UNITED STATES GENERAL ACCOUNTING OFFICE

**EXPOSURE DRAFT**

# AN EVALUATION FRAMEWORK FOR IMPROVING THE PROCUREMENT FUNCTION

## A Guide for Assessing Strengths and Weaknesses of Federal Agencies' Procurement Structures

OCTOBER 2003

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# AN EVALUATION FRAMEWORK FOR IMPROVING THE PROCUREMENT FUNCTION

## PREFACE

**Did You Know?**
In fiscal 2001, federal agencies awarded more than $235 billion—or nearly 24 percent of their discretionary resources—on contracts for goods and services.

With hundreds of billions of tax dollars spent each year on goods and services, it is essential that federal procurement be handled in an efficient, effective, and accountable manner. However, the General Accounting Office's (GAO) work—as well as that conducted by other accountability organizations, inspectors general, and the agencies themselves—continues to identify systemic weaknesses in key areas. These often result in cost, schedule, and performance problems.

We developed this framework to enable high-level, qualitative assessments of the strengths and weaknesses of agencies' procurement functions. Such assessments can help:

- senior executives identify areas needing greater management attention;
- enable accountability organizations (including GAO) to identify areas requiring more focused follow-up work; and
- allow policymakers to identify opportunities for governmentwide improvements in procurement and acquisition processes.

We prepared this guide as an exposure draft to obtain insights into this complex subject from a wide variety of procurement experts and practitioners. This exposure draft was prepared under the direction of Bill Woods, GAO's Director of Contracting Issues. We would greatly appreciate any comments you have to enhance the usefulness of this framework. This draft document will be available for comment for 30 days. Written comments may be e-mailed to frameworkcomments@gao.gov. Please feel free to call me at (202) 512-4841 or Bill Woods at (202) 512-8214. Other major contributors are listed in appendix III.

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# INTRODUCTION

**Four Big Spenders**
These four federal agencies have the highest percentages of discretionary resources spent on contracting in fiscal year 2001:

**73%** Department of Energy

**72%** National Aeronautics and Space Administration

**64%** General Services Administration

**34%** Department of Defense

Source: GAO.

The federal government, one of the largest and most complex organizations in the world, comprises more than 60 agencies and about 1.7 million civilian workers. They are responsible for a vast array of missions—assuring national defense, supporting the building and maintaining of the nation's infrastructure, assessing and collecting tax revenue, promoting scientific knowledge, and helping to ensure the health and well-being of the nation's workforce, among many others. To support their missions, federal agencies have at their disposal a variety of approaches and tools for acquiring the goods and services they need. The fiscal year 2001 federal budget included more than $1 trillion in discretionary budget resources. About 24 percent—roughly $235 billion—went to contracts for goods and services. That's a significant piece of the pie. And if we look at the four agencies that spend the most on procurement, the percentages are even higher: between 34 percent and 73 percent of discretionary resources.

## OBJECTIVES OF THE FEDERAL PROCUREMENT SYSTEM

Everyone in the federal procurement system is responsible for making decisions that deliver on a timely basis the best value product or service to the customer while maintaining the public's trust, fulfilling public policy objectives, and encouraging innovation and improvement. To that end, procurement personnel and others who support procurement activities should work together as a team and be empowered to make decisions within their areas of responsibility. Key objectives are to:

- satisfy the customer in terms of cost, quality, and timeliness of the delivered product or service by—
  - ✓ maximizing the use of commercial products and services;
  - ✓ using contractors with a track record of successful past performance or who demonstrate a current superior ability to perform; and
  - ✓ consistently using competition to improve quality and service;
- minimize administrative operating costs;
- conduct business with integrity, fairness, and openness; and
- fulfill public policy objectives.

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## WHY GAO DEVELOPED THIS FRAMEWORK

**How Can This Framework Help You?**

- Help improve an organization's procurement function, particularly as it relates to supporting the overall mission through better procurement results.
- Help accountability agencies focus on risk areas requiring more in-depth evaluations.
- Help policymakers make government-wide improvements to procurement practices.

There are many guidelines and standards for federal procurement. But GAO, other accountability organizations, inspectors general, and the agencies themselves continue to find that spending is not being managed efficiently. Systemic weaknesses often lead to cost, schedule, and performance problems on individual procurement actions.

To help minimize these types of problems, we designed this framework to enable senior executives, procurement officials, and accountability organizations to perform high-level, qualitative assessments of agencies' procurement processes.

The framework should be viewed as general guidance for evaluating an agency's complete procurement function and to identify areas that need improvement. It is not intended to provide specific benchmarks or detailed assessment questions. It is also not intended to evaluate specific procurement actions, contracts, or compliance with contracting laws and regulations. Accountability organizations will find the framework useful in understanding the scope of topics and materials that need to be addressed when evaluating either the complete or key elements of an agency's procurement function. Our framework can help accountability organizations tailor their questions to the uniqueness of the agency they're evaluating. It helps jump-start the evaluation process.

This framework is consistent with and integrates existing guides and standards. It is not intended to replace existing guidance. Throughout the framework, we refer readers to relevant guides and standards documents that users could consult to conduct more in-depth evaluations.

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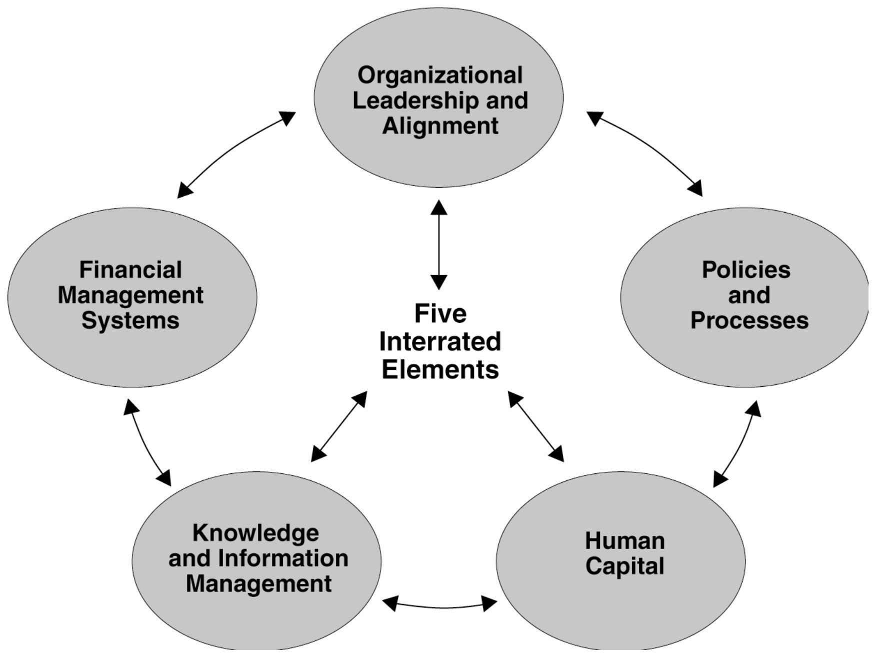
## How the Framework Is Organized

The main sections in this guide focus on our framework's five interrelated elements. These elements promote an efficient, effective, and accountable procurement process. Although our framework takes a high-level, comprehensive, and integrated approach, each of these five elements also can stand alone so users may tailor evaluations to an agency's specific needs.

**How Procurement Function's Elements Are Interrelated**



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The following table describes each of the elements in more detail.

| Descriptions of the Five Elements in Our Framework | |
|---|---|
| **Organizational Leadership and Alignment** | Assuring the appropriate placement of the procurement function in the agency can facilitate effective management and execution of procurement activities. Similarly, committed, effective leadership enables officials to make strategic decisions that achieve agencywide desired outcomes more effectively and efficiently. |
| **Policies and Processes** | Implementing strategic decisions to achieve desired agencywide outcomes and behaviors requires clear, transparent, and consistent policies and processes. Such policies and processes govern the planning, award, administration, and oversight of procurement efforts. |
| **Human Capital** | A good human capital management approach ensures that an agency has the right staff in the right numbers with the right skills in the right places to accomplish its mission effectively. This approach requires that an agency devote adequate resources to provide its acquisition workforce with the training and knowledge necessary to perform their jobs. It also requires long-range planning, including succession planning, to ensure the workforce has the necessary skills and qualifications to perform the procurement function into the future. |
| **Knowledge and Information Management** | Effective knowledge and information management produces credible, reliable, and timely data that provide key players with necessary information to make strategic decisions about procurement and acquisition in support of organizational missions. |
| **Financial Management Systems** | Sound financial management systems provide credible, reliable, and accurate information that can: 1) ensure the agency meets its financial obligations; 2) enhance strategic procurement decisions; and 3) enable effective evaluation and assessment of procurement activities. |

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## A GUIDE TO EACH ELEMENT

To assist the user in applying the framework, each element is broken down into cornerstones and critical success factors.

▶ **CORNERSTONES**: Within each element is a list of cornerstones that are integral to effective stewardship at an organization. Each cornerstone is associated with critical success factors.

▶ **Critical success factors**: Critical success factors focus on program results and mission accomplishment. To help you find out whether your organization is employing critical success factors, we offer three indicators: what questions to ask, what situations to look for, and what are the caution signs. You can find these indicators quickly by looking for the following symbols throughout this framework—

**Key questions**: What to ask when trying to identify the presence or absence of critical success factors.

**Look for**: Indicators of practices and activities that promote good procurement/acquisition outcomes.

**Cautions**: Indicators of practices and activities that hinder good procurement/acquisition outcomes.

## SUMMARY OF CORNERSTONES AND CRITICAL SUCCESS FACTORS

The following table provides an overview of the all the **cornerstones** and **critical success factors** in this framework. Readers can see at-a-glance how this report is structured and how the framework's various components are related to each other.

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| Summary of Cornerstones and Critical Success Factors | | |
|---|---|---|
| **Element** | **Cornerstone** | **Critical Success Factor** |
| **Organizational Leadership and Alignment** | Aligning Procurement with Organization's Mission and Needs | • Assuring Appropriate Placement of Procurement Function<br>• Organizing Procurement Function to Operate More Strategically<br>• Defining and Integrating Roles and Responsibilities |
| | Commitment from Leadership | • Clear, Strong Executive Leadership<br>• Effective Communications and Meaningful Metrics |
| **Policies and Processes** | Relationship Management | • Partnering with Internal Organizations<br>• Partnering and Managing External Suppliers |
| | Results-Oriented Procurement Processes | • Continuous Performance Improvement<br>• Appropriate Use of Commodity Managers<br>• Effective Internal Controls<br>• Effective Contract Management<br>• Sound Capital Investment Strategies<br>• Using Effective Project Management Approaches |
| **Human Capital** | Valuing and Investing in the Acquisition Workforce | • Commitment to Human Capital Management<br>• Role of the Human Capital Function |
| | Strategic Human Capital Planning | • Integration and Alignment<br>• Data-Driven Human Capital Decisions |
| | Acquiring, Developing, and Retaining Talent | • Targeted Investments in People<br>• Human Capital Approaches Support Agency Goals |
| | Creating Results-Oriented Organizational Cultures | • Empowerment and Inclusiveness<br>• Unit and Individual Performance Linked to Organizational Goals |
| **Knowledge and Information Management** | Identifying Data and Technology that Support Management Decisions | • Tracking Key Procurement Data<br>• Analyses of Goods and Services Spending<br>• Data Stewardship<br>• Technology to Leverage Efficiency of the Procurement Function |
| | Safeguarding the Integrity of Operations and Data | • Ensuring Effective General and Application Controls |
| **Financial Management Systems** | Culture | • Partnership Between Procurement and Financial Management<br>• Controls and Accountability<br>• Use of Training to Change Organizational Culture |
| | Organizational Alignment and Customer Focus | • Ability of Finance Department to Keep Pace with Mission Objectives<br>• Efficiency of Day-to-Day Financial and Accounting Activities |
| | Technology and Processes | • Integrating Financial and Operating Data<br>• Reengineering Processes to Better Match New Technologies<br>• Translating Financial Data into Meaningful Formats |
| | Workforce Strategy that Adds Value | • Developing Right Mix of Skills and Competencies<br>• Attracting and Retaining Talent |

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## Applying the Framework

Senior executives can use this evaluation framework to ensure that all procurement-related functions are working together in a way that supports accomplishing the agency's overall mission. Procurement officials can do a high-level assessment of how well the procurement function is helping the agency perform its mission. Other officials involved in functional disciplines, such as accounting, financial management, information technology, and human resources, can use the framework to assess their contributions to the agency's procurement function. It is important that all managers ask themselves the "key questions" provided to evaluate how well they and their staffs are contributing to the performance of the procurement function and, ultimately, whether they are supporting the agency's mission. The "look-for" situations provide goals or better practices for the agency to achieve. Conversely, "cautions" point to potential trouble spots.

Analysts in accountability organizations could discuss relevant elements in this framework with a range of procurement officials and other staff at an agency. In addition to evaluating whether answers to key questions indicate the presence or absence of critical success factors, analysts might pay attention to inconsistencies in answers from different officials or different levels within the agency.

While applying our framework, an agency may find that a number of its procurement practices fall into a caution situation. It would require a separate in-depth analysis on the root causes of these problems before the agency could forge a new path to becoming a high-performing one. Such an analysis is beyond the scope of this framework.

Users should keep in mind that the framework is a starting point in assessing a procurement function and that it can and should be modified to fit the circumstances, conditions, and risks relevant to each agency. Because of their interrelated roles within a procurement function, each cornerstone and critical success factor needs to be evaluated. The depth of evaluation of each cornerstone or critical success factor depends on its importance to the procurement activities of the agency, the role it plays in supporting the agency's mission, and the cost/benefit aspect of the particular cornerstone or critical success factor.

The framework has a hierarchy, but it does not drive the reporting format. Users can rearrange the cornerstones and accompanying critical success factors in any way, so long as the resulting message

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is clear and has the greatest impact in improving the procurement function of the agency being evaluated.

## How the Framework Was Developed

In developing the framework, GAO consulted with federal government and industry experts in the areas of human capital, information management systems, financial management systems, and contracting and procurement practices. Within GAO, we consulted staff with experience and expertise in procurement functions, including acquisition workforce issues, strategic information management systems, procurement law, and financial management practices.

# ORGANIZATIONAL LEADERSHIP AND ALIGNMENT

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# ORGANIZATIONAL LEADERSHIP AND ALIGNMENT

## OVERVIEW

**How Can Good Organizational Leadership and Alignment Help Your Organization?**

**Procurement staff**: Staff has a well-defined and useful role in supporting the agency's purchasing needs.

**Procurement managers**: Managers can better position the procurement function to strategically support the agency's purchase of goods and services.

**Overall mission**: Procurement function can strategically coordinate overall purchasing in support of the agency's mission.

There is no single, optimal way to organize an agency's procurement function. But there are distinct paths to effective procurement. In this chapter, we focus on two cornerstones—aligning the procurement function with the agency's mission and needs and commitment from leadership.

| ▶ CORNERSTONE | ▶ **Critical Success Factors** |
|---|---|
| Aligning Procurement with Organization's Mission and Needs | • Assuring Appropriate Placement of Procurement Function<br>• Organizing Procurement Function to Operate More Strategically<br>• Defining and Integrating Roles and Responsibilities |
| Commitment from Leadership | • Clear, Strong Executive Leadership<br>• Effective Communications and Meaningful Metrics |

## BACKGROUND

Increasingly, the federal government faces multidimensional challenges that cut across numerous programs, agencies, and government tools. Officials from leading companies[1] tell us that effective organizational alignment enables them to implement a coordinated and strategically oriented approach to procurement activities. Such alignment helps them achieve desired outcomes across their organizations. It can help the federal government to address its multidimensional challenges.

