Acquisition and Contracting Improvement Plans and Pilots

Saving Money and Improving Government

Office of Management and Budget

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Acquisition and Contracting Improvement Plans and Pilots:
Saving Money and Improving Government

> *"The Federal Government has an overriding obligation to American taxpayers. It should perform its functions efficiently and effectively while ensuring that its actions result in the best value for the taxpayers."*
>
> President Barack Obama
> March 4, 2009

President Obama believes that taxpayers deserve to have their dollars spent wisely. To help instill a new sense of responsibility when it comes to spending the taxpayers' dollars, he has charged federal departments and agencies with saving $40 billion annually by Fiscal Year (FY) 2011 through terminating unnecessary contracts, strengthening acquisition management, ending the overreliance on contractors, and reducing the use of high-risk contracts across government.

The government's major contracting agencies – which account for more than 98 percent of contract spending – are on track to meet this goal, identifying more than $19 billion of savings for the first year of this reform effort.

Since 2002, spending on federal contracts has more than doubled. In 2008, contract spending totaled approximately $540 billion. There also has been an increase in the dollars awarded without full and open competition. Between FY2002 and FY2008, noncompetitive contracts increased from $82 billion to $188 billion. That increase – and myriad accounts of past contracting abuses and mismanagement – served as the backdrop for the President's initiative on acquisition reform. Not only has the President directed federal agencies to save billions of dollars through strengthened contracting practices and management oversight, but he also pressed them to reduce high-risk contracts that, too often, limit incentive to control costs and maximize value.

The Office of Management and Budget (OMB) has worked with agencies on specific steps to meet the President's goals:

- Achieve 3.5 percent in savings during FY2010 and 7 percent by the end of FY2011.
- Reduce the use of high-risk contracts for new procurements by a minimum of 10 percent this fiscal year.
- Identify organizations within each agency that may be overreliant on contractors and pilot new processes to achieve the best mix of public and private labor resources.

To achieve these benchmarks, agencies have taken a number of important steps.

First, all of the 24 agencies covered by the Chief Financial Officers Act – the largest contracting agencies in the federal government – have submitted plans to achieve savings. In the plans, agencies have identified more than $19 billion in savings, in line with the 3.5 percent first-year target. The plans identify specific actions to cut contracting costs and improve efficiencies, with the corresponding projected savings for each action.

Second, agencies have identified initiatives to support a 10 percent reduction in money spent through new high-risk contracts – noncompetitive, cost-reimbursement, or time-and-materials/labor-hour contracts. Many of these initiatives involve improving the capability of the agency's acquisition workforce to manage high-risk contracts and move quickly to more responsible contracting practices. This focus will help to avoid wasteful spending so agencies can maximize value for the taxpayer dollar.

Third, each agency has identified at least one pilot initiative where potential overreliance on contractors may be affecting performance and will take steps, as part of these pilots, to determine the best mix of in-house and contractor skills and workforce size to help the organization operate at its best.

Additional information on each of these three initiatives is provided in this report.

Many agencies already have implemented reforms, consistent with the President's goals, which are resulting in increased efficiencies and real savings for the American taxpayer. Some of these best-practice examples are highlighted below.

Key Acquisition Reform Actions

- ✓ Agencies are on track to cut contracting costs by 3.5 percent in Fiscal Year 2010.
- ✓ Identified savings for this year total more than $19 billion.
- ✓ Agencies are taking aggressive steps to improve accountability and management oversight.
- ✓ Agencies are working to reduce their reliance on high-risk contracting by 10 percent.
- ✓ Agencies are piloting new tools to determine the best mix of skills and workforce size for their organizations.

Achieving Acquisition Savings

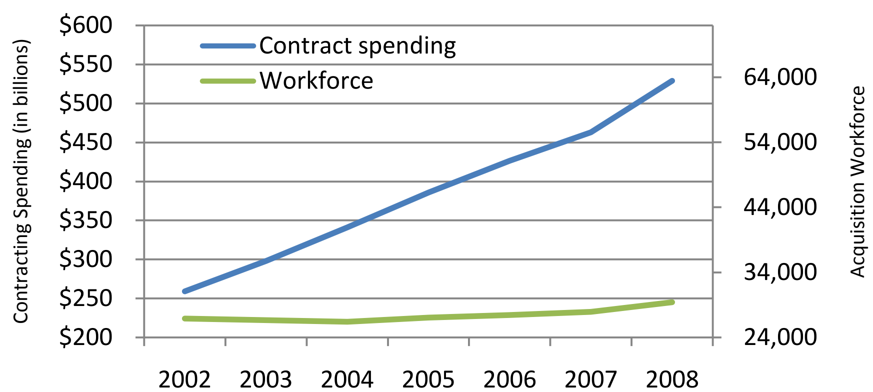
- *24 federal departments and agencies have submitted contracting savings plans*
- *Agencies are on track to reduce contracting costs by 3.5 percent in FY2010*
- *Identified savings so far total more than $19 billion*

