



# Office of Inspector General

January 2005  
Report No. 05-005

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**FDIC's Procurement of Administrative  
Goods and Services**

**AUDIT REPORT**

*Office of Audits*



**oig**



## *FDIC's Procurement of Administrative Goods and Services*

### **Results of Audit**

The FDIC can improve the economy and efficiency of its procurement of administrative goods and services. DOA has not developed a formal strategic approach for these procurements and, as a result, may not be taking full advantage of opportunities to reduce costs and maximize procurement efficiencies. We estimated that the FDIC could save about \$8.8 million over the next 3 years by developing a strategic approach, including performing spend analysis, for the procurement of such goods and services.

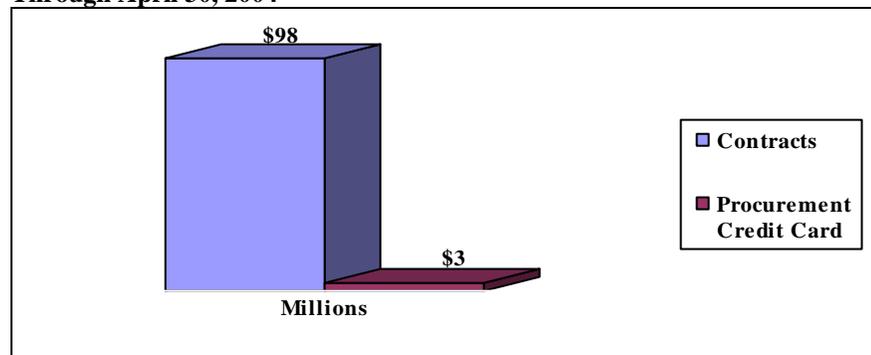
In addition, DOA has not sufficiently established goals and performance measures for the procurement process. Therefore, DOA cannot adequately evaluate the overall efficiency of its procurements or the impact of its procurement initiatives.

### **Recommendations and Management Response**

We recommended that DOA establish a strategic approach for improving the procurement process, and develop a performance measurement framework to consistently monitor and periodically report on the procurement process.

FDIC generally agreed with the recommendations and has either taken or planned actions to address them.

**FDIC Procurements of Administrative Goods and Services From May 1, 2003 Through April 30, 2004**



Source: OIG Analysis.

### **Purpose of Audit**

The FDIC contracts with private firms to provide goods or services and uses procurement credit cards to purchase low-dollar-value goods or services.

FDIC's Division of Administration (DOA) is responsible for the acquisition of administrative goods and services. From May 1, 2003 through April 30, 2004, DOA purchases of administrative goods and services totaled about \$101 million — \$98 million for contracts and \$3 million for procurement credit cards.

The audit objective was to determine whether the FDIC's procurement of administrative goods and services is economical and efficient.

# TABLE OF CONTENTS

<b>BACKGROUND</b>	<b>1</b>
<b>RESULTS OF AUDIT</b>	<b>2</b>
<b>FINDING A: USE OF A STRATEGIC PROCUREMENT APPROACH</b>	<b>3</b>
Use of Spend Analysis in Managing Procurements	3
DOA Procurement Activities	3
Recommendation	5
<b>CORPORATION COMMENTS AND OIG EVALUATION</b>	<b>5</b>
<b>FINDING B: MEASUREMENT OF PROCUREMENT PERFORMANCE</b>	<b>6</b>
Performance Measurement Framework	6
Competition	7
Cost, Schedule, and Performance	8
Cost-to-Spend Performance Measure	8
Purchase Cards	9
Other Federal Acquisition Council Performance Measures	10
Conclusion	10
Recommendation	10
<b>CORPORATION COMMENTS AND OIG EVALUATION</b>	<b>10</b>
<b>FINDING C: PURCHASES FROM FEDERAL PRISON INDUSTRIES, INC.</b>	<b>11</b>
<b>APPENDIX I: OBJECTIVE, SCOPE, AND METHODOLOGY</b>	<b>12</b>
<b>APPENDIX II: CORPORATION COMMENTS</b>	<b>14</b>
<b>APPENDIX III: MANAGEMENT RESPONSE TO RECOMMENDATIONS</b>	<b>18</b>
<b>TABLES</b>	
Table 1: Performance Measurement Framework	7
Table 2: Percentage of Competed Procurements Over \$25,000	7
Table 3: Averages of Contractor Performance Ratings	8
Table 4: FDIC Cost-to-Spend Performance	9
Table 5: FDIC Procurements Under \$25,000 from May 1, 2003 through April 30, 2004	9



**DATE:** January 21, 2005

**MEMORANDUM TO:** Arleas Upton Kea, Director  
Division of Administration

**FROM:** Russell A. Rau [Electronically produced version; original signed by Russell A. Rau]  
Assistant Inspector General for Audits

**SUBJECT:** *FDIC's Procurement of Administrative Goods and Services*  
(Report Number 05-005)

The Federal Deposit Insurance Corporation (FDIC) Office of Inspector General (OIG) has completed an audit of the FDIC's procurement of administrative goods and services. The audit objective was to determine whether the FDIC's procurement of administrative goods and services is economical and efficient. Administrative goods and services generally include security guard and educational services, space rentals, building maintenance, and a variety of administrative supplies and miscellaneous services. Additional details on our objective, scope, and methodology are provided in Appendix I.

