

GAO

Testimony

Before the Committee on Oversight and  
Government Reform, House of  
Representatives

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## STRATEGIC SOURCING

# Improved and Expanded Use Could Provide Procurement Savings for Federal Information Technology

Statement of Cristina Chaplain, Director  
Acquisition and Sourcing Management



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Highlights of [GAO-13-408T](#) a testimony before the Committee on Oversight and Government Reform, U.S. House of Representatives

## Why GAO Did This Study

Federal agencies plan to spend about \$20 billion on development and acquisition of IT investments in fiscal year 2013, but GAO's prior work has found that IT projects too frequently incur cost overruns and result in duplicate systems. The proposed FITARA bill seeks to implement important reforms to maximize the return on investment for IT services and supplies. For many years, GAO has reported that the government is not fully leveraging its aggregate buying power and found that strategic sourcing, a process that moves a company away from numerous individual procurements to a broader aggregate approach, enabled companies to achieve savings of 10 to 20 percent. In 2012, GAO reported that expanded agency use of strategic sourcing could save billions in federal procurement costs.

GAO was asked to testify on the value of strategic sourcing as an important tool to achieve greater savings and efficiencies in information technology and other procurements. This testimony is based largely on GAO's September 2012 report on strategic sourcing as well as a body of work on IT management and acquisition practices.

## What GAO Recommends

GAO is not making any new recommendations in this testimony. GAO has issued recommendations to OMB and agencies on key aspects of strategic sourcing and IT management in the past. OMB and agencies concurred with the recommendations, and are in the process of implementing them.

View [GAO-13-408T](#). For more information, contact Cristina Chaplain at (202) 512-4841 or [chaplainc@gao.gov](mailto:chaplainc@gao.gov).

February 27, 2013

## STRATEGIC SOURCING

### Improved and Expanded Use Could Provide Procurement Savings for Federal Information Technology

## What GAO Found

In September 2012, GAO reported that many large procurement agencies were in the early stages of implementing strategic sourcing and had achieved limited results. For example, in fiscal year 2011, the Departments of Defense, Homeland Security, Energy, and Veterans Affairs accounted for 80 percent of the \$537 billion in federal procurement spending, but reported managing about 5 percent of that spending, or \$25.8 billion, through strategic sourcing efforts. These agencies reported savings of \$1.8 billion—less than one-half of 1 percent of federal procurement spending. Further, most of these agencies' strategic sourcing efforts did not address their highest spending areas—including some information technology (IT)-related services—which may provide opportunities for additional savings. While strategic sourcing may not be suitable for all procurements, leading companies strategically manage about 90 percent of their procurements and report annual savings of 10 percent or more. When strategic sourcing contracts were used, federal agencies generally reported achieving savings between 5 and 20 percent.

Agencies also continue to face challenges in obtaining and analyzing reliable and detailed data on spending, securing leadership support for strategic sourcing, and applying this approach to acquiring services. In 2012, GAO reported that agencies and federal strategic sourcing programs generally continued to rely on the government's current system for tracking contracting information data, and noted numerous deficiencies with this data for the purposes of conducting strategic sourcing research. GAO also found that most of the reviewed agencies were challenged by a lack of leadership commitment to strategic sourcing, though improvements were under way. Additionally, officials reported that they have been reluctant to strategically source services (as opposed to goods) for a variety of reasons, such as difficulty in standardizing requirements. However, leading companies GAO spoke with have focused their efforts on services, such as telecommunications and IT services, over the past 5 to 7 years because of the growth in spending in that area, and have achieved significant savings. Leading companies employ more sophisticated strategic sourcing techniques, using spend analyses and in-depth market research to tailor their acquisition approaches to the complexity and availability of the particular good or service they are acquiring.

Agencies and the Office of Management and Budget (OMB) have taken some recent actions to increase the use of strategic sourcing and improve IT management. For example, in 2012, OMB called for agencies to strategically source at least two new products or services in 2013 and 2014 with at least one to target an IT commodity or service. To increase transparency and visibility into agencies' potentially duplicative IT investments, OMB required in March 2012 that agencies conduct IT portfolio reviews to identify duplicative IT investments.

