



# **AUDIT OF THE FEDERAL BUREAU OF PRISONS' EFFORTS TO IMPROVE ACQUISITION THROUGH STRATEGIC SOURCING**

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# AUDIT OF THE FEDERAL BUREAU OF PRISONS' EFFORTS TO IMPROVE ACQUISITION THROUGH STRATEGIC SOURCING

## EXECUTIVE SUMMARY

Strategic sourcing is the process of acquiring goods and services more efficiently by leveraging the government's buying power, streamlining contracting, and using other agencies' existing contracts instead of issuing new contracts. In 2005, the Office of Management and Budget (OMB) directed the government-wide use of strategic sourcing to control costs, and the General Services Administration (GSA) created the Federal Strategic Sourcing Initiative. That initiative established pools of blanket purchase agreements for selected commodities in an effort to eliminate duplication of contracting efforts across agencies.<sup>1</sup> In 2009, OMB required federal agencies to review existing acquisition practices and develop a plan to save 7 percent of contract spending by the end of FY 2011, and it specifically identified strategic sourcing as a savings method. In December 2012, OMB issued a memorandum establishing a strategic sourcing initiative in an effort to ensure that all agencies manage their acquisitions effectively and in cooperation with other agencies when possible.

This audit report assesses the Federal Bureau of Prisons' (BOP) efforts to improve acquisition through strategic sourcing. Our audit objectives were to: (1) assess the BOP's efforts to implement the Federal Strategic Sourcing Initiative and other strategic sourcing activities; and (2) determine whether these efforts have reduced the BOP's costs. The audit concentrated on, but was not limited to, the period from October 1, 2010, through March 31, 2013, during which time the BOP awarded almost \$9 billion in contracts to provide for the custody and care of federal prisoners.

We found that while the BOP had established national contracts and blanket purchase agreements to help reduce costs and achieve the goals of strategic sourcing, it had not established a program to implement and oversee the Federal Strategic Sourcing Initiative or other strategic sourcing activities. We also found that procurement personnel at BOP institutions were uncertain about whether the use of the national contracts and blanket purchase agreements was mandatory or optional.

In addition, the BOP had not established a consistent process for identifying and reporting cost savings achieved by using the national contracts, blanket purchase agreements, and other cost-savings initiatives. As a result, although BOP institutions reported that participation in such initiatives resulted in saving \$1.3 million from October 1, 2010, through March 31, 2013, it is unclear how this amount was calculated. Moreover, we believe that the BOP could achieve

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<sup>1</sup> A blanket purchase agreement is a simplified method of filling anticipated repetitive needs for supplies or services by establishing "charge accounts" with qualified sources of supply.

significantly greater cost savings by implementing a formal strategic sourcing program.

Based on the audit results, we recommend that the BOP implement a strategic sourcing program to: (1) continuously analyze its spending to identify and prioritize commodities with the greatest potential for cost savings; (2) identify appropriate benchmark prices for those items; (3) determine whether those commodities can be obtained at a lower cost by participating in existing contracts before initiating new contracts; and (4) collect data and report savings using appropriate "cost per" units of measurement. We also recommend that the BOP identify and communicate to BOP procurement staff when they must use existing contracts and initiatives and the circumstances under which they may procure the commodities through other sources, and that it include in its internal review process steps to verify whether BOP procurement offices are using strategic sourcing concepts in the acquisition of goods and services.

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# AUDIT OF THE FEDERAL BUREAU OF PRISONS' EFFORTS TO IMPROVE ACQUISITION THROUGH STRATEGIC SOURCING

## INTRODUCTION

The Federal Bureau of Prisons (BOP) provides custody and care of federal prisoners. As of December 9, 2013, the BOP housed 175,435 prisoners in 119 BOP institutions.<sup>2</sup> To care for these prisoners, the BOP contracts with vendors for food, clothing, health care, and social rehabilitation services. BOP procurement operations are conducted by 93 local procurement offices responsible for purchasing and contracting activities in the 119 institutions.<sup>3</sup> According to the Federal Procurement Data System, from October 1, 2010, through March 31, 2013, the BOP's central procurement office, regional offices, and facilities awarded approximately \$9 billion in contracts.<sup>4</sup>

Procurement in the BOP is largely de-centralized. Local procurement offices serve one or more institutions located in close proximity and for which the BOP consolidates support services such as procurement. Contracting Officers in the local procurement offices have delegated procurement authority of up to \$100,000. The local offices are also authorized to issue task orders and delivery orders, against established blanket purchase agreements, over the \$100,000 threshold.<sup>5</sup> The Field Acquisition Office in Grand Prairie, Texas, is responsible for awarding contracts for more than \$100,000. Staff at the institutions administer the larger contracts awarded by the Field Acquisition Office. The National Acquisitions and Support Section of the Procurement Executive's Office along with the Field Acquisition Office establish national contracts and blanket purchase agreements.<sup>6</sup>

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<sup>2</sup> The BOP also housed 42,427 prisoners in privately managed and contract facilities, but these facilities were not part of our review.

<sup>3</sup> Some BOP locations incorporate more than one BOP institution. For instance, the BOP has three facilities at its Allenwood, Pennsylvania, location – minimum security and medium security Federal Correction Institutions and a high security United States Penitentiary.

<sup>4</sup> The \$9 billion includes costs for contracted facilities. The Federal Procurement Data System does not provide adequate detail to separate costs for BOP operated institutions from privately managed and contract facilities.