## **BACKGROUND**

The FDIC contracts with private sector firms to provide goods or services, and the FDIC's Division of Administration (DOA) establishes policies and procedures for the FDIC's contracting program. The Director, DOA, is the FDIC's Chief Contracting Officer and has the authority to develop contracting policy; solicit proposals; and enter into, modify, and terminate contracts on behalf of the FDIC. FDIC contracting officers in DOA's Acquisition Services Branch (ASB) award and administer contracts in accordance with the FDIC's *Acquisition Policy Manual* (APM). DOA is responsible for the FDIC's acquisition of administrative goods and services.

As a supplement to contracted procurements, the FDIC established a procurement credit card program to provide the Corporation with a simplified method of procuring low-dollar-value goods or services, streamlining payment procedures, and reducing procurement administrative time and costs. Designated FDIC employees may use the procurement credit card to make authorized purchases within specified limits. The standard procurement card limit is \$5,000 for a

single purchase<sup>1</sup> and a total of \$50,000 per month. Procurement credit card purchases are authorized and administered by the division or office making the acquisition. ASB provides guidance for using the procurement credit card, including restricting the purchase of some items. ASB provides contract award and administration for DOA branches, such as the Corporate Services Branch and Human Resources Branch, in the same manner it provides contracting award and administration for other FDIC divisions and offices. DOA branches also use the procurement credit card program. From May 1, 2003 through April 30, 2004, DOA purchases of administrative goods and services totaled approximately \$101 million — contract purchases totaled about \$98 million, and procurement credit card purchases totaled about \$3 million.

## RESULTS OF AUDIT

The FDIC can improve the economy and efficiency of its procurement of administrative goods and services. DOA has not developed a formal strategic approach for such procurements. As a result, DOA may not be taking full advantage of opportunities to reduce costs and maximize procurement efficiencies (see Finding A). We estimated that the FDIC could save about \$2.93 million a year, or \$8.8 million over the next 3 years, by developing a strategic approach, including spend analysis,<sup>2</sup> for the procurement of administrative goods and services. We will include the \$8.8 million in potential savings related to administrative goods and services procurements as funds put to better use in the OIG's next *Semiannual Report to the Congress*.

DOA has not sufficiently established goals and performance measures for the procurement process. Therefore, DOA cannot adequately evaluate the overall efficiency of its procurements of administrative goods and services or the impact of its procurement initiatives (see Finding B).

Finally, the FDIC did not require that the Federal Prison Industries, Inc., (FPI)<sup>3</sup> be used as a preferred source for goods and services in accordance with federal requirements in effect during our audit period. However, the requirement was legislatively eliminated in December 2004, and corrective action is not necessary.

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<sup>1</sup> The single-purchase limit is the maximum amount a cardholder may charge for any single procurement. The FDIC determines the limits for individual cardholders and provides for purchases in excess of the standard limits. Neither cardholders nor merchants are permitted to split a single purchase into smaller amounts in order to avoid exceeding the single-purchase threshold.

<sup>2</sup> Spend analysis is a tool that provides management with knowledge about how much is being spent for certain goods and services, who the buyers are, and who the suppliers are. Spend analysis includes automating, extracting, supplementing, organizing, and analyzing procurement data.

<sup>3</sup> FPI funds training and employment for prisoners in federal penal and correctional institutions through the sale of its products and services to government agencies.

## FINDINGS AND RECOMMENDATIONS

### FINDING A: USE OF A STRATEGIC PROCUREMENT APPROACH

DOA has not established a formal strategic approach for its procurement of administrative goods and services. Instead, DOA has focused on improving certain aspects of the contracting process. Without an enterprise-wide approach, the FDIC does not have a good understanding of its expenses for these procurements and may not be taking full advantage of opportunities to leverage its buying power, reduce costs, and thereby more efficiently manage its contracts.

#### Use of Spend Analysis in Managing Procurements

According to a September 2004 U.S. Government Accountability Office (GAO) report entitled, *Best Practices: Using Spend Analysis to Help Agencies Take a More Strategic Approach to Procurement*,<sup>4</sup> a strategic approach to procurement involves a range of activities — from using spend analysis to develop a better picture of what an agency is spending on goods and services to taking an enterprise-wide approach for procuring goods and services or developing new ways of doing business. The strategic approach to procurement involves recognizing the urgency to change procurement spending practices, obtaining improved knowledge on procurement spending practices, implementing the changes, and demonstrating the value and credibility of changes through the use of performance measurements. According to GAO, companies that have implemented such an approach have achieved substantial savings. Likewise, GAO's report showed that three of the five federal agencies reviewed had noteworthy results when using spend analysis to better manage their procurements. The report recommended using a spend analysis to identify opportunities to leverage buying power, reduce costs, and provide better management and oversight of suppliers.

