Improving the Way the Government Buys

Getting the Best Value for our Taxpayers

Office of Management and Budget

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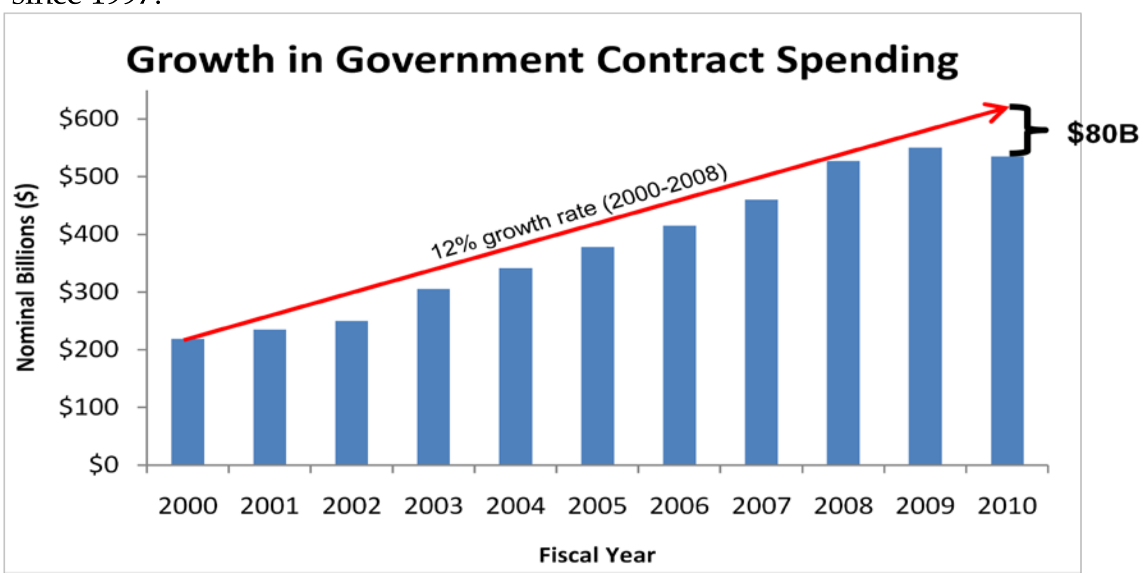
> *The American people have every right to expect and to demand a government that is more efficient, more accountable, and more responsible in keeping the public's trust.*
>
> President Barack Obama
> March 4, 2009

Today more than ever, the government must be responsible in how it spends taxpayer dollars, cutting waste and streamlining programs where it can. With approximately one out of every six dollars of Federal government spending awarded to contractors, it is imperative that contract actions result in the best value for the taxpayer.

In March 2009, the President directed agencies to save $40 billion annually by the end of Fiscal Year (FY) 2011 and apply fiscally responsible acquisition practices that better protect taxpayers from waste and cost overruns. The President's mandate has instilled a new sense of accountability in agencies. Agencies are ending ineffective contracts and contracts that support programs that are no longer needed. They are increasing competition and reducing the use of contract practices that lack incentive for contractors to perform efficiently. Once contracts are awarded, agencies are improving oversight, to ensure taxpayers get the price, schedule, and quality the contractor committed to deliver.

The results of these actions are clear: after over a decade of dramatic contract growth that saw annual procurement budgets increase at an average rate of 12 percent per year between FYs 2000 and 2008, and by as much as 22 percent in a single year, this Administration has turned the tide and reduced contracting spending for the first time since 1997.



FY 2010 spending was $535 billion, which is $15 billion less than the amount spent in the prior year and $80 billion less than they would have spent had contract spending continued to grow at the same rate it had under the prior Administration. At that rate, contract spending would have reached a record $615 billion.

While much work lies ahead, the reduction in contract spending represents real, measurable progress in changing the way the government works and getting results for taxpayers. This report describes the savings strategies agencies are using to give the American people a government that's more affordable, efficient and effective. It also discusses the related efforts agencies are taking to strengthen the acquisition workforce so that successes are sustained.