<sup>5</sup> A blanket purchase agreement is a simplified method of filling anticipated repetitive needs for supplies or services by establishing "charge accounts" with qualified sources of supply.

<sup>6</sup> The BOP's National Acquisitions and Support Section notifies local procurement offices when national contracts and blanket purchase agreements are available for use.

## **Audit Objectives and Scope**

The objectives of our audit were to: (1) assess the BOP's efforts to implement strategic sourcing and the Federal Strategic Sourcing Initiative; and (2) determine whether these efforts have reduced the BOP's costs. The audit concentrated on, but was not limited to, the period from October 1, 2010, through March 31, 2013.

To determine the status of participation in the Federal Strategic Sourcing Initiative and BOP national contracts for BOP institutions, we surveyed all 93 local procurement offices and received a response from each office. We used a survey questionnaire to assess participation in national contracts and blanket purchase agreements. The questionnaire also assessed whether procurement staff considered participation in such contracts and agreements to be mandatory or optional.

Appendix I contains a more detailed description of our audit objectives, scope, and methodology. The results of our audit work and testing are reported in the Finding and Recommendations section of the report.



## FINDING AND RECOMMENDATIONS

The BOP has not fully adopted a strategic sourcing approach to procurement. Its purchasing is largely de-centralized with institutions making procurement decisions locally. The BOP has established national contracts and blanket purchase agreements, participates in other GSA and Department of Justice cost-savings initiatives, and encourages the institutions to use the national contracts and blanket purchase agreements, but it typically does not make the use of these cost-savings efforts mandatory. Also, the BOP does not track participation in the national contracts and other cost-savings initiatives, nor does it require documentation of cost savings achieved through participation in such programs. As a result, the BOP is not fully leveraging its buying power to reduce procurement costs.

### The Federal Strategic Sourcing Initiative

In 2005, the Office of Management and Budget (OMB) directed federal agencies to develop and implement strategic sourcing to help control spending.<sup>7</sup> When OMB addresses requirements to “agencies,” those requirements apply at the department level rather than at the component level. OMB 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.” OMB intended the process to help agencies optimize performance, minimize price, increase achievement of socio-economic acquisition goals, evaluate total life cycle management costs, improve vendor access to business opportunities, and otherwise increase the value of dollars spent. OMB directed agencies to analyze their spending and identify at least three commodities that could be purchased more effectively and efficiently through strategic sourcing.

OMB also required agencies to develop a strategic sourcing plan including annual goals and objectives, performance measures, and reporting requirements for monitoring the agency-wide program. OMB tasked agencies with developing methodologies for establishing baseline data and subsequent changes to the baseline for use throughout the strategic sourcing process.

In response to the 2005 OMB requirement, the General Services Administration (GSA) established the government-wide Federal Strategic Sourcing Initiative. Through the initiative, GSA encouraged agencies to aggregate their spending requirements, streamline procurement processes, and coordinate purchases of like products and services. The initiative provided strategic sourcing solutions for purchases of: (1) office supplies, (2) express and ground domestic delivery services, (3) print management, and (4) wireless services.

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<sup>7</sup> Office of Management and Budget Memorandum, Implementing Strategic Sourcing (May 20, 2005).

In July 2009, OMB required agencies to develop a plan to save 7 percent of baseline contract spending by the end of FY 2011 and established a goal to save \$40 billion a year through better acquisition and acquisition-related program practices across the government.<sup>8</sup> OMB encouraged agencies to develop more strategic acquisition methods and increase participation in government-wide strategic acquisition initiatives, including strategic sourcing initiatives.

In December 2012, OMB established a new management improvement goal calling for the implementation of five new government-wide strategic sourcing solutions in FYs 2013 and 2014.<sup>9</sup> OMB encouraged agencies to save taxpayer dollars through smarter acquisition processes such as centralizing contracting decisions or using government-wide strategic sourcing contracts. OMB expected such contracts to result in lower prices and reduce administrative costs. OMB also established a strategic sourcing initiative intended to ensure that all agencies “manage their acquisitions effectively and that, wherever possible, agencies join together to negotiate the best deal for the taxpayer.” To facilitate this effort, OMB initiated a Strategic Sourcing Leadership Council and required agencies to designate a Strategic Sourcing Accountable Official. That official was to have “authority to coordinate the agency's internal strategic sourcing activities and its participation in government-wide efforts.”

### **Strategic Sourcing in the Department of Justice**

The Justice Management Division (JMD) is responsible for implementing strategic sourcing policy within the Department of Justice (DOJ or Department). The DOJ's Senior Procurement Executive told us that the Department does not have a mandatory strategic sourcing program and does not require Department components to participate in existing contracts because the products or services may not meet the needs of all users within the Department. As an example, the Senior Procurement Executive told us that the stab-resistant personal protection equipment needed by BOP personnel is different from personal protection equipment needed by other law enforcement agencies, as BOP Correctional Officers face the risk of being stabbed while personnel in other agencies face the more common risk of being shot. The Senior Procurement Executive also told us that requiring agencies to use existing contracts or agreements may not result in a savings to the taxpayer. For example, instead of using the existing Federal Strategic Sourcing Initiative contract for express domestic delivery services, the Department negotiated a contract with another service provider that the Senior Procurement Executive said resulted in greater savings for the Department and better met Department requirements.