Spend analysis is the continual analysis of procurement data, using consistent reporting and analytical tools, to support procurement management decisions in the areas of cost cutting, streamlining operations, and reducing the number of suppliers. According to GAO, using a spend analysis to obtain improved knowledge on procurement spending is a component of an effective strategic approach to procurement. The analysis identifies whether numerous suppliers are providing similar goods and services, whether such arrangements are characterized by varying prices, and where purchasing costs can be reduced and performance improved by better leveraging of buying power and reducing the number of suppliers.

#### DOA Procurement Activities

Although DOA has not adopted a formal strategic approach to procuring administrative goods and services, DOA has planned actions to change procurement spending. To address the FDIC's 2004 corporate objective to substantially reduce corporate operating costs, DOA planned to streamline its organizational structure, benchmark major support functions with those of similar organizations, and implement identified best practices. Areas under review included contract

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<sup>4</sup> GAO report number GAO-04-870.

consolidation and elements of the procurement process. Additionally, ASB planned to reduce costs and improve effectiveness by consolidating contracts.

DOA has been reviewing procurement-related areas to determine where cost savings can be achieved by reducing the number of vendors, consolidating contracts, and using basic ordering agreements and task orders instead of separate contracts. DOA analysis indicated that contract consolidation could result in substantial savings. In October 2002, DOA consolidated 14 headquarters facilities management contracts into a single contract and projected savings of over \$713,000. In addition, DOA has considered consolidating DOA law firm contracts and is working to consolidate contracts for other FDIC program office procurements.

Nevertheless, DOA could obtain improved knowledge on procurement spending using spend analysis and could increase its effectiveness in identifying areas for improvement.

- DOA's procurement actions from May 2003 through April 2004 included multiple contracts with the same vendor. For example, the Atlanta DOA office purchased furniture from one vendor using six contracts. Similarly, DOA contracted with multiple vendors to provide similar goods and services in different regions. In one instance, 3 vendors provided photocopier services to the FDIC through a total of 67 contracts in the Boston, Atlanta, and San Francisco regions. Using spend analysis would identify the number of suppliers being used for specific procurement categories and the volume of procurement dollars being paid in total to each supplier. DOA has consolidated some contracts, but additional opportunities exist to reduce purchasing costs and leverage buying power by consolidating the acquisition of similar goods and services into fewer contracts.
- Of the 350 contracts for administrative goods and services awarded during our audit period, 216 (62 percent) were for less than \$25,000. These contracts represented about \$1.3 million (4 percent) of the \$29 million awarded for administrative goods and services contracts. DOA may have opportunities to reduce costs in this area. For example, DOA had 22 contracts under \$25,000 each for furniture and fixtures from 10 vendors. These contracts totaled about \$232,000 but averaged about \$10,500. Reducing the number of contracts per vendor and reducing the number of furniture and fixture vendors could reduce contract administrative costs and help DOA leverage its buying power by making larger purchases.
- DOA also makes contract procurements below the procurement credit card limit of \$5,000. For example, DOA purchased a compact disk duplicator and recorder, seminar booklets, audio-visual equipment, consulting services, and furniture using six separate contracts for \$5,000 or less. Encouraging procurement credit card use rather than contract use for these procurements could reduce the administrative cost per transaction by an estimated \$66.<sup>5</sup> Spend analysis that focuses on small contract awards could assist DOA in identifying areas where changes in procurement procedures and policies could result in more efficient and effective procurements.

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<sup>5</sup> The Federal Acquisition Council (FAC) estimated the difference between the processing cost of a procurement card purchase and a purchase order at about \$66 per transaction for the year 2000.

According to GAO, a spend analysis approach in the private sector reduces total procurement costs by 10 to 20 percent for some companies. Three of the five federal agencies that GAO studied have either launched or expanded their spend analysis efforts in the last 2 years and have achieved noteworthy results. The Department of Veterans Affairs, for example, used an automated spend analysis and a strategic approach to help save at least \$394 million (2.9 percent) of \$13.5 billion in total procurements in 2003. The Department of Health and Human Services estimated that it will save at least \$9.5 million (9.5 percent) of \$100 million in yearly spending for office-related products (such as custodial supplies and office supplies, furniture, and equipment) and peripheral information technology products. Further, using spend analysis, the Department of Agriculture saved \$1.8 million on purchases from a national office supply vendor and has begun to use spend analysis to improve its buying power in additional areas.