Strategic sourcing is not the only tool to improve IT acquisitions. GAO has previously reported on the value of matching requirements to resources, ensuring cost estimates are complete and accurate, and empowering program managers, among other practices, in preventing the types of acquisition problems the proposed Federal Information Technology Acquisition Reform Act (FITARA) would address.



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Chairman Issa, Ranking Member Cummings, and  
Members of the Committee:

I am pleased to be here today to discuss the proposed Federal Information Technology Acquisition Reform Act (FITARA) bill provisions and the value of strategic sourcing as an important tool to achieve greater savings and efficiencies in information technology and other procurements. Given the increasing fiscal pressures facing the federal government, there has been a renewed focus on maximizing efficiencies in the procurement process to achieve cost savings. In prior reports, we have found that because procurement within the federal government is generally decentralized, the government is not fully leveraging its aggregate buying power to obtain the most advantageous terms and conditions for its procurements, and could benefit from further adoption of a process known as strategic sourcing. This process, used by leading companies, involves a range of activities, from using spend analysis to develop a better picture of how much an agency is spending on goods and services, to taking an enterprisewide approach that moves an organization away from numerous individual procurements to a broader aggregate approach. Our prior work has found that such an approach can help agencies leverage their buying power, reduce costs, and better manage suppliers.<sup>1</sup> While strategic sourcing may not be suitable for all procurements, we have found that leading companies generally strategically manage about 90 percent of their procurement spending and achieve savings of 10 to 20 percent of total procurement costs.

As FITARA recognizes, federal information technology (IT) investments could benefit from adoption of strategic sourcing practices. Federal agencies plan to spend about \$20 billion on development and acquisition of IT investments in fiscal year 2013, but our prior work has found that IT projects too frequently incur cost overruns and result in duplicate systems while contributing little to mission-related outcomes.<sup>2</sup> The proposed

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<sup>1</sup>GAO, *Strategic Sourcing: Improved and Expanded Use Could Save Billions in Annual Procurement Costs*, [GAO-12-919](#) (Washington, D.C.: Sept. 20, 2012).

<sup>2</sup>GAO, *Information Technology: OMB and Agencies Need to Fully Implement Major Initiatives to Save Billions of Dollars*, [GAO-13-297T](#) (Washington, D.C.: Jan. 22, 2013); and *Information Technology: Better Informed Decision Making Needed on Navy's Next Generation Enterprise Network Acquisition*, [GAO-11-150](#) (Washington, D.C.: Mar. 11, 2011).

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FITARA bill also recognizes that it is vitally important for agencies to conduct meaningful spend analyses of IT procurement data to identify unnecessary duplication of contracts and where possible, aggregate demand to get the best price for commonly used IT products and services. The bill also stresses the importance of greater Chief Information Officer (CIO) accountability and authority, and the need to establish centralized IT centers to manage an optimal mix of governmentwide IT contracts.

You asked us to testify on the value of strategic sourcing as an important tool to achieve greater savings and efficiencies in information technology and other procurements. In September 2012, we issued a report to this committee on selected federal agencies' use of strategic sourcing practices, and found that many large procurement agencies were in the early stages of implementing strategic sourcing and had difficulties collecting and analyzing procurement data, as well as obtaining leadership support to achieve savings and efficiencies on par with leading companies.<sup>3</sup> For example, in fiscal year 2011, the Departments of Defense (DOD), Homeland Security (DHS), Energy, and Veterans Affairs (VA) accounted for 80 percent of the \$537 billion in federal procurement spending, but reported managing about 5 percent of that spending, or \$25.8 billion, through strategic sourcing efforts. These agencies reported savings of \$1.8 billion—less than one-half of one percent of procurement spending. For all categories of spending, including information technology, agencies we reviewed faced challenges to collect and analyze procurement spending data needed to identify strategic sourcing opportunities, some struggled to obtain senior leadership support, and once strategic sourcing initiatives were implemented, most agencies did not monitor progress against established goals to achieve savings and other benefits. To successfully implement the proposed FITARA and achieve its intended results, it is important for agencies to overcome these challenges.