[1] *Best Practices: Taking a Strategic Approach Could Improve DOD's Acquisition of Services*, GAO-02-230 (Washington, D.C.: January 18, 2002).

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**What is organizational leadership and alignment?**
Organizational alignment is the appropriate placement of the procurement function in the organization, with key stakeholders having clearly defined roles and responsibilities. For example, the person in charge of purchasing is at the right level in the management hierarchy and has a respected and well-defined role. Executive leadership is key to obtaining and maintaining organizational support for executing the procurement function. Executive leadership determines the relationship between the various functional departments and is key to strengthening the interaction between the agency's executive management and employees.

## ▶ CORNERSTONE
Aligning Procurement with Organization's Mission and Needs

The end goal of organizational alignment is to institute an enterprisewide perspective—one that would ensure the organization is getting the best overall value from its procurement function while serving the overall mission and needs. Ideally, the procurement function needs proper management support and visibility within the organization to meet that goal.

In a series of interviews with GAO, leading companies explained how they transformed the procurement function from a mission support role to one that is strategically important to the bottom line. Leading companies assessed the role of their procurement functions. They used designated commodity managers to oversee key goods and teams to help identify goods and services needs, conduct market research, evaluate and select suppliers, and manage performance. In making such changes, the companies positioned themselves to more effectively manage and coordinate their purchases.

### ▶ Critical Success Factor
Assuring Appropriate Placement of Procurement Function

Budget cuts and increasing demand on shrinking resources require organizations to find creative ways to increase efficiency and effectiveness in delivering goods and services. In response to these challenges, leading organizations have assessed the current placement of their procurement function to determine if it is meeting organizational needs, including providing goods and services that the staff needs, supporting strategic decision making, and ultimately improving overall business performance.

**Key questions**:

- Where is the procurement function currently placed in the agency?
- What are the roles and responsibilities of procurement in the agency?
- To what extent do senior officials and agency staff view procurement as a strategic asset in achieving their mission or supporting the agency's operations at lowest possible cost?
- What portion of procurement spending is managed or influenced (indirect control) by the agency's central procurement office?
- What percentage of its discretionary budget does the agency spend on procurement?

**Look for**:

- The procurement function has been assigned the appropriate degree of responsibility and authority for strategic planning, management, and oversight of the agency's purchases of goods and services and is consistent with the significance of procurement to the overall mission or operations.
- There is consistency among the organizational placement, management and staff perceptions, and the percentage of the agency's discretionary budgetary resources spent on contracting.
- Agency leaders view procurement as a strategic asset in support of core agency mission and business processes.
- Procurement of goods and services is viewed from an enterprisewide perspective.

**Cautions**:

- Where procurement falls in the agency's hierarchy and how it's perceived are at odds with the overall mission.
- Lack of coordination across the procurement function results in redundancy, inconsistency, and an inability to leverage resources to meet common or shared requirements.
- Staff views procurement as a reactive administrative support function rather than as a proactive business partner.

**Critical Success Factor**
Organizing Procurement Function to Operate More Strategically

How an organization organizes and manages its procurement function affects its ability to operate strategically. Traditionally, the procurement function has been fragmented among business units, as each was responsible for its procurement activities. We found recently that leading companies transformed the procurement function from one focused on supporting various business units to one that is strategically important to the bottom line of the whole company. The procurement function should be able to coordinate and support the agency's procurement processes in order to benefit the agency as a whole and maximize the achievement of its overall mission.

**Key questions**:

- What is the management structure of the procurement function?
- How does the management structure of the procurement function meet internal customer needs and assist in achieving the agency's mission?
- Has the agency assessed the current structure of the procurement function in response to such changes as mission, budget, workforce, technology, or other internal or external factors?
- How has the agency considered the impact of these changes on the procurement function?
- Does the agency have metrics related to procurement efficiency, effectiveness, and results that are included as part of overall performance metrics and that are communicated regularly to senior management?
- Does the agency use its strategic and annual performance plan to document the contribution that agency officials expect the procurement function will make to its mission, strategic goals, and annual goals?

**Look for**:

- The procurement function's mission is well-defined and its vision for the future, core values, goals, and strategies support the agency's overall mission objectives.
- The current structure of the procurement function is assessed in response to changes, such as in the mission, operating environment, budget, workforce, or technology.

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- Performance measures are used to assess the value and credibility of the procurement function. These measures should be designed to gauge the contribution that the procurement function makes to achieve the agency's mission and goals.

**Cautions**:

- The agency lacks a clear definition of the procurement function's mission, vision, core values, goals, or strategies to support the overall mission.
- The agency has not assessed the role of the procurement function in response to significant changes.
- Performance measures are not used to evaluate value and credibility of the procurement function.

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## Critical Success Factor

Defining and Integrating Roles and Responsibilities

A procurement function that is successful at effectively and efficiently meeting the organization's missions requires a consistent, cross-functional, and multi-disciplinary approach. This requires engagement by all relevant stakeholders, who may include program offices, contracting, logistics, finance, human capital, information and knowledge management staff and other appropriate participants. An integrated approach, with clearly defined roles and responsibilities, helps organizations better define their needs and identify, select, and manage goods and service providers. This in turn helps ensure that users' needs are met at the lowest total costs to the organization.

**Key questions**:

- What are the roles and responsibilities of relevant stakeholders?
- How does the agency empower key stakeholders to coordinate, integrate, and ensure consistency among procurement actions?
- How do stakeholders in the agency view procurement?

**Look for**:

- Each stakeholder in the procurement process has clearly defined roles and responsibilities.

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- There is a shared understanding of each participant's role in procurement activities.
- Key stakeholders are empowered to coordinate, integrate, and ensure consistency among acquisitions.
- Procurement managers support the agency's strategic planning and decision-making needs at field and headquarters levels.

**Cautions**:

- The procurement function's role is unclear. Program offices and purchasing organizations do not clearly communicate and cooperate.
- There is little integration of procurement planning among the different entities within the agency with a role in the procurement process.
- Differences between stakeholders are left unresolved, thereby resulting in inefficient operations.
- Solutions developed for one entity in the agency are not scaled to meet the needs of the agency as a whole.

## ▶ CORNERSTONE
Commitment from Leadership

Organizations recognized for their best practices cite leadership as the most critical factor in providing direction and vision and, if necessary, changing the organization's culture. Leaders have the authority to require employees to accept changing roles, the responsibility to set the corporate agenda and to define and communicate the organization's values and culture, and the ability to remove barriers that block changes to the organization's corporate mindset. Prior research has found that lack of top management commitment is the cause of most reengineering failures.

### ▶ Critical Success Factor
Clear, Strong Executive Leadership

Powerful, visionary leaders can set the direction, culture, and perceptions of the organization. Clear, strong executive leadership can enable staff across the organization to work in an integrated fashion toward common goals.

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**Key questions**:

- What is the vision and direction senior management has set for the procurement function?
- Has senior management articulated a more strategic, integrated and enterprisewide approach for the procurement function?
- Are senior managers actively involved in pursuing changes, if appropriate, to how the agency acquires goods and services?
- Do business managers, such as procurement executives, human capital executives, and financial executives work in an integrated fashion on improvement initiatives that affect their agencies?
- Do leaders promote integration and coordination among the agency's budgetary processes and human capital, procurement, and financial management functions?

**Look for**:

- The agency has senior management that provides direction, vision, and facilitates the development of common processes and approaches.
- Senior leaders promote a strategic, integrated, and enterprisewide approach to procurement, if appropriate, by restructuring the agency's procurement function, providing greater visibility and authority over the agency's spending, and signaling their support for a new way of doing business.
- Improvement initiatives involve key program and business managers.

**Cautions**:

- Senior management has not defined a common direction or vision.
- Middle managers do not have adequate resources and support to implement a common vision and direction.
- Senior managers may back initial reengineering efforts but fail to continually back efforts to develop common processes and approaches.

**▶ <u>Critical Success Factor</u>**
Effective Communications and Meaningful Metrics

Agency leaders need to use effective communications to instill in employees the agency's mission, values, and guiding principles. Leaders use meaningful metrics to communicate how well the agency is achieving the desired mission, values, and guiding principles.

In addition, if the agency plans to reengineer the procurement function, then establishing open lines of communications and meaningful metrics will help to overcome resistance, cultural barriers, and other impediments to implementing a new vision and direction.

? Key questions:

- How does the agency's leadership communicate to its staff that reengineering the procurement function will better support the agency's mission?
- What metrics does the agency use to demonstrate the impact and value of the procurement function in supporting the agency's mission?
- Does leadership facilitate and support clear lines of communication among all affected parties, or do program and procurement offices fail to communicate clearly and cooperate?
- Have agency leaders made a compelling case for the change and clearly communicated the rationale, goals, and expected results from the new approach?
- How does the rest of the agency rate the effectiveness of this communication to make a business case change?
- Have stakeholders offered their views on what is wrong with the existing procurement process and what they think has to change?
- Are performance measures used to demonstrate value and credibility in new processes?

Look for:

- Agency leaders make a compelling case for change and clearly communicate the rationale, goals, and expected results from new processes and practices.
- Effort is made to ensure key constituents visibly support change initiatives. For example, leaders secure the

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necessary resources and congressional support by actively marketing the benefits of the reorganization.

- Agency leaders listen to their program units and other affected parties' needs and concerns and remain open to revising plans as appropriate.
- Meaningful metrics are being used to determine whether agency leaders' vision and direction are being met.
- Agencies leaders ensure that the agency measures compliance with or use of new processes, especially during initial stages of the reengineering effort.

⚠ Cautions:

- There is inadequate communication about the need for change among all affected parties.
- Performance measures are not used to demonstrate value, effectiveness, and credibility of the new approach.

| Quick Recap |
|---|
| **How Organizational Leadership and Alignment Can Enhance the Procurement Function** |
| ✓ Where procurement falls in the agency's hierarchy and how it's perceived are in balance with the overall mission.<br>✓ Agency's leaders view procurement as a strategic asset.<br>✓ Role of procurement is helping to improve overall business performance.<br>✓ Overall staff views procurement department as a proactive business partner rather than a reactive support function.<br>✓ Procurement solutions are scaled to meet the needs of the agency as a whole.<br>✓ Resources are routinely leveraged to meet shared requirements.<br>✓ Executive leadership is required to enable an integrated and enterprisewide approach to procurement.<br>✓ Changes in the role of the procurement function will require sustained support and commitment from management. |

# POLICIES AND PROCESSES

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# POLICIES AND PROCESSES

## OVERVIEW

**How Can Good Policies and Processes Help Your Organization?**

**Procurement staff**: Staff has a clear understanding of its roles and responsibilities.

**Procurement managers**: Managers have clear guidance for meeting the agency's procurement needs and know how to acquire goods and services effectively.

**Overall mission**: Policies and processes help the organization stay ahead of the curve and provide effective guidance without creating unnecessary barriers to overall productivity.

The past decade has seen the emergence of several procurement trends that have changed the way the government acquires goods and services. Congress and the administration have sought ways to simplify the acquisition process, shorten procurement times, reduce administrative burdens and costs, and improve acquisition outcomes. In particular, federal agencies are increasingly relying on contracts awarded by other federal agencies to obtain goods and services and have turned to using government purchase cards for many of their low dollar value procurements. The growth in these procurement methods has been dramatic and is apparent in nearly every agency. Additionally, agencies have begun to increase their use of commercial contracting methods and performance-based acquisition approaches.

| ▶ CORNERSTONE | ▶ Critical Success Factors |
| --- | --- |
| Relationship Management | • Partnering with Internal Organizations<br>• Partnering and Managing External Suppliers |
| Results-Oriented Procurement Processes | • Continuous Performance Improvement<br>• Appropriate Use of Commodity Managers<br>• Effective Internal Controls<br>• Effective Contract Management<br>• Sound Capital Investment Strategies<br>• Using Effective Project Management Approaches |

## BACKGROUND

To implement strategic decisions and to take full advantage of these methods and approaches requires that agencies have clear, transparent, and consistent policies and processes, adequate guidance and training, a strong internal control environment, and data that can be used by agency management to make informed decisions. When these conditions are not present, they contribute

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to missed opportunities to achieve savings, to reduce administrative burdens, and to improve acquisition outcomes. This chapter is not meant to serve as a compliance guide to determine if agencies are abiding by applicable laws and policies. Rather, this chapter is intended to enable high-level, qualitative assessments of the strengths and weaknesses of an agency's' policies and processes. To help users achieve this goal, we discuss three cornerstones and several critical success factors.

**What are policies and processes?** They embody the basic principles that govern the way an agency performs the procurement function. They clearly define the roles and responsibilities of agency staff and empower people across the agency to work together effectively to procure desired goods and services. Policies dictate how the procurement function is expected to be managed. Processes are the means by which management functions will be performed and implemented in support of agency policies.

## ▶ CORNERSTONE
Relationship Management

Managing relationships among various parties involved in the procurement process is key to ensuring daily communication and resolving issues. It strengthens and makes more constructive the interaction between the customer (program office) and provider organization (procurement office) and helps to ensure that expectations about goods and services being procured will be fulfilled.

### ▶ Critical Success Factor
Partnering with Internal Organizations

Aligning program office and procurement office objectives in a partnership is critical to building consensus and is imperative to establishing trust early among all stakeholders. This helps to ensure that various goals and objectives strengthen the interaction between the two business units. Both sides must recognize and understand each other's underlying motives and strive to achieve established expectations.

Leading organizations have found that a procurement function that successfully supports its missions must have a consistent, cross-functional, and multi-disciplinary approach. This requires engagement by all relevant stakeholders, including contracting, logistics, finance, legal, small business, and other appropriate participants to create cross-functional teams. Teams may vary in size but generally include representatives from the organization's purchasing unit, internal users of goods and services, and the budget or finance office. Teams are responsible for analyzing spending data, identifying and prioritizing potential opportunities for more detailed review, defining internal needs and requirements, and conducting market research. This approach helps organizations better define their needs and to identify, select, and manage goods and service providers. This in turn helps ensure that users' needs are met at the lowest total costs to the organization.

**Key questions**:

- Do program offices work with the procurement office to determine business direction, identify available technology, and determine requirements for meeting end-user needs?
- Are program offices and senior procurement executives working together to develop a joint strategy view for buying goods and services?
- How receptive are both parties to changing program office needs or different procurement approaches?
- Are active lines of communication kept open between program offices and the procurement office throughout the process?
- How do other stakeholders within the agency view procurement?
- Is there coordination among the organizational stakeholders as a procurement action moves through the various steps in the procurement process? Are field office staffs involved at any level? How? Are any staff in these offices considered "acquisition workforce?"
- Are there training requirements in acquisition for any of the staff in the program and field offices?
- To what extent does the agency use cross-functional teams in performing the procurement function?

**Look for**:

- Program and procurement offices work together to establish common project goals beyond objectives stated in requests for proposals.
- The agency has established cross-functional teams in which key stakeholders are empowered to coordinate, integrate, and ensure consistency in executing the tasks of a procurement function.