Savings Strategies

In the summer of 2009, OMB directed each of the 24 agencies covered by the Chief Financial Officers Act (the largest contracting agencies in the federal government) to set a goal of achieving 3.5 percent in savings during FY 2010, or $19 billion, and develop savings plans to guide their actions. Agencies used their plans as roadmaps to more carefully review what they buy and how they buy it. They identified savings opportunities and strategies tailored to their mission and the specific needs of their agencies, taking advantage of proven best practices and discovering some new ones along the way. They used dashboards, scorecards, and other means to track results and measure progress. In larger agencies, central offices forged new collaborations with bureau and field offices to identify responsible organizations for managing savings initiatives.

Agencies used a combination of strategies to cut costs. See Appendix for an agency-by-agency breakdown. These strategies fall into two main categories: buying less and buying smarter.

Buying Less

In some cases, agencies acted to divest themselves of contracts that were unnecessary or unaffordable. They ended, de-scoped, or restructured procurements that were missing program goals, were duplicative of other acquisitions, or were no longer required by the mission. These included contracts for weapons systems, systems integration, financial management, operations and maintenance support, fuel, and other agency requirements.

❖ ***Improved Project Management Helps the Departments of Veterans Affairs (VA) and Justice (DOJ) Cut More than $100 Million in Spending on Ineffective Contracts***

By placing greater emphasis on program management and the achievement of cost, schedule, and performance goals, agencies are becoming more proficient at identifying and ending contracts that are ineffective, wasteful, or not otherwise likely to meet the agency's needs. In FY 2010, for example, VA restructured or terminated major information technology contracts for pharmacy re-engineering, enrollment system redesign, and radiology standardization after these projects missed three consecutive deliverables. For similar reasons, DOJ ended its contract to implement a litigation case management system. DOJ projected that if the contract were to continue, the cost to complete and operate the system would run three times the original total cost estimate. DOJ concluded its project objectives could be met more efficiently by implementing several smaller streamlined and segmented projects that can provide the desired capabilities and functions without requiring large system development and business changes.

❖ ***Reengineering of Program Support and Reliance on Existing In-House Capacity Allows The Department of Housing and Urban Development (HUD) to Eliminate Unnecessary Contract Support***

Through process reengineering, HUD eliminated costs associated with unnecessary contract support for mortgage underwriting reviews conducted by the Federal Housing Administration. Traditionally, HUD has randomly selected a number of cases for review by a contractor, and a second-level review by HUD staff of any case where the initial review identified issues. HUD staff also reviewed a random sample of files for quality. Instead of using a multi-layered review process, which is both expensive and time consuming, HUD now relies on a risk-based determination to focus underwriting reviews where they are the most needed. This has allowed for a reduction in workload, from approximately 100,000 random reviews to about half that number. Additionally, this new process can be conducted entirely by HUD staff, eliminating the contract, saving $3 million dollars, and giving HUD employees ownership over the whole process.

Buying Smarter

Agencies analyzed their internal buying trends to identify opportunities for applying better buying practices. In several cases, these efforts were supported by program offices that conducted sophisticated analyses of spend data.

Strategic sourcing. Almost every agency reported pursuing some form of strategic sourcing, where they analyzed their recurring requirements in order to pool their buying power and negotiate better prices and deeper discounts for everyday needs – from office supplies and software licenses to furniture and medical equipment.

Types of requirements met using strategic sourcing

conference support services	medical equipment
copiers and printers	office supplies
fleet automotive support	overnight delivery services
furniture	pharmaceuticals
IT seat management	software licenses
lab supplies	wireless equipment

Strategic sourcing initiatives took a variety of forms, from simple to complex, and of scope, from across a bureau or agency to across the government. Some agencies renegotiated pricing or discounts on blanket purchase agreements (BPAs) under the Federal Supply Schedules Program managed by the General Services Administration. In other cases, agencies created or took greater advantage of their own agency-wide vehicles to leverage internal buying power when more suitable interagency vehicles did not exist. Agencies also took greater advantage of government-wide vehicles that were set up centrally with the support and participation of agencies across government to leverage the government's purchasing scale.