According to the Senior Procurement Executive, JMD's focus has been on implementing OMB Office of Federal Procurement Policy initiatives, although he said

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<sup>8</sup> Office of Management and Budget Memorandum M-09-25.

<sup>9</sup> Office of Management and Budget Memorandum M-13-02.

that the Department encourages participation in blanket purchase agreements derived from the Federal Supply Schedules and participation in Federal Strategic Sourcing Initiatives when suitable.

## **Strategic Sourcing in the Bureau of Prisons**

Like the Department, the BOP does not have a formal strategic sourcing program. However, the BOP Procurement Executive described a culture of strategic sourcing within the bureau. The Procurement Executive's Office notifies institutions of new Federal Strategic Sourcing Initiative solutions and Department strategic sourcing or cost-savings initiatives. The BOP Procurement Executive's Office publishes notices to the field offices when new initiatives become available and posts the information about these initiatives on its Intranet site. These field notices introduce the cost-savings initiative, provide guidance on placing orders against the contract, and inform the procurement officials when use of the contract is required.

### *BOP Participation in GSA's Federal Strategic Sourcing Initiative and Department Cost-Savings Initiatives*

#### GSA Federal Strategic Sourcing Initiatives

In July 2011, the BOP issued a memorandum implementing DOJ's Procurement Guidance Memorandum 11-05, regarding the Department's policy on the use of Federal Strategic Sourcing Initiative blanket purchase agreements for office supplies. The BOP memorandum made it mandatory that BOP institutions use the GSA blanket purchase agreements as their primary sources for office supplies. The memorandum permitted institutions to use other sources when participating vendors did not or could not supply the items, or when participating vendors could not offer the lowest price.

In October 2012, the BOP announced the availability of the GSA's Federal Strategic Sourcing Initiative Domestic Delivery Service program for shipping inmate property. The notice identified the GSA blanket purchase agreement but did not require the institutions to use the agreement.

#### Department of Justice Cost-Savings Initiatives

In September 2010, the BOP issued Acquisition Guidance Document 10-010, regarding implementation of DOJ's policy for the acquisition, use, and maintenance of copiers and printers. The BOP obtained a waiver regarding stand-alone printer requirements, but required BOP institutions to implement the Department policy for acquisition and maintenance of copiers after the expiration of any existing contracts. Procurement offices were required to report quarterly savings derived through the use of DOJ equipment contracts. Based on our assessment of the institutions' responses to our survey, it appears that the mandate for use of this initiative took precedence over the optional use of the Federal Strategic Sourcing Initiative for print management.

In December 2012, the BOP issued a memorandum requiring institutions to begin using an existing Federal Bureau of Investigation (FBI) contract for wireless voice and data services. The memorandum stated that all institutions were required to use this contract unless the new service provider could not provide the needed services or their current service provider charged a cancellation fee for early termination of the existing contract. If the current service provider charged a contract cancellation fee, the institutions could wait until that contract expired before transferring the services to the FBI contract. Based on our assessment of the institutions' responses to our survey, it appears that required use of the FBI contract took precedence over the optional use of the Federal Strategic Sourcing Initiative for wireless service.

OIG Survey of BOP's Participation in Federal Strategic Sourcing Initiatives and Department Cost-Savings Initiatives

We surveyed the 93 local procurement offices to identify the level of participation in the Federal Strategic Sourcing Initiative and Department initiatives for office supplies, domestic delivery services, print management, wireless services, and copier and multi-function printer devices. The results of our survey are shown in Exhibit 1.

**Exhibit 1: BOP Participation in Federal Strategic Sourcing Initiative (FSSI) solutions and Other Department Initiatives**

Initiatives	BOP Institutions <sup>10</sup>			
	Used this initiative exclusively	Used this initiative and other sources	Used other sources exclusively	Did not procure the product or service
FSSI for Office Supplies	19 (20%)	67 (72%)	6 (6%)	1 (1%)
FSSI for Domestic Delivery	80 (86%)	5 (5%)	5 (5%)	3 (3%)
FSSI for Print Management or DOJ Initiative for Copiers and Multi-function Printer Devices	68 (73%)	12 (13%)	10 (11%)	3 (3%)
FSSI for Wireless Telecom or FBI Blanket Purchase Agreement for Wireless Services	82 (88%)	1 (1%)	9 (10%)	1 (1%)

**Source:** BOP responses to the OIG survey questionnaire

Our survey found that institutions did not always use these initiatives to procure products and services. Where institutions "used other sources exclusively," procurement staff indicated they did not use these initiatives because the institution: (1) already had an existing contract for the products or services,<sup>11</sup> (2) used a different mandatory source of supply, (3) had negotiated a better price

<sup>10</sup> Percentages may not total 100 percent due to rounding.

<sup>11</sup> While some initiatives mandated that the institutions cancel existing contracts, providing that there was no cancellation penalty, most initiatives allowed the institutions to continue the use of current contracts through expiration.

through another source, or (4) could not obtain the product or services in their area. We consider these valid reasons for using other sources of supply.

### *BOP National Contracts and Other BOP Cost-Savings Initiatives*

Although the BOP does not have a written strategic sourcing plan, it has taken steps to consolidate purchases and begin leveraging the government's buying power. These actions are intended to allow the BOP to negotiate better pricing by participating in agency-wide and government-wide contracts and blanket purchase agreements.