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- Staff views procurement as a proactive business partner rather than as a reactive support function.
- Procurement planning and strategy development supports the overall agency missions rather than focusing on the needs of individual units.
- Lessons learned are identified and shared.

**Cautions**:

- There is no central coordinating mechanism for procurements in the agency.
- Program offices and procurement offices do not clearly communicate their needs or work together to identify solutions.
- Lack of integration across the procurement function results in redundancy, inconsistency, and an inability to leverage to meet shared requirements.
- There are no cross-functional teams to assist in performing the various procurement functions.

**For More Information**

Learn more about best practices in supplier relationships by reading GAO's *Best Practices: DOD Can Help Suppliers Contribute More to Weapon System Programs*. NSIAD-98-87. Washington, D.C.: March 17, 1998. Download it from the Web by visiting http://www.gao.gov/archive/1998/ns98087.pdf.

**Critical Success Factor**
Partnering and Managing External Suppliers

Leading commercial companies have found that more cooperative business relationships with suppliers have improved their ability to respond to changing business conditions. The relationship fosters mutual benefits to both the buyer and producer. Such relationships have led to lower costs and have translated into higher quality, greater productivity, and shorter product design and delivery times. Characteristics of this relationship include:

- Effective supplier relationship management is a core business strategy.
- Rigorous supplier selection to create a strong supplier base.
- Effective communication and feedback system with suppliers.
- Mutually rewarding business environment.

Key questions:

- How many suppliers does the agency use to conduct its business?
- Does the agency have a process to identify who are the key suppliers?

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- Does the agency use a rigorous supplier selection process to create a strong supplier base that it can more effectively manage?
- Has the agency embraced effective supplier relationships as a core business strategy and built organizational structures with skilled people to carry it out?
- Has the agency established effective communications and feedback systems with its suppliers to continually assess and improve its own performance as well as its suppliers?
- Does the agency foster an environment in which suppliers realize that more significant contributions are matched with more significant rewards, which makes suppliers more likely to invest their intellectual capital—their ideas—into the venture?
- Does the agency train its acquisition workforce on how to manage supplier relationships?

Look for:

- Agency builds a procurement organization with skilled people to ensure that supplier relationships receive central direction and support; provide and enforce consistent supplier policy guidance; and implement supplier strategies by creating supplier management teams, commodity teams, or internal councils.
- Agency uses stringent supplier selection criteria; relies on a manageable number of suppliers; maintains or develops an appropriate level of competition between suppliers; and periodically assesses the supplier base against agency goals.
- Agency has established an effective communications and feedback systems with its suppliers by:
  - ✓ designating an authoritative contact person as a single interface with suppliers;
  - ✓ using integrated teams to facilitate close teaming arrangements that facilitate sharing of information;
  - ✓ establishing an objective basis for communicating about performance by setting performance measures and expectations for each supplied good and service, using such key elements as quality, responsiveness, timeliness, and cost; and
  - ✓ providing periodic “report cards” and meeting formally with key suppliers to discuss issues.
- Agency fosters a mutually rewarding environment in which:

EXPOSURE DRAFT

- ✓ suppliers realize that the quality of their participation is matched with significant rewards;
- ✓ suppliers are important to the conception and design of new products;
- ✓ the agency provides more sophisticated, long-term relationships that include more involvement with product design, business plans, and streamlined business procedures;
- ✓ suppliers commit some of their own resources, including intellectual capital, to the longer-term business opportunities; and
- ✓ the agency is committed to mutually rewarding relationships with suppliers, demonstrated by its willingness to identify and take action on supplier issues and problems. It uses such methods as surveys, supplier meetings, and formal agency-supplier councils or supplier advisory councils to assess existing customer-supplier working arrangements, identify problem areas, and report back to suppliers.

⚠ Cautions:

- The agency does not encourage the suppliers to contribute to the design of the product or make extra efforts to innovate.
- The agency does not create a basis for the suppliers to expect the business relationship to extend beyond the contract at hand and therefore the suppliers limit their performance to compliance with contract requirements, impairing the program’s ability to take full advantage of the suppliers’ intellectual capital, such as design or product ideas.
- The agency has not developed adequate policies for addressing supply chain relationships.
- The agency is too dependent on one or two suppliers.
- Agency leaders continue to select the same suppliers without periodically assessing whether the goods and services offered are competitive in terms of price and performance.
- Human capital problems threaten the ability of the agency and its partners to carry out agency missions because the acquisition workforce lacks the skills, knowledge, and expertise to manage supplier relationships effectively.

**CORNERSTONE**
Results-Oriented Procurement Processes

Agency processes need to ensure that contracted goods and services will be delivered according to the time, cost, quality, and quantity specified in the contract. Successful processes include:

- continuous assessment and improvement of performance;
- appropriate use of commodity managers;
- effective internal controls for effective stewardship of public resources;
- effective contract management;
- sound budget and fiscal management; and
- empowered project management.

**Critical Success Factor**
Continuous Performance Improvement

Leading organizations actively assess and continuously improve their performance. To do so, they use performance measurements to gain insight into and make judgments about the organization, effectiveness, and efficiency of its programs, processes, and people. Performance measurements can be used to: evaluate and understand an organization's current performance level; identify the critical processes that require focused management attention; obtain the knowledge needed to set realistic goals for improvement; and document results over time. Evaluation is used to improve performance by modifying existing practices.

The Procurement Executives' Association, an informal association of federal civilian procurement executives, developed a balanced scorecard methodology for translating an organization's strategic objectives into a set of performance indicators and metrics. They are divided among four perspectives—customer, financial, internal business processes, and learning and growth. Some indicators are maintained to measure an organization's progress toward achieving its vision; other indicators are maintained to measure long-term drivers of success. With the balanced scorecard, an organization monitors its current performance (customer satisfaction, finance, and business process results) and its efforts to improve processes, motivate and educate employees, and enhance information systems.

**@ For More Information**

Learn more about the balanced scorecard methodology by reading the Procurement Executives' Association's *Guide to a Balanced Scorecard: Performance Management Methodology*. Download it from the Web by visiting http://oamweb.osec.doc.gov/bsc/guide.htm.

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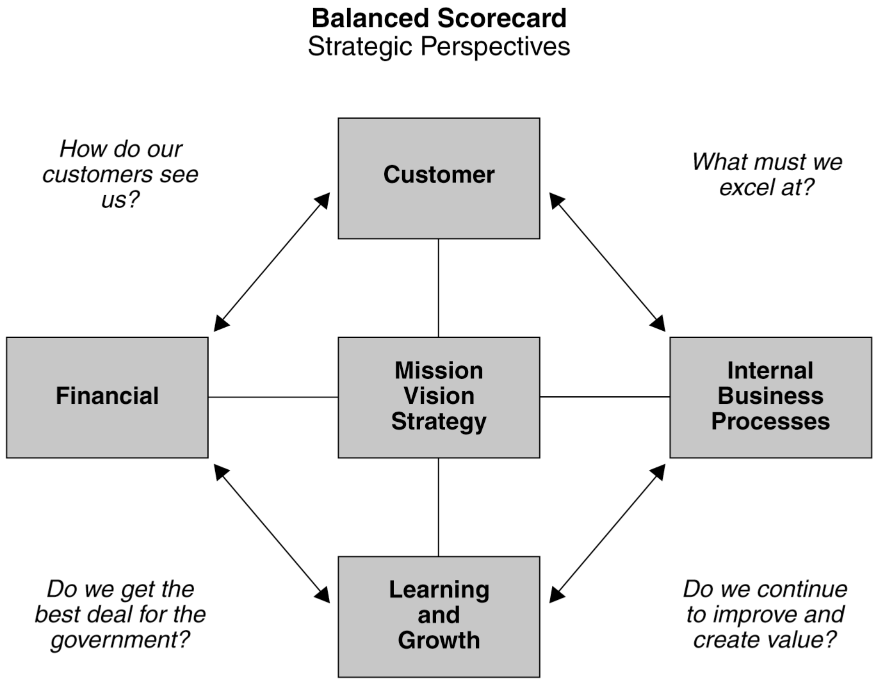


Source: Guide to a Balanced Scorecard, Procurement Executives' Association, October 1998.

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Key questions:

- Have indicators of customer satisfaction been developed to show how the agency provides quality goods and services, effective delivery, and overall agency staff satisfaction with performance of the procurement function?
- Are financial indicators used to determine how cost-effectively the procurement function meets the needs of the agency?
- Has the agency developed internal business process indicators to judge how well the procurement function meets agencywide goals, objectives and expectations?
- Do learning and growth indicators demonstrate the performance of agency procurement employees, the quality of procurement information systems, and the effects of the organizational alignment in providing clear accountability and contributing to agency goals?
- How do agency managers respond to internal crises or perception of changing needs and/or a changing environment?

Look for:

- The agency uses customer satisfaction surveys to determine the percentage of satisfied customers. To do this, the Procurement Executives' Association recommends the following be measured:
  - ✓ timeliness of the delivery of products or services and other factors affecting the procurement schedule;
  - ✓ quality of products or services delivered for the price paid; and
  - ✓ responsiveness, cooperation, and communications skills of the procurement office. The perceptions, choices, and behavior of all participants in the procurement process affect the outcome of any procurement action[2].
- Use of financial indicators help demonstrate the procurement function's ability to deliver the maximum value to the customer, including:
  - ✓ cost to spend ratio;
  - ✓ appropriate use of purchase cards for low dollar value purchases; and
  - ✓ percentage of prompt payment interest paid of total dollars disbursed.

[2] These metrics are not intended to be all-inclusive. Agencies may have developed other measures to reflect the unique nature of their procurement activities.

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- Use of internal business processes indicators demonstrate the procurement function's performance, including:
  - ✓ number of actions using electronic commerce;
  - ✓ percentage of socio-economic goals achieved; and
  - ✓ percentage of total procurements that sought competitive bids.
- Use of learning and growth indicators depict the agency's efforts to improve processes, motivate and educate employees, and enhance information systems, including:
  - ✓ percentage of employees meeting mandatory qualification standards
  - ✓ productivity measures
  - ✓ percentage of employees satisfied with the work environment;
  - ✓ percentage of employees satisfied with professionalism, culture, values, and empowerment; and
  - ✓ extent of reliable management information, such as measures of changes in competencies, knowledge, skills, and abilities; progress on planned actions; and organizational impact.
- The agency evaluates the decision-making process and updates it to ensure goals are met. Processes are revised in response to internal crises or to a perception of changing needs or a changing environment. Agency leaders often conduct difficult self-assessments and undergo major changes to achieve continued success.

⚠ Cautions:

- The agency has not implemented a program to continuously assess the procurement function's performance in both supporting agency mission and achieving procurement goals.
- Results of performance measures and not used to update or reconsider business processes, manage risk, and support decision making.
- Lessons learned from self-assessment are not used to improve performance by modifying existing practices.

## ▶ Critical Success Factor

Appropriate Use of Commodity Managers

Leading companies are increasingly establishing full-time commodity managers to more effectively manage key goods and services that have high-dollar value or significantly impact company operations. Commodity managers' duties can include serving as process and commodity experts, being actively involved in defining requirements with internal clients, negotiating with potential service providers, assisting in resolving performance or other issues that arise after a contract is awarded, and serving as change agents to further reengineer the company's procurement processes.

Key questions:

- Has the agency established commodity managers?
- What goods and services do commodity managers manage?
- Does the commodity manager have a role in actively defining requirements with internal clients, negotiating with potential providers of goods and services, and assisting in resolving performance or other issues after the contract is awarded?
- How do commodity managers engage key agency stakeholders to assist them in performing agency goals and mission?

Look for:

- The agency has established commodity managers for key goods and services.
- Commodity managers are used as process experts actively involved in defining requirements with agency customers.

Cautions:

- The agency does not use commodity managers to manage procurement of goods and services.
- The agency does not effectively use commodity managers who have expertise in the goods and services being procured, including high dollar value goods and services or those that significantly impact company operations.
- Individual business units do not coordinate their procurement of goods and services through a central commodity manager.

> **For More Information**
> Learn more about internal controls by reading GAO's *Standard for Internal Control in the Federal Government*. GAO/AIMD-00-21.3.1. Washington, D.C.: November 1999. Download it from the Web by visiting http://www.gao.gov/archive/2000/ai00021p.pdf.

## ▸ **Critical Success Factor**
Effective Internal Controls

Internal controls are a major part of managing an organization. They comprise the plans, methods, and procedures used to meet missions, goals, and objectives. Internal controls also serve as the first line of defense in safeguarding assets and preventing and detecting errors and fraud.

The minimum level of quality acceptable for internal control in the federal government is defined by five standards:

- Control environment: Provides discipline and structure as well as the right climate for improving quality of internal control. Supported by the integrity and ethical values maintained and demonstrated by management and staff as well as management's commitment to competence.
- Risk assessment: Identifies and analyzes relevant risks associated with achieving objectives. May include qualitative and quantitative ranking activities, management conferences, forecasting and strategic planning, and consideration of findings from audits and other assessments.
- Control activities: Help ensure that management's directives are carried out. Supported by policies, procedures, techniques, and mechanisms that enforce management's directives.
- Information and communications: Enable an organization to smoothly run and control its operations. Organization needs relevant, reliable, and timely communications about internal and external events to be widely disseminated throughout the agency.
- Monitoring: Assesses the quality of performance over time. Ingrained in agency's operations. Includes regular management and supervisory activities, comparisons, reconciliations, and other actions people take in performing their duties.

? Key questions:

- Has the agency recently reviewed its key procurement-related internal controls? If so, what were the results?
- Has the agency corrected any deficiencies identified in its procurement-related internal controls? Are any deficiencies left unresolved?
- In general, do agency internal controls provide reasonable assurance that the following objectives are being achieved:

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- ✓ effectiveness and efficiency of operations;
- ✓ compliance with applicable procurement laws and regulations; and
- ✓ reliability of the financial reporting of procurement transactions?

- Specifically:
  - ✓ does the agency have a positive and supportive attitude toward internal controls;
  - ✓ does the agency conduct assessments of the risks it faces;
  - ✓ are control activities an integral part of the agency's planning, implementing, reviewing, and accountability for stewardship of government resources and achieving effective results;
  - ✓ do program managers and procurement officials get the information and communications they need to manage the agency's procurement that is relevant, reliable, and timely; and
  - ✓ are internal controls designed to assure that ongoing monitoring occurs in the course of normal operations?

Look for:

- Management and employees establish and maintain an environment throughout the organization that sets a positive and supportive attitude toward internal controls and conscientious management.
- Internal controls provide for an assessment of the risks the agency faces from external and internal sources.
- Internal control activities help ensure that management's directives are carried out. Control activities should be effective and efficient in accomplishing the agency's control objectives.
- Information is recorded and communicated to management and others who need it and in a form and within a time frame that enables them to carry out their responsibilities.
- Internal control monitoring assesses quality of performance over time and ensures that findings of audits and other reviews are promptly resolved.

Cautions:

- Agency management does not provide adequate leadership in setting and maintaining the agency's ethical tone, providing guidance for proper behavior, removing temptations for unethical behavior, and providing discipline when appropriate.

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- Agency personnel do not possess and maintain a level of competence that allows them to accomplish their assigned duties, as well as understand the importance of developing and implementing good internal controls.
- Agency management has not comprehensively identified risks and considered all significant interactions between the entity and other parties as well as internal factors at both the entitywide and activity level.
- The agency does not have adequate policies, procedures, techniques, and mechanisms that enforce management's directives.
- The agency does not have relevant, reliable, and timely communications relating to internal as well as external events. Program managers do not have both operational and financial data to determine if they are meeting their agencies' strategic and annual performance plans and meeting their goals for accountability.
- Monitoring of internal controls does not occur in the course of normal operations and is not performed continually and is not ingrained in the agency's operations.

