



U.S. Department of Energy
Office of Inspector General
Office of Audits and Inspections

AUDIT REPORT

Department of Energy's Implementation of
Strategic Sourcing

OAS-L-15-05

November 2014



Department of Energy
Washington, DC 20585

November 25, 2014

MEMORANDUM FOR THE DIRECTOR, OFFICE OF MANAGEMENT

A handwritten signature in black ink, appearing to read "Jack Rouch", is written over a horizontal line.

FROM: Jack Rouch, Director
Central Audits Division
Office of Inspector General

SUBJECT: INFORMATION: Audit Report on "Department of Energy's
Implementation of Strategic Sourcing"

BACKGROUND

In 2005, the Office of Management and Budget (OMB) identified the importance of Federal agencies maximizing the value of each dollar spent through the use of strategic sourcing. Strategic sourcing is 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. In response to OMB directives issued since 2005, the Department of Energy (Department) developed performance goals to expand the use of strategic sourcing, increase cost savings, and improve the effectiveness and efficiency of its acquisitions. For example, in Fiscal Year (FY) 2013, the Department's strategic sourcing goal was to save \$195 million. The Department's Strategic Programs Division (Strategic Programs) within the Office of Management, Office of Acquisition and Project Management, is responsible for establishing strategic sourcing processes, policies, and procedures on a Department-wide basis, as well as collecting strategic sourcing savings data.

Due to the emphasis on reducing Government spending in recent years, we initiated this audit to determine whether the Department had implemented strategic sourcing in an effective and efficient manner.

RESULTS OF AUDIT

We found the Department had taken a number of positive steps to implement strategic sourcing, including the establishment of cost savings reporting guidance, issuance of management commitment memos by senior Department officials, and the development of performance goals and objectives. In addition, contractors of the Department's Offices of Environmental Management and Science, and the National Nuclear Security Administration (NNSA) used a variety of efforts to accomplish their strategic sourcing goals, including the use of leveraged commodity purchasing arrangements and pricing developed by the Department's Integrated Contractor Purchasing Team. The Office of Environmental Management and NNSA also used strategic tools and leveraged commodity agreements developed by the Department's Supply

Chain Management Center. These strategic tools were used to conduct electronic procurement bidding, including reverse auctions, where bidders could see each other's bids and thus, drive the price down. The tools also included approved agreements through which sites could execute orders using an online catalog. Strategic Programs tracked, reported, and maintained strategic sourcing savings, and in FY 2013, the Department reported that it had achieved savings totaling approximately \$237 million from 41 sites, exceeding its goal by approximately 21 percent. However, while we identified a number of positive actions, we noted discrepancies in the savings reported by the sites to Strategic Programs.

Strategic Sourcing Savings

We found that the Department had overstated strategic sourcing savings by approximately \$8.7 million, or about 22 percent, of the approximate \$39.8 million claimed in FY 2013 for six sites we evaluated. Based on our review, we noted discrepancies such as calculation errors and incorrect categorization of savings, as the following examples illustrate:

- A site reported \$4.1 million in strategic sourcing savings for property reutilization. The site's Contracting Officer stated that reutilizing equipment was considered strategic sourcing because it saved money instead of incurring cost for new equipment. Strategic Programs officials, however, informed us that property reutilization activities did not follow the Department's strategic sourcing policies and procedures, and should not have been reported as strategic sourcing savings. This same site also acknowledged that it had inappropriately reported over \$1.3 million in savings due to a data entry error.
- Another site understated its reported savings by \$529,685 because it omitted savings resulting from the use of leveraged agreements and used an incorrect spreadsheet formula to calculate savings.
- A transaction sampled for one of the sites contained an overstatement totaling approximately \$2.4 million. In this instance, the site inappropriately reported strategic sourcing savings for identifying a data entry error that occurred during the procurement bidding process. The error overstated the quantity of material required for the procurement.
- We also discovered a site improperly claimed project scope reductions that occurred during the project technical evaluation process as strategic sourcing savings. Site officials did not agree with our conclusion and indicated that the scope changes, which resulted in an overstatement of \$890,260, were identified during the technical evaluation process and as such should be counted as strategic sourcing savings. We found, however, that technical evaluation is accomplished by personnel having specialized knowledge in a required discipline, such as engineering, to examine and analyze proposed resources and determine whether such resources reflect reasonable economy and efficiency. We question the categorization of these savings as strategic sourcing because they are inconsistent with the Department's policy.

- One transaction sampled from another site revealed an overstatement of \$365,117. In this instance, the overstatement resulted from a calculation error, which was identified by a site official after we requested additional support for the claimed amount.