GAO has identified other acquisition leading practices that are relevant to the proposed FITARA. In particular, our visits to leading companies over the past decade have repeatedly confirmed that acquisition success hinges on practices such as:

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<sup>3</sup>[GAO-12-919](#).

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- prioritizing investments so that projects can be fully funded and it is clear where projects stand in relation to the overall portfolio;
  - researching and defining requirements before programs are started and limiting changes after they are started;
  - matching resources to requirements, that is time, money, technology and people, before undertaking a new development effort;
  - using quantifiable data and demonstrable knowledge to make go/no-go decisions, covering critical facets of the program such as cost, schedule, technology readiness, and relationships with suppliers;
  - ensuring cost estimates are complete, accurate, and updated regularly; and
  - empowering program managers to make decisions on the direction of the program and to resolve problems and implement solutions as well as holding program managers accountable for their choices.

These and other leading practices we have identified can be employed on IT projects as well as any other complex, sophisticated government technology program.

This testimony is based largely on GAO's September 2012 report on strategic sourcing, as well as a body of work on IT management and acquisition practices. All work on which this testimony is based was performed 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 objective.

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## Background

GAO has been assessing strategic sourcing and the potential value of applying these techniques to federal acquisitions for more than a decade. In 2002, we studied leading companies that made a number of dramatic changes to the way they managed procurement and found that these changes, in turn, resulted in significant cost savings and other

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improvements. In 2004, we identified four broad principles that were critical to successfully carrying out the companies' strategic approach to procuring both products and services.

**Figure 1: Broad Principles and Practices of Leading Companies' Strategic Approach**

**Commitment...***Secure up-front commitment from top leaders*

- Recognize and communicate the urgency to change procurement spending practices
- Provide clear and strong executive leadership, including goals and targets

**Knowledge...***Obtain improved knowledge on procurement spending*

- Develop information system—i.e., a spend analysis system—to identify how much is being spent with which supplier for what goods or services
- Analyze the data to identify opportunities to reduce costs, improve service levels, and provide better management of suppliers

**Change...***Create supporting structure, processes, and roles*

- Create or identify organizations responsible for coordinating or managing purchases
- Establish proactive business relationships among end users, purchasing units, and other stakeholders
- Implement more integrated team-based sourcing processes
- Create commodity/service experts

**Support...***Enable success through sustained leadership, communication, and metrics*

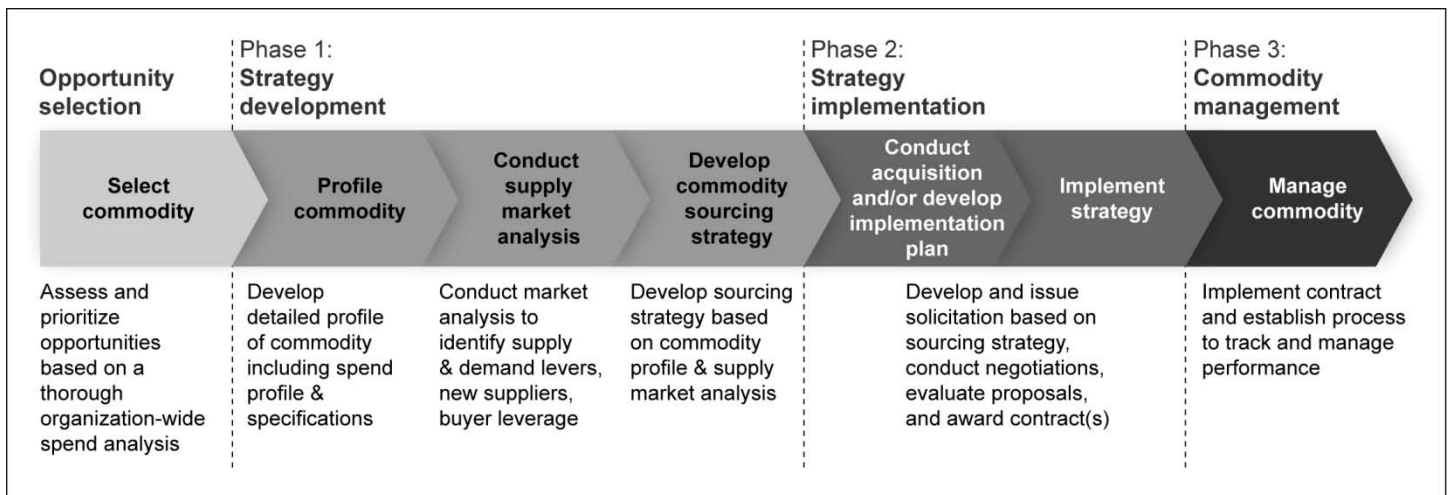
- Obtain sustained support from senior leadership to facilitate change
- Establish clear lines of communication among all affected parties
- Demonstrate value and credibility of new processes through the use of metrics