## ▶ Critical Success Factor

Effective Contract Management

The federal workforce shrank by about one-fifth in the 1990s, when many agencies were freezing their hiring efforts. As a consequence, agencies rely more and more on private contractors to help carry out their missions. These contractors deliver programs and perform many functions that used to be done by agency staff. With a reduced acquisition workforce to oversee increased numbers of contractors, guarding against fraud, waste, abuse, and mismanagement is challenging. In addition, deciding whether the public or private sector is the most appropriate provider of government services is an important and often controversial question.

No matter who provides goods and services to the federal government, agencies need effective oversight processes and staff with the right skills and training, using the right tools and information, to fulfill their missions and protect the integrity and accountability of their programs.

? Key questions:

- Does the agency track the types of procurement methods used to acquire goods and services?

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- How does the agency use this data to assure it is employing the most appropriate contract type and to assess workload and training requirements?
- Has the agency determined the extent to which contractors currently perform functions within the agency?
- Has the agency determined the amount or type of work that should be performed in-house and contracted out to ensure innovation, efficiency, and effective performance?
- What tools and processes does the agency use to ensure effective oversight of contractor performance?
- Does the agency clearly define roles and responsibilities of those who perform contract management and oversight?
- What actions has the agency taken to ensure that its staff has the right skills and training to oversee contractors engaged in agency functions previously performed in-house?

Look for:

- The agency collects and uses data and monitors trends on its key procurement approaches.
- Adequate and relevant data about the agency's in-house and contractor workforce is readily available.
- The agency assesses its in-house and contracting workforce to determine the appropriate mix of suppliers to increase innovation and improve efficiency and performance.
- The agency employs contract monitoring plans or risk-based strategies, and tracks contractor performance. These are helpful to facilitate effective monitoring and ensure contractors' accountability.
- Steps are taken to ensure that individuals who manage and monitor contracts have clearly defined roles and responsibilities and have the appropriate workload, skills, and training to effectively perform their jobs.
- The agency has undertaken a workforce planning effort to ensure that the agency's staff has the skills to manage and monitor the contracts for which they are responsible.

Cautions:

- The agency does not assign clear roles and responsibilities for overseeing contracts.
- The agency lacks data on the types and appropriateness of contracts used and on the workload and training of its workforce.

- Personnel responsible for contract management have skills and knowledge gaps that inhibit their ability to oversee a variety of contract types.
- A significant percentage of contracts fail to meet cost, schedule, performance, and quality requirements.
- Contract monitoring is inadequate.

**For More Information**

Learn more about budgeting for capital projects by reading GAO's *Executive Guide: Leading Practices in Capital Decision-Making*. AIMD-99-32. Washington, D.C.: December 1, 1998. Download it from the Web by visiting http://www.gao.gov/archive/1999/ai99032.pdf.

▶ **Critical Success Factor**
Sound Capital Investment Strategies

The federal government spends billions of dollars each year on direct major physical capital investment. In addition to defense-related capital assets, capital investment includes expenditures for water, power, and natural resource projects; construction and rehabilitation of Postal Service facilities and veterans hospitals; major equipment; facilities for space and science programs; the air traffic control system; and information technology for the entire federal government.

GAO's past work has identified a variety of federal capital projects that have yielded poor acquisition results—costing more than anticipated, falling behind schedule, and failing to fully meet mission needs and goals. While capital decision making involves the leadership of the executive branch and Congress, which must weigh a range of options as competing priorities, federal agencies have an essential role to play in managing the capital decision making process and ensuring that informed choices are made.

To ensure an effective capital investment strategy is taken, leading organizations:

✓ Integrate organizational goals into the capital decision making process
✓ Evaluate, select, and control capital assets using an investment approach
✓ Balance budgetary control and managerial flexibility when funding capital projects

a. Integrating organizational goals into the capital decision making process

Leading organizations begin capital decision making by defining the organization's mission in comprehensive terms and results-oriented goals and objectives. This process enables managers to identify resources needed to satisfy the organization's program requirements based on program goals.

Key questions:

- What percentage of the agency's budget reflects capital investment expenditures?
- Are the agency's capital investments linked to and driven by its mission and long-term strategic goals?
- Has the agency completed a comprehensive needs assessment?
- Do decision makers have access to critical information?
- Do decision makers compare resource needs information to current asset capabilities to identify any gap between what is needed to fulfill objectives and what is currently available?
- What alternatives to capital investment has the agency considered?

Look for:

- Capital and strategic plans are clearly linked.
- The agency has completed a comprehensive needs assessment that considers the overall mission and identifies the resources needed to fulfill immediate requirements and anticipated future needs, and assesses internal and external environments.
- Gaps between current and needed capabilities have been identified in a timely manner. The agency maintains systems to track the use and performance of existing assets and facilities by location, status, asset or facility condition, deferred maintenance needs, and user satisfaction.
- The agency routinely evaluates alternatives, including noncapital options and repair and innovation of existing assets before choosing to purchase or construct a capital asset or facility.

Cautions:

- Capital investment decisions are made without strategic consideration of the agency's needs or the resources needed to fulfill immediate requirements and future needs.
- Capital decisions are made without knowing what the agency already has and what it still needs to fulfill goals and objectives.

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- There is little consideration of alternatives to satisfy agency needs.

b. Evaluating and selecting capital assets using an investment approach

An investment approach builds on an organization's assessment of where it should invest its resources for the greatest benefit over the long-term.

? Key questions:

- Does the agency develop a decision or investment package, such as a business case or project requests, to justify capital project requests? If so, does the package include common categories of information, such as links to organizational objectives, solutions to organizational needs, project resource estimates and schedules, and project costs, benefits, and risks?
- Does the agency have preestablished criteria and a relative ranking of investment proposals? Examples of criteria include strategic fit, political implications, cost savings, and market growth. Are top-level managers involved in developing these criteria?
- Does the agency develop a long-term capital plan that defines capital asset decisions?

Look for:

- The agency employs a decision-making framework that encourages appropriate levels of management review and approval, supported by proper financial, technical and risk analyses. Projects that are expensive, span multiple years, or are crucial to the agency's strategy usually require more analysis, support, and review than projects that cost less, have shorter time frames, or have less agencywide impact.
- Processes for ranking and selecting projects are based on preestablished criteria, a relative ranking of investment proposals, and an understanding of potential project risks.
- A long-term capital plan guides implementation of organizational goals and objectives and helps decision makers establish priorities in the long run.

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Cautions:

- No framework exists to encourage appropriate levels of management review and approval for capital investments, resulting in the agency undertaking projects that are expensive, span a number of years, or are crucial to the agency's strategy but have little analysis.
- Projects are selected without using preestablished criteria and without consideration of project risks.
- Year-to-year changes are made in the absence of a long-term capital plan, without consideration of strategic decisions.

c. Balancing budgetary control and managerial flexibility

In leading organizations, officials agree that good budgeting requires that the total life cycle costs of a project be considered when making decisions to provide resources. At the federal level, this calls for a balance between agency budgetary control and agency flexibility in financing capital.

Key questions:

- Does the agency budget for useful segments of capital projects?
- Do managers have the necessary information to plan for capital investment projects? For example, does the agency have systems to estimate the full cost of a project?
- Are alternatives to full up-front funding considered?

EXPOSURE DRAFT

Look for:

- The agency budgets projects in useful segments.[3]
- Good information and data systems are in place to develop estimates of the full cost of a project or segment early in the life of the project.
- The agency considers innovative approaches to full up-front funding, including outsourcing capital-intensive services, using an investment component similar to a savings account, and developing public/private partnerships to try to provide the best economic value for the government as a whole. Such strategies allow for flexibility to finance full costs of capital projects without compromising top management's ability to make decisions based on full costs.

Cautions:

- There is a higher risk when capital projects are not funded in useful segments, which leads to acquisitions that may not be fully analyzed or justified, cancellation of major projects, and loss of associated sunk costs.
- Risk increases if there is a lack of information to make strategic capital investment decisions.

[3] The Office of Management and Budget has defined a useful segment as a component that (1) provides information that allows the agency to plan the capital project, develop the design, and assess the benefits, costs, and risks before proceeding to full acquisition (or canceling the acquisition) or (2) results in a useful asset for which the benefits exceed the costs even if no further funding is appropriated.

▶ **Critical Success Factor**
Using Effective Project Management Approaches

Many organizations apply a variety of project management techniques to optimize project success and to enhance the likelihood of meeting project-specific as well as organizationwide goals. These techniques can help avert cost overruns, schedule delays, and performance problems. Two critical techniques include empowered project management teams and knowledge-based approaches to procurement.

a. Empowered project management teams

Leading organizations make extensive use of cross-functional teams. Such teams consist of individuals from different functional areas and are led by a project manager. A team's sense of ownership, its drive, commitment to the project, and integrated and comprehensive approach improve communication among project stakeholders. These factors also increase the likelihood that potential problems will be identified and resolved quickly.

? Key questions:

- Does the agency use a project plan to manage and control project implementation? Does the project plan include performance measurement baselines for schedule and cost, major milestones, and target dates and risks associated with the project?
- Do individuals outside the project team regularly review the status of cost, schedule, and technical performance goals?
- Are incentives in place to encourage teams to meet project goals?
- Are project managers held accountable for meeting cost, schedule, and performance goals?
- Are cross-functional teams used? How do these teams operate?
- Is there good communications among all stakeholders?

Look for:

- The agency monitors project performance and establishes incentives for accountability. By monitoring project performance against cost, schedule, and technical performance goals by and establishing incentives to meet those goals, the agency can increase the likelihood of successful project completion.

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- The agency uses cross-functional teams to plan for and manage projects.
- Open, honest, clear, and cordial communications is encouraged among all parties, including team members, program officials, and contractors.

Cautions:

- Key elements of good project management techniques are missing, including monitoring project performance, establishing incentives to meet project goals, and developing a project management team with the right people and the right skills.

**For More Information**

Learn more about the knowledge-based approach to procurement by downloading the following GAO reports:

*Best Practices: Successful Application to Weapon Acquisitions Requires Changes in DOD's Environment.* GAO/NSIAD-98-56. Washington, D.C.: February 24, 1998. http://www.gao.gov/archive/1998/ns98056.pdf.

*Best Practices: Capturing Design and Manufacturing Knowledge Early Improves Acquisition Outcomes.* GAO-02-701. Washington, D.C.: July 15, 2002. http://www.gao.gov/new.items/d02701.pdf.

a. Using a knowledge-based approach to procurement

The federal government spends billions annually to research, develop, and produce large custom projects, such as weapon systems, air traffic control systems, information technology, and space projects. The challenge of putting new programs on better footing than their predecessors is a daunting one. GAO reviews have consistently found that federal projects often cost more, take longer, and deliver less performance than expected. Undesirable acquisition outcomes often occur because agency officials proceed further into development or production without obtaining sufficient knowledge that the product will be able to meet original requirements. Agency officials frequently lack the knowledge they need to produce a reliable product within established cost, schedule, and quality targets.

The potential for undesirable acquisition outcomes can be significantly reduced. All product development efforts, whether for a car, plane, missile, or satellite, go through a process of building knowledge. Ultimately, this process brings together and integrates all of the technology, components, and subsystems needed for the product to work and be reliably manufactured. GAO's work in best practices for product development has identified elements of knowledge that are essential to success. These elements, which we refer to as knowledge points, are technology maturity, design maturity, and production process maturity. We have defined them as:

- Knowledge point 1: Technology maturity occurs when a match is made between the customer's requirements and the available resources, which are technology, design, time, and funding.

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- Knowledge point 2: Design maturity occurs when the product's design is stable and demonstrates its ability to meet performance requirements.
- Knowledge point 3: Production process maturity occurs when the product can be manufactured within cost, schedule, and quality targets and is reliable.

? Key questions:

- How much does the agency invest in new product development activities?
- Is a knowledge-based approach used to develop new products?
- Does the agency measure the extent to which new product development activities meet their baseline cost, schedule, or performance requirements?
- What techniques does the agency use to match end-users' requirements with the technology resources available and the program's ability to meet cost and schedule predictions?
- Does the agency have an established metric or benchmark, such as the percentage of engineering drawings complete or similar criteria, to demonstrate that the product's design is mature?
- Is there an established metric or benchmark, such as having 100 percent statistical control over key manufacturing processes, to demonstrate that product can be reliably produced?
- Does the agency use lessons learned from programs that did not meet their baseline requirements to improve its acquisition processes?

Look for:

- The agency embodies a knowledge-based approach to procurement that is reinforced in its policies, implemented in its processes, and reflected in individual acquisition decisions.
- At knowledge point 1 or equivalent milestone, the agency regularly matches requirements and technology resources before beginning product development.
  - ✓ Developers employ the technique of systems engineering to identify gaps between customer requirements and the developer's available resources before committing to new product development.

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  - ✓ Customers and developers are flexible. Leeway exists to reduce customer needs or to defer some capabilities to future versions of the project. The developer has the flexibility to invest more time or money to increase knowledge about a technology or design feature before beginning product development.
  - ✓ The product developer is able to determine or significantly influence product requirements.
- At knowledge point 2 or equivalent milestone, agency policy requires the developer to demonstrate that the design is able to meet requirements. To do so, the agency uses an established benchmark, such as the release of at least 90 percent of its engineering drawings, as its criteria.
- At knowledge point 3 or equivalent milestone, agency policy requires the developer to demonstrate that the production process is mature and uses an established benchmark, such as 100 percent statistical control of key manufacturing processes, as its criteria.

⚠ Cautions:

- The agency does not use a knowledge-based process for developing new products.
- The agency does not use the necessary controls to gauge whether adequate knowledge has been attained before deciding to move a product to the next phase of development. Instead, projects are allowed to proceed into the next phase without adequately completing the previous phase.
- In the agency's product development effort, trade-offs were not made either in the product's design or in the customer's expectations in order to avoid immature technologies or exotic components that threaten to outstrip the developer's resources.

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| **Quick Recap** |
| --- |
| **How Policies and Processes Can Enhance the Procurement Function** |
| ✓ Effective partnering within the agency, between program offices and procurement staff, and outside the agency with suppliers is key to improving procurement outcomes.<br>✓ Effective procurement management involves:<br>1. developing performance metrics and indicators<br>2. using commodity managers for key goods and services procured<br>3. establishing effective internal controls<br>4. appropriate contract management and oversight<br>5. utilizing effective budgeting and fiscal management practices<br>6. using empowered project management teams<br>7. using a knowledge based approach when developing new products |

# HUMAN CAPITAL

EXPOSURE DRAFT

# HUMAN CAPITAL

## OVERVIEW

**How Can a Good Human Capital Approach Help Your Organization?**

**Procurement staff**: Staff has the skills to perform in a fast changing procurement environment.

**Procurement managers**: Managers understand the need to develop human capital strategies that will enable their staff to effectively and efficiently perform the procurement function for the agency.