The FDIC should utilize spend analysis techniques to obtain a better understanding of its procurements and to identify opportunities for cost savings. If the FDIC continues to purchase administrative goods and services at about \$101 million per year for the next 3 years and achieves a savings rate comparable to the Department of Veterans Affairs savings of 2.9 percent, we estimated that the Corporation could save about \$2.93 million a year (\$101 million times 2.9 percent) or \$8.8 million over the next 3 years (\$2.93 million per year times 3 years).<sup>6</sup> We will include the \$8.8 million potential monetary benefits as funds put to better use in the OIG's next *Semiannual Report to the Congress*.

## **Recommendation**

**We recommend that the Director, DOA:**

- (1) Establish a strategic approach for improving the procurement process and incorporate spend analysis techniques to identify opportunities for cost savings.**

## **CORPORATION COMMENTS AND OIG EVALUATION**

On January 13, 2005, the Director, DOA, provided a written response to the draft report, which is presented in its entirety in Appendix II of this report.

DOA partially concurs with recommendation 1. In its response, DOA indicated that although ASB has not developed a written, formal strategic plan, ASB partnered with FDIC stakeholders to identify, plan, implement, and manage a streamlined and efficient procurement approach to purchasing goods and services. ASB has used spend analysis concepts to initiate contract consolidation activities in DOA's Corporate Services Branch and the FDIC's Division of Information Resources Management. In addition, after a number of comprehensive studies and

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<sup>6</sup> We used the 2.9 percent from the Department of Veterans Affairs because it was a percentage of **total** goods and services procured, and the percentage was the most conservative and most comparable to the FDIC's procurements for administrative goods and services and to our audit objective. For GAO's study, in addition to the 2.9 percent for the Department of Veterans Affairs, the other percentages were: 7 to 54 percent for the Department of Health and Human Services; however, those percentages related only to \$100 million in expenditures (not the total universe) for office-related products; and 10 percent for the Department of Agriculture which GAO described as 10 percent less than the Federal Supply Schedule prices for office supplies (not the total universe of administrative goods and services).

analysis of purchase order activity, ASB is finalizing plans to increase the dollar limit for certain high-volume procurement credit card holders to realize the overall administrative efficiencies and cost savings to the Corporation. DOA is committed to continuous improvement and innovation and will continue to identify opportunities to streamline and improve ASB business practices.

Management's action was responsive to our recommendation. The recommendation is resolved but will remain undispositioned and open until we have determined that spend analysis techniques are used on a strategic basis and are effective.

## **FINDING B: MEASUREMENT OF PROCUREMENT PERFORMANCE**

DOA could do more to define goals for and measure the results of procurement processes and initiatives in achieving overall purchasing objectives. Specifically, DOA does not use a performance measurement framework to monitor overall procurement performance. Without established performance targets; benchmarks; and consistent, periodic measurement and reporting of performance results, DOA management may not be able to adequately evaluate ongoing performance or the impact of procurement initiatives in reaching overall corporate cost-saving goals. DOA could develop performance measures for administrative goods and services procurements; however, a broader application that includes all procurements would present a balanced perspective of the procurement process.

### **Performance Measurement Framework**

The Federal Acquisition Council (FAC)<sup>7</sup> established a committee to create, document, and maintain a procurement strategic performance measurement and management framework. The committee's report entitled, *Governmentwide Acquisition Performance Measurement Program*, dated April 2000, outlined specific goals and targets for a performance measurement framework. The framework provides an overall methodology to monitor the procurement process, using objectives, benchmarks, and consistent and quantifiable data accumulation and analysis. As shown in Table 1 on the next page, the FAC developed performance measures that impact one or more high-level procurement performance categories — timeliness, quality, price, and productivity.

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<sup>7</sup> The Procurement Executives Council, a government interagency council consisting of agency procurement executives, was established in 1999 to monitor and improve the Federal Acquisition System. In 2003, the council was renamed the Federal Acquisition Council to provide greater flexibility and a more inclusive reach beyond procurement.

**Table 1: Performance Measurement Framework**

Performance Measure	Performance Categories			
	Timeliness	Quality	Price	Productivity
Competition		✓		
Cost, Schedule, and Performance	✓	✓	✓	
Cost-to-Spend*				✓
Purchase Cards	✓			✓
Performance-Based Service Contracts		✓	✓	
Customer Satisfaction	✓	✓	✓	
Small Business Goals		✓		
Education and Training				✓
Electronic Commerce	✓			✓

Source: FAC report, *Governmentwide Acquisition Performance Measurement Program*.

\*Cost-to-Spend is the ratio of the procurement office's operating costs to the total obligations.

For an effective performance measurement framework, objectives, specific goals, and clearly defined data sources and calculations must be defined for each measure. Comparison with internal and government benchmarks based on comparable data can identify procurement process strengths and areas for improvement. The following sections discuss the potential application of the FAC performance measures to the DOA's procurement process.