The government's major contracting agencies – 24 in total – collectively account for more than 98 percent of all federal procurement spending. The FY2010 savings identified in their plans meet or exceed the required 3.5 percent reduction in federal contract spending. Early analysis of these plans shows savings totaling more than $19 billion for the year. Most of the first-year savings efforts will have recurring benefits that contribute to agencies' ability to save $40 billion or more annually, starting in FY2011.

To achieve these savings, agencies are using a combination of strategies, including program terminations and reductions, internal spending caps, and more effective use of competition. Innovative approaches, such as online reverse auctions and electronic-sealed bids, also are contributing to the agency plans. Agencies are identifying new avenues for strategic sourcing, where the government leverages buying power to achieve better deals for the taxpayer. As the world's largest purchaser, the government is positioned to negotiate lower prices for goods and services. Yet, that position has not been utilized fully. The Chief Acquisition Officers Council is identifying new strategic-sourcing approaches, and how to structure contracts so as to provide better value for a lower price for commonly acquired goods and services.

In addition, OMB is holding one-on-one sessions with agencies to assist them in meeting their targets and to discuss additional savings. This includes the expansion of the capability and capacity of the civilian acquisition workforce. OMB's workforce development plan, issued in October 2009, pointed to at least a 5 percent workforce increase at almost every civilian agency. OMB is reviewing workforce demands and leading a planning process to address the broader acquisition workforce, including program managers and contracting officer technical representatives. Each agency's first annual human capital plan for acquisition is due by March 31, 2010, and will serve as the basis for budget preparation.

Contract Spending and Acquisition Workforce Since FY2002



Source: Federal Procurement Data System and the Federal Acquisition Institute.

The table outlines the major steps that federal agencies initially have planned to reduce spending.

Major Categories of Savings					
	Implement strategic sourcing				
Department or agency	Agency-wide vehicles	Gov't-wide vehicles	Terminations/ reductions	Renegotiate for larger discounts	Insource services
Agriculture	◆	◆			◆
Commerce	◆	◆	◆		
Defense	◆	◆	◆	◆	◆
Education	◆	◆	◆		
Energy	◆		◆	◆	
EPA		◆			
HHS	◆	◆	◆		◆
Homeland	◆	◆	◆		◆
HUD			◆		
Interior	◆			◆	
Justice	◆		◆	◆	
Labor	◆		◆		◆
State	◆			◆	◆
Transportation	◆	◆	◆		◆
Treasury	◆	◆		◆	
VA	◆	◆	◆	◆	
USAID					◆
GSA	◆	◆			
NASA	◆	◆	◆		
NRC	◆				
NSF			◆		
OPM	◆		◆		◆
SBA	◆				◆
SSA	◆	◆			

Early Accomplishments to Achieve Contract Savings

Agencies are saving money through strengthened, more effective acquisition practices. The descriptions below illustrate how agencies already are saving taxpayers' money through improved practices such as supply chain management and strategic sourcing, smarter planning, and better use of technology.

❖ *DHS Flexes Purchasing Power to Save $87.5 Million*

The Department of Homeland Security (DHS), like every federal department, consists of agencies with varied needs and responsibilities. However, the core of the department's information technology requirements is the same across the board. The DHS Chief Information Officer moved to standardize department-wide desktop operating systems, e-mail, and office automation. With these standardized requirements in place, the CIO was able to award a single contract for the full suite of products at a substantial savings. This allows DHS agencies to purchase any of the products and associated software maintenance agreements at discounted prices. The department expects to save $87.5 million during the next six years while making more than 180 products available to users.

❖ *NNSA Saves $73 Million in FY 2009*

The Department of Energy's National Nuclear Security Administration (NNSA) is better coordinating the flow of services from its contractors through expanded supply chain management and utilizing online tools to drive costs down, saving $73 million in FY2009.