**Overall mission**: The procurement function staff is adequately qualified to support the mission of the agency.

Human capital permeates virtually every effort within an organization. This includes successfully acquiring goods and services as well as executing and monitoring contracts. A good human capital management approach ensures that an organization has the right staff in the right numbers applying skills where needed to accomplish the mission effectively. To support the procurement function, the human capital element comprises four cornerstones and eight critical success factors.

| ▶ CORNERSTONE | ▶ **Critical Success Factors** |
|---|---|
| Valuing and Investing in the Acquisition Workforce | • Commitment to Human Capital Management<br>• Role of the Human Capital Function |
| Strategic Human Capital Planning | • Integration and Alignment<br>• Data-Driven Human Capital Decisions |
| Acquiring, Developing, and Retaining Talent | • Targeted Investments in People<br>• Human Capital Approaches Support Agency Goals |
| Creating Results-Oriented Organizational Cultures | • Empowerment and Inclusiveness<br>• Unit and Individual Performance Linked to Organizational Goals |

## BACKGROUND

**What is human capital?** It means people are assets whose value can be enhanced through investment. High-performing organizations understand that the value of an organization is dependent on the value of its people. As the value of its people increases, so does the overall performance of an organization and its ability to satisfy customers. Human capital policies and practices should support an organization's overall mission and performance goals.

Creating an acquisition workforce with the right skills and capabilities can be a challenge, given the trends of the last decade. Statistics show that many skilled employees have retired and that many more are likely to retire in the next few years. From 1990 to

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2000, the governmentwide acquisition workforce dropped more than 20 percent. From 2003 through 2008, an additional 38 percent of the workforce will be eligible for retirement. In addition, the acquisition workforce is being altered by the impact of procurement reforms, such as changes to acquisition processes, the introduction or expansion of alternative contracting approaches, and increased reliance on services provided by the private sector. The ongoing technological revolution has placed unprecedented demands on the workforce—contracting personnel are now expected to have much greater knowledge of market conditions, industry trends, and technical details of the commodities and services they procure. Those who were once seen as technicians now have to take on the role of business managers. One of the results has been difficulty defining the acquisition workforce. For example, the workforce may include contracting officers; contracting officer's representatives; contracting officer's technical representatives; program managers; industrial specialists; financial administrators; and staff responsible for planning, design, deployment, logistics, documenting mission needs, establishing performance goals, and prioritizing resource requirements.

However widespread these trends, they generally have not been reflected in the federal government's human capital efforts, and agencies have as a consequence experienced difficulties. In the opinion of its managers, for example, the Department of Defense faces serious imbalances in the skills and experience of its remaining workforce and the potential loss of highly specialized knowledge as many of its acquisition specialists retire.

To help understand how well the agency is managing its human capital needs, this section provides a basic framework to use in assessing the agency's leadership and strategic planning skills and how it acquires and develops talent and creates a results-oriented culture.

**For More Information**

Learn more about human capital management by reading GAO's *A Model of Strategic Human Capital Management*. GAO-02-373SP. Washington, D.C.: March 15, 2002. Download it from the Web by visiting http://www.gao.gov/new.items/d02373sp.pdf.

## CORNERSTONE

Valuing and Investing in the Acquisition Workforce

Successful acquisition efforts depend on senior leaders and managers at all levels of the organization valuing and investing in the acquisition workforce.

### Critical Success Factor

Commitment to Human Capital Management

In effective organizations, senior leadership is committed to developing better ways to invest in human capital, and they are personally committed to implementing change.

Key questions:

- How does the agency's senior leadership demonstrate commitment to the acquisition workforce?
- What is the role of procurement officials in developing the agency's human capital strategic plans?
- How are senior leaders and other managers of the acquisition workforce held accountable for organizational results? Do they balance results against customer satisfaction, employee perspectives, and other expectations agencies decide are appropriate?
- Who is involved in decisions to create or change positions in the acquisition workforce?
- Does the agency have performance expectations for senior leaders and other managers who foster collaboration within and across organizational boundaries and demonstrate a commitment to lead and facilitate change?

Look for:

- Procurement officials play a role in developing the agency's overall human capital strategy and ensure that it reflects the goals of the procurement function.
- Procurement officials develop, implement, and evaluate human capital approaches based on how well they support the procurement department's efforts to meet customer needs and ultimately improve overall business performance.
- Procurement officials secure the support of managers at all levels for human capital approaches.

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- Procurement officials are held accountable, along with other managers at all levels, for managing the acquisition workforce effectively.
- Procurement employees are provided with resources for continuous learning efforts; competency-based appraisal systems; and retention and reward programs.

Cautions:

- Leaders view people as costs rather than as assets.
- Leaders make decisions about the workforce without considering how the decisions affect mission accomplishment.
- Business decisions proceed without consideration of the human capital needs they entail or human capital approaches necessary for success.

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**Critical Success Factor**
Role of the Human Capital Function

The human capital function should incorporate a strategic approach for accomplishing the overall mission and program goals. This requires the agency to elevate the role of human capital professionals from paperwork processors to trusted advisors and partners of senior leaders and procurement managers.

To accomplish this, agency leaders need to ensure that human capital professionals have the competencies and experience to begin acting in this expanded capacity.

Key questions:

- What are the roles and responsibilities of human capital officials with respect to the procurement workforce?
- How do procurement managers collaborate with human capital personnel to make hiring and staffing decisions?
- What expectations are set for human capital professionals by the agency?
- How are human capital professionals evaluated?

Look for:

- Effective human capital professionals partner with the agency's leaders and line managers to develop strategic and program plans.

EXPOSURE DRAFT

- Human capital professionals are prepared, expected, and empowered to provide a range of technical and consultative services to employees.
- Human capital professionals have streamlined personnel processes and use necessary means to meet customer needs.

Cautions:

- Leaders view human capital management as a support or overhead function.
- Human capital management is largely process-oriented and compliance-focused.
- Expectations for personnel and human capital staff are restricted to processing transactions and addressing issues on a case-by-case basis.

## ▸ CORNERSTONE

Strategic Human Capital Planning

By focusing on recruiting, hiring, training, and professional development, strategic workforce planning outlines ways to help the staff fill gaps in knowledge, skills, and abilities.

### ▸ Critical Success Factor

Integration and Alignment

High-performing organizations take human capital into account when developing ways to accomplish their missions, program goals, and results. These organizations assess the effectiveness of the integration and alignment effort by how well it helps to achieve organizational goals.

Key questions:

- Does the agency have a strategic human capital plan that incorporates the needs of the procurement function? If not, does the procurement function have its own plan?
- Does the agency's succession planning and management for its procurement workforce: receive active support from top leadership; link to strategic planning; identify talents from multiple organizational levels early in employees' careers or identify people with critical skills; emphasize development assignments in addition to formal training; address human

EXPOSURE DRAFT

capital challenges such as diversity, leadership capacity, and retention; facilitate broader transformation efforts?
- How does the agency ensure that teams developing plans for the acquisition workforce consist of all stakeholders, such as customers or end users, contracting officers, representatives from budget and finance, legal counsel, human capital personnel, and others?
- How does the agency track the effectiveness of human capital strategies for its acquisition workforce?

Look for:

- A strategic workforce plan should reflect the needs of the procurement function.
- Strategic workforce planning efforts include: succession planning that receives active support from top leadership; links to strategic planning; identifies talent from multiple organizational levels, early in careers, with critical skills; emphasizes developmental assignments; addresses specific human capital challenges; and facilitates broader transformation efforts.
- Strategies should be in place for recruiting, retaining, and developing acquisition staff. This includes performance measures to evaluate the contribution these strategies make in supporting the agency's procurement function and achieving the agency's mission and goals.
- A knowledge and skills inventory is used to identify current and future weaknesses and needs in procurement skills.

Cautions:

- The agency does not fully recognize the link between its human capital approaches and organizational performance objectives.
- The agency adopts human capital approaches without considering how well it supports organizational goals and strategies or how these approaches may be interrelated.

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**Critical Success Factor**
Data-Driven Human Capital Decisions

A fact-based, performance-oriented approach to human capital management is crucial to maximizing the value of human capital and to managing risk. High-performing organizations use data to determine key performance objectives and goals, enabling them to evaluate the effectiveness of their human capital approaches.

Key questions:

- Who is included in the procurement workforce?
- How does the agency track data on the procurement workforce?
- Is the mix of entry-level, mid-level, and top-level executives appropriate given the mission and role of the procurement function?
- What training and professional certifications have current procurement employees attained?
- What training opportunities exist—including availability of courses and resources to attend courses—for the procurement staff?
- Does the agency have a skills inventory for the procurement workforce? How is it used to make human capital decisions?
- How long does the recruitment process take?
- What has the attrition rate been in the past 18 months? Why have people left?
- Does the agency conduct exit interviews with departing employees?
- How are exit interview lessons learned used?
- What is the acceptance rate of applicants offered positions? How does the agency collect and use that data to improve human capital decisions?
- How are the results of training and development programs assessed, and how does the agency track, report, and use this information?
- What other data does the agency keep to make human capital decisions?
- How does the agency analyze and use data to make human capital decisions?

Look for:

- Data on the agency's procurement workforce are reflected in strategic workforce planning documents. This includes size and shape of the workforce; skills inventory; attrition rates; projected retirement rates and eligibility; deployment of temporary employee/contract workers; dispersion of performance appraisal ratings; average period to fill vacancies; data on the use of incentives; employee feedback surveys; feedback from exit interviews, grievances, or acceptance rates of job candidates.

- Data are available on staff development, including the number of people receiving training; money spent on training, and measures to determine the real impact on the agency's goals and objectives (such as increased productivity, enhanced customer satisfaction, increased quality, and reduced costs and errors.)

Cautions:

- Agency officials lack critical information with which to create a profile of the workforce or to evaluate the effectiveness of human capital approaches.
- Performance measures and goals for the agency's human capital programs, especially as they link to programmatic outcomes, have yet to be identified.

## CORNERSTONE

Acquiring, Developing, and Retaining Talent

The federal workforce fell one-fifth from 1990 to 2000, at a time when many agencies also were freezing their hiring efforts. These actions, along with the prospect of significant retirement among federal contracting personnel eligible to retire through 2005, will leave many agencies with a workforce imbalanced in skills, knowledge, and experience. Without sufficient attention given to acquiring, developing, and retaining talent, federal agencies could lose a significant portion of their contracting knowledge base.

**For More Information**

Learn more about how to assess an agency's training and development efforts by reading GAO's *Human Capital: A Guide for Assessing Strategic Training and Development Efforts in the Federal Government.* GAO-03-893G. Washington, D.C.: July 2003. Download it from the Web by visiting http://www.gao.gov/new.items/d03893g.pdf.

### Critical Success Factor

Targeted Investments in People

High-performing organizations realize that investing in and enhancing the value of their procurement staffs is a win-win goal for employers and employees alike. For example, investing in training for contract management staff is critical to ensuring adequate oversight of the quality, cost, and timeliness of goods and services delivered by third parties outside the government. Similarly, a well-trained staff feels it is better qualified to do its job and the organization obtains better quality goods and services.

Industry and government experts recognize that training is a critical tool in successfully introducing and implementing new ways of doing business as well as reacting to change. GAO has

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previously reported that to deliver training effectively, leading organizations typically prioritize the new processes that are most important to them; identify those needing training; and set requirements to ensure their training reaches the right people. Top leadership supports these efforts by working to overcome resistance, marshaling resources, and building commitment to new ways of doing business.

The success of investment in such incentives as training can be measured with balanced indicators that are results-oriented and client-based, encompass employee-feedback, and incorporate multiple dimensions of performance.

? Key questions:

- Does the agency have individual training plans established for all employees?
- Do employees have opportunities for continuous learning, such as attending meetings, seminars, and summits, to hear about best practices or otherwise stay up-to-date on issues in the field?
- What are the training requirements for new and current procurement staff and related positions?
- How is staff trained regarding new practices in procurement?
- Does the agency have a comprehensive training management system that can track the delivery of training? Does it identify and track the associated costs of specific training and development programs?
- Do managers consistently provide resources (funds, people, equipment, and time) to support training and development priorities?
- What education and experience are required for procurement personnel?
- How does the agency track the workload of the procurement staff?
- Does the agency actively work with colleges and universities to: 1) market the opportunities available for procurement professionals and 2) include a federal procurement course that will prepare students for careers in federal procurement and help promote federal career possibilities?
- Are model career paths charted for procurement staff?

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Look for:

- Effective organizations incorporate the key elements for procurement training and demonstrate that they have prioritized the most important initiatives; secured top-level commitment and provided resources; identified those needing training and set training requirements; tailored training to meet the needs of the workforce; tracked training to ensure it reaches the right people at the right time; and measured the effectiveness of training.
- The agency targets investments in human capital to help it attract, develop, retain, and deploy talented, high-performing staff to accomplish its mission; these include training and professional development, recruiting bonuses, retention allowances, and skill-based pay.
- The agency addresses needs identified in strategic and annual planning, in part by strategically investing in human capital.
- Goals, expectations, and criteria for investments in human capital development are clearly defined, transparent, consistently applied, and based on expected improvement in results.
- Agency investments are monitored and evaluated for effectiveness.

Cautions:

- Human capital expenditures are minimized rather than viewed as an investment.
- Funding decisions are made without clearly defined objectives or adequate consideration of how they will impact the workforce.
- In addition to investing in individual employees, new human capital approaches need sufficient resources for planning, implementation, and evaluation.

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**Critical Success Factor**
Human Capital Approaches Support Agency Goals

Existing laws, rules, and regulations provide the agency with flexibility to offer competitive incentives to attract skilled employees; to create motivational performance incentives and training programs; and to build constructive labor-management relationships based on finding and securing the common interest and building public trust. Such flexibility should enable agency officials to tailor their human capital approaches to their agency's specific needs and context.

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**For More Information**

Learn more about how to identify available flexibilities by reading the Office of Personnel Management's *Human Resources Flexibilities and Authorities in the Federal Government,* Washington, D.C. July 2001. Download it from the Web by visiting http://www.opm.gov/demos/flex/main.htm

When making decisions about the most appropriate approaches, the agency's leaders should work with human capital professionals, managers, employees, and employee unions. Managers must be held accountable for applying these approaches in a fair and equitable manner across the agency.

Key questions:

- What are the opportunities and barriers to improving the procurement workforce?
- What laws, if any, prohibit flexibility in human capital approaches?

Look for:

- A successful agency's human capital strategy is based on its specific mission needs, and the agency takes appropriate actions to implement that strategy.
- The agency explores opportunities to increase its competitiveness as an employer and eliminate barriers to effective human capital management.
- When appropriate, the agency develops a compelling business case to support relevant legislative initiatives.

Cautions:

- Managers view improvements in human capital as unfeasible.
- Managers fail to fully explore the range of tools and flexibilities available under existing laws and regulations.
- The organizational culture leads to self-imposed constraints that are excessively process-oriented and compliance-driven.

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## ▶ CORNERSTONE

Creating Results-Oriented Organizational Cultures

High-performance organizations foster a work environment in which people are empowered and motivated to contribute to continuous learning and mission accomplishment. This provides accountability and fairness for all employees.

### ▶ Critical Success Factor

Empowerment and Inclusiveness

Getting employees directly involved in the planning process helps to develop goals and objectives from a front-line perspective. Leading organizations commonly seek employee input on a periodic basis and explicitly address and use it to adjust their human capital approaches.