Source: GAO.

A strategic sourcing effort begins with an opportunity assessment—an analysis of spending 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 cost cutting, streamlining operations, and reducing the number of suppliers.

Once a product or service is selected for strategic sourcing, a standardized process is followed to develop, implement, and manage the sourcing strategy for that product or service. See figure 2 for key steps in the strategic sourcing process.

**Figure 2: Overview of the Strategic Sourcing Process**



Source: GSA.

Recognizing the benefits of strategic sourcing, the Office of Management and Budget (OMB) issued a memorandum in 2005 that implemented strategic sourcing practices.<sup>4</sup> Agencies were directed to develop and implement strategic sourcing efforts based on the results of spend analyses.<sup>5</sup> In addition to individual agency efforts, a governmentwide strategic sourcing program—known as the Federal Strategic Sourcing Initiative (FSSI)—was established in 2005. FSSI was created to address governmentwide opportunities to strategically source commonly purchased products and services and eliminate duplication of efforts

<sup>4</sup>Office of Management and Budget, *Memorandum for Chief Acquisition Officers, Chief Financial Officers, and Chief Information Officers on Implementing Strategic Sourcing* (Washington, D.C.: 2005).

<sup>5</sup>“Spend analysis” is a tool that provides knowledge about who are the buyers, who are the suppliers, how much is being spent for what goods and services, and where are the opportunities to leverage buying power. Private sector companies are using spend analysis as a foundation for employing a strategic approach to procurement.

across agencies. The FSSI mission is to encourage agencies to aggregate requirements, streamline processes and coordinate purchases of like products and services to leverage spending to the maximum extent possible. At the time of our 2012 report, four FSSI efforts were ongoing and three were planned. The FSSI website indicates that as of February 1, 2013, that status is unchanged. Table 1 describes the four implemented governmentwide strategic sourcing initiatives.

**Table 1: Implemented Federal Strategic Sourcing Initiatives (FSSI), Fiscal Year 2011**

| Initiative                                     | Description   | Date implemented | Governmentwide spending on applicable products and services | Spending through strategic sourcing                   | Savings reported by FSSI Program Management Office    |
|--|---|------------------|---|---|---|
| Office Supplies - Second Generation            | Offers a catalog of consumable office supplies  | June 2010        | \$1.6 billion   | \$202 million   | \$24 million  |
| Domestic Delivery Services – Second Generation | Offers delivery service for small packages  | August 2009      | \$505 million   | \$109 million   | \$31 million  |
| Telecommunications Expense Management Services | Optimizes wireless rate plans, reduces billing errors, and increases visibility into spending   | January 2008     | \$100 million   | \$28 million  | \$5 million   |
| Print Management                               | Reduces equipment needed for printing, copying, scanning, and faxing, and includes print behavior and continuous process improvement components | September 2011   | Spending not yet under management in fiscal year 2011       | Spending not yet under management in fiscal year 2011 | Spending not yet under management in fiscal year 2011 |

