 20, 2013

Reply to Attn of:

Office of Procurement

Mr. William Shear  
Director  
Financial Markets and Community Investment  
United States Government Accountability Office  
Washington, DC 20548

Dear Mr. Shear:

The National Aeronautics and Space Administration (NASA) appreciates the opportunity to review and comment on the Government Accountability Office (GAO) draft report entitled, "Strategic Sourcing: Selected Agencies Should Develop Performance Measures on Inclusion of Small Businesses and OMB Should Improve Monitoring" (GAO-14-126), dated November 25, 2013.

We are pleased by the findings that the GAO acknowledged NASA's current strategic sourcing plan related to small business, which provides guidance to include the Office of Small and Disadvantaged Business Utilization (OSDBU) representative as a member of all strategic sourcing teams. We are especially pleased that GAO found that for NASA's Solutions for Enterprise-Wide Procurement IV contract for information technology awarded in November 2005, the Agency considered small businesses in multiple stages of the contracting process by setting a goal of 30 percent small business participation in its acquisition strategy documentation and setting aside part of the contract for small businesses. Additionally, we appreciate the acknowledgement of NASA's robustness for including the subcontracting plans as part of its evaluation of proposals received by potential applicants, in the Enterprise Application Service Technology and Next Generation Wireless strategic sourcing initiatives.

However, we do not agree with the analysis and addition of a metric on the inclusion of small business in strategic sourcing initiatives. The NASA Office of Small Business and Programs (OSBP) currently tracks all small business spend. The tracking of small business spend includes strategic sourcing initiatives, that result in contracts, and are captured for the entire Agency.

In the draft report, the GAO outlines one recommendation to NASA. NASA's response to that recommendation, including planned corrective actions, is as follows:

**Recommendation 1:** Consistent with OMB guidance and to track the effect of strategic sourcing on small businesses, we recommend that (1) the Administrator of GSA establish performance measures on the inclusion of small businesses in strategic sourcing initiatives and (2) the Secretaries of DOD, OHS, HUD, and the Interior, and the Administrator of NASA collect baseline data and establish performance measures on the inclusion of small businesses in strategic sourcing initiatives.

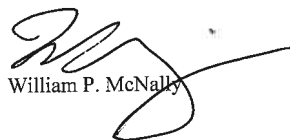
**Management's Response:** Non-concur.

NASA's Office of Small Business and Programs captures all small business spends for the Agency. As stated within the report, NASA already considers small business in multiple stages of the contracting process. NASA's current acquisition process allows for all procurements, including strategic sourcing requirements to set appropriate small business goals as part of the acquisition strategy. In accordance with Federal Acquisition Regulation (FAR) 7.102, NASA, to the maximum extent practicable—

(1) Structures contract requirements to facilitate competition by and among small business concerns; and (2) Avoids unnecessary and unjustified bundling that precludes small business participation as contractors. Additionally, in accordance with FAR 7.104 (d) (1) NASA Center Procurement Offices coordinate the acquisition plan or strategy with Center Small Business Offices when the strategy contemplates an acquisition greater than \$6 million dollars, unless the contract or order is entirely reserved or set-aside for small business. Also, the NASA FAR Supplement (NFS) 1807.107 requires approval of proposed bundlings that do not meet the thresholds, in FAR 7.107(b), to be submitted to Headquarters for approval. And, if a bundling activity is contemplated, substantial bundling documentation requirements apply to any acquisition expected to exceed \$5 million dollars or more.

**Estimated Completion Date:** N/A

Thank you for the opportunity to review and comment on the subject draft audit report. If you have any questions or require additional information on NASA's response to the draft report, please contact Desiree E. Sylver-Foust at 202-358-2444.

  
William P. McNally

# Appendix VII: Comments from the Small Business Administration



U.S. SMALL BUSINESS ADMINISTRATION  
WASHINGTON, D.C. 20416

December 17, 2013

Mr. Bill Shear  
Director  
Financial Markets and Community Investment  
Government Accountability Office  
441 G Street, NW, Room 2440B  
Washington, DC 20548

Dear Mr. Shear:

Thank you for providing the U.S. Small Business Administration (SBA) with an opportunity to review and comment on your draft report entitled "Strategic Sourcing: Selected Agencies Should Develop Performance Measures on Inclusion of Small Businesses and OMB Should Improve Monitoring" (GAO-14-126). I commend you for the thorough review. Your observations will be extremely helpful as agencies seek ways to strengthen and improve their collection and reporting of data in reference to strategic sourcing going forward.

As you note, agencies have generally considered small business participation as a percentage of total contract dollars, as part of their strategic sourcing initiatives. The SBA has always advocated for establishing a baseline of small business performance, with triggers requiring small business participation where agencies fall below those baselines. In order to achieve overall statutory small business goals, SBA has also advocated for agencies to consider opportunities for all socioeconomic categories, and to provide "on ramps" to ensure continuous, robust small business participation. While we recognize strategic sourcing may result in savings for the Federal Government, strategic sourcing generally results in the reduction of the number of participating suppliers and vendors, including small businesses. The impact on these concerns, future competition and the local small business community has not been quantified.

Once again, thank you for your draft report, which should prove to be invaluable as agencies seek ways to ensure robust small business participation in strategic sourcing.

Sincerely,

A handwritten signature in black ink, appearing to read "John Shoraka".

John Shoraka  
Associate Administrator  
for Government Contracting and  
Business Development



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# Appendix VIII: GAO Contact and Staff Acknowledgments

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## GAO Contact

William B. Shear, (202) 512-8678 or [shearw@gao.gov](mailto:shearw@gao.gov)

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## Staff Acknowledgments

In addition to the contact named above, Paige Smith (Assistant Director), Pamela Davidson, Meredith Graves, Julia Kennon, Nadine Garrick Raidbard, William Russell, Jessica Sandler, Jennifer Schwartz, and William T. Woods made key contributions to this report.

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