? Key questions:

- Does the agency seek employees' ideas? Are there employee teams? Do employees feel a sense of ownership about policies and procedures?
- Do managers involve employees when planning and sharing agency performance information?
- Does the agency delegate authority to appropriate organizational levels?
- Has the agency established a communication strategy to create shared expectations and to report progress? Do agency leaders communicate early and often to build trust? Do they ensure consistency of message; encourage two-way communication; and provide information to meet specific needs of employees?
- How are disputes involving employees resolved?

Look for:

- The agency obtains employees' ideas by using employee teams, involves employees in planning and sharing agency performance information, incorporates employee feedback into new policies and procedures, and delegates authority to appropriate organizational levels.
- Employee unions are involved in major workplace changes, such as redesigning work processes, changing work rules, or developing new job descriptions.

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- The agency has established a communication strategy to create shared expectations and report progress.
- Agency leaders communicate early and often to build trust, communicate consistent messages, encourage two-way communication, and provide information to meet specific needs of agencies.
- Alternative dispute resolution programs are used effectively to resolve workplace disputes.

Cautions:

- Managers and staff rigidly adhere to standardized procedures and traditional modes of thinking.
- Human capital management is driven by top-down decision making.
- Relations between management and employees and their representatives appear adversarial.
- Substantial time and resources are consumed by reacting to workplace disputes and long-standing sources of conflict.
- The agency's approach to equal opportunity is compliance-oriented and reactive.

**Critical Success Factor**
Unit and Individual Performance Linked to Organizational Goals

High-performing organizations find that effective performance management systems can transform their cultures to be more results-oriented, customer-focused, and collaborative in nature. These systems are not merely used for once- or twice-yearly individual expectation-setting and rating processes but are tools to help the organization manage on a day-to-day basis. They are used to achieve results, accelerate change, and facilitate discussions about individual and organizational performance throughout the year. High-performing organizations view an effective performance management system as an investment to maximize developing employees' potential to contribute to organizational goals. An effective performance management system links organizational goals to individual performance and creates a "line of sight" between individual activities and organizational results.

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Key questions:

- Does the agency's performance management system:
  - ✓ align individual performance expectations with organizational goals;
  - ✓ connect performance expectations to crosscutting goals;
  - ✓ provide and routinely use performance information to track organizational priorities;
  - ✓ require follow-up actions to address organizational priorities;
  - ✓ use competencies to provide a fuller assessment of performance;
  - ✓ link pay to individual and organizational performance;
  - ✓ make meaningful distinctions in performance; and
  - ✓ involve employees and stakeholders to gain ownership of performance management systems?

Look for:

- Individual performance expectations are aligned with organizational and crosscutting goals.
- Performance information is linked to pay and is used to track organizational priorities, plan follow-up actions, and make meaningful distinctions in performance.
- There are opportunities to discuss and routinely use performance information to make program improvements.
- Employees are involved in performance management systems.

Cautions:

- The agency has not aligned its top leadership's performance expectations with organizational goals and has not cascaded performance expectations to lower organizational levels.
- An unclear organizational mission and a lack of clearly defined and consistently communicated core values blur performance expectations for managers and staff.

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| **Quick Recap** |
|---|
| **How Human Capital Can Enhance the Procurement Function** |
| ✓ Agency's leaders view people as assets rather than as costs.<br>✓ Human capital professionals partner with procurement managers to make staff development decisions<br>✓ Procurement managers take human capital approaches into account when developing ways to reach organizational goals.<br>✓ A strategic workforce plan profiles the current staff and projects staffing needs for the future.<br>✓ The agency invests in talented, high-performing staff.<br>✓ The agency fosters a work environment in which people are empowered and motivated to meet missions and goals. |

# KNOWLEDGE AND INFORMATION MANAGEMENT

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# KNOWLEDGE AND INFORMATION MANAGEMENT

## OVERVIEW

**How Can a Good Knowledge and Information Management Help Your Organization?**

**Procurement staff**: Staff makes better day-to-day procurement decisions in support of agency needs.

**Procurement managers**: Managers have the tools they need to oversee contracting activities, make informed decisions about the use of resources, and ensure accountability in various programs.

**Overall mission**: Information is readily available to monitor progress and achievement of the agency's mission and program and goals.

Organizations large or small have to acquire goods and services that help employees perform their jobs effectively. To be smart buyers, managers need effective knowledge and information management. There are many technologies that help managers get the most for their money and ensure that purchases are in balance with the organization's strategic goals. In this chapter, we describe cornerstones and critical success factors that focus on data essential to making good buying decisions.

| ▶ CORNERSTONE | ▶ **Critical Success Factors** |
|---|---|
| Identifying Data and Technology That Support Management Decisions | • Tracking Key Procurement Data<br>• Analyses of Goods and Services Spending<br>• Data Stewardship<br>• Technology to Leverage Efficiency of the Procurement Function |
| Safeguarding the Integrity of Operations and Data | • Ensuring Effective General and Application Controls |

## BACKGROUND

**What is knowledge and information management?** Knowledge and information management is a catch-all term that refers to a variety of technologies and tools that help managers and staff make well-informed decisions in support of an organization's strategic goals. For example, managers can leverage their purchases across the organization; understand the consequences of their purchasing decisions; or project future needs.

Procurement affects many of the operations of an organization and has a direct impact on many levels—procurement personnel who decide which goods and services to buy; project managers who receive the goods and services from contractors and maintain supplier relationships; contract administrators; and the finance department, which pays for the goods and services. They all need meaningful data, an integrated framework, and effective knowledge and information management to perform their respective roles and responsibilities.

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## ▶ CORNERSTONE

Identifying Data and Technology that Support Management Decisions

High-performing organizations gather and analyze data to identify opportunities to reduce costs, improve service levels, measure compliance with supplier agreements, and provide better management of service providers. Information systems help managers learn how much is being spent with which service provider and for what services. To generate meaningful data requires good data stewardship.

### ▶ Critical Success Factor

Tracking Key Procurement Data

When buying goods and services, procurement personnel should rely on three kinds of data—contracting management, financial management, and external— to develop an integrated procurement information system.

Contracting management information and other internal data help managers understand the organization's contracting and procurement activities. Internal information systems collect data that could be useful in developing an integrated procurement information system. Some of these data:

- include information that tracks events throughout the life of a contract;
- monitor contractor performance and work progress;
- record and validate the receipt of goods and services;
- link to human capital systems to obtain information that monitors workload levels of contracting officers and contract specialists, and workforce training and education.

Financial management systems support the preparation of auditable financial statements, track financial events, and summarize financial information to support the overall mission. These systems are necessary to provide adequate management reporting and to carry out fiduciary responsibilities. *(The Financial Management Systems section, which starts on page 85, provides more information on the function and role of financial management systems in support of the procurement function.)*

External data are obtained from commercial sources or other federal organizations. Examples include market research information; supplier financial status and performance data; and information about the “health” of the procurement function.

? Key questions:

- What procurement-related data does the agency collect?
- Are data kept current? Does the procurement information system continually meet business needs and changing strategies?
- How does the agency make needed data available to key stakeholders within the procurement process, such as senior leaders, program officials, commodity managers, and agency contracting officers?
- How does the agency manage institutional knowledge to collect and transfer employee knowledge; transfer relevant knowledge from customers and suppliers; and identify and share best practices?

Look for:

- An effective contracting management information system tracks events throughout the life of a contract, such as:
  - ✓ contract award
  - ✓ obligation of funds
  - ✓ contract modification
  - ✓ key milestones
  - ✓ contractor performance, including cost and schedule status
  - ✓ contract closeout
  - ✓ identification of outstanding procurement requests
  - ✓ reliable information on the number of active contracts and orders
  - ✓ expected cost of the contracts
  - ✓ types of goods and services acquired
  - ✓ receipt and acceptance of goods and services

- Procurement processes track the following financial information:
  - ✓ funds availability certification
  - ✓ funds obligation at award of contract
  - ✓ funds de-obligated when modifications, cancellations, orders, or other adjustments affecting contract funding are processed against awards
  - ✓ payments for receipt of goods and services

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- Data should provide information on the agency's overall "health" and a more detailed picture of internal capabilities and the external environment. Useful sources include:
  - ✓ Government Performance and Results Act (GPRA) performance reports
  - ✓ agency financial statements
  - ✓ customer and employee satisfaction surveys
  - ✓ knowledge and skills inventories
  - ✓ workforce training and education data
  - ✓ retention and recruitment reports
  - ✓ GAO reviews
  - ✓ inspector general reviews
  - ✓ internal audit reports

- Knowledge and information management provides for advance planning and modeling capabilities by including strategic performance improvement tools, such as:
  - ✓ real-time benchmarking
  - ✓ sourcing and volume discount tracking
  - ✓ usage volume tracking and analysis
  - ✓ comprehensive budgeting and forecasting tools
  - ✓ ad hoc performance measurement
  - ✓ "what-if" analysis and planning

Cautions:

- The agency has not collected the full set of information or data to make effective and fact-based decisions.
- Incomplete data prevent the agency from maximizing information tools for strategic planning and analysis.
- Data are not current, reliable, complete, or accurate.
- The agency does not make needed data accessible to all users.
- Institutional knowledge is poorly managed or not at all.
- Contract or financial management systems are neither comprehensive nor interconnected.
- Decision makers rely on informal, ad hoc data systems to make procurement decisions.

**For More Information**

Learn more about spend analyses by reading GAO's *Best Practices: Improved Knowledge of DOD Service Contracts Could Reveal Significant Savings.* GAO-03-661. Washington, D.C.: June 9, 2003. Download it from the Web by visiting http://www.gao.gov/new.items/d03661.pdf.

▶ **Critical Success Factor**
Analyses of Goods and Services Spending

High-performing organizations continuously analyze their spending on goods and services to answer basic questions about how much is being spent and where dollars are going. This approach is called spend analysis. When organizations complete these analyses, they often realize they are buying similar goods and services from numerous providers, often at greatly varying prices.

Key questions:

- Does the agency use its knowledge and information systems to conduct spend analyses?
- What process does the agency use to conduct a spend analysis?
- How much time does it/or would it take the agency to collect, validate, and analyze data extracted from financial or other management systems?
- Has the agency developed or is it planning to develop management or financial information systems that can provide reliable spending data in a timely fashion?
- If spend analyses have been conducted, how were the results used?

Look for:

- At a minimum, a spend analysis should identify:
  - ✓ what types of goods and services are being acquired;
  - ✓ how many suppliers for a specific good or service the agency is using;
  - ✓ how much they are spending for that good or service, in total and with each supplier; and
  - ✓ which units within the agency are purchasing the goods and services.

Cautions:

- The agency's existing financial and management information systems often do not provide the right type of data to manage spending on goods and services. The information is not maintained in a standardized format and is of poor quality, thus hampering efforts to use the data to more effectively manage goods and service spending.
- Systems were designed to provide detailed information on the goods, components, and raw materials used to make

products, not to provide information on spending for services. For example, available data may only include a service provider's name and total cost of the effort, with no information on the type of service acquired or key cost elements of the service.

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### ▶ Critical Success Factor
Data Stewardship

Data stewardship ensures that data captured and reported are accurate, accessible, timely, and usable for decision making and activity monitoring. Effective stewardship provides the structure, oversight, and assurance that data can be accurately translated into meaningful information about organizational activities. Taking the time to manage quality of data ultimately helps support program and financial management needs.

? Key question:

- How does the agency ensure that data and organizational knowledge have the following properties?
  - ✓ integrity of data
  - ✓ synchronization of data collection
  - ✓ reduced data redundancy
  - ✓ accessibility of data
  - ✓ transferability of data
  - ✓ flexibility in the data management process

Look for:

- The agency ensures that data are accurate, complete, timely, and reliable. There is consistency among data definitions, sources, controls, and edit routines.
- Managers group data into logical categories and collect data according to commonly accepted reporting time frames. This promotes consistency with previously reported data and minimizes the reporting burden.
- Data are redundant only when necessary. Inconsistencies are eliminated.
- Data are accessible to authorized users when needed.
- Data can be transferred to other systems for operational, analytical, and forecasting processes.
- Flexibility is built into the data management process to meet new financial information requirements and to include provisions for adopting financial management performance measures.

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Cautions:

- Data are unreliable, incomplete, or unsuitable for efficient and effective management decisions.
- Users have little or no confidence in the credibility of the data and outputs from information systems.

**For More Information**

Learn more about how to procure information technology by reading GAO's *Assessing Risks and Returns: A Guide for Evaluating Federal Agencies' IT Investment Decision-making*. GAO/AIMD-10.1.13. Washington, D.C.: February 1997. Download it from the Web by visiting http://www.gao.gov/special.pubs/ai10113.pdf.

## Critical Success Factor

Technology to Leverage Efficiency of the Procurement Function

Investments in information technology can dramatically affect an organization's performance. If managed effectively, these investments can vastly improve government performance and accountability. If not, investments can result in wasteful spending and lost opportunities for improving the delivery of services to the public.

Key questions:

- Is the agency purchasing large information technology systems? If so, does it purchase them in useful segments and treat each segment as a separate investment decision?
- Does the agency review, revise, and improve mission-related and administrative processes before making information technology investments?

Look for:

- High-performing organizations have a well-defined and enforced blueprint for operational and other technological change, referred to as enterprise architecture.
- High-performing organizations proactively manage the tradeoff among various acquisition issues, such as the organization's system requirements and the commercially available system components.
- Budgeting and acquiring useful segments involves three fundamental components: (1) acquiring a large system in a series of smaller segments; (2) individually justifying investment in each separate segment on the basis of cost, benefits, and risks; and (3) monitoring actual benefits achieved and costs incurred on ongoing segments and applying lessons learned to future segments.

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Cautions:

- The agency fails to adequately review, revise, and improve mission-related and administrative processes before making an investment in information technology.
- The agency lacks the enterprise architecture for its financial and financial-related business operations, as well as the management structure, processes, and controls to effectively develop and implement one.
- Purchases are made without considering the tradeoff between system requirements and commercially available system components.
- When an agency acquires a large system, it fails to do so in a series of segment releases and/or fails to treat each of the segments as separate investment decisions.
- The agency lacks oversight mechanisms to ensure sound management and development practices for changing inefficient information systems, which can lead to the abandonment of projects.

## CORNERSTONE

Safeguarding the Integrity of Operations and Data

Internal controls—such as structure, policies, and procedures—promote efficiency, reduce the risk of asset loss, and help ensure that financial and procurement management systems issue reliable reports and that the organization is in compliance with laws and regulations. It is essential that financial and procurement management systems contain a sufficient number of appropriate, cost-effective controls to safeguard assets, ensure accurate aggregation and reporting of information, and support the accomplishment of organizational objectives. Management must balance safeguards with the need to make accessible, timely, and accurate data available to managers and others needing financial and procurement information.

To get the most out of this section of the framework, you need to know if the agency has established an adequate internal control environment that provides confidence that there is data integrity in the agency's knowledge and information systems.

There are two broad groupings of information systems controls that can help safeguard the integrity of operations and data: general controls and application controls. Assessing general and application controls is a very technical analysis and requires the assistance of persons knowledgeable of computer systems evaluation.

**For More Information**

Learn more about how to carry out reviews of general and applications controls by reading GAO's *Federal Information System Controls Audit Manual.* GAO/AIMD-12.19.6. Washington, D.C.: January 1999. Download it from the Web by visiting http://www.gao.gov/special.pubs/ai12196.pdf.

## Critical Success Factor

Ensuring Effective General and Application Controls

General controls apply to all information systems and help ensure continued and proper operations. Application controls include procedures to control the processing of various types of transactions. Software must be safeguarded for reliability, security, and ease of use.