### ***Competition***

DOA captures data that could be used to develop a competition performance measurement but has not defined competition goals and does not monitor changes in the extent of competition for the FDIC's contract procurements. To maximize the use of competitive procedures to obtain best values and promote fairness, the FAC suggested a competition performance measurement of the percentage of competed contract procurements costing over \$25,000. Regarding agency reporting of procurements, the FAC suggested a 75-percent goal for 2001 for competed procurements and provided a benchmark of 72 percent for 1998 procurements. The FDIC competes a significantly higher percentage of its procurements over \$25,000, as shown in Table 2.

**Table 2: Percentage of Competed Procurements Over \$25,000\***

	2000	2001	2002	2003
DOA Goods and Services	98%	87%	93%	85%
All FDIC Contracts	99%	93%	94%	87%

Source: OIG analysis of Contract Monitoring Information Application (CMIA) data. The CMIA supports the management of awarded contracts using a Web-based application to compile procurement information. The CMIA includes contract procurements for the FDIC as a whole and does not include procurement credit card purchases.

\*The percentage is the contract award amount for competed contracts over \$25,000 as a percentage of the total amount of all awarded contracts over \$25,000. The FAC suggested that this metric be refined to also include competition for orders under multiple award contracts.

### *Cost, Schedule, and Performance*

DOA could do more to evaluate the overall effectiveness of its contracting process. Specifically, DOA does not measure and track whether results of individual contract efforts achieve baseline goals, that is, cost, schedule, and performance expectations established at contract award, and does not combine individual contract results for an overall evaluation of the contracting process. As a result, DOA cannot readily compare current results with past results or benchmarks and cannot establish measurable improvement goals. The FAC’s procurement performance measures include measuring the percentage of baseline cost, schedule, and performance expectations that are met, and the FAC suggests achieving a 90-percent goal in each area.

Although DOA did not measure whether contractors met baseline goals, it used a more subjective measure of contractor performance. Until 2003, DOA captured in an FDIC contractor performance management system the oversight managers’ ratings of contract quality, cost, timeliness, and business relations. DOA used the 10-point rating system to review the FDIC’s previous experiences with a contractor during the procurement’s evaluation phase. Although this information was a judgmental measurement of contractor performance collected for a specific purpose, DOA could have used the information as a measure of the overall contracting performance. As shown in Table 3, oversight managers’ ratings showed an overall decrease in contractor performance and in each of the rating categories for 2002. DOA discontinued use of the FDIC system at the end of 2002. Currently, the FDIC participates in a multi-agency contractor rating system.<sup>8</sup> The FDIC had submitted contractor performance information for only 10 contracts as of October 28, 2004, as shown in Table 3.

**Table 3: Averages of Contractor Performance Ratings**

<b>Rating Category<sup>a</sup></b>	<b>2001<sup>b</sup></b>	<b>2002<sup>b</sup></b>	<b>2003</b>	<b>2004<sup>c</sup></b>
Quality	8.1	7.8	No Information Available	4.3
Cost	7.8	7.6		4.3
Timeliness	8.1	8.0		4.1
Business Relations	8.2	7.9		4.3
Summary	8.1	7.9		Not Used
<b>Number of Ratings</b>	<b>105</b>	<b>57</b>		<b>10</b>

Source: OIG analysis of the FDIC’s contractor performance evaluations.

<sup>a</sup> Individual contractor performance ratings may not have included a rating for every category.

<sup>b</sup> The maximum rating is 10 points for each rating category.

<sup>c</sup> The maximum rating is 5 points for each rating category.

### *Cost-to-Spend Performance Measure*

DOA could use operating cost and contract award information to develop a cost-to-spend performance measure. The operating costs for the ASB and the contract amounts awarded during a particular period are available from FDIC systems. However, DOA

<sup>8</sup> The FDIC obtains and submits contractor performance information to the Contractor Performance System hosted by the National Institutes of Health.

does not analyze this data in a manner that provides a consistent measurement of the overall cost for procurements. By using a cost-to-spend performance measure, DOA would have a method of evaluating the efficiency of the procurement process. The cost-to-spend performance measure used by the FAC is the ratio of the procurement office's operating costs to the total contract amounts awarded. The FAC estimated that in 1998, it cost the government about \$0.02 to contractually obligate \$1.00. To arrive at the estimated cost-to-spend ratios for the FDIC shown in Table 4, we divided the ASB cost by the total contract amount awarded for the years shown. With the exception of 2002, the cost-to-spend ratio increased from 2000 through 2003. The cost-to-spend ratio for 2002 may be lower than normal because of the award of a \$92 million dollar building construction contract, a contracting exception for the FDIC.