The identified errors occurred because some sites misinterpreted the guidance when classifying savings as "strategic sourcing." Additionally, while sites had various controls in place to prevent or detect errors, these controls did not always work as intended. Finally, Strategic Programs did not have a process in place to ensure the accuracy of site-reported savings but instead relied on Department program offices to verify and validate their sites' submissions and ensure that the savings were accurate. We found the sites had various mechanisms to verify savings, such as designating individuals to review and certify savings and conducting periodic compliance reviews. However, a Strategic Programs official informed us that follow-up reviews of a site's reported savings were generally only performed if he noticed significant variances from quarter to quarter. The official added that because Strategic Programs does not have Department-wide procurement spend data nor a centralized tool that can track savings, it is difficult to target specific savings for verification at the Department level, unless spot checks were performed. The official also acknowledged that Strategic Programs may need to take an approach that uses spot checks to verify savings on a periodic basis.

While the cause of the errors primarily resulted from human error or misinterpretation of guidance, in response to our report, Strategic Program officials stated that those sites that use a spend analytics tool had fewer errors due to the automation of the spend and savings data. Officials also stated that a benefit of spend analytics software is that it would allow the Department visibility into past purchase data to identify potential opportunities for future consolidated and coordinated procurements.

Although the Department reported that it had exceeded its FY 2013 strategic sourcing goal of saving \$195 million by 21 percent, these inaccuracies posed a risk that the Department's savings calculations may be misstated. These inaccuracies could also lead Department management to rely on less than reliable information to monitor the success of strategic sourcing efforts.

PLANNED ACTIONS

Strategic Programs officials told us that they plan to take action to address the errors in reported savings by developing an approach to verify sites' support for strategic sourcing savings. Additionally, Strategic Programs is developing a training curriculum for Federal and contractor staff to provide an overview of the strategic sourcing vehicles available for use, as well as explain how to properly calculate and report strategic sourcing savings. Because of these planned actions, we are not making any recommendations.

Attachment

cc: Deputy Secretary
Deputy Under Secretary for Science and Energy
Under Secretary for Nuclear Security
Deputy Under Secretary for Management and Performance
Chief of Staff

OBJECTIVE, SCOPE AND METHODOLOGY

OBJECTIVE

The objective of this audit was to determine whether the Department of Energy (Department) had implemented strategic sourcing in an effective and efficient manner.

SCOPE

We performed this audit between April and October 2014 at the Department's Strategic Programs Division in Washington, DC, and the Kansas City Plant in Kansas City, Missouri. We also obtained strategic sourcing savings support documentation from the following sites: National Nuclear Security Administration's (NNSA) Supply Chain Management Center (SCMC), Office of River Protection, Office of Environmental Management, Argonne National Laboratory, Oak Ridge National Laboratory, and the Department's Headquarters Procurement Office. This audit was conducted under the Office of Inspector General Project Number A14DN031.

METHODOLOGY

To accomplish our audit objective, we:

- Reviewed laws, regulations, policies and procedures applicable to strategic sourcing.
- Examined relevant prior Office of Inspector General and Government Accountability Office reports.
- Interviewed key personnel from the Department's Strategic Programs Division (Strategic Programs), program offices, and contractors.
- Evaluated, on a Department-wide basis, the effectiveness of the overall implementation of strategic sourcing efforts for both the program offices and contractors.
- Evaluated the Department's oversight over the sites' implementation of strategic sourcing efforts to include the adequacy of Strategic Programs' guidance, reporting mechanisms, and collection and review processes.
- Conducted a site visit to the Kansas City Plant to evaluate the effectiveness of NNSA's SCMC, which included the development of strategic sourcing agreements and strategic tools that automated the procurement process.
- Judgmentally selected two program offices and four contractors that reported their savings on the Department's Fiscal Year 2013 scorecard. We judgmentally selected 12 quarterly reports from the six sites and performed analytical procedures to evaluate the accuracy of their reported savings. Analytical procedures included reviewing the accuracy of savings computations and reviewing the categorization of the savings. The savings for the 12 quarters selected for review totaled \$39.8 million of the approximately

\$237 million in reported strategic sourcing savings. As a result of our findings from this initial review, we judgmentally selected 26 transactions, totaling approximately \$9.4 million from the \$39.8 million in reported savings, to perform a more detailed review by obtaining and evaluating supporting documentation. The dollar value of the strategic sourcing savings was the primary attribute considered in our sample selection. Because we did not use a statistical sample, we could not project to the population.

We conducted this performance audit 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 objective. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Accordingly, the audit included tests of controls and compliance with laws and regulations to the extent necessary to satisfy the objective. We considered the *GPRRA Modernization Act of 2010* as necessary to accomplish the objective and determined the Department had established performance goals to expand the use of strategic sourcing efforts and achieve cost savings. Because our review was limited, it would not necessarily have disclosed all internal control deficiencies that may have existed at the time of our audit. We conducted a limited reliability assessment of computer-processed data and deemed the data to be sufficiently reliable.

An exit conference was held on November 17, 2014.

FEEDBACK

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Washington, DC 20585

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