#### BOP's Centralized Efforts to Identify Opportunities for Cost Savings

The Procurement Executive told us that the BOP had not conducted a comprehensive spend analysis to identify areas where multiple suppliers are providing similar goods and services, and where leveraging the BOP's buying power would be most beneficial. However, the Procurement Executive said that the BOP routinely conducts market research to identify opportunities for costs savings. Based on that research, the Procurement Executive's Office has established nationwide blanket purchase agreements for those initiatives, issued notices to the procurement offices introducing the cost-savings initiatives, and provided instructions on placing orders against the agreements. The BOP Procurement Executive also told us that, as of December 2013, the BOP was conducting a spend analysis of medical expenses to identify opportunities for greater cost savings.

The largest area of spending in the BOP is for food. We discussed food contracts with the BOP Procurement Executive and the Chief of the Field Acquisitions Office. These officials told us that they do not believe that food is an area with significant opportunity for savings under strategic sourcing. According to one official, BOP institutions have a budget of less than \$3 per day per inmate for food. He told us the BOP provides three meals a day within this budgeted amount and that he did not expect much savings could be achieved by having multiple institutions consolidate purchases. This official also told us that earlier attempts at combining food purchases had resulted in increased transportation costs and conflicts with Federal Acquisition Regulation requirements to protect small businesses in the local community around each facility.

When asked, the Procurement Executive agreed that a comprehensive spend analysis would help the BOP identify additional opportunities for cost savings. We recommend that the BOP conduct an in-depth spend analysis to identify the products and services for which strategic sourcing would provide the greatest opportunity for cost savings.

#### BOP Institutions' Participation in BOP National Contracts and other Cost-Savings Initiatives

We surveyed institution procurement officials to identify their level of participation in the BOP national contracts and cost-savings initiatives. The results

of our survey are shown in Exhibit 2. We found the institutions generally participated in the national contracts even without a formal strategic sourcing program.

**Exhibit 2: BOP Institutions' Participation in BOP National Contracts and Cost-Savings Initiatives**

Product Description	BOP Institutions <sup>12</sup>			
	Used exclusively	Used with other sources	Used other sources exclusively	Did not need product or service
Boiler Inspection Services	58 (62%)	8 (9%)	4 (4%)	23 (25%)
PBX System Maintenance	50 (54%)	3 (3%)	2 (2%)	38 (41%)
Digital Video Systems Maintenance	43 (46%)	4 (4%)	2 (2%)	44 (47%)
Barbed Wire Tape	32 (34%)	1 (1%)	0	60 (65%)
9mm Weapons	51 (55%)	2 (2%)	1 (1%)	39 (42%)
Ammunition	76 (82%)	14 (15%)	0	3 (3%)
Blood Glucose Testing Supplies	63 (68%)	3 (3%)	5 (5%)	22 (24%)
HIV Test and Control Kits	38 (41%)	3 (3%)	8 (9%)	44 (47%)
Breathing Apparatus	72 (77%)	4 (4%)	1 (1%)	16 (17%)
Dental Laboratory Services	71 (76%)	4 (4%)	1 (1%)	17 (18%)
Magnetic Card Systems	76 (82%)	2 (2%)	0	15 (16%)
Drug Abuse Treatment Journals	75 (81%)	4 (4%)	1 (1%)	13 (14%)
Protective Stab Vests	69 (74%)	1 (1%)	2 (2%)	21 (23%)
Teleradiology Services	89 (96%)	2 (2%)	0	2 (2%)
Dosimeter Monitoring Services	86 (92%)	4 (4%)	0	3 (3%)
Reverse Auctioneering Services	21 (23%)	48 (52%)	12 (13%)	12 (13%)
Clothing, Textiles, & Other	81 (87%)	12 (13%)	0	0
Solid Laundry Detergent	62 (67%)	8 (9%)	8 (9%)	15 (16%)
Urine Test Cups and Laboratory Services	93 (100%)	0	0	0
Foreign Language Translation	86 (92%)	1 (1%)	0	6 (6%)
Medication Dispensing Equipment	62 (67%)	1 (1%)	2 (2%)	28 (30%)
Line Conditioners	30 (32%)	1 (1%)	2 (2%)	60 (65%)
Pallet X-Ray Machines	47 (51%)	2 (2%)	3 (3%)	41 (44%)
X-Ray Machine Maintenance	72 (77%)	2 (2%)	1 (1%)	18 (19%)
Supplies	66 (71%)	21 (23%)	1 (1%)	5 (5%)
Mobile Radio Equipment	82 (88%)	2 (2%)	0	9 (10%)
Delivery Service for BOP	88 (95%)	4 (4%)	0	1 (1%)
Air Ambulance Services	61 (66%)	24 (26%)	1 (1%)	7 (8%)
Natural Gas and Electricity	14 (15%)	6 (6%)	33 (35%)	40 (43%)

**Source:** BOP records and results of OIG survey questionnaire

<sup>12</sup> Percentages may not total 100 percent due to rounding.

The level of participation in BOP national contracts varied depending on each institution's individual needs and local factors that affect the availability of sources. For example, all 93 local procurement offices we surveyed used exclusively the BOP national contract for urine test cups. In contrast, only 14 BOP procurement offices used the GSA Natural Gas Acquisition Program as their only source of supply. The Natural Gas Acquisition Program exists only in deregulated utility markets that allow suppliers to compete for the supply of natural gas or electrical requirements through the reverse auction process.<sup>13</sup> Because the location of each institution determines its ability to participate in the program based on the regulatory nature of its respective utility markets, not all institutions are able to participate in this program.