Source: GAO analysis of GSA data

Three additional initiatives are planned as of February 2013. SmartBUY is an existing federal procurement vehicle that was started in 2003 and leverages the government’s buying power to reduce the cost of commercial off-the-shelf software and services. As of the end of fiscal year 2011, SmartBUY was not classified as an FSSI effort, but the Strategic Sourcing Working Group in June 2012 formally accepted it as an FSSI. The FSSI Program Management Office planned that going forward, the FSSI SmartBUY will develop strategies to address as many large software publishers as possible. A second planned initiative targets wireless rate plans and devices, and will aim to deliver acquisition savings due to lower purchasing costs as well as operational savings through



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improvement of processes and information. Finally, a third upcoming FSSI effort for publication licenses will be led by the Library of Congress.

To allow government agencies to purchase jointly, the FSSIs use interagency acquisition vehicles. An interagency acquisition takes place when an agency needing supplies or services (the requesting agency) either places an order using another agency's contract in a direct acquisition or obtains acquisition assistance from another agency (the servicing agency) in an assisted acquisition. Agencies spend tens of billions of dollars annually through interagency contract vehicles, such as the General Services Administration's Multiple Award Schedules (MAS) program, governmentwide acquisition contracts, and multi-agency contracts. In recent years, for example, annual spending through governmentwide acquisition contracts and GSA's MAS program has totaled more than \$40 billion. Citing risks in the use of interagency contracts as well as instances of agencies awarding out-of-scope work through interagency contracts and not complying with laws and regulations, GAO designated the management of interagency contracting as a governmentwide high-risk area in 2005. In 2013, GAO found that sufficient progress has been made to remove the high-risk designation from management of interagency contracting.<sup>6</sup> Improvements include (1) continued progress made by agencies in addressing identified deficiencies, (2) establishment of additional management controls, (3) creation of a policy framework for establishing new interagency contracts, and (4) steps taken to address the need for better data on these contracts.

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## Expanded Use of Strategic Sourcing Could Save Billions in Federal Procurement Costs

In our September 2012 report, we found that most of the selected agencies we reviewed leveraged a fraction of their buying power. More specifically, in fiscal year 2011, DOD, DHS, Energy, and VA accounted for 80 percent of the \$537 billion in federal procurement spending, but reported managing about 5 percent of that spending, or \$25.8 billion, through strategic sourcing efforts. Similarly, we found that the FSSI program had only managed a small amount of spending through its four governmentwide strategic sourcing initiatives in fiscal year 2011, although it reported achieving significant savings on those efforts. Further, we found that most selected agencies' efforts did not address their highest

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<sup>6</sup>GAO, *High-Risk Series: An Update*, [GAO-13-283](#) (Washington, D.C.: February 2013).

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spending areas such as services—including some IT-related services—which may provide opportunities for additional savings. However, we found that when strategically sourced contracts were used, agencies generally reported achieving savings. For example, selected agencies generally reported savings ranging from 5 percent to over 20 percent of spending through strategically sourced contracts. DHS reported fiscal year 2011 savings of \$324 million. At the governmentwide level, the FSSI program reported managing \$339 million through several governmentwide initiatives in fiscal year 2011 and achieving \$60 million in savings, or almost 18 percent of the procurement spending it managed through these initiatives. These savings are on par with leading companies, though on a much lower scale, as leading companies strategically manage 90 percent of their procurement spending.

After strategic sourcing contracts are awarded, realizing cost savings and other benefits depends on utilization of these contracts. We found that only 15 percent of governmentwide spending for the products and services covered by the FSSI program went through FSSI contracts in fiscal year 2011. Agencies cited a variety of reasons for not participating, such as wanting to maintain control over their contracting activities, or because the agency had unique requirements. FSSI use is not mandatory and agencies face no consequences for not using FSSI contract vehicles. Proposed FITARA provisions seek to maximize the benefits of FSSIs by prioritizing FSSI use over other sources for similar products or services.

