

## **Cutting Waste and Saving Money Through Contracting Reform**

### **July 7, 2010**

The Obama Administration is changing the way Washington does business – bringing a new sense of responsibility for taxpayer dollars by eliminating what doesn't work, improving oversight, and cracking down on waste. In March 2009, the President directed agencies to save \$40 billion in contracting annually by Fiscal Year (FY) 2011 and to reduce the use of high-risk contracts. The President's mandate has instilled a new sense of fiscal responsibility in agencies and has slowed the costly and unsustainable contracting growth rate of the past decade. Agencies are ending ineffective contracts as well as contracts that support programs that are no longer needed, and they are increasing competition and reducing the use of high-risk contract practices that can lead to cost overruns.

#### **GOALS**

- Agencies are making concerted efforts to reduce the risk of overspending that occurs when contracts are awarded without the benefit of competition (commonly known as “no-bid contracts”), and to reduce the risk of wasteful spending that occurs when agencies pay for expenses as incurred (cost-reimbursement contracts) rather than setting a fixed price upfront for the delivery of a completed product or service.
- To meet the President's direction to address contracting risk on both these dimensions, every agency is taking steps to reduce the share of dollars obligated through new contracts in FY 2010 by 10 percent in each of the following categories (1) contracts without competition; (2) contracts after a competition that receives only one bid; (3) contracts using time-and-materials/labor-hour (T&M/LH); and (4) contracts using cost-reimbursement.

#### **RESULTS**

- Between FY 2000 and FY 2008, total spending on contracts awarded without competition increased significantly from \$73 billion to \$173 billion. Dollars obligated under contracts that were open to competition, but generated only one bid, also increased dramatically from \$14 billion in FY 2000 to \$67 billion in FY 2008. Through its reform efforts, the Obama Administration has stopped this growth – and reduced it:
  - In the first two quarters of FY 2010, the percentage of dollars awarded in new contracts without competition dropped by 10 percent when compared to the same time period in FY 2009.
  - Use of new competitively awarded contracts in FY 2010 that received only one bid dropped by 2 percent when compared to the first two quarters of FY 2009.
  - Fifteen of the 24 agencies covered by the Chief Financial Officers Act (CFO Act) – the largest contracting agencies in the Federal government – reduced their

percentage of dollars awarded in new noncompetitive contracts or competitive contracts receiving only one bid by at least 10 percent.

- Between FY 2000 and FY 2008, total spending on cost-reimbursement contracts increased from \$71 billion to \$135 billion. Dollars obligated under T&M/LH contracts increased from just \$8 billion in FY 2000 to \$29 billion in FY 2008. Through its reform efforts, the Obama Administration has stopped this growth – and reduced it:
  - In the first half of FY 2010, the percentage of dollars awarded in new T&M/LH contracts dropped by 7 percent when compared to the same time period in FY 2009, and the percentage of dollars awarded in new cost-reimbursement contracts dropped by 6 percent.
  - Seventeen of the 24 CFO Act agencies reduced their percentage of dollars awarded in new T&M/LH or cost-reimbursement contracts by at least 10 percent. Agencies are achieving these reductions through the implementation of sound contracting practices such as peer reviews and contract review boards that bring seasoned contract and other experts together to help contracting and program offices identify and address high risk practices.
- Last December, the Office of Management and Budget (OMB) reported on agency plans to save \$19 billion in FY 2010. Agencies remain on pace to meet this savings target through a combination of strategies, which include program terminations and reductions, new and stronger applications of strategic sourcing, more effective use of competition and fixed price contracts, and continued implementation of innovative tools, such as reverse auctions.
  - Spending on contracts is slowing: Between FY 2000 and FY 2008, contract spending grew an average of 12 percent every year. In FY 2009, agencies reduced this growth rate significantly to just 4 percent. Agencies are working hard to make sure every contract dollar is well spent.