The level of participation in BOP national contracts may also have varied based on the institutions' perceptions of whether participation was mandatory. Officials in the BOP Procurement Executive's Office told us that the nationwide blanket purchase agreements are generally considered mandatory unless the field notice specifically states that it is not mandatory or the local Contracting Officer finds better pricing. We reviewed field notices for 32 initiatives and found the following:<sup>14</sup>

- 8 field notices stated or contained language that implied the institutions were required to use the initiative (2 of those notices included instructions for obtaining a waiver);
- 2 field notices stated that use of the initiative was not mandatory; and
- 22 field notices did not state whether use of the initiative was mandatory or encouraged.

For example, the BOP identified an online reverse auction program as the preferred source for purchasing toilet tissue, but left the decision whether to use the initiative to the procurement officials at the institutions. In another example, the BOP awarded a series of four blanket purchase agreements for air charter and air ambulance services, but the field notices stated that use of these agreements is encouraged, but not mandatory.

We asked procurement staff at the 93 local procurement offices whether participating in the national contracts and blanket purchase agreements was mandatory or encouraged. The results of our testing are shown in Exhibit 3.

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<sup>13</sup> In a reverse auction the roles of buyer and seller are reversed so that the sellers compete to obtain business from the buyer by offering progressively lower prices.

<sup>14</sup> The 32 field notices we examined were for 2 Federal Strategic Sourcing Initiatives, 1 Department initiative, and 29 BOP cost-savings initiatives. The BOP did not issue a formal field notice for the GSA Natural Gas Program because participation was determined by the utility market locations.

**Exhibit 3: BOP Local Procurement Staff Views on Using  
BOP National Contracts and Blanket Purchase Agreements**

Product or Service <sup>15</sup>	Was the National Contract or Blanket Purchase Agreement for the Product or Service Mandatory or Encouraged?		
	"Mandatory"	"Encouraged"	Not Applicable <sup>16</sup>
<i>Boiler Inspection Services</i>	65 (70%)	22 (24%)	6(6%)
PBX System Maintenance	59 (63%)	23 (25%)	11(12%)
<i>Digital Video Systems Maintenance</i>	56 (60%)	28 (30%)	9(10%)
Barbed Wire Tape	52 (56%)	28 (30%)	13(14%)
9mm Weapons	68 (73%)	16 (17%)	9(10%)
Ammunition	79 (85%)	13 (14%)	1(1%)
Blood Glucose Testing Supplies	64 (69%)	22 (24%)	7(8%)
HIV Test and Control Kits	54 (58%)	27 (29%)	12(13%)
Breathing Apparatus	76 (82%)	14 (15%)	3(3%)
Dental Laboratory Services	75 (81%)	15 (16%)	3(3%)
Magnetic Card Systems	73 (78%)	17 (18%)	3(3%)
Drug Abuse Treatment Journals	71 (76%)	17 (18%)	5(5%)
Protective Stab Vests	78 (84%)	12 (13%)	3(3%)
Teleradiology Services	80 (86%)	13 (14%)	0
Dosimeter Monitoring Services	76 (82%)	16 (17%)	1(1%)
Reverse Auctioneering Services	17 (18%)	74 (80%)	2(2%)
<i>Clothing, Textiles, &amp; Other</i>	89 (96%)	4 (4%)	0
<i>Solid Laundry Detergent</i>	88 (95%)	3 (3%)	2(2%)
Urine Test Cups and Laboratory Services	86 (92%)	7 (8%)	0
Foreign Language Translation	80 (86%)	12 (13%)	1(1%)
Medication Dispensing Equipment	66 (71%)	19 (20%)	8(9%)
Line Conditioners	50 (54%)	25 (27%)	18(19%)
Pallet X-Ray Machines	59 (63%)	25 (27%)	9(10%)
X-Ray Machine Maintenance	73 (78%)	16 (17%)	4(4%)
Supplies	74 (80%)	18 (19%)	1(1%)
<i>Mobile Radio Equipment</i>	77 (83%)	10 (11%)	6(6%)
Delivery Service for BOP	80 (86%)	12 (13%)	1(1%)
Air Ambulance Services	46 (49%)	47 (51%)	0
Natural Gas Acquisition Program	18 (19%)	61 (66%)	14(15%)

**Source:** BOP procurement staff responses to the OIG questionnaire

Even though most field notices did not explicitly state that usage was mandatory, and those that did also provided for waivers, BOP headquarters officials

<sup>15</sup> For products and services shown in italics, field notices stated or contained language that implied the institutions were required to use the national contract or blanket purchase agreement.

<sup>16</sup> Institutions that reported no need for the product or service did not provide a response to our survey question regarding mandatory use of the national contract.



told us they were confident that procurement staff at the institutions understood that they were required to use these cost-savings initiatives unless they had been notified otherwise. However, we found that BOP procurement staff did not all share a common understanding of the BOP's expectations for using the national contracts and blanket purchase agreements.

For example, the field notice for BOP's national contract for boiler inspection services indicated that the institutions were required to use the contract, but 28 of the 93 local procurement staff we surveyed believed that using this contract was not mandatory. Conversely, the BOP did not require the institutions to use the national contract for dental laboratory services, but 75 of the 93 local procurement staff believed that using this contract was mandatory.