As an example, NNSA has launched a contracting tool similar to the commercial service, eBay. This e-sourcing tool allows NNSA, in essence, to put a service need up for online bid – a so-called "reverse auction" because the government is seeking to drive prices down to make a purchase, as opposed to driving prices up for a sale. Contractors enter prices until the bid "auction" ends with the selection of the lowest-price contractor. As eBay allows bidders to enter a higher price for an item if they are outbid, a contractor can revise its bid if another firm offers a lower price. Through these mechanisms, NNSA is seeing an average cost savings of 18 percent per contract.

❖ *Pentagon Uses In-House Expertise to Improve Product, and Save $10 Million*

The Defense Department hired a contractor to create the next-generation shoulder-fired missile, the Javelin. The missile proved successful but expensive. Its early use resulted in cracked launch tubes that cost approximately $25,000 each to repair. An in-house team of Pentagon engineers took a close look at the problem and recommended specific improvements to "ruggedize" launch tubes to make the tube less susceptible to cracks and abrasion damage in combat environments. The team designed and qualified a protective urethane coating for the Javelin launch tube. The Defense Department's contracts now include the design change, and, as a result, taxpayers will save an estimated $10 million in hardware costs alone over the five-year life of the contract.

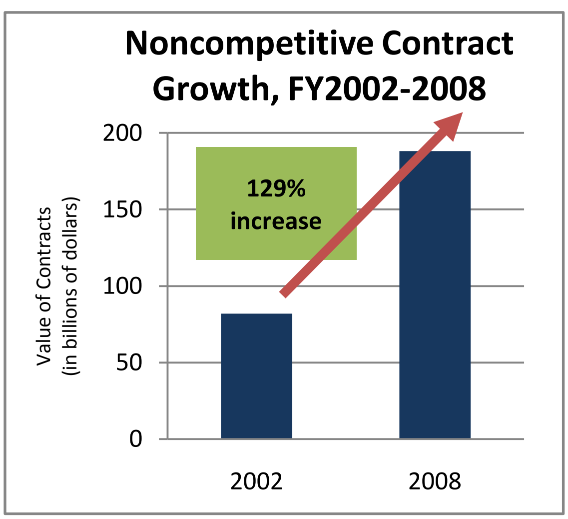
CUTTING BACK ON HIGH-RISK CONTRACTS

- *Agencies are on track to cut high-risk contracting authorities on new contracts in FY2010 by 10 percent*
- *Steps include improving workforce capability to better manage high-risk contracts and rely on lower risk contract authorities*
- *Agencies are increasing the use of review boards and peer reviews to drive better value*

The Administration has directed agencies to reduce by 10 percent the dollars obligated through new contracts in FY2010 that are (1) awarded noncompetitively, (2) receive only one bid, (3) cost-reimbursement contracts, or (4) time-and-materials/labor-hour (T&M/LH) contracts. While these types of contracting authorities may be the best alternative in specific, limited circumstances, such as advanced research or complex remediation, they are not the preferred approach. Noncompetitive contracts force agencies to negotiate contracts without the benefit of a direct market mechanism to help establish reasonable pricing. Cost-reimbursement and T&M/LH contracts provide limited incentive to control costs and maximize value.

The plans submitted to OMB focus on risk mitigation and transition from high-risk to lower-risk contracting. Agencies will achieve this result in various ways. Most agencies are seeking to improve their workforce's capability to manage high-risk contracts and transition to lower-risk contracts. Some will accomplish this through acquisition "boot camps" to reinforce contracting fundamentals. Others are considering centers of acquisition excellence to capture and replicate best practices for sustained improvements. For example, one agency plans to rely on its technology acquisition center to provide technical support for program and contracting offices in reducing noncompetitive contracting for information technology.

A number of agencies will increase their use of contract review boards or peer review teams to bring seasoned contract and other experts together to help contracting and program offices achieve the best results. These boards and teams serve as a catalyst for improvement by helping to identify risky and inefficient practices and determine alternative strategies for achieving better returns for taxpayers' dollars.



OMB is supporting these steps by identifying best practices across the government, giving agencies tools to achieve their goals, and developing applications for agencies and the public to track progress. Mid-year and year-end reviews will assess agency progress against their risk reduction targets. Agencies not meeting their targets will be required to develop corrective action plans.

OMB will set new targets for FY2011, and also will work with the Federal Acquisition Institute and Defense Acquisition University to address common training weaknesses. These efforts are being complemented by the expansion and further clarification of regulations addressing the use of high-risk contracting. Changes to the Federal Acquisition Regulation are in process to strengthen the quality of competition for task and delivery orders and improve the planning and management of cost-reimbursement contracting.

