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CONTRACT MANAGEMENT

Improving Services Acquisitions

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Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to assist the Subcommittee in its consideration of proposals to improve the government's acquisition of services. Work performed by the General Accounting Office (GAO) continues to show that improvements are needed in a number of areas related to how the government buys services. We fully support the efforts of the Subcommittee in addressing this issue.

Federal agencies spend billions of tax dollars each year to buy services, ranging from clerical support and consulting services, to information technology services, to the management and operation of government facilities, such as national laboratories. And the amount spent on services is growing substantially. Last year alone, the federal government acquired more than \$87 billion in services—a 24-percent increase in real terms from fiscal year 1990.

As we testified before you in May, Mr. Chairman, agency procurements of services often are not being conducted as efficiently as they could be.¹ We have found that too frequently agencies are not clearly defining their requirements, fully considering alternative solutions, performing vigorous price analyses, or adequately overseeing contractor performance. Such problems clearly point to a need for more focused management attention.

At the same time, agencies are at risk of not having enough of the right people with the right skills to manage service contracts. Years of downsizing and curtailed investments in human capital have produced serious imbalances in the skills and experience of the acquisition workforce, and, in effect, created a retirement-driven talent drain. It is clear that more needs to be done to strengthen the acquisition workforce.

The package of proposals the Subcommittee is considering, which together would comprise the Services Acquisition Reform Act (SARA), would address many of these issues, and we look forward to working with the Subcommittee as these proposals continue to evolve. Today, I would like to offer our perspective on some of the proposals under consideration, highlighting areas where our completed or ongoing work may be helpful to the Subcommittee.

¹ *Contract Management: Trends and Challenges in Acquiring Services* (GAO-01-753T, May 22, 2001)

My statement focuses on three areas:

- Strengthening management oversight of services acquisitions,
- Improving the acquisition workforce, and
- Moving toward a performance-based contracting environment.

Chief Acquisition Officer

Strengthening management oversight begins with leadership, and in this regard, the proposed legislation would create a chief acquisition officer within each agency. Such an approach is consistent with that of some of the leading companies in the private sector.

Our discussions with a number of private sector companies about how they buy services indicate that a procurement executive or a chief acquisition officer plays a critical role in changing an organization's culture and practices. Company officials said that the position needs to be sufficiently high in the organization to have the authority to effect any needed structural, process, or role changes. They indicated that senior management support was essential to provide direction and vision, facilitate the development of common processes and approaches, and when necessary, provide the necessary clout to obtain initial buy-in and acceptance of reengineering efforts. These officials also said that this commitment and support needs to be sustained over time.

Equally important, we learned, is the corporate decision to pursue a more strategic approach to acquiring services. Taking a strategic approach involves a range of activities—from developing a better picture of what an organization is spending on services, to taking an enterprisewide approach to procuring services, to developing entirely new ways of doing business. Adopting such an approach has contributed greatly to realizing the types of efficiencies and improved service levels federal agencies desire. An agency Chief Acquisition Officer can do much to help an agency achieve those outcomes.

Training the Acquisition Workforce

We are pleased to see that a number of the proposals are designed to strengthen the acquisition workforce. Following a decade of workforce downsizing and curtailed investment in their people, federal agencies currently face skills, knowledge, and experience imbalances. Without corrective action, these imbalances could worsen given the number of federal civilian workers who will become eligible to retire in the next few years.

This issue is particularly acute in the acquisition area. At the Department of Defense, for example, contracting workload has increased by about 12 percent in recent years, but the workforce available to perform that workload has been reduced by about half over the same period. The result is fewer people whose job it is to ensure maximum value for the taxpayer.

Addressing human capital issues in acquisition is not just a matter of the size of the workforce. It is also a capacity issue. While acquisition reforms have helped streamline smaller acquisitions, larger acquisitions, particularly for information technology, remain complex and technical. Yet agencies are at risk of not having enough of the right people with the right skills to manage these procurements. Consequently, a critical issue the federal government faces is whether it has today, or will have tomorrow, the ability to manage the procurement of increasingly sophisticated services.

A key element in addressing this situation is workforce training. Our work indicates that the leading companies in the private sector take a targeted, customized approach to training. They commit training resources to a few, well-defined areas. By contrast, we have found that standard training at the Department of Defense, for example, often did not reach the right people at the right time, or was not of sufficient depth to help program officials implement acquisition reform initiatives.² Our work at the General Services Administration (GSA) and the Department of Veterans Affairs showed that neither agency had established core training requirements for some segments of their acquisition workforces,³ nor had they identified all funds they planned to use for workforce training as required by the Clinger-Cohen Act.⁴ At your request, Mr. Chairman, we have work underway to determine the current status of acquisition workforce training at these and other agencies.

² *Best Practices: DOD Training Can Do More to Help Weapon System Programs Implement Best Practices* (GAO/NSIAD-99-206, Aug. 16, 1999).

³ *Acquisition Reform: GSA and VA Efforts to Improve Training of Their Acquisition Workforces* (GAO/GGD-00-66, Feb. 18, 2001).