We therefore concluded that the BOP did not clearly communicate that using the BOP national initiatives was mandatory unless the institutions had a valid reason for not doing so. We recommend that the BOP clearly identify and explicitly communicate to BOP procurement staff when they must use existing contracts and initiatives and the circumstances under which they may procure the products and services through other sources.

### **Measuring and Reporting Participation In and Cost Savings From Strategic Sourcing**

We asked the BOP how it measured participation in cost-savings initiatives and national contracts, and any resulting cost savings. The Procurement Executive told us that there was no requirement to track and report participation in the initiatives and national contracts, as the Department stopped asking the BOP to submit cost-savings reports and the OMB requirement to report cost savings has expired. However, the BOP Field Acquisition Office periodically reviews the institutions' procurement practices using review guidelines established by the BOP headquarters Program Review Division. Although use of cost-savings initiatives and national contracts is not part of the program review checklist, reviewers may include consideration of participation in the cost-savings initiatives and national contracts as part of the review process.<sup>17</sup> Despite these efforts, we found that the BOP has not established a process for measuring or reporting participation in, and savings resulting from, national contracts and other cost-savings initiatives. We recommend that the BOP establish performance measures and reporting requirements for cost-savings initiatives.

To determine whether the BOP could demonstrate cost savings from strategic sourcing, we interviewed BOP officials and reviewed cost-savings reports. From October 1, 2010, through March 31, 2013, BOP institutions reported saving \$1.3 million on various products and services through participation in BOP national contracts, negotiating discounts with local suppliers, and using on-line auctions.

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<sup>17</sup> Our assessment of the BOP's review process is discussed below, in the report section titled "The BOP's Program Review Process."

Included in this reported savings is the value of excess property items that BOP institutions obtained from other federal agencies or BOP institutions.

Although there is currently no requirement for the institutions to report cost savings from participating in the Federal Strategic Sourcing Initiative or BOP national contracts, the Department requires BOP to prepare quarterly cost-savings reports as part of the Department-wide initiative for the acquisition and maintenance of copiers and printers. In addition, the BOP prepared cost-savings estimates for some products and services in response to our inquiries.

- *Copiers and Printers* - The BOP acquired copiers and printers through the use of a Department contract. We reviewed quarterly savings reports showing that 40 institutions saved about \$551,000 in copier acquisition and maintenance costs during FYs 2011 through 2013. However, we could not verify that the reports were accurate because the BOP did not require the institutions to explain the savings or submit documents to support the amounts saved.
- *Natural Gas and Electricity* – The BOP projected that 36 BOP institutions would save about \$34 million by participating in an online reverse auction for natural gas and electricity. The BOP calculated projected annual savings as the difference between current and previous contract prices projected over the life of the contracts, which ranged from 1 to 5 years.
- *Air Charter and Air Ambulance Services* – The BOP used data from the Federal Procurement Data System-Next Generation to prepare a report of total costs for air charter services. The report showed that the average cost per air charter and air ambulance trip fell from \$19,497 per trip in FY 2008 to \$14,806 per trip in the first half of FY 2013. The reported savings were based on the average cost per trip because the data system did not include the data needed to determine average cost per mile, which would have been a better measure of savings. Consequently, we could not determine whether the savings resulted from using the strategic sourcing agreement or because the trips were of shorter distance or duration.

The BOP also provided cost-savings reports for other products and services, but the savings calculations were based on the difference between an Independent Government Estimate price and the price awarded in the BOP contract. A BOP procurement official told us that the independent estimate frequently references the GSA's Federal Supply Schedule price. However, the BOP can obtain a discount from the GSA Federal Supply Schedule price without using cost-savings initiatives or consolidating purchases.<sup>18</sup> Consequently, the GSA Federal Supply Schedule price may not be the appropriate benchmark for measuring savings. The BOP Procurement Executive agreed that the GSA Federal Supply Schedule price may not

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<sup>18</sup> GSA Federal Supply Schedule prices are considered to be fair and reasonable; however, the Federal Acquisition Regulation requires agencies to seek additional discounts when an order amount exceeds certain thresholds.

be the best benchmark price to evaluate savings. We believe a more appropriate benchmark price for calculating savings would be the most recent price the BOP paid for a product or service.

We believe that the BOP could achieve significantly greater cost savings by implementing a formal strategic sourcing program that includes cost savings reports. These reports would provide the BOP with the management information it needs to measure cost savings from strategic sourcing efforts and achieve further reductions in procurement costs. We recommend that the BOP implement a process for reporting cost savings from strategic sourcing and use those reports as a management tool to continuously reduce costs. To ensure that cost-savings reports are useful, the BOP should identify an appropriate and consistent methodology for determining benchmark prices. Without a consistent method for determining cost savings, the BOP cannot be assured of the reliability of reported savings.

### **The BOP's Program Review Process**

The BOP Program Review Division conducts internal assessments on BOP operations including procurement activities. A program review official told us that review guidelines are based on regulations, BOP policies, and other risks or areas of concern identified by BOP management. The Field Acquisition Office and the institutions also use these guidelines to conduct regional reviews and self-assessments.

Program review officials provided us a copy of the guideline checklist for procurement reviews. We reviewed the checklist and found no reference to strategic sourcing as an area of interest in the review. Reviews are conducted based on the guidelines but may expand into other areas of guidance or requirements such as strategic sourcing and participation in national contracts, depending on the individual reviewer.