❖ ***The Department of the Interior (DOI) Saves More than $20 Million by Reducing Duplicative Contract Actions for Common Needs***

Through the use of internal teams of commodity experts from its various bureaus, the Department identified opportunities to consolidate purchasing and reduce reliance on smaller duplicative contracts within its component bureaus. In FY 2010, DOI pooled its resources for a variety of common-use needs, including IT hardware, commercial wireless equipment, multifunctional devices, data at rest software, and alternative dispute resolution services. This leveraging has allowed the Department to demand greater discounts when placing orders against Federal Supply Schedule contracts and to negotiate tiered pricing to achieve additional savings as the Department consolidates its purchasing. These strategies and others helped the Department realize more than $20 million in savings in FY 2010. DOI also convened an IT Efficiencies Team to identify additional savings that can be achieved through the consolidation of like services and systems, such as messaging and collaboration tools including email, servers and help desks, data centers, and hosting services. Reductions in duplicative investments in IT infrastructure are expected to help the Department reduce its IT spending by at least $20 million in FY 2011.

❖ *Government-wide Strategic Sourcing of Office Supplies Projected to Save at Least $100 Million Over 4 Years*

Early in FY 2010, OMB brought agencies together to identify commodities that all agencies buy that can be purchased at lower prices by leveraging their collective buying power. A team of agencies selected office supplies as a promising first target of opportunity to combine individual requirements. The team selected GSA to act as the Government's servicing agency to plan, negotiate, and manage government-wide blanket purchase agreements (BPAs) for office supplies in recognition of GSA's experience in buying commonly used commercial off-the-shelf products. GSA convened a group of agency experts to better understand agencies' specific requirements, share pricing information, analyze spend data and develop a requirements document reflecting agencies' shared needs. Using this information, OMB and GSA were able to secure up-front spending commitments from agencies -- more than $250 million in all – to increase vendor interest in the procurement.

The new office supply BPAs, which include sustainable technologies and other green products:

- entitle all Federal employees at every Federal agency to automatically receive the discounted pricing just by using their SmartPay card -- whether they buy on-line, over the phone, or in person;

- allow agencies to gain access to small business contractors: 13 of the 15 winning vendors are small businesses, and two are service-disabled veteran-owned small businesses; as of the end of calendar year 2010, 70 percent of dollars spent through the BPAs have gone to small businesses;

- help federal agencies cut procurement costs for office supplies by 10 percent on average, at least $100 million, over the next four years, which does not take into account even deeper price discounts of up to 19 percent that will take effect as government-wide purchasing increases the spending above pre-determined volume discount thresholds; and

- require the winning vendors to provide detailed usage data, which will allow agencies to analyze internal business processes and develop more efficient ones, which can be shared with the commodity team and GSA to obtain additional savings and improve future office supply agreements.

Twelve agencies have issued internal instructions on use of the office supply BPAs, from strong encouragement to mandatory use.

GSA has launched a knowledge management portal, where studies, market research, and spend analyses developed in connection with government-wide and agency-wide strategic sourcing initiatives are posted to promote knowledge sharing of best demonstrated practices. The portal will further develop strategic sourcing as a tool for fiscally responsible buying.

Reducing reliance on high-risk contracts. A number of agencies reported savings by competing contracts that, in the past, were awarded for higher prices with no or inadequate competition, and by relying more on fixed-price contracts, which create a greater incentive for contractor efficiency than when the government simply reimburses contractors for what they spend. These efforts were supported by a related OMB directed government-wide management initiative to reduce by 10 percent the share of dollars obligated through new contracts in FY 2010 that are awarded (1) noncompetitively, (2) after a competition that received one bid, (3) using a time-and-materials/labor-hour contract, and (4) using a cost-reimbursement contract.

To attract new sources and bidders, for example, some agencies broke out pieces of requirements that are most likely to attract additional bidders, encouraging long-time subcontractors – who are in many cases small businesses – to consider competing as prime contractors, and restructuring requirements in ways that more closely reflect how work is performed commercially. Others have worked to improve their outreach to small businesses to help them more easily navigate the federal marketplace and identify opportunities that best fit their capabilities. In addition, a number of agencies reported strengthening their internal controls. For example, the Social Security Administration reported creating a competition board of contracting and program officials to review justifications for non-competitive contracts. The Navy instituted mandatory competition awareness training for personnel engaged in the acquisition process, including program managers, program executive officers, and logistics personnel.