**Table 4: FDIC Cost-to-Spend Performance**

	2000	2001	2002	2003
DOA Contracting Costs (millions of dollars)	\$6.6	\$6.8	\$8.7	\$6.1
Contracts Awarded (millions of dollars)	\$359	\$306	\$444	\$215
Cost-to-Spend	\$0.0184	\$0.0222	\$0.0196	\$0.0284

Source: OIG analysis of CMIA and FDIC Financial Data Warehouse information.

### *Purchase Cards*

DOA could better evaluate purchases and determine cost savings through the use of the procurement card as part of the overall procurement process. Specifically, DOA could accumulate performance data on smaller, under \$25,000, procurements and establish overall goals for procurement credit card use. By implementing this performance measure, DOA could emphasize the opportunities for costs savings through procurement credit card use. The FAC suggested a performance objective of using the procurement credit card to reduce administrative expenses and procurement processing time. Additionally, the FAC proposed measuring the percentage of smaller procurement transactions using the procurement credit card. The FAC also suggested a cost-savings measurement based on the difference between the processing costs of a procurement credit card purchase and a purchase order. For 2000, the FAC estimated the difference at about \$66 per transaction. As shown in Table 5, the FDIC achieves significant cost savings by using the procurement savings card for procurements under \$25,000.

**Table 5: FDIC Procurements Under \$25,000 from May 1, 2003 through April 30, 2004**

	DOA	FDIC
Contracts under \$25,000	216	555
Procurement Card Transactions under \$25,000 <sup>a</sup>	5,530	13,105
Total Procurement Transactions under \$25,000	5,746	13,660
Procurement Card Percentage <sup>b</sup>	96%	96%
Estimated Cost Savings	\$0.4 Million	\$0.9 Million

Source: OIG analysis of CMIA data and procurement card statements.

<sup>a</sup> There were three procurement credit card purchases of \$25,000 or more during the audit period, including one DOA purchase.

<sup>b</sup> The percentage is the ratio of the number of procurement card transactions under \$25,000 to the total number of procurement transactions under \$25,000.

### *Other Federal Acquisition Council Performance Measures*

The FAC also developed measures for increasing the use of performance-based service contracts, ensuring that a fair portion of contracts or subcontracts are placed with small business enterprises, and increasing the education and training of contracting staff. The FAC also proposed a measure for customer satisfaction, including establishing percentage goals for end user satisfaction surveys. Measuring and monitoring performance in these areas would assist management in ensuring that the procurement process is efficient and effective.

The FAC also included an electronic commerce performance measure in the proposed framework but did not develop the objectives, measures, goals, benchmarks, and data sources needed for an effective performance measure. The FDIC had planned to increase the use of electronic commerce, such as using automated interfaces with vendors for invoicing, with the implementation of a new core financial system. When the schedule for installing the financial system was revised, implementation of the electronic commerce components for procurement was indefinitely postponed. Defining objectives, goals, benchmarks, measures, and data sources for increasing electronic commerce for procurements would aid DOA in ensuring that electronic commerce initiatives are appropriate and in measuring progress implementing the initiatives.

### **Conclusion**

DOA is examining its operations to achieve the Corporation's goal to substantially reduce costs. Areas under review include elements of the procurement process. As areas for improvement are identified, DOA should clearly define goals and quantitative measures to monitor progress in improving the procurement process for each area. A framework of performance measures would assist DOA in evaluating the overall performance for procurements and in monitoring the effects of efforts to improve procurement economy and efficiency.

### **Recommendation**

**We recommend that the Director, DOA:**

- (2) Develop a performance measurement framework to consistently monitor and periodically report on the procurement process and progress toward achieving goals to improve procurement economy and efficiency.**

### **CORPORATION COMMENTS AND OIG EVALUATION**

DOA concurs with this recommendation. DOA's response indicated that ASB is benchmarking current procurement practices and has initiated an effort to re-engineer business processes to maximize customer service delivery. In addition, a DOA Task Force will be benchmarking DOA against other organizations to identify a DOA-wide performance measurement framework.

Management's planned action is responsive to the recommendation. The recommendation is resolved but will remain undispositioned and open until we have determined that the agreed-to corrective action has been completed and is effective.

### **FINDING C: PURCHASES FROM FEDERAL PRISON INDUSTRIES, INC.**

FDIC procurement policies do not require the ASB to consider the Federal Prison Industries, Inc. (FPI), as a preferred source for acquiring goods and services. FDIC management was not aware of the requirement to use FPI. As a result, ASB generally did not include FPI as a solicited source for administrative goods and services.

At the time of our audit field work, federal departments and agencies and all other government institutions were required to purchase, at not-to-exceed current market prices, FPI products that met requirements and were available.<sup>9</sup> In our draft report, we recommended that the Director, DOA, establish policies and procedures to address federal requirements to purchase products from FPI. In its response to the draft report, DOA concurred with our recommendation. However, DOA noted that while ASB was preparing the policies and procedures to implement corrective action, ASB learned that a recent legislative change removed the mandate that federal agencies seek the FPI as an initial source. We confirmed that the requirements have been removed.<sup>10</sup> Therefore, there is no longer a need for related policies and procedures, and this final report does not contain a related recommendation.