We obtained copies of program review reports from fiscal years 2010 and 2011 and reviewed the reports for indications that strategic sourcing was included in the review. We found the reviews followed the checklists provided by the Program Review Division and we found no indication that strategic sourcing was an area reviewed.

The review process based on the guideline checklist does not provide effective oversight of local procurement office use of national contracts and cost-savings initiatives. The BOP has no formal strategic sourcing program or reporting requirements to ensure participation in the national contracts and cost-savings initiatives. Also, the program review checklist does not include any reference to these initiatives. We believe an effective review of procurement should include an emphasis on the use of strategic sourcing and local procurement office participation in national contracts and cost-savings initiatives. The Procurement Executive agreed that strategic sourcing should be incorporated into the BOP program review process.

## **Conclusion**

The BOP has not fully adopted a strategic sourcing approach to procurement. Its purchasing operations are largely de-centralized with institutions making procurement decisions locally. The BOP encourages the institutions to participate in government-wide and Department strategic sourcing initiatives and BOP national contracts and blanket purchase agreements, but it does not generally make the use of these cost-savings efforts mandatory. The BOP also does not have a process to review and analyze its expenditures to identify the goods and services that present the best strategic sourcing opportunities; does not track participation in government-wide, Department, or BOP cost-savings initiatives; or require documentation of cost savings achieved through participation. As a result, the BOP is not fully leveraging its buying power to obtain the most advantageous terms.

According to a Government Accountability Office report, organizational leadership and effective metrics are important factors in implementing strategic sourcing. The BOP has not established performance measures to identify participation or savings, or a reporting mechanism for collecting savings data. The BOP has not established clear guidance on measuring savings that are, or could be, achieved through strategic sourcing efforts. Without an established program or centralized management of strategic sourcing, there are no central metrics in use to record participation or savings.

## **Recommendations**

We recommend that the BOP:

1. Implement a strategic sourcing program to:
  - continuously analyze its spending to identify and prioritize commodities with the greatest potential for cost savings through strategic sourcing;
  - identify appropriate benchmark prices for those commodities; determine whether those commodities can be obtained at a lower cost by participating in existing government-wide, agency, or BOP national contracts and blanket purchase agreements; and consider participating in those before initiating any new contracts; and
  - establish performance measures for strategic sourcing activities, including a process to collect cost data and report savings using appropriate "cost per unit" information.
2. Identify and communicate to BOP procurement staff when they must use existing contracts and initiatives and the circumstances under which they may procure the products and services through other sources.

3. Include in its internal program review process steps to verify whether BOP procurement offices are using strategic sourcing concepts in the acquisition of goods and services.

## STATEMENT ON INTERNAL CONTROLS

As required by the *Government Auditing Standards*, we tested, as appropriate, internal controls significant within the context of our audit objective. A deficiency in an internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to timely prevent or detect: (1) impairments to the effectiveness and efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations. Our assessment of the BOP's internal controls was *not* made for the purpose of providing assurance on its internal control structure as a whole. The BOP's management is responsible for the establishment and maintenance of internal controls.

We did not identify any deficiencies in the BOP's internal controls that are significant within the context of the audit objective that would adversely affect the BOP's ability to properly purchase goods and services.

Because we are not expressing an opinion on the BOP's internal control structure as a whole, this statement is intended solely for the information and use of the auditee. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

## **STATEMENT ON COMPLIANCE WITH LAWS AND REGULATIONS**

As required by the *Government Auditing Standards*, we examined the BOP's processes, controls, and records to obtain reasonable assurance that the BOP complied with laws and regulations that, if not complied with, could have a material effect on the BOP's ability to properly purchase goods and services. Compliance with laws and regulations applicable to the BOP's procurement activities is the responsibility of BOP management. An audit includes examining, on a test basis, evidence about compliance with laws and regulations. The specific laws and regulations we reviewed included the relevant portions of the Federal Acquisition Regulation and the Justice Acquisition Regulation.

We did not identify any instances of noncompliance. With respect to those activities not tested, nothing came to our attention that caused us to believe that the BOP was not in compliance with the laws and regulations cited above.

## APPENDIX I

### AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of this audit were to: (1) assess the BOP's efforts to implement strategic sourcing and the Federal Strategic Sourcing Initiative, and (2) determine whether these efforts have reduced the BOP's costs. 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Our audit concentrated on, but was not limited to, the period from October 1, 2010 through March 31, 2013.

We conducted fieldwork at BOP headquarters and at the United States Penitentiary, Atlanta, Georgia. We interviewed the Chief Procurement Official at the BOP's Field Acquisition Office. In addition, we obtained data from 93 local procurement offices through the use of a survey questionnaire discussed below.

To answer the audit objectives, we reviewed OMB, DOJ, and BOP guidance on the use of strategic sourcing in procurement activities. In addition, we:

- Interviewed BOP procurement officials about policies and procedures for the use of strategic sourcing.
- Interviewed BOP Program Review Division staff about procedures for inspecting the procurement activity in division and district offices, the types of inspections, and how often inspections are conducted. We assessed whether the BOP's program review process for monitoring procurement in the institutions is capable of detecting deficiencies in the application of strategic sourcing in procurement through the use of GSA's Federal Strategic Sourcing Initiative, Department initiatives, or BOP national contracts.
- Evaluated the BOP's process for communicating the availability of blanket purchase agreements and national contracts.
- Evaluated the BOP's process for verifying participation in strategic sourcing initiatives.
- Surveyed 93 local procurement offices through a questionnaire to determine awareness of available strategic sourcing initiatives, participation in strategic sourcing initiatives, and reporting of cost savings achieved through strategic sourcing activities. We received a response from each office.