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## Agencies Need to Overcome Key Challenges to Improve Strategic Sourcing Efforts

Agencies also continue to face challenges in obtaining and analyzing reliable and detailed data on spending, securing leadership support, and acquiring services through strategic sourcing. Practices used by leading companies offer some insights into how these challenges may be addressed.

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### Spending Data

Agencies continue to face challenges in obtaining and analyzing reliable and detailed data on spending. In March 2011, we reported that the starting point for strategic sourcing efforts is having good data on current spending, and we suggested that agency leaders across the government

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need to collect, maintain, and analyze data on current procurement spending.<sup>7</sup> Likewise, the proposed FITARA underscores the importance of using spend analyses to identify wasteful spending on duplicative contracts and opportunities to aggregate demand and leverage scale to achieve procurement savings. Specifically, section 211 of the proposed FITARA would require that an analysis of governmentwide spending on software products or services be conducted as part of a governmentwide inventory of information technology assets. The information gained through this spend analysis would be used to support decisions for strategic sourcing under the FSSI program.

This provision focuses on the biggest stumbling block to increasing the use of strategic sourcing in the federal government. In 2012, we found that agencies were still challenged to obtain and analyze suitable agencywide spending data.<sup>8</sup> Conducting a spend analysis to obtain knowledge of procurement spending is a foundational component of an effective strategic approach. The analysis reveals how much is spent each year, what was bought, from whom it was bought, and who was purchasing it. The analysis also identifies where numerous suppliers are providing similar goods and services—often at varying prices—and where purchasing costs can be reduced and performance improved by better leveraging buying power and reducing the number of suppliers to meet needs. For example, we have previously reported that the General Services Administration estimated federal agencies spent about \$1.6 billion during fiscal year 2009 purchasing office supplies from more than 239,000 vendors.<sup>9</sup> GSA used available data on spending to support development of the Office Supplies Second Generation FSSI, which focuses office supply spending to 15 strategically sourced contracts. Agencies and the federal strategic sourcing program generally continued to rely on the government's current system for tracking contracting information data, and noted numerous deficiencies with this data for the purposes of conducting strategic sourcing research. Although we noted that some agencies had been able to identify some strategic sourcing opportunities despite flaws in the available data, the difficulty of obtaining

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<sup>7</sup>GAO, *Opportunities to Reduce Potential Duplication in Government Programs, Save Tax Dollars, and Enhance Revenue*, [GAO-11-318SP](#) (Washington, D.C.: Mar. 1, 2011).

<sup>8</sup>[GAO-12-919](#).

<sup>9</sup>See, *Strategic Sourcing: Office Supplies Pricing Study Had Limitations, but New Initiative Shows Potential for Savings*, [GAO-12-178](#) (Washington D.C.: Dec. 20, 2011).

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reliable and detailed data on spending hindered their ability to assess which strategic sourcing opportunities offered the most potential benefits. Section 301(i) of FITARA provides for assisting agencies by requiring the compilation of a price list and catalog containing current pricing information by vendor for IT commodities, accessible to executive agencies. This could assist agencies in conducting spend analyses of IT investments by enhancing their ability to conduct price comparisons and make more informed purchasing decisions.

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## Leadership Commitment

We also found in 2012 that most of the agencies we reviewed were challenged by a lack of leadership commitment to strategic sourcing, though improvements were under way.<sup>10</sup> We have reported that in the private sector, the support and commitment of senior management is viewed as essential to facilitating companies' efforts to re-engineer their approaches to acquisition as well as to ensuring follow through with the strategic sourcing approach. However, we found in 2012 that leaders at some agencies were not dedicating the resources and providing the incentives that were necessary to build a strong foundation for strategic sourcing. In addition, a lack of clear guidance on metrics for measuring success had also impacted the management of ongoing FSSI efforts as well as most selected agencies' efforts. We found that agencies 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. Several agencies also mentioned a need for sustained leadership support and additional resources in order to more effectively monitor their ongoing initiatives.