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<sup>9</sup> During the audit period, the requirement to use FPI as a preferred procurement source was in 18 U.S.C. § 4124.

<sup>10</sup> The requirement was removed by Division H, Title VI, Sec. 637, of the Consolidated Appropriations Act of 2005, Pub. L. 108-447, signed by the President on December 8, 2004.

## OBJECTIVE, SCOPE, AND METHODOLOGY

### Objective

The audit objective was to determine whether the FDIC's procurement of administrative goods and services is economical and efficient. We performed our audit from April 5, 2004 through November 16, 2004 in accordance with generally accepted government auditing standards.

### Scope

The scope of the audit covered the FDIC's administrative goods and services procurement activity from May 1, 2003 through April 30, 2004. The universe of procurement transactions included goods and services that are acquired by DOA. Examples of these procurements include educational services, building maintenance, office equipment, supplies, mail/messenger services, library materials, books, manuals, and memberships in professional organizations.

### Methodology

To accomplish our objectives, we interviewed DOA staff in Washington, D.C., and FDIC field offices and reviewed the procurement-related documentation described below to evaluate existing procurement practices.

- We obtained the universe of FDIC contract agreements from the Contract Monitoring Information Application (CMIA).<sup>11</sup> The CMIA is a data application that enables access to pertinent FDIC databases in order to summarize FDIC contract details. CMIA reports are used by FDIC officials to help support the management of awarded purchase orders and contracts using a Web-based application to compile procurement information.
- We interviewed DOA's ASB staff in the Washington, D.C., headquarters office and in the FDIC's field offices. Contract specialists provided specific contract files and described the nature of the transaction and potential alternative procurement practices that might have been more efficient.
- We discussed DOA's plans to streamline the procurement of administrative goods and services through interviews with the Associate Director, ASB, and other ASB managers.

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<sup>11</sup> CMIA recorded 791 DOA contracts with payments, or pending payments, since April 30, 2003. We considered these contracts to be active contracts. We also identified 350 DOA contracts in the CMIA with an effective date within our audit period. We considered them as contracts awarded during our audit period.

Those interviews were conducted to gain insight into the procurement plans envisioned for future FDIC contracting activities.

- We reviewed DOA's procurement customer service standards along with plans to implement new standards in mid-year 2004.
- We obtained FDIC's data on procurement card usage to evaluate whether the procurement card was being used to maximize efficiencies for FDIC's administrative acquisitions.
- We also obtained procurement card usage information for a number of other federal agencies to compare the FDIC's card usage with similar organizations and to evaluate card-usage benchmarks.

**CORPORATION COMMENTS**



**Federal Deposit Insurance Corporation**  
550 17th Street NW, Washington, D.C. 20429-9990

Division of Administration

**DATE:** January 13, 2005

**MEMORANDUM TO:** Stephen M. Beard  
Deputy Assistant Inspector General for Audits

**FROM:** Arleas Upton Kea, Director [Electronically produced version;  
Division of Administration original signed by Arleas Upton Kea]

**SUBJECT:** Draft Report Entitled *FDIC's Procurement of Administrative Goods and Services (Assignment Number 2004-031)*

The Division of Administration (DOA) has completed its review of the subject Office of Inspector General (OIG) report. In the report, the OIG made three recommendations directed at improving the economy and efficiency for the procurement of administrative goods and services. We have evaluated the OIG's recommendations and have provided a detailed response to each recommendation made.

#### **MANAGEMENT DECISION**

##### **Finding 1: Use of a Strategic Procurement Approach**

**Condition 1:** DOA has not established a formal strategic approach for its procurement of administrative goods and services. Instead, DOA has focused on improving certain aspects of the contracting process. Without an enterprise-wide approach, the FDIC does not have a good understanding of its expenses for these procurements and may not be taking full advantage of opportunities to leverage its buying power, reduce costs, and thereby more efficiently manage its contracts.

**Recommendation 1:** We recommend that the Director, DOA, establish a strategic approach for improving the procurement process and incorporate spend analysis techniques to identify opportunities for cost savings.

**Management Response:** DOA partially concurs with this recommendation. Although the DOA Acquisition Services Branch (ASB) has not developed a written, formal strategic plan, ASB has taken a number of steps in this regard. ASB has partnered with FDIC stakeholders, to identify, plan, implement and manage a streamlined and efficient procurement approach to purchasing goods and services.

For example, ASB has utilized spend analysis concepts to initiate contract consolidation activities in the DOA Corporate Services Branch for supply type requirements nationwide. ASB has also initiated contract consolidation efforts with DIRM under the FEDSIM Infrastructure and the Information Technology Application Support (ITAS) requirements.