Key questions:

- When was the last information systems control review performed?
- What are the reports that document the reviews?
- What issues or problems did the reviews report?
- How were the issues and problems addressed?
- What are the unresolved issues or problems?
- What is the impact of the unresolved issues and problems?
- What practices and procedures does the agency use to ensure that hardware and software are reliable, secure, and user friendly?

Look for:

- When evaluating general controls, look for evidence that the structure, policies, and procedures—which apply to all or a large segment of the agency's information systems—help to ensure proper operation, data integrity, and security.
- When evaluating application controls, look for evidence that the structure, policies, and procedures that apply to individual application systems—such as inventory or payroll produce outputs—are complete, accurate, authorized, consistent, timely, relevant, and useful for its intended purpose.

Cautions:

- Poor general controls can result in:
  - ✓ unauthorized changes to computer programs;
  - ✓ inefficient or improper use of computer resources;
  - ✓ unauthorized use of information in data bases; and
  - ✓ errors or poor quality of the information in the data bases.

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- Poor application controls can result in processing errors, omissions, and irregularities in data outputs.

| **Quick Recap** |
| --- |
| **How Knowledge and Information Management Can Enhance the Procurement Function** |
| ✓ Procurement personnel should track three key types of key procurement data when developing an integrated procurement information system: contracting management, financial management, and external commercial environment.<br>✓ Spend analyses answer basic questions about how much is being spent and where the money is going.<br>✓ Data are current, reliable, accurate, relevant, protected for confidentiality, and accessible so as to produce meaningful procurement reports.<br>✓ Technology can leverage the efficiency of the procurement function.<br>✓ Hardware and software are safeguarded to ensure the integrity of operations and data. |

# FINANCIAL MANAGEMENT SYSTEMS

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# FINANCIAL MANAGEMENT SYSTEMS

## OVERVIEW

**How Can a Good Financial Management System Help Your Organization?**

**Procurement staff**: Staff can efficiently track the financial transactions of the agency's procurement activities.

**Procurement managers**: Procurement managers can have confidence that procurement dollars are accurately recorded and well spent.

**Overall mission**: Agency has confidence that its investment in goods and services is helping to fulfill the overall mission.

Is someone in the agency keeping track of buying patterns? How can the organization's performance be improved? Without a robust financial management system and good teamwork, neither procurement managers nor financial management executives can fully answer questions like these. They cannot reliably know whether the money invested in goods and services enhances the agency's overall mission. To enhance the procurement function, we examine four cornerstones and several associated critical success factors.

| ▶ CORNERSTONE | ▶ Critical Success Factors |
|---|---|
| Culture | • Partnership between Procurement and Financial Management<br>• Controls and Accountability<br>• Use of Training to Change Organizational Culture |
| Organizational Alignment and Customer Focus | • Ability of Finance Department to Keep Pace with Mission Objectives<br>• Efficiency of Day-to-Day Financial and Accounting Activities |
| Technology and Processes | • Integrating Financial and Operating Data<br>• Reengineering Processes to Better Match New Technologies<br>• Translating Financial Data into Meaningful Formats |
| Workforce Strategy that Adds Value | • Developing Right Mix of Skills and Competencies<br>• Attracting and Retaining Talent |

## BACKGROUND

**What are financial management systems?** These important systems support the preparation of auditable financial statements, track financial events, and summarize financial information to support the agency's mission. Financial management systems can help procurement managers ensure that dollars are well spent and that the procurement process is efficient. They keep track of

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obligations and expenditures against a contract after it has been awarded and ensure that obligations are within budgeted amounts.

Unfortunately, not all financial management systems are developed with the organization's goals in mind. When financial data are not useful, relevant, timely, or reliable, the procurement function—as well as other functions across an organization—is at risk of inefficient or wasteful business practices.

The following cornerstones and critical success factors can help managers chart a path toward building a high-performing financial management department that successfully supports procurement and other business functions.

> **@ For More Information**
> Learn more about how to integrate financial and procurement systems by reading the Joint Financial Management Improvement Program's *Acquisition/Financial Systems Interface Requirements*. JFMIP-SR-02-02. June 2002. Download it from the Web by visiting http://www.jfmip.gov/jfmip/download/document/acquisition_system_requirements_v5_061002.pdf.

### ▶ CORNERSTONE
Culture

Making financial management an entitywide priority increases the effectiveness of the agency's operating divisions and requires effective leadership, accountability, and cultural change. Organizations recognized for their best practices cite leadership as the most critical factor in establishing organizational culture. It takes visionary leaders to change the direction, culture, and perceptions of the finance department.

#### ▶ Critical Success Factor
Partnership Between Procurement and Financial Management

Achieving better procurement outcomes hinges on a partnership between the procurement and financial management staff. Personnel from the procurement and financial management sides of the agency must work cross-functionally to make smart buying decisions. For example, nonfinancial procurement managers need to appreciate the financial implications of their business decisions, and financial managers need a better understanding of business problems. Integrating the procurement and financial systems can help managers measure performance and ensure integrity in the process. Doing so puts managers in a better position to control quality in budgeting, program management and delivery, external reporting, and data.

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> **For More Information**
> Learn more about world-class financial management systems by reading GAO's *Executive Guide: Creating Value Through World-Class Financial Management*. GAO/AIMD-00-134. Washington, D.C.: April 2000. Download it from the Web by visiting http://www.gao.gov/archive/2000/ai00134.pdf.

Key questions:

- Do procurement executives and financial management executives work in partnership to define key business and procurement drivers and to understand each other's needs?
- Are business managers, such as procurement executives, involved in financial improvement initiatives?
- What does the agency do to ensure that key constituents, such as procurement staff, support the financial organization?
- How are the agency's budgetary processes, procurement, and financial management linked?
- Are there adequate resources to establish an effective financial management function?
- How do other stakeholders within the agency view financial management?

Look for:

- Senior finance executives work with procurement executives and managers on an ongoing basis to define key business and procurement drivers and to understand each other's needs.
- Financial improvement initiatives involve key program and business managers. For example, if the agency has an executive management team, it would include both procurement and financial management executives. The team establishes a vision and fundamental goals and provides sponsorship for each major financial management improvement project.
- Effort is made to ensure key constituents visibly support the initiatives.
- Leaders actively market the program benefits of improvement efforts to secure the necessary resources and congressional support.
- Leaders establish an expectation that top financial executives provide forward-looking analysis that creates a link among accounting information, budget formulation, and procurement. This analysis contributes to strategic planning and decision making.
- Resources—technical and financial—are available to establish an effective, integrated financial management function.
- Staff views financial management as a proactive business partner.

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Cautions:

- Accounting policies and business processes vary among different parts of the agency, making financial analysis difficult.
- Leaders do not provide adequate resources to establish an effective financial management function.

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**Critical Success Factor**
Controls and Accountability

To ensure decision makers have the critical information to develop and implement effective policy and management, leading organizations establish goals that extend beyond fulfilling the basic minimum requirements by also including performance measurement and strategic planning. A solid foundation of control and accountability requires checks and balances to make sure transactions are appropriately recorded and reported, assets are protected, established policies are followed, and resources are used efficiently for intended purposes. A manager or evaluator should consider not only whether established control activities are in place and relevant, but also whether they are being applied properly.

Key questions:

- How does the agency use accounting and operational performance data to support budget formulation and strategic planning?
- What efficiency criteria, if any, does the agency use to measure the cost associated with procurement and program outcomes?
- What goals does the agency have for the financial management system? For example, does it report frequently enough to ensure accountability?
- Do decision makers have easy access to critical information, such as whether a contractor's final invoice has been submitted and paid? Is there reasonable assurance that such information is reliable?
- Are contracts and contract modifications easy to understand and recorded properly for use by accounting personnel?

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Look for:

- Accounting and operational performance data are used to support budget formulation and strategic planning.
- Efficiency criteria are established to measure the cost associated with program outcomes.
- Agencies increase accountability by monitoring progress in producing financial and performance reports and by assessing and improving internal controls over finance-related efficiency measures.
- The agency reports frequently enough—monthly or quarterly—to ensure accountability.
- The agency has received an unqualified audit opinion.
- Adjustments to contract accounting records represent a low percentage of financial transactions.

Cautions:

- Financial management systems do not adequately perform the traditional functions of oversight and control and ensuring accountability. For example, the system may lack evidence that the contractor’s final invoice has been submitted and paid.
- The agency receives a qualified audit opinion, which may indicate poor accountability.
- Financial management staff makes hundreds or thousands of adjustments to contract accounting records.
- Procurement and financial management staff lacks access to critical information, including fiscal year; appropriation/Treasury fund symbol; organization code; cost center; object classification; estimated amount; project code; program code; transaction date; action code; subject to funds availability indicator; asset identifier code; contractor code/name; trading partner; trading partner code; award date; and amounts increased and/or decreased.
- Financial management systems controls and accountability fail to include the taxpayer identification number (TIN) for contractor identification and income reporting and debt collection purposes.

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**Critical Success Factor**
Use of Training to Change Organizational Culture

Improving financial management involves creating an organizational culture that values good financial management. The key to successfully managing change is gaining support of line management. Many organizational units utilize training programs to enlist the support of line managers. For example, financial management staff would receive training to understand how to analyze financial data to assist procurement officials in conducting an analysis of how much they spend with which suppliers.

Key questions:

- What steps have senior agency executives taken to gain the support of and educate nonfinancial managers about the financial implications of business decisions?
- How are the impacts of funding decisions on training taken into consideration?

Look for:

- In high-performing organizations, nonfinancial managers are educated about the financial implications of business decisions.
- Training and tools are provided to facilitate and accelerate the pace of change initiatives.

Cautions:

- The agency attempts to minimize training expenditures rather than seeing them as an investment.
- The agency makes funding decisions without clearly defined objectives abut the training needs of the workforce or adequate consideration of how such decisions will impact the workforce.

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## CORNERSTONE

Organizational Alignment and Customer Focus

Organizational alignment and customer focus are critical, if the finance department is to better support mission objectives and if agencies want to become more efficient in response to shrinking budgets.

### Critical Success Factor

Ability of Finance Department to Keep Pace with Mission Objectives

Organizations must deliver goods and services in spite of shrinking budgets and increased demand on reduced resources. Leading organizations focus on internal customer requirements by providing products and services that directly support strategic decision making and ultimately improve overall business performance. The four basic acquisition processes that occur between acquisition and finance include: a) funds are certified as available; b) funds are obligated or de-obligated; c) payment is made; d) the contract is closed out. Financial information throughout the process should be kept in a way that enables effective evaluation and assessment of procurement activities.

? Key questions:

- What percentage of the finance department's time is spent on basic transactions versus strategic support activities?
- How does the agency identify performance gaps and best practices?
- Do financial management systems provide transaction details to support account balances or identify the method of acquisition?
- How many acquisitions in a given year experience cost overruns and delays?
- How often are improper payments made? Is there a risk assessment process in place to address improper payments? Is there a process in place to ensure funds are directed to the highest priority areas?
- Are disbursements properly matched to corresponding obligations? Are large amounts of adjustments made to correct disbursement and/or obligation information? If so, does the agency have a forward looking plan to reduce these adjustments?

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Look for:

- The finance department's mission supports the agency's business objectives.
- The finance department assesses its current role in supporting mission objectives by comparing the percentage of staff time spent on strategic support activities (such as business performance analysis or cost analysis) with the percentage of resources spent on transaction processing and other routine activities. These latter activities consume between 69 and 80 percent of the finance department's resources. A goal for leading organizations is to reduce the time spent on transaction processing activities to 20 percent.
- Benchmarking and customer feedback are used to assist in identifying performance gaps and best practices.

Cautions:

- Transaction processing and routine accounting activities consume a majority of the finance department's resources.
- Financial management systems fail to perform transaction processing and routine accounting activities adequately. They will not, for example, provide transaction details to support account balances or identify the method of acquisition. Inadequate transaction processing, particularly improper payments, pose a high risk to the procurement function.
- Large amounts of disbursements are not matched properly to corresponding obligations. Large amounts of adjustments are made to correct disbursement and/or obligation information.

**Critical Success Factor**
Efficiency of Day-to-Day Financial and Accounting Activities

Leading organizations consolidate, standardize, and reengineer routine processes. For example, many agencies have expanded use of Electronic Funds Transfer to include contract payments and travel payments as a means of increasing the efficiency of routine accounting activities.

Key questions:

- To what extent does the agency use automated processes for contract payments to streamline inefficient processes?

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- Is transaction processing consolidated at shared service centers?
- Has the cost of the finance department risen in the past several years, particularly in relation to its support of the procurement function? If so, what accounts for this rise?
- Does the agency have an adequate workforce, in terms of size and skills, to fulfill transaction processing needs?
- Has the agency conducted competitive sourcing studies to determine the best providers of routine accounting activities?

Look for:

- Inefficient processes are eliminated or streamlined.
- Transaction processing is consolidated, standardized, and reengineered at shared service centers.
- The cost and benefits of obtaining routine accounting activities from alternative sources are considered.

Cautions:

- The finance department's transaction processing costs continue to rise in part because of inefficiency.
- Accounting transaction costs are significantly higher than at comparable agencies.
- Organizational structure and human capital strategies do not fulfill traditional controllership or transaction processing needs.

## CORNERSTONE
Technology and Processes

Financial information is meaningful when it is useful, relevant, timely, and reliable. Agencies need information systems to manage cost, measure performance, make program funding decisions, or analyze outsourcing options. In the 1990s, global competition and advances in information technology changed the requirements for financial information, not to mention users' expectations regarding its availability and usefulness. Financial information once considered adequate is now seen as over aggregated and too out-of-date to be useful. Successful partnerships and new thinking can help managers stay ahead of the curve.

▶ **Critical Success Factor**
Integrating Financial and Operating Data

Many leading organizations have implemented comprehensive systems that integrate financial and operating data to support management decision making and external reporting requirements. These systems provide financial analysts, accountants, and business unit managers access to cost and performance information.

? Key questions:

- Are the agency's financial (including budgetary), operating, and management systems integrated? Do they provide timely, accurate, and relevant information?
- Are decision makers equipped with the tools to easily access relevant information and perform ad-hoc analyses?
- How does the agency ensure the general ledger system is adequate for financial reporting and control?
- Does the agency have automated systems? If so, do they accurately measure costs and provide line managers with timely, accurate financial and nonfinancial information on efficiency and performance?
- Are data securely stored? Are the security measures for the stored data reviewed periodically?

Look for:

- An effective enterprisewide system integrates operating, financial, and management information and allows decision makers to access relevant information easily and perform ad-hoc data analysis.
- The agency assesses whether the general ledger system is adequate for financial reporting and control.
- Automated systems accurately measure the costs of activities, processes, products, and services.
- Line managers have easy access to timely, accurate financial information on the quality and efficiency of business processes and performance.

Cautions:

- Lack of integration among systems hinders a user's ability to access information in a timely manner. For example, the financial management system could inadequately prepare and track the status of requisitions, small purchase orders, and contracts; fail to record and validate the receipt of goods and services; and fail to provide information to the core financial system for matching invoices and issuing payments.

- Data are not stored securely. Problems arise with data access, mainframe-centered applications are incompatible with users' changing needs, or budget and accounting data are inconsistent.