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## Purchasing Services

Finally, agencies have reported a perception that strategically sourcing the purchase of services (rather than products) entails additional challenges. In fiscal year 2011, more than half of the procurement spending at the four agencies we reviewed was used to acquire services. However, we found that strategic sourcing efforts addressed products significantly more often than services. Officials reported that they have been reluctant to strategically source services for a variety of reasons, such as difficulty in standardizing requirements or a decision to focus on less complex commodities that can demonstrate success. However,

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<sup>10</sup>[GAO-12-919](#).

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leading companies we spoke with have focused their efforts on services in the past 5 to 7 years because of the growth in spending in that area, and have achieved significant savings. Leading companies reported viewing telecommunications and IT services, among others, as prime candidates for centralized procurement in order to achieve savings and efficiencies.

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## Leading Company Practices

Our recent work indicates leading companies have moved into more sophisticated strategic sourcing techniques, using spend analyses and in-depth market research to tailor their acquisition approaches to the complexity and availability of the particular good or service they are acquiring. Leading companies anchor their procurement strategies for both goods and services on certain key practices such as maintaining spend visibility, centralizing procurement, and using category strategies in order to build spending and market knowledge. For example, companies establish automated systems to extract and compile internal financial data covering everything they buy; organize data into complete and consistent categories of products, services, and suppliers; and have data continually analyzed. This knowledge allows companies to take a tailored approach to individual purchase decisions: for example, leveraging buying power across the company for relatively less complex commodity items with many suppliers, and negotiating costs of individual components of more complex goods and services that have few suppliers.

Our work has found that companies' centralized procurement approach relies on robust spending and market knowledge that allows for a tailored procurement approach to each type of service. Telecommunications and IT services vary in requirements complexity, but are generally served by many suppliers and a competitive marketplace. For telecommunications services—viewed as relatively simple—companies rely on the classic tactic of aggregating demand and leveraging volume and competition to lower costs. Companies view IT services as more complex, requiring greater attention to the trade-off between price and quality. Nevertheless, companies are able to lower costs through leveraging competition among suppliers prequalified by skill and effectiveness.

In addition, leading companies we most recently spoke with highlighted the use of procurement catalogs with pre-negotiated prices for services, particularly those that are less complex. The catalogs allow the companies to leverage their detailed knowledge about vendor pricing. One company that was in the midst of developing such catalogs at that

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time, planned to implement them for commonly acquired, routine services so that business units could directly contract for these services up to a specified dollar amount. Companies emphasized the need to frequently review and revise tactics to account for market trends and ensure they are getting the best value.

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## Recent Actions Could Facilitate Making IT Investments More Efficient

OMB and other agencies have recently taken actions to expand the use of strategic sourcing, reduce duplicative IT contracts, and improve the use of interagency contracts. In September 2012, GAO recommended that the Secretary of Defense, the Secretary of Veterans Affairs, and the Director of OMB take a series of detailed steps to improve strategic sourcing efforts. More specifically:

- the Secretary of Defense should evaluate the need for additional guidance, resources, and strategies, and focus on DOD's highest spending categories;
- the Secretary of Veterans Affairs should evaluate strategic sourcing opportunities, set goals, and establish metrics; and
- the Director of OMB should issue updated governmentwide guidance on calculating savings, establish metrics to measure progress toward goals, and identify spending categories most suitable for strategic sourcing.

In commenting on the September 2012 report, DOD, VA, and OMB concurred with the recommendations and stated they would take action to adopt them.

In 2012, OMB also released a Cross-Agency Priority Goal Statement, which called for agencies to strategically source at least two new products or services in both 2013 and 2014 that yield at least 10 percent savings. At least one of these new initiatives is to target IT commodities or services. In December 2012, OMB further directed agencies to reinforce senior leadership commitment by designating an official responsible for coordinating the agency's strategic sourcing activities. In addition, OMB identified agencies that should take a leadership role on strategic sourcing. OMB called upon these agencies to lead governmentwide strategic sourcing efforts by taking steps such as recommending management strategies for specific goods and services—including several that are IT-related—to ensure that the federal government receives the most favorable offer possible. Additionally, OMB directed

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these agencies to promote strategic sourcing practices inside their agencies by taking actions including collecting data on procurement spending.