- ***The Transportation Security Administration (TSA) Uses Competition to Drive Down Costs by $40 million for Information Technology (IT) Infrastructure***

For a number of years, the TSA met its information technology infrastructure requirements through a non-competitive contract. Under the terms of the contract, TSA paid approximately $11.9 million per month, or over $140 million per year. As part of its efforts to bring costs down, TSA looked to end its continued reliance on a deal that had been struck without competition and instead take advantage of competition to help drive prices down. TSA turned to the department-wide contract for information technology solutions, known as the Enterprise Acquisition Gateway for Leading-Edge Solutions (“EAGLE”) contract, a multiple award indefinite-delivery indefinite quantity contract. EAGLE offered a desirable alternative because more than 50 contractors have been pre-qualified to compete for task and delivery orders for a full range of software and network infrastructure capabilities, solutions, and emerging technologies to meet DHS’ IT needs. In FY 2010, TSA conducted a competition under the EAGLE contract for infrastructure needs. The winning offeror will provide the same services that the Department received under its sole-source contract, but for $8.4 million per month, allowing TSA to save over 30 percent a month, or $40 million in just one year.

Other strategies. A number of agencies obtained economies and efficiencies by conducting web-based “e-procurements,” in particular, electronic reverse auctions, where vendors use an online site to bid prices down to win an agency’s work. This practice has been especially popular for reducing the prices paid for commercial off-the–shelf products. Beyond the immediate savings, electronic reverse auctions provide a convenient way for agencies to maintain documentation of each auction online for use in the development of better price estimates and purchasing strategies for future requirements.

Other efforts to achieve greater fiscal discipline included the identification and implementation of more efficient contract performance methods and the measured use of pre-award audits.

- ***The Army, Navy, and Coast Guard Work with Contractor to Implement $46 Million in Cost Savings Measures***

Agencies often include “value engineering change proposal” (VECP) clauses in contracts to encourage contractors who discover more efficient methods during contract performance to propose them to the government. If the government accepts a proposal to reduce contract costs, the clause allows the parties to share in the savings generated from the new methods. The Army, Navy, and Coast Guard rely on the “Close in Weapon System” to protect against Anti-Ship Missiles and enemy aircraft. The system was facing increased operational and maintenance costs from obsolescent components. Using the VECP clause, these agencies and the contractor negotiated modifications to their contract that will allow the Government to save $46 million over six years through reduced production and maintenance costs (which included design changes to mitigate obsolescence issues with components), and enhanced operational capability.

Strengthening the Acquisition Workforce

Agencies' success in sustaining better acquisition outcomes depends on the capability and capacity of the workforce to adopt better buying practices. Past inattention to the acquisition workforce has created unnecessary risk at every stage of the acquisition process and contributed to the unsustainable growth in contracting over the past decade.

To help address these concerns, agencies strengthened their contract specialist workforce by approximately seven percent in FY 2010. While more must be done, these actions, combined with the reduction in contract spending, have helped reduce agencies' dependence on contractors within the acquisition function and are giving the federal workforce the type of support it needs to support better acquisition outcomes and improved government performance.

Equally important, agencies have taken steps to strengthen ties between contract and program offices who share responsibility for achieving successful outcomes on contracts that support their projects. Contracting professionals need program officials to (1) describe requirements in a way that generates interest from capable sources and robust competition, (2) support them in negotiating lower prices, favorable contract terms, and the right incentives for contractors to control their costs and perform efficiently, and (3) perform day-to-day contract management as the contracting officer's technical representative (COTR) to ensure that contractors perform as they promised.

To facilitate this collaboration, agencies are expanding the delivery of cross-functional training. Contract specialists are receiving training in program management, and program officials are receiving training in acquisition. At least one agency developed tiered certifications for its COTRs who are responsible for contract management and typically work in program offices. The tiered certifications can help ensure that COTRs have the requisite skills and experience for the complexity of the contract they are managing.

Agencies are emphasizing the important role program management plays in the acquisition lifecycle, which is further helping to strengthen the ties between contracting offices and other key stakeholders. For example:

- The Department of the Treasury has instituted a new agency policy that high visibility "high impact acquisitions" must have an acquisition plan generated by an integrated project team in place at least 18 months prior to contract award;

- DHS has created component-level "acquisition executives" to ensure that procurement and program management responsibilities are effectively carried out at the bureau level;

- VA is establishing an acquisition executive council which will better integrate and synchronize program management practices throughout the department and assist the Chief Acquisition Officer in fulfilling other statutory obligations such as managing the acquisition workforce; and

- Senior agency management at the Department of Energy regularly participate in "deep dives" to ensure appropriate and timely corrective actions are being taken for projects and contracts that have fallen off track and to make sure they meet their cost, schedule, and performance goals going forward.