Another area ASB has undertaken is in the Procurement Card arena. After a number of comprehensive studies and analysis of our purchase order activity, ASB has determined that greater utilization of the P-card would reduce the cost of issuing a purchase order by \$109 per transaction. Therefore, ASB is finalizing plans to increase the dollar limit for certain high-volume P-card holders to realize the overall administrative efficiencies and cost savings to the Corporation.

DOA is committed to continuous improvement and innovation that generates potential long-term benefits to the FDIC and will continue to identify opportunities to streamline and improve ASB business practices.

**Finding 2: Measurement of Procurement Performance**

**Condition 2:** DOA could do more to define goals for and measure the results of procurement processes and initiatives in achieving overall purchasing objectives. Specifically, DOA does not use a performance measurement framework to monitor overall procurement performance. Without established performance targets; benchmarks; and consistent, periodic measurement and reporting of performance results, DOA management may not be able to adequately evaluate ongoing performance or the impact of procurement initiatives in reaching overall corporate cost-saving goals. DOA could develop performance measures for administrative goods and services procurements; however, a broader application that includes all procurements would present a balanced perspective of the procurement process.

**Recommendation 2:** We recommend that the Director, DOA, develop a performance measurement framework to consistently monitor and periodically report on the procurement process and progress toward achieving goals to improve procurement economy and efficiency.

**Management Response:** ASB concurs with this recommendation. ASB is in the midst of benchmarking current procurement practices and measuring them against current federal acquisition leading practices. ASB has initiated a Business Process Re-Engineering effort with an independent consultant to analyze ASB business processes that have potential to be streamlined and improved to maximize customer service delivery.

In addition, ASB is serving on a DOA Task Force that is conducting research to develop customer service standards aimed at improving DOA response and support to all FDIC customers. This Task Force will be benchmarking DOA against other organizations to identify a performance measurement framework from a DOA wide perspective.

**Finding 3: Purchases From Federal Prison Industries, Inc.**

**Condition 3:** FDIC procurement policies do not require the ASB to consider the Federal Prison Industries, Inc. (FPI), as a preferred source for acquiring goods and services. FDIC management was not aware of the requirement to use FPI. As a result, ASB generally did not include FPI as a solicited source for administrative goods and services.

**Recommendation 3:** We recommend that the Director, DOA, establish policies and procedures to address federal requirements to purchase products from FPI.

**Management Response:** DOA concurred with the OIG recommendation. However, while preparing an Interim Acquisition memorandum to implement this recommendation, ASB has learned from FDIC Legal that a recent legislative change issued by Congress removed the mandate that federal agencies seek the Federal Prison Industries as an initial source. As a result, ASB will not establish an Interim Policy Acquisition memorandum to address FPI procurements.

If you have any questions regarding the response, our point of contact for this matter is Andrew Nickle, Audit Liaison for the Division of Administration. Mr. Nickle can be reached at (202) 942-3190.

cc: James H. Angel, Jr., OERM  
Glen Bjorklund, DOA  
Ann Bridges Steely, DOA ASB

## MANAGEMENT RESPONSE TO RECOMMENDATIONS

This table presents the management response on the recommendations in our report and the status of the recommendations as of the date of report issuance.

Rec. Number	Corrective Action: Taken or Planned/Status	Expected Completion Date	Monetary Benefits	Resolved: <sup>a</sup> Yes or No	Dispositioned: <sup>b</sup> Yes or No	Open or Closed <sup>c</sup>
1	ASB has used spend analysis as a basis (1) for contract consolidation in DOA's Corporate Services Branch and the Division of Information Resources Management and (2) for plans to increase the dollar limit for certain high-volume procurement credit card holders. DOA is committed to identifying opportunities to streamline and improve business practices.	January 13, 2005	\$8.8 Million	Yes <sup>d</sup>	No	Open
2	A DOA Task Force will be benchmarking DOA against other organizations to identify a DOA-wide performance measurement framework.	September 30, 2005		Yes	No	Open

<sup>a</sup> Resolved – (1) Management concurs with the recommendation, and the planned corrective action is consistent with the recommendation.

(2) Management does not concur with the recommendation, but planned alternative action is acceptable to the OIG.

(3) Management agrees to the OIG monetary benefits, or a different amount, or no (\$0) amount. Monetary benefits are considered resolved as long as management provides an amount.

<sup>b</sup> Dispositioned – The agreed-upon corrective action must be implemented, determined to be effective, and the actual amounts of monetary benefits achieved through implementation identified. The OIG is responsible for determining whether the documentation provided by management is adequate to disposition the recommendation.

<sup>c</sup> Once the OIG disposes the recommendation, it can then be closed.

<sup>d</sup> Management did not address the potential monetary benefits in its comments. Therefore, we have requested that management provide additional comments stating its position. We will monitor the monetary benefits through the corrective action closure process.