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### Actions to Reduce Duplicative IT Investments

We previously reported and testified on the issue of duplicative IT investments at DOD and the Department of Energy.<sup>11</sup> Specifically, we found 37 potentially duplicative investments, accounting for about \$1.2 billion in total IT spending for fiscal years 2007 through 2012. We made recommendations to those agencies to report on the progress of efforts to identify and eliminate duplication, where appropriate. To increase transparency and visibility into agencies' potentially duplicative IT investments, OMB required in March 2012 that agency Deputy Secretaries or Chief Operating Officers lead PortfolioStats—IT portfolio reviews—working in coordination with CIOs, Chief Financial Officers, and Chief Acquisition Officers. Such an effort, as planned, is appropriate given the numerous investments performing the same function, as we reported in February 2012.<sup>12</sup> For example, 27 major federal agencies planned to spend \$2.7 billion on 580 financial management systems in 2011. OMB believes that the PortfolioStat effort has the potential to save the government \$2.5 billion over the next 3 years by, for example, consolidating duplicative systems.

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### Actions to Improve Use of Interagency Contracts

In response to our recommendations aimed at improving data on interagency contracts, OMB and GSA have taken a number of steps to address the need for better data on interagency contracting vehicles. These efforts should enhance both governmentwide efforts to manage interagency contracts and agency efforts to conduct market research and negotiate better prices. To promote better and easier access to data on existing contracts, OMB has made improvements to its Interagency Contract Directory, a searchable online database of indefinite-delivery vehicles available for interagency use. It has also posted information on governmentwide acquisition contracts and blanket purchase agreements available for use under the Federal Strategic Sourcing Initiative on an OMB website accessible by federal agencies. A policy framework established by

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<sup>11</sup>GAO, *Information Technology: Departments of Defense and Energy Need to Address Potentially Duplicative Investments*, [GAO-12-241](#) (Washington, D.C.: Feb. 17, 2012).

<sup>12</sup>[GAO-12-241](#).

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OMB addresses concerns about potential duplication by requiring agencies to develop a thorough business case prior to establishing certain contract vehicles. The guidance further requires senior agency officials to approve the business cases and post them on an OMB website to provide interested federal stakeholders an opportunity to offer feedback. OMB then is able to conduct follow-up with sponsoring agencies if significant questions, including those related to duplication, are raised during the vetting process. While these actions are steps in the right direction, it is too early to determine what results these actions will have. The importance of ensuring these efforts are supported with rigorous spend analysis and strong leadership cannot be stressed enough. We observed during our review that when roadblocks were encountered by agencies, officials too easily gave up on the idea of applying strategic sourcing techniques to more complex goods and services.

In closing, current fiscal pressures and budgetary constraints have heightened the need for agencies to take full advantage of strategic sourcing and other efficiencies. These practices drive efficiencies and yield benefits beyond savings, such as increased business knowledge. Governmentwide strategic sourcing efforts have been initiated, and federal agencies have improved and expanded upon their use of strategic sourcing to achieve cost savings and other benefits. However, as the proposed FITARA bill recognizes, much more needs to be done to better incorporate strategic sourcing leading practices, increase the amount of spending through strategic sourcing, and direct more efforts at high spend categories, such as IT services. Strategic sourcing efforts to date have targeted a small fraction of federal procurement spending, and progress to expand strategic sourcing has been slow. If implemented effectively, billions of dollars in potential savings may be realized, providing agencies a valuable tool for maximizing their ability to carry out critical missions under tight budgets.

Chairman Issa, Ranking Member Cummings, and Members of the Committee, this concludes my statement. I would be pleased to answer any questions at this time.

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## GAO Contact and Staff Acknowledgments

For future questions about this statement, please contact me at (202) 512-4841 or [chaplainc@gao.gov](mailto:chaplainc@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement. Individuals making key contributions to this statement include W. William Russell, Assistant Director; Raj Chitikila; Laura Greifner; John Krump; Ann Marie Udale; and Rebecca Wilson.



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