As part of the Administration's December 2010 25-Point Implementation Plan to improve information technology (IT) management, particular attention is being given to IT investments. The plan will require, among other things that agencies have a dedicated program manager and an integrated team of acquisition, financial and other specialists in place before OMB will approve the program budget for any major IT program. OMB is also working with the Office of Personnel Management to develop a career path for specialized IT program managers.

Moving Forward

The President directed agencies to become more fiscally responsible in their contract actions, and agencies have responded by taking meaningful, immediate steps to achieve improvements. They have reduced contract spending in FY 2010 by 3 percent from FY 2009 levels to achieve the first annual decrease since 1997 – almost $80 billion below the growth trend line established between 2000 and 2008. Equally important, they are investing in their contract specialists and the other agency stakeholders who share responsibility for the success of contracts and the programs they support.

These early results are promising and demonstrate our ability to do more with less, but there are many more steps that must be taken. During FY 2011 and FY 2012, OMB will work with agencies to build on their accomplishments to date, pursue new avenues to achieve even greater savings, and develop improved metrics for measuring and tracking savings.

Agencies are reducing their budgets for management support services. According to the Federal Procurement Data System (FPDS), contracting for these services quadrupled between FYs 2000 and 2010. We will work with agencies to begin reducing this exposure in 2011.

New opportunities will be identified for government-wide strategic sourcing, especially in the area of IT, where a number of agencies have begun to successfully pool their buying power, and medical and surgical supplies, where the VA has already leveraged the buying power of its own medical centers through an integrated network of national and regional contracts.

As part of the Administration's plan to increase the return on IT investments, agencies will improve how they buy IT – by strengthening communication between the government and contractors to ensure agencies acquire the best market solution to meet their needs, by developing cross-training for program managers and IT acquisition professionals to better align the acquisition process with the technology cycle, and by increasing the use of proven best practices, such as buying systems in manageable discrete chunks that allow for more nimble and careful use of taxpayer dollars.

In addition, agencies will increase contracting with our nation's small business entrepreneurs, taking better advantage of the new technologies, innovations, and technical skills that high-growth small businesses offer. These efforts will provide small businesses the revenue they need to create jobs and drive the economy forward.

Finally, agencies will be required to continue their efforts to reduce high risk contracting for new contract awards to achieve or maintain target levels set in FY 2010. The focus will remain on areas where the risk of waste is greatest, in particular contracts without competition and those priced on a time-and-materials /labor-hours basis. To enhance transparency and accountability, a new competition report will be unveiled on FPDS that provides a simpler display of total dollars competed and not competed and a more accurate and complete accounting of the use of competition on orders under multiple award task and delivery order contracts.

We are changing the way the Federal government works and getting results for taxpayers. With strong leadership and management attention on contracting, we will continue to ensure that every taxpayer dollar is spent wisely.

APPENDIX

How Contract Savings Were Achieved in FY 2010

	Strategic sourcing	Terminations, reductions & restructurings	Reductions in high risk contracting	Innovative contracting, business process re-engineering & other steps
USAID	♦	♦		
USDA	♦	♦		♦
Commerce				♦
DoD		♦		♦
Ed	♦	♦	♦	♦
Energy	♦	♦	♦	♦
HHS	♦	♦	♦	♦
DHS	♦	♦	♦	♦
HUD	♦	♦	♦	♦
Justice	♦	♦	♦	♦
Labor	♦	♦	♦	♦
State			♦	♦
Interior	♦	♦	♦	♦
Treasury				♦
Transportation	♦	♦	♦	♦
Veterans Affairs	♦	♦	♦	♦
EPA	♦	♦	♦	♦
GSA	♦	♦	♦	
NASA	♦	♦	♦	♦
NSF	♦	♦		♦
NRC	♦		♦	♦
OPM	♦	♦		♦
SBA				♦
SSA	♦	♦		♦