APPENDIX II

BOP RESPONSE TO THE DRAFT AUDIT REPORT



U.S. Department of Justice

Federal Bureau of Prisons


Office of the Director

Washington, DC 20534

March 18, 2014

MEMORANDUM FOR RAYMOND J. BEAUDET  
ASSISTANT INSPECTOR GENERAL  
FOR AUDIT  
OFFICE OF THE INSPECTOR GENERAL

FROM:

  
Charles E. Samuels, Jr.  
Director  
Federal Bureau of Prisons

SUBJECT:

Response to the Office of Inspector General's (OIG)  
DRAFT Report: Audit of the Federal Bureau of Prisons  
Efforts to Improve Acquisition through Strategic  
Sourcing

The Bureau of Prisons (BOP) appreciates the opportunity to respond to the open recommendations from the draft report entitled: Audit of the Federal Bureau of Prisons' Efforts to Improve Acquisition through Strategic Sourcing.

Please find the Bureau's response to the recommendations below:

**Recommendation 1:** Implement a strategic sourcing program to: continuously analyze its spending to identify and prioritize commodities with the greatest potential for cost savings through strategic sourcing; identify appropriate benchmark prices for those commodities; determine whether those commodities can be obtained at a lower cost by participating in existing government-wide, agency, or BOP national contracts and blanket purchase agreements; and

consider participating in those before initiating any new contracts; and establish performance measures for strategic sourcing activities, including a process to collect cost data and report savings using appropriate "cost per unit" information.

**BOP's Initial Response:** The Bureau concurs with the recommendation. To establish and implement this program, one that will include each of the recommendations and metrics for compliance, it will take a considerable amount of time. We have established a milestone to implement our program no later than the 2<sup>nd</sup> quarter of FY 2015.

**Recommendation 2:** Identify and communicate to BOP procurement staff when they must use existing contracts and initiatives and the circumstances under which they may procure the products and services through other sources.

**BOP's Initial Response:** The Bureau concurs with the recommendation. Recommendation 2 will be implemented no later than June 2014. This will be accomplished through the issuance of future Field Notices for each new national contract and redesigning the BOP's intranet to clearly identify mandatory versus nonmandatory for new and current national contracts.

**Recommendation 3:** Include in its internal program review process steps to verify whether BOP procurement offices are using strategic sourcing concepts in the acquisition of goods and services.

**BOP's Initial Response:** The Bureau concurs with the recommendation. Once a Strategic Sourcing Plan has been established and implemented, a management assessment will be conducted to revise the relevant program review guidelines as appropriate.

If you have any questions regarding this response, please contact Sara M. Revell, Assistant Director, Program Review Division, at (202) 353-2302.

**OFFICE OF THE INSPECTOR GENERAL  
ANALYSIS AND SUMMARY OF ACTIONS  
NECESSARY TO CLOSE THE REPORT**

The OIG provided a draft of this audit report to the Federal Bureau of Prisons (BOP). The BOP's response is incorporated in Appendix II of this final report. The following provides the OIG analysis of the response and summary of actions necessary to close the report.

**Recommendation:**

**1. Implement a strategic sourcing program to:**

- **continuously analyze its spending to identify and prioritize commodities with the greatest potential for cost savings through strategic sourcing;**
- **identify appropriate benchmark prices for those commodities; determine whether those commodities can be obtained at a lower cost by participating in existing government-wide, agency, or BOP national contracts and blanket purchase agreements; and consider participating in those before initiating any new contracts; and**
- **establish performance measures for strategic sourcing activities, including a process to collect cost data and report savings using appropriate "cost per unit" information.**

Resolved. The BOP concurred with our recommendation. The BOP stated in its response that it will take considerable time to establish and implement this program and it has established a milestone to implement a strategic sourcing program no later than the 2nd quarter of FY 2015.

This recommendation can be closed when we receive documentation showing that the BOP has established and implemented a strategic sourcing program including provisions as described in the recommendation.

**2. Identify and communicate to BOP procurement staff when they must use existing contracts and initiatives and the circumstances under which they may procure the products and services through other sources.**

Resolved. The BOP concurred with our recommendation. The BOP stated in its response that the procedures will be implemented no later than June 2014. This will be accomplished through the issuance of future Field Notices

for each new national contract and redesigning the BOP's intranet to clearly identify mandatory versus non-mandatory status for new and current national contracts.

This recommendation can be closed when we receive documentation of BOP's redesigned intranet with clear identification of the mandatory or non-mandatory status for new and current national contracts.

**3. Include in its internal program review process steps to verify whether BOP procurement offices are using strategic sourcing concepts in the acquisition of goods and services.**

Resolved. The BOP concurred with our recommendation. The BOP stated in its response that once a Strategic Sourcing Plan has been established and implemented, a management assessment will be conducted to revise the relevant program review guidelines as appropriate.

This recommendation can be closed when we receive documentation showing the BOP has completed a management assessment and developed revised program review guidelines to address the strategic sourcing plan.