

Report Highlights

A Review of the Commonwealth's Strategic Sourcing Initiative in Procuring Goods and Services

In 2003 and 2004, the Department of General Services (DGS) undertook a strategic sourcing initiative (SSI) in 17 different commodity areas to generate savings and improve the procurement process. Senate Resolution 2007-41 called on the LB&FC to assess the savings achieved as well as implementation issues resulting from this initiative, particularly the impact on Pennsylvania's small businesses.

Study Findings:

- **Savings, while substantial, have been less than originally projected, in large part because overall spending has been reduced.** In 2004, the projected savings for all SSI commodities were \$223.5 million annually. Had such saving been achieved, total cumulative savings as of 12/31/07, would have been over \$500 million. Instead, cumulative savings as of 12/31/07 were \$261 million. The reduced savings can be attributed largely to overall spending on SSI commodities and services being much less than originally projected.
- **DGS had implementation problems in several of the strategic source areas we reviewed, including:**
 - **Office supplies.** Agency personnel expressed concern that the cost of many office supplies increased substantially after the SSI contract was awarded. We found these concerns to be valid and identified 34 "core" office supply items that had increased in price by over 100% since the original SSI contract. However, despite the price increases, the cumulative savings on office supplies has still been substantial, approximately \$34.5 million.
 - **Food.** The food contract was single-sourced to W.S. Lee & Sons. Lee had delivery and product quality problems, and despite DGS assistance, went bankrupt within a year of being awarded the contract. DGS has abandoned the statewide single-source vendor approach and now contracts with 12 vendors in five regions.
 - **Copiers.** While the single-source contract with Imagistics appears to have saved the Commonwealth \$15 million, the firm had performance problems, and DGS did not renew the contract when it expired in Sept. 2007. DGS did not issue a new contract for copiers until late March 2008.
- **DGS has not established mechanisms to monitor contract provisions regarding Minority and Women Business Enterprises.** DGS plans to purchase and install new contract tracking software in FY 2008-09.
- **Strategic sourcing has significantly reduced the number of small and PA-based companies that participate in Commonwealth contracts.** Prior to SSI, DGS had contracts with 277 vendors in the 6 commodity areas we survey. After SSI, this was reduced to 31 vendors. Although we were not able to obtain data on all of the vendors that no longer have state contracts, it is clear that many were small and/or Pennsylvania-based firms.
- **Local government's use of COSTSARS, the Commonwealth's cooperative purchasing agreement for use by local governments, has increased markedly in the past year.**

Recommendations:

The Department of General Services should:

- Review the relationship between DGS procurement staff and the procurement staff remaining in other executive agencies.
- Assure that it documents the post-bid negotiation process.
- Provide additional outreach to local procurement officials regarding the availability and benefits of using COSTARS.
- Develop the capacity to monitor MWBE contract compliance.
- Improve communication with vendors that participate in the strategic sourcing process.
- Develop, in conjunction with the Budget Office and other key Commonwealth agencies, guidance regarding make/buy (outsourcing) decisions.