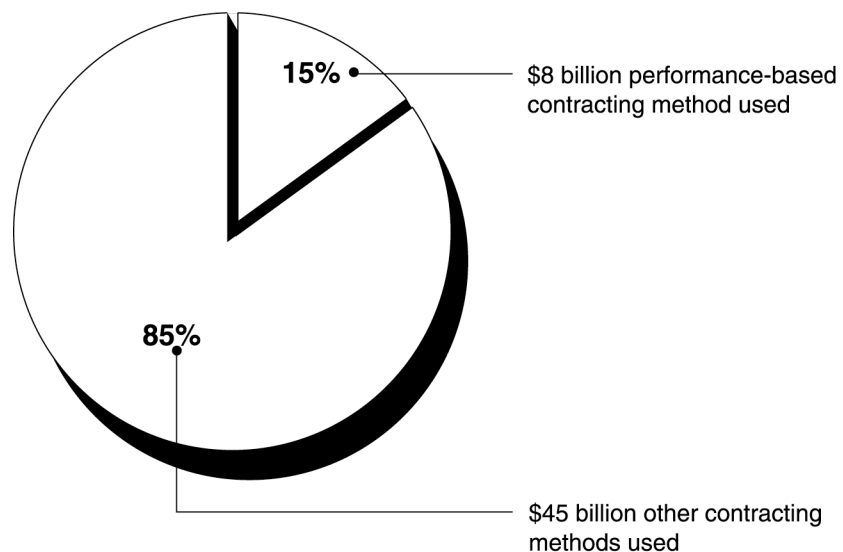
⁴ P.L. 104-106

Performance-Based Contracting

The legislative proposals are intended to promote greater use of performance-based contracting. Performance-based service contracting is a process where the customer agency specifies the outcome or result it desires and leaves it to the vendor to decide how best to achieve the desired outcome. Historically, the government has not widely used this strategy, but it is beginning to move in that direction in an effort to attract leading commercial companies, gain greater access to technological innovations, and better ensure contract performance.

Figure 1 shows that, for the first 6 months of fiscal year 2001, about 15 percent of service contracts were reported to be performance-based. The Office of Management and Budget established a goal that 20 percent of contracts for services be performance-based in fiscal year 2002.

Figure 1: Governmentwide Obligations for Services, Oct. 1, 2000 – Mar. 31, 2001



Note: Architect and engineering services and construction excluded.

Source: All actions reported to the Federal Procurement Data System.

Mr. Chairman, you have asked us to identify governmentwide mechanisms that can be implemented to encourage the use of performance-based contracting. In responding to this request, we also plan to review how federal agencies are using performance-based contracting when acquiring services as well as how they are measuring outcomes. We look forward to sharing the results of our review with the Subcommittee.

Today, however, I would like to highlight one particular form of performance-based contracting, share-in-savings contracting, an innovative tool that allows agencies to leverage limited resources. Basically, in share-in-savings contracting, the contractor funds a project up front in return for a percentage of the savings that are actually realized by the agency.

Perhaps one of the best known examples of share-in-savings contracting in government is in the Department of Energy. Energy's Federal Energy Management Program has crafted an energy savings contract under which energy service contractors are expected to contribute all the up-front costs identifying a federal facility's energy needs and buying, installing, operating, and maintaining energy-efficient equipment to cut energy bills. In return, the companies get a share of energy savings generated by the improvements. For example, since 1998, the government has issued 57 energy savings orders to private-sector energy services companies. Although we have not verified the numbers, the contractors' preliminary indications are that these 57 orders will allow the agency to obtain almost \$150 million in capital improvements. In addition, the agency expects to realize significant reductions in energy usage.

Almost 6 years after the Clinger-Cohen Act called for the creation of pilot programs to test the share-in-savings concept in federal information technology contracts, the government has not identified many suitable candidates for use of this technique. In large part, this is because use of this tool requires solid baseline data about the existing cost of an activity and a reliable method for measuring whether success has been achieved. Gathering reliable baseline data can be difficult. According to the GSA Assistant Commissioner of the Federal Technology Service, many of the projects GSA reviewed for a pilot share-in-savings contracting program were rejected because the agencies proposing the projects could not determine baseline costs.

The Subcommittee has asked us to identify and analyze examples of best practices using the share-in-savings contracting method found in the commercial sector. We plan to hold discussions with prominent commercial companies to better understand (1) why they chose share-in-savings contracting as a means to help achieve their business goals or improve their administrative processes, and (2) what their experiences with this contracting method have been.

Conclusion

In conclusion, Mr. Chairman, the increasing significance of service contracting has prompted a renewed emphasis by the Congress and the administration on resolving longstanding problems with service contracts. We support the Subcommittee's efforts to improve the government's acquisition of services. The proposals being discussed address many of the critical issues, and would introduce innovative techniques designed to enhance contract performance. We look forward to providing you with the findings that result from our ongoing reviews and to continuing to assist the Subcommittee in its development of the Services Acquisition Reform Act.

Mr. Chairman and Members of the Subcommittee, this concludes my statement. I would be happy to answer any questions you may have.

Contact and Acknowledgement

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