Early Accomplishments to Reduce High-Risk Contracting

Agencies are reducing risks by improving the quality of their contracting practices and by making concerted efforts to shift from high-risk contract types to fixed-price agreements. These case studies illustrate how departments are successfully migrating to lower-risk contracting practices while saving money by better utilizing the tools and resources that they have in house in a more effective manner.

- ***NASA Breaks Up Large High-Risk Contract, Uses Competition, Saves $89 Million***

For many years at the NASA Michoud Assembly Facility in Louisiana, a large cost-reimbursement contract covered operations and maintenance at the 43-acre facility. The space agency recognized that it could receive better value at a lower price by breaking that single contract into smaller contracts. Instead of awarding operations and maintenance noncompetitively as part of a large cost-reimbursement contract for flight hardware, NASA competed a separate contract that covers just facilities management support. The new competitively awarded contract is expected to reduce the five-year budget plan for operations and maintenance costs by $89 million.

- ***Switching Cost-Reimbursement to Firm-Fixed-Price Contract Saves IRS $6 Million***

Typically at the Internal Revenue Service, cost-reimbursement contracts would be required to handle the agency's efforts to modernize core taxpayer services and other key technology improvements. The IRS's Enterprise Architecture Office teamed with the Office of Procurement in the Total Information Processing Support Services to break this habit, by taking advantage of the Bureau's long record of prices previously paid for these services to negotiate a fixed-price contract. Initially, the customer was skeptical about deviating from "business as usual," but soon realized the cost savings potential from the new approach. The new $24 million task order, awarded in May 2009 saved taxpayers approximately $6 million. This shift also allowed better program management of the work.

- ***DOD Peer Review Teams Result in Better Value, More Effective Contracting***

No federal department contracts as much as the Department of Defense. Secretary Gates is adamant that dollars be spent effectively and efficiently and that they deliver quality services for our troops and our country. As a result, a new system of high-level peer reviews is in place to ensure consistent policy implementation, to improve the quality of contracting processes, and to facilitate cross-sharing of best practices and lessons learned throughout DOD, including for the purpose of mitigating the use of high risk contracts.

For larger contracts, a Deputy Director for Defense Procurement and Acquisition Policy leads the peer review team, which is comprised of senior leaders from outside the agency with experience in the type of procurement being reviewed. For smaller contracts, the Services and agencies are responsible for implementing internal peer review programs.

Already, the Defense Department has conducted reviews on 40 different supply and service acquisition programs, with several having undergone as many as three phases of peer review. Contract solicitations have been simplified and improved. In addition, the interchange between the peer review teams and the host teams has enabled invaluable mentoring opportunities to develop future senior leaders. Overall, these efforts are bolstering the quality of contracting processes and the resulting contracts. To date, programs that have undergone all three phases of peer review have not had a sustained protest. In this way, peer reviews are helping the Pentagon to achieve more effective and efficient contracting.

MANAGING THE MULTI-SECTOR WORKFORCE

- *Agencies are sponsoring pilots to address overuse of contractors in one or more of their organizations*
- *Pilots address a range of functions and activities, with the most common areas being acquisition and IT support services*
- *New collaborative tools and practices are being developed to support strengthened management of the multi-sector workforce*

Agencies use both federal employees and private-sector contractors to deliver important services to citizens. Management practices must recognize the proper role of each sector's labor force and draw on their respective skills so the government operates at its best.

Twenty-four federal agencies have launched pilot projects to begin this process. The pilots give each agency the opportunity to create the tools and internal collaborations necessary to plan and develop the workforce as a whole. Each agency will focus on at least one internal organization where concerns exist about a potential overreliance on contractors and will take steps to address any identified weaknesses. The pilots provide agencies with an opportunity to develop processes and practices – from mapping the organization in its current and "to be" state to identifying appropriate remedies to improve the organization's performance.

The pilots will assist OMB and the Office of Personnel Management to develop a new framework for considering how best to manage the multi-sector workforce. The framework includes asking agencies to conduct strategic human capital planning to identify the functions that are needed by the organization. From this starting point, agencies can more effectively determine a desired skill mix, total labor requirement, and the sector to fill each identified position. Equally important, the framework emphasizes that management is a shared responsibility, requiring continuous and timely collaboration between the program, human capital, acquisition, and budget and finance offices.

A Closer Look at the Pilot Projects

Pilots were selected based on several criteria, including the potential erosion of in-house capability, insufficient contractor oversight, or the potential for improved performance or cost savings through in-house performance. Roughly one-third of pilots involve acquisition offices or functions. Another one-third focus on information technology support. The remaining pilots address a wide range of programs and functions. Agencies will report to OMB by May 1, 2010, on the pilot projects' results. Assessments could lead to a number of actions, such as insourcing or adding resources to contract management. A summary of results will be made public.

The initial review of the pilots shows that agencies are using cross-functional teams with human capital, acquisition, and program officials to determine the best mix of skills and workforce size for the organization. The cross-functional teams provide agencies with technical support and capture lessons and best practices, driving better government performance.

The pilot initiatives give each agency the opportunity to reshape its workforce and strike the right balance between staffing positions with permanent federal employees – to build and sustain its in-house capabilities – and, where appropriate, utilizing the expertise and capacities of contractors available in the marketplace.

Here's how the pilots break down by individual focus area:

Acquisition functions. Seven agencies are studying acquisition functions: Commerce, Defense, Education, Interior, Labor, GSA, and NASA. While the use of contractors can be beneficial in some supporting activities, they must not perform inherently governmental functions, such as awarding contracts – nor should contractors be used as a substitute for the strong internal capacity required for an agency to provide sufficient management and oversight of its contractors. Studying these roles will complement other efforts to strengthen the capabilities and capacity of the acquisition workforce.

Information management support. Nine agencies are analyzing functions performed by their Office of the Chief Information Officer: Agriculture, Energy, Homeland Security, Housing and Urban Development, Treasury, Veterans Affairs, NASA, SBA, and USAID. Most of these agencies reported that they are heavily reliant on contractors and question whether the agency has the ability to maintain control of its mission and operations. Frequent turnover of contractors at some of the agencies has caused further concern that institutional and technical knowledge will be lost. At least two agencies, HUD and Treasury, are coordinating their pilot activities with related IT modernization efforts.

Veterans' employment and training services. The Department of Labor (DOL) uses contractors to provide significant support for its Veterans' assistance programs, including the Homeless Veterans Reintegration Program and the Jobs for Veterans State Grant program. Contractors perform operational analysis, provide information technology services, and offer general administrative and budget support. DOL will assess if the mission and requirements of these programs are effectively served by the current mix of in-house and contractor support.

Foreign labor certification processing. The Department of Labor's Employment and Training Administration will review the use of contractors to process labor certifications to employers seeking to bring foreign workers into the United States. DOL is investigating the potential benefit of insourcing a subset of the contracted workforce. The Department's preliminary analysis shows that federal staff can fill multiple roles for heighted efficiency and for building institutional capacity, whereas contractors are more restricted in the number of roles they can perform due to the inherently governmental nature of many of the certification functions.

Transportation benefits. The Department of Transportation's (DOT) Transportation Services Office is responsible for distributing transit benefits to federal employees. The Office currently relies heavily on contractors to perform its responsibilities. Under the pilot, DOT will evaluate the extent to which this reliance has led to erosion of in-house institutional knowledge and capability and loss of economies and efficiencies.

Federal employee wellness. The Department of Health and Human Services will study its clinical support and other services provided by Federal Occupational Health (FOH). FOH provides an array of services to promote workplace health, wellness, and safety, as well as to maintain compliance with OSHA. FOH is heavily reliant on contract support and seeks, in particular, to evaluate how this reliance is affecting clinical support and physician management.

Superfund field assistance. The Environmental Protection Agency (EPA) will study the Technology Innovation and Field Services Division (TIFSD) in the Office of Solid Waste and Emergency Response. TIFSD provides critical support to the Superfund program, including field assistance in responding to incidents and spills, analytical work, and training on field investigations and remediation technologies. Under the pilot, EPA will determine whether the agency's extensive reliance on contractor support to accomplish the mission is impairing its ability to maintain control of operations.

Federal financial audits. The Department of Justice's Consolidated Quality Assurance Audit Team is responsible for ensuring a clean financial audit opinion for the Department. Under the pilot, Justice will review the team's work processes and labor mix to improve efficiencies, to ensure future knowledge transfer from its contract employees to in-house staff for long-term continuity, and make sure inherently governmental functions have not been outsourced.

Management support. The State Department's Bureau of Administration's Directives Management Office is responsible for the publication and maintenance of the Foreign Affairs Manual and the Foreign Affairs Handbook. State will assess if some positions filled by contract employees are closely associated with inherently governmental functions and are more appropriately performed by federal employees.

Disability hearings and appeals. The Social Security Administration (SSA) will study hearing recorder support services in its Office of Disability Adjudication and Review, which administers the SSA's hearings and appeals programs. SSA will evaluate opportunities to increase efficiency and achieve cost savings through insourcing functions, while working to eliminate the disability backlog and prevent its recurrence.

Technical and clerical support. OPM will review its use of contracted staff to provide clerical and technical support to a wide range of important programs, including its investigations, retirement, legal, financial management, and public affairs functions. These support services were outsourced in 2004. As OPM reviews the mix of skills and amount of labor required in light of its mission and performance goals, it will inform its assessment based on its experiences with contract support since 2004 and with federal employee support prior to this time.

Consulting services. The National Science Foundation has identified its Business and Solutions Services area within the Division of Information Systems for evaluation to determine the best mix of federal and contract workers.

Computer security. The Nuclear Regulatory Commission (NRC) is studying its Computer Security Office, which has the mission to oversee the development and implementation of agency-wide IT security. Established in 2007 to address weaknesses in the security of NRC data and information, the office was initially organized and staffed based on an assumed workload that has proved to be greater than initially anticipated. The pilot will give NRC an opportunity to evaluate its current workload to determine the best balance between in-house and contractor support for effective security assistance and services.

MOVING FORWARD

The President has identified goals for a modern government: one that is more efficient and effective; one that is focused on what we need it to do and not on what we don't; and one that invests in the future without leaving behind enormous financial burdens. Acquisition improvements – strengthening accountability, eliminating waste, improving performance, and targeting fraud and mismanagement – are significant components of a government that places the taxpayers' best interests at the forefront of its actions.

The goals are results-oriented: find $40 billion per year in savings; reduce high-risk contracting; strengthen the government's ability to manage the multi-sector workforce; and provide for a strong acquisition workforce. For each initiative outlined in this report, the agency carries the responsibility of implementing approaches that solve their individual challenges and produce real results. OMB is obligated to make sure agencies have the tools and resources they need to break down the barriers that have stymied progress for too long and will review progress and hold agencies accountable for results.

Agencies are identifying savings and are on track to meet their first-year target. They are developing strategies to manage and reduce high-risk contracting. They have started saving money through better sourcing decisions. They have launched pilot efforts to achieve the best mix of public and private labor resources to serve the American people. They have grown the acquisition workforce and are focused on improving its capability and capacity.

While initial progress is positive, much work remains to be done. OMB is working with agencies to expand their initial savings plans. OMB has challenged agencies to take immediate action to aggressively seeking deeper discounts on “blanket purchase agreements” established to meet recurring agency needs. OMB is also helping agencies to provide for additional growth of the acquisition workforce in FY2011 to support better acquisition outcomes. Progress will be tracked on high-risk reduction and new targets will be established for FY2011. OMB is partnering with agencies to capture lessons learned from the pilots, and shortly will address the ongoing confusion in how the boundaries are drawn between federal and private sector performance. This initiative, which will be subject to public comment, will improve the rules for determining which functions must be performed by federal employees and which may be performed by either federal employees or contractors.

Contractors’ past performance is being scrutinized more closely. For too long, contractor performance data was inconsistent and, often, inaccessible, and there was no easy way to track performance across agencies. Now, agencies are required to submit an electronic review to centralized federal database, allowing contracting officers to assess a firm’s track record before signing a new agreement. These assessments should lower the chances that the government repeatedly does business with underperforming contractors, which should, in turn, decrease inefficiency and waste of taxpayer resources. Compliance and quality assessments of agencies’ contractor performance evaluations will begin in February 2010.

An online dashboard will launch in the spring of 2010 to allow the public to track whether agencies are progressing in their efforts. For example, the dashboard will allow taxpayers to gauge how and by how much agencies are reducing high-risk contracts, both as a share of an agency’s total spending and as a share of spending in each of the four high-risk categories. Where progress is insufficient, OMB will work with agencies to develop aggressive steps to meet their targets.

OMB is committed to ensuring that agencies achieve their goals through a dedicated focus on implementation, regular progress reviews with agencies, and engagement with senior agency leadership. Improving the federal acquisition system is a central pillar to building a high-performing government that provides the best value to the American taxpayer. The improvements underway at the departments and agencies, bolstered with a more focused priority, new tools, and additional resources, are expected to result in more effective citizen services and a better use of funds.