

CUTTING WASTE AND SAVING TAXPAYERS' DOLLARS THROUGH CONTRACTING REFORMS

President Obama believes that taxpayers deserve to have their dollars spent wisely. As part of his effort to create a government that is effective and efficient, he has charged federal departments and agencies with saving \$40 billion annually through commonsense improvements to contracting.

Since 2002, spending on federal contracts has more than doubled. In 2008, contracting totaled more than \$525 billion. There also has been an increase in the dollars awarded without full and open competition. Between fiscal years 2002 and 2008, noncompetitive contracts increased from \$82 billion to \$188 billion. The [GAO noted](#) recently, "With hundreds of billions of taxpayer dollars at stake, the government needs strong controls to provide reasonable assurance that contract funds are not being lost to fraud, waste, abuse, and mismanagement."

The President on [March 4, 2009, issued a memorandum](#) which set key reform goals:

- Ensuring that taxpayer dollars are not spent on wasteful, inefficient, or fraudulent contracts;
- Building agency capacity to manage and oversee contracts; and
- Taking steps so that inherently governmental functions are not outsourced.

OMB responded with contracting reform guidance in July. It addressed three specific areas: [improving acquisition](#), [expanding contractor performance information](#), and [managing the multi-sector workforce](#). These reform packages put agencies on the path to save taxpayers' money, hold contractors accountable for past performance, and end the overreliance on contractors.

- **Save taxpayers' money.** Agencies are required to *save 7 percent of contract spending* (starting with 3.5 percent in Fiscal Year 2010) while *reducing high-risk contracts by 10 percent*. This will be accomplished by:
 - Ending contracts that are ineffective, wasteful, or no longer needed;
 - Strengthening the workforce to improve agencies' capacity to manage contracts;
 - Adopting best practices such as enhanced planning, increased attention on market analysis, and peer review processes at critical stages -- for more effective execution of acquisition, project, and program responsibilities; and
 - Developing strategic acquisition practices, including initiatives that reduce costs by leveraging government buying power.
- **Hold contractors accountable for past performance.** For too long, agencies used fragmented methods to collect and maintain contractor performance information, making it difficult to track a contractor's past performance across agencies. This past summer, the Administration required agencies, at the end of each contract, to submit an electronic record of contractor performance to the Past Performance Information Retrieval System, a web-based system that serves as the single government-wide repository for contractor performance information. Agencies now will be able to review a contractor's past performance before signing a new contract.
- **End the overreliance on contractors.** Congress recently required agencies to provide special consideration to insourcing work in areas where there is particular risk that prior practices have resulted in excessive reliance on contractors. Under this guidance, agencies are required to fix

situations where they are too reliant on contractors and establish sufficient internal capacity to maintain control of their mission and operations.

New Steps

The initiatives launched in July laid a strong foundation for improving federal acquisition. Today, the Administration is taking the reform efforts further in two areas: 1) issuing a plan to [increase the capability and capacity of the civilian agency acquisition workforce](#) to ensure sufficient management and oversight of acquisition dollars and 2) providing guidance on [increasing competition](#) and structuring contracts for the best results. These are essential steps to achieving the \$40 billion in annual savings through contracting reform, to meeting the targets for reducing use of high-risk contracts, and, ultimately, to providing better services for the American people at a lower cost.

Investing in the Civilian Acquisition Workforce

Delivering the best value to the taxpayer requires a highly skilled acquisition workforce. Since 2002, spending on federal contracts has more than doubled. In 2008, contracting totaled more than \$525 billion. However, the civilian acquisition workforce has not matched this growth rate sufficiently to maintain effective oversight -- a major criticism by Congress and outside experts. The increased workload leaves less time for effective planning, oversight, and contract management, resulting in contracts that are over-budget, delayed, or otherwise failing to live up to performance objectives.

Workforce development is a pillar for strengthened acquisition practices and improved government performance. Congress mandated the development of an Acquisition Workforce Development Strategic Plan to guide improvements in capacity and capability of the civilian acquisition workforce during the next five years. To support the workforce and improve acquisition outcomes, OMB's Office of Federal Procurement Policy (OFPP) has developed the strategic plan for Fiscal Years 2010 through 2014. The Plan establishes:

- a path forward for agencies to increase the civilian acquisition workforce;
- a comprehensive annual workforce planning process to be led by OFPP;
- a blueprint to increase use of intern programs, training, and development initiatives; and
- a five-year action agenda to improve workforce development efforts and the workforce management infrastructure.

With regard to the path forward on the workforce increase, OMB recognizes the inherent difficulty in projecting macro-level acquisition workforce needs. It analyzed a broad cross-section of data, including demographic and competency figures and projections methodologies, and interviewed agency acquisition career managers. The analysis led to the conclusion that an increase in the acquisition workforce of at least 5 percent is needed, with few exceptions, at all civilian agencies. Agencies on November 2, 2009, will submit plans to strengthen their acquisition practices as required by the July OMB guidance. As part of the FY2011 budget process, OMB will consider the related acquisition workforce information and evaluate associated budgetary needs and sustainable funding mechanisms.

Increasing Competition and Reducing High-Risk Contracts

The President's March memorandum calls on federal agencies to examine their use of noncompetitive and cost-reimbursement contracting as one of several key actions to improve results achieved from government contracts. Both of these contracting authorities carry significant potential risk of

overspending taxpayer resources. The July guidance requires agencies to reduce their use of these and other high-risk contract types by 10 percent. Today's guidance builds on that requirement by providing guidelines for the ongoing review of high-risk contracting. A mid-year assessment will gauge agencies' progress toward reaching that goal. If they are not on track, OMB will work with the agencies to develop aggressive plans to meet the 10 percent reduction target, taking into consideration the key questions and strategies described in OFPP's memorandum.

- **How is the agency maximizing the effective use of competition and choosing the best contract type for the acquisition?**

To address this question, agencies need to consider whether they:

- Focus on requirements development and outreach to potential vendors;
- Use performance-based acquisitions and commercial solutions;
- Evaluate alternative competition strategies for larger and more complex requirements;
- Use strategic sourcing;
- Ensure consistent maximization of competition at the task and delivery order level;
- Give maximum consideration to small businesses, including minority businesses and businesses owned by women and veterans; and
- Use incentives to motivate lower costs, with improved delivery or technical performance, and to discourage inefficiency and waste.

- **How is the agency mitigating risk when noncompetitive, cost-reimbursement, or time-and-materials/ labor-hour contracts (T&M/LH) are used?**

To mitigate the risk of noncompetitive contracts, agencies need to limit the length of noncompetitive contracts, ensure price reasonableness, and regularly assess contractor performance. To mitigate the risk of cost-reimbursement and T&M/LH contracts, agencies need to be forward leaning in management and oversight of cost-reimbursement and T&M/LH contracts, to link payment to performance on cost-plus-award-fee contracts, and to provide for the necessary skills and capacity in the acquisition workforce to award and manage a cost-type contract.

- **How is the agency creating opportunities to transition to more competitive and lower-risk contracts?**

To transition to more competitive contracting, agencies need to engage the marketplace to determine how competition barriers can be removed, and to analyze the agency's largest spend categories to see where competition can be increased. Mechanisms such as contract review boards, peer reviews, and contract-type advocates can help to determine the best contract type and to assist the agency in choosing between a fixed-price, cost-reimbursement, or T&M/LH basis for the payment of different contract requirements.