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### ▶ **Critical Success Factor**

Reengineering Processes to Better Match New Technologies

When leading organizations decide to reengineer their financial business processes, they typically do not start by writing their own software applications. They usually opt to slightly modify commercial off-the-shelf software (COTS) so it meets the organization's plans, standards and procedures. The advantage to starting with COTS is that software upgrades are affordable and easily available.

As business processes are reengineered to fit the new software, organizations can move from being function-based to process-based. This can result in productivity gains. The business process is designed to maximize the efficiency and accuracy of the entire process and ends when the vendor properly receives payments and the contract is reviewed and closed out.

? Key questions:

- Has the COTS been implemented with limited modifications?
- If a COTS is purchased, have processes and controls been adapted to fit the software?
- Are processes reengineered across functional lines?
- Is there a quality assurance process to ensure project activities and software products adhere to management's established plans, standards, and procedures?

Look for:

- COTS are slightly customized to meet the agency's specific needs.
- Processes and controls are adapted to fit COTS.
- Processes are reengineered across functional lines.

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- An effective risk management strategy ensures that project risks—such as customization and vendor's ability to deliver a given system—are adequately identified, and effective mitigation strategies are implemented.

Cautions:

- Many resources are used to modify COTS without adequate attention to cost-effective alternatives.
- Problems arise with vendors delivering a system.
- Software products do not adhere to management's established plans, standards, and procedures.
- Software products do not account for or track contract information on contracts that stay open for long periods of time.

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## Critical Success Factor

Translating Financial Data into Meaningful Formats

New technology tools can generate volumes of data, but the data are meaningless unless they can be translated into relevant, understandable formats. In the past, finance departments used voluminous reports based on a previous month's activities to communicate financial information. The reports were based on formats that had become out of date or irrelevant. Today, leading organizations have eliminated, reduced, and/or redesigned much of their old management reporting formats to better meet user needs.

Key questions:

- Do senior finance executives work with procurement executives and managers to determine their information needs?
- Do financial reports aid the user in determining how well the agency is run?
- Do business managers have timely access to financial information?
- Can nonfinancial experts access and understand the agency's financial reports?
- What format and content options do senior finance executives provide to executives, managers, and congressional committees when reporting to them?

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Look for:

- Reports are designed around key drivers, such as markets, products, and customers. Senior finance executives work with procurement executives and managers on an ongoing basis to determine key business and procurement information needed to manage and oversee the agency's procurement-related mission and objectives. Such information can show how well and at what cost an agency meets its goals and can show how well it is run.
- Relevant financial information is presented with suitable detail in an understandable and simple format. If decision makers want it, multiple levels of detail will still be available. Data must be available to provide complete and consistent obligation and expenditure information for an agency's overall contracting activities and for individual contracts.
- Financial management staff and officials receive feedback from procurement staff and officials to ensure procurement's needs are being met.

Cautions:

- Financial information is not of the proper scope, level of detail, timing, content, and presentation format to provide real value to users.
- Procurement information received by financial management staff is not clear and understandable, impairing efficient processing of the information into management reports.

## CORNERSTONE
Workforce Strategy that Adds Value

To add value to the finance function, senior executives define the finance department's mission, vision for the future, core values, goals, and strategies to support the agency's overall mission objectives. The finance function has evolved over the past decade. Once paper-driven, labor-intensive, and clerical, it now serves to advise and analyze, as a business partner would. Subsequently, many leading finance departments have seen a shift in the mix of skills and competencies to perform this new role. Building a modern, results-driven finance team requires bringing together the right mix of skills and talent.

## **Critical Success Factor**

Developing Right Mix of Skills and Competencies

Developing a finance team with the right mix of skills takes careful assessment and planning. A competency profile can be used to assess gaps in individual or group competency levels, and human capital strategies can help address current or expected deficiencies.

? Key questions:

- Does the agency have a strategic human capital plan that incorporates the needs of the financial management function? If not, does financial management have its own human capital plan?
- Is there an explicit planning strategy to ensure that financial managers can support the procurement workforce by providing analysis and interpreting key information?
- Has the finance department defined a set of technical, management, and leadership competencies to serve its customers? If so, are these competencies incorporated into the agency's human capital planning? How?
- Are continuing professional education requirements in place for financial managers and staff? If so, what do those requirements include?
- Do training opportunities, such as classroom, planned staff rotations, and interagency assignments, improve analytic skills to properly support program and procurement decision making?
- Does financial management staff understand overall agency operations, including the implications of financial decisions on procurement and vice versa?

Look for:

- The agency develops an explicit workforce planning strategy linked to the agency's strategic and program planning efforts.
- Organizational structure and human capital strategies support strategic business unit needs as well as traditional controllership and transaction processing needs.
- The agency's overall approach to strategic human capital planning incorporates a defined set of technical, management, and leadership skills. The skills are used as a foundation for all human capital management activities and decisions.

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- Training and career development programs use a range of mechanisms, such as e-learning, job aids, mentoring, classroom instruction, and rotational assignments.
- Staff is trained to improve leadership, management, and traditional financial management competencies; understand how reform legislation will affect the finance department's roles, responsibilities, and processes; and understand overall operations.
- The agency ensures that financial managers and staff with skills for analyzing and interpreting financial data will support the agency's strategic planning and decision-making needs at both the field and headquarters level.

Cautions:

- Financial management staff lacks adequate skills to support organizational functions, such as procurement.
- The staff lacks an understanding of overall operations, including the implications of financial decisions on procurement and vice versa.

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**Critical Success Factor**
Attracting and Retaining Talent

Recruitment, retention, and reward strategies are vital to attracting and retaining talented financial professionals at all levels.

Key questions:

- How, if at all, are top leaders in financial management involved in recruiting new talent? For example, do they make campus visits?
- How does the agency utilize staff development programs and planned staff rotations to expose financial managers and staff to a variety of career paths?
- How do the agency's compensation and benefits packages compare with the private sector's?

Look for:

- Top financial leadership helps recruit new talent. For example, the chief financial officer and senior executive leaders are often involved in on-campus recruiting.

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- A variety of clear and meaningful career paths are offered and staff development programs are used to expose staff to different career opportunities. These may include the opportunity to participate in groundbreaking projects; build a portfolio of new skills, or choose a variety of career paths.
- Competitive compensation and benefits packages are available.

⚠ Cautions:

- Inadequate attention is given to attract and retain financial professionals at all levels.
- No clear career paths are offered, and staff development programs are limited.
- Career opportunities are limited.

| Quick Recap |
| --- |
| **How Financial Management Systems Can Enhance the Procurement Function** |
| ✓ Personnel and executives from the procurement and financial management sides of the agency work cross-functionally to make smart buying decisions.<br>✓ The financial management function provides products and services that directly support strategic decision making and ultimately improve overall business performance.<br>✓ Checks and balances ensure transactions are appropriately recorded and reported, assets are protected, policies are followed, and resources are used efficiently and as intended.<br>✓ Nonfinancial managers are educated about the financial implications of business decisions.<br>✓ Personnel have the skills and knowledge that enable them to act as business partners. |

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# CONCLUSION

Achieving good procurement outcomes requires top-down and bottom-up planning. Top leaders must communicate to the entire staff a clearly defined mission and goals. They must update the mission and goals as business needs change. And they must foster a collaborative culture. Is procurement viewed as a respected function within the organization? Do top managers see people as assets rather than costs? Can procurement data be relied on to tell a comprehensive story about the organization's buying patterns? Are policies and processes really instilling good procurement practices throughout the organization? Ultimately, to answer these types of questions, procurement personnel and any one else who supports procurement activities must work together as a team. Both managers and staff must buy in to the overall mission and goals before an organization can effectively and efficiently manage its spending.

GAO's framework enables top leaders, procurement managers and staff, and other key stakeholders to ask the right questions, to think critically about systemic weaknesses, and to find successful approaches to procurement. Users can tailor this framework to meet specific needs by: 1) focusing on just one or two elements of particular interest or 2) building teams of key players to work through all five elements, treating the framework as an integrated approach to procurement.

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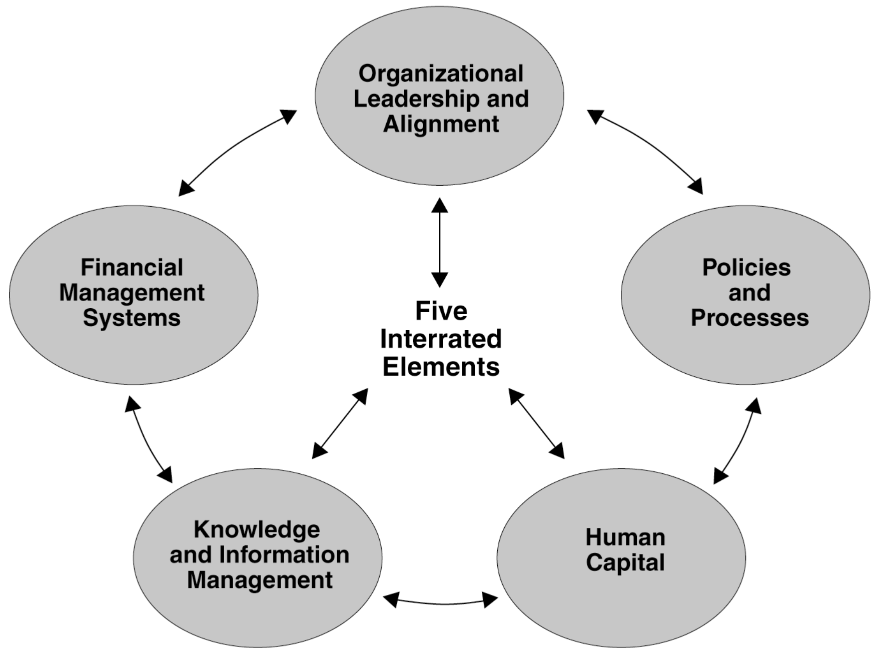
**How Procurement Function's Elements Are Interrelated**



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**Highlights of Lessons Learned from GAO's Procurement Framework**

| Organizational Leadership and Alignment | Policies and Processes | Human Capital | Knowledge and Information Management | Financial Management Systems |
|---|---|---|---|---|
| Where procurement falls in the agency's hierarchy and how it's perceived are in balance with the overall mission.<br><br>Agency's leaders view procurement as a strategic asset.<br><br>Role of procurement is helping to improve overall business performance.<br><br>Overall staff views procurement department as a proactive business partner rather than a reactive support function.<br><br>Procurement solutions are scaled to meet the needs of the agency as a whole.<br><br>Resources are routinely leveraged to meet shared requirements.<br><br>Executive leadership is required to enable an integrated and enterprisewide approach to procurement. | Effective partnering within and outside the agency is key to improving procurement outcomes.<br><br>Management of the procurement function includes:<br>• developing metrics and indicators of procurement performance<br>• using internal controls<br>• monitoring contracts and contractors<br>• utilizing effective budgeting and fiscal practices<br>• using teaming practices | Agency's leaders view people as assets rather than as costs.<br><br>Human capital professionals partner with procurement managers to make staff development decisions.<br><br>Procurement managers take human capital approaches into account when developing ways to reach organizational goals.<br><br>A strategic workforce plan profiles the current staff and projects staffing needs for the future.<br><br>The agency invests in talented, high-performing staff.<br><br>The agency fosters a work environment in which people are empowered and motivated to meet missions and goals. | Procurement personnel should track three key types of key procurement data when developing an integrated procurement information system: contracting management, financial management, and external commercial environment.<br><br>Spend analyses answer basic questions about how much is being spent and where the money is going<br><br>Data are current, reliable, accurate, relevant, protected for confidentiality, and accessible so as to produce meaningful procurement reports.<br><br>Hardware and software are safeguarded to ensure the integrity of operations and data. | Personnel and executives from the procurement and financial management sides of the agency work cross-functionally to make smart buying decisions.<br><br>The financial management function provides products and services that directly support strategic decision making and ultimately improve overall business performance.<br><br>Checks and balances ensure transactions are appropriately recorded and reported, assets are protected, policies are followed, and resources are used efficiently and as intended.<br><br>Nonfinancial managers are educated about the financial implications of business decisions.<br><br>Personnel have the skills and knowledge that enable them to act as business partners. |

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# FEEDBACK

To enhance the usefulness of this framework, we welcome any feedback you might have. Please contact us in writing by e-mailing frameworkcomments@gao.gov. Or you may reach us by phone:

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# APPENDIX I: SCOPE AND METHODOLOGY

The purpose of this study was to develop a systematic method for evaluating the procurement function within federal agencies. We wanted to identify opportunities for improvements in procurement processes as well as highlight specific risks faced by each agency.

To develop the evaluation framework, we made use of the experience, knowledge, and expertise within GAO, the executive branch, state and local agencies, the private sector, and academia to develop key elements that comprise an integrated procurement function. The ensuing outline of the evaluation framework was then further refined in discussions with:

- federal procurement executives from a Procurement Executive Council working group set up to assist GAO in assessing the procurement function;
- members of the Private Sector Council; and
- members of the American Bar Association, Section of Public Contract Law, Acquisition Reform & Experimental Procurement Processes Committee and the Commercial Products and Service Committee.

To provide us with a broad understanding of the weaknesses, issues, and potential reforms of the procurement function, we consulted studies and reports from such organizations as RAND, National Academy of Public Administration, Acquisition Solutions, the Australian Audit Office, the National Association of State Purchasing Officials, the PricewaterhouseCoopers Endowment for the Business of Government, the Corporate Executive Board's Procurement Strategy Council, the Center for Advanced Purchasing Studies, and audits reports from GAO and various federal agency inspector general offices.

We consulted special technical guides on procurement, human capital, financial management, and information technology from Department of Defense organizations, National Aeronautics and Space Administration, Office of Management and Budget, Department of Treasury, Joint Financial Management Improvement Program (JFMIP), and GAO. Many of these resources are listed in appendix II.

We conducted our fieldwork from May 2002 through June 2003. To verify the accuracy of the information provided and improve the technical usefulness of the information provided, we asked procurement, human capital, financial management, and

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information technology experts to review a draft of the evaluation framework. We incorporated their comments to create this exposure draft, which is being distributed to obtain comments from interested parties of the federal, state and local procurement community, procurement experts from associations, academia, and professional organizations. We will incorporate comments as appropriate to issue an executive guide.

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# APPENDIX II: SUGGESTED SOURCES OF INFORMATION FOR EVALUATING PROCUREMENT ISSUES

## CROSS-CUTTING INFORMATION

Australian National Audit Office. *Contract Management: Better Practice Guide.* Canberra, Australia: Commonwealth of Australia, 2001. http://www.anao.gov.au/.

U.S. Department of Energy, Office of Procurement and Assistance Management, *Balanced Scorecard Performance Measures Information Document.* March 2003. http://professionals.pr.doe.gov/ma5/MA-5Web.nsf/WebAttachments/BSCMeasuresInformation/$File/BSCMeasuresInformation.pdf

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Procurement Executives' Association, *Guide to a Balanced Scorecard Performance Management Methodology.* October 1998. http://oamweb.osec.doc.gov/bsc/guide.htm

U.S. Department of Transportation, *Procurement Balanced Scorecard.* Washington, D.C.: October 2001. http://www.dot.gov/ost/m60/scorecard/ppmsrev2.htm

U. S. General Accounting Office, *Standard for Internal Control in the Federal Government.* AIMD-00-21.3.1. Washington, D.C.: November 1999.
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# Appendix III: GAO Staff Acknowledgments

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