#### **EXAMPLES OF HOW COMPETITION IN CONTRACTING AND THE USE OF FIXED-PRICE CONTRACTING SAVES MONEY**

##### **➤ *Military OneSource Program Saves \$300 Million through Competition***

The Military OneSource Program contracts with vendors to provide a variety of support services to military personnel and their families. These contracts have not been competed since the program was established shortly after 9/11. Recognizing the many pressing requirements demanding the attention of its acquisition workforce, the Department of Defense (DoD) looked to the Department of the Interior (DOI) for outside acquisition support to help put a more cost-effective contract in place for the Military OneSource Program. DOI conducted a full and open competition, in close collaboration with DoD. Three offerors submitted proposals. The new contract includes a number of cost-saving measures, such as paying for call center operation services based on actual monthly call volume, rather than a single fixed price. The award is

expected to save DoD \$300 million over the five-year life of the contract and result in higher quality services to military personnel and their families.

➤ ***NNSA Ends High-Risk Contract to Make Competitive Awards to Small Businesses, Saves \$22 Million***

For the past decade, the Department of Energy's National Nuclear Security Administration (NNSA) has acquired cyber security and IT support services for its headquarter operations and information assurance response center under a sole-source cost-reimbursement contract managed by a large business. Last year, NNSA's Chief Information and Acquisition offices divided these functions into two separate contracts to generate competition. The smaller, more manageable requirements drew strong interest from almost 50 small businesses that had been prequalified to offer their IT services to Federal agencies under a government-wide acquisition contract managed by the General Services Administration. The robust competition enabled NNSA to award two five-year fixed-price contracts to small businesses that will allow the agency to save \$22 million, or 15 percent of what it was previously paying for these services under its old high-risk cost-reimbursement contract.

➤ ***DHS Saves \$40 Million in Reverse Auctions***

Reverse auctions – where vendors bid prices down to win an agency's work – are helping agencies increase competition and save millions of dollars on their purchases of commercial off-the-shelf products. In FY 2009, DHS conducted more than 2,500 reverse auctions for approximately \$340 million in goods, resulting in savings of more than \$40 million. Documentation of each auction is captured on-line so that contracting officers and other agency officials can consider this information in developing more informed costing strategies for future needs.

***EPA Shifts to a Fixed-Price Contract for Superfund Clean-Up, Saves 65 percent***

For many years, EPA's Superfund program has relied on cost-reimbursement contracts to provide remediation cleanup services. By using its knowledge of historical costs paid under prior cost-reimbursement contracts, EPA successfully acquired these services on a fixed-price basis for remediation work at the Tower Chemical Superfund site. The conversion to a fixed-price contract and use of competition, both of which were achieved through extensive collaboration between senior agency program and acquisition managers, resulted in savings of \$5.2 million, or a reduction of 65 percent from the original baseline estimate of what it would have cost to acquire these services on a cost-reimbursement basis.

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The contracting reform initiative is part of a larger effort the President has undertaken to rein in wasteful spending:

- In May, the President proposed the Reduce Unnecessary Spending Act of 2010 to give the Congress and the President new expedited rescission authority.

- The President signed an Executive Order and launched new efforts such as a federal Do Not Pay List to curb the \$110 billion in improper payments that go out from the federal government each year.
- The Administration launched an information technology reform effort which includes putting a halt on new task orders or procurements for all financial system modernization projects – an area of persistent problems and representing billions of dollars – pending review and approval by OMB of new, more streamlined project plans.
- The President directed agencies to accelerate efforts to remove excess and surplus federal real property for a savings of \$8 billion by FY 2012
- In its FY 2010 and 2011 Budgets, the Administration has proposed approximately \$20 billion of terminations, reductions, and savings for each year. While recent administrations have seen between 15 to 20 percent of their proposed discretionary cuts approved by Congress, this Administration worked with Congress to enact 60 percent of proposed discretionary cuts for FY 2010.
- The Administration has worked with Congress to curb earmarks, and the appropriations bills for Fiscal Year 2010 saw a significant decline in earmarks—a drop of 17 percent in volume and 27 percent in dollar value.
- The President signed into law statutory pay-as-you-go (PAYGO) legislation. PAYGO forces us to live by a simple but important principle: Congress can spend a dollar on an entitlement increase or tax cut only if it saves a